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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 4  
PAGE 577 - 748

PROCEEDINGS: HEARING

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

DATE: Wednesday, October 26, 2022

TIME: Commenced: 9:30 a.m.  
Concluded: 4:15 p.m.

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

REPORTED BY: DEBRA R. KRICK  
Court Reporter

APPEARANCES: (As heretofore noted.)

PREMIER REPORTING  
112 W. 5TH AVENUE  
TALLAHASSEE, FLORIDA  
(850) 894-0828

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21	As identified on the CEL		604
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P R O C E E D I N G S

(Transcript follows in sequence from Volume  
3.)

CHAIRMAN FAY: All right. Ms. Keating, I have  
Vik Gadgil as the next witness, but I think we were  
going to potentially stipulate that testimony and  
put it into the record. We can do that now, or  
move to Mr. Bennett, depending on your preference.

MR. MUNSON: Yeah, that's correct, Mr. Chair.  
We are -- we stipulated to Mr. Gadgil and Ms. Lake,  
as a matter of fact, so we are prepared to call Mr.  
Bennett.

CHAIRMAN FAY: Okay. Let's go ahead, then,  
and enter Mr. Gadgil's testimony as read into the  
record without objection.

(Whereupon, prefiled direct testimony of Vik  
Gadgil was inserted.)

1                                    BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

5                                    Prepared Direct Testimony of Vikrant Gadgil

6                                    Date of Filing: May 24, 2022

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

8        A.     My name is Vikrant A. Gadgil and my business address is 500 Energy Lane, Dover  
9        Delaware 19901.

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

11       A.     I have been employed by Chesapeake Utilities Corporation as the Vice President and  
12       Chief Information Officer (“CIO”) since 2015. In this capacity, I am responsible for  
13       leading the Information Technology (“IT”) team, as well as the development and  
14       implementation of the strategy for supporting and enhancing our technology  
15       platforms including data networks and cybersecurity, telephony, computing  
16       infrastructure, business systems and applications.

17       **Q.     Describe the scope of your responsibilities.**

18       A.     The IT function team is staffed by approximately 34 employees and is responsible  
19       for the holistic, complete support of around 1000+ employees, multiple contractors,  
20       all functions and business units at Chesapeake Utilities Corporation across multiple  
21       physical sites. The key responsibilities of the IT function include ensuring a reliable,  
22       available, and secure communication network, customer data security, enabling data  
23       analytics tools and services, supporting business applications across all corporate  
24       functions, including, but not limited to: billing, financial systems, work order

1 management, human resource information systems, geographic information systems,  
2 Outage Management, email, and office productivity tools.

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

4 A. Prior to joining the Chesapeake Utilities Corporation, I held the position of Deputy  
5 CIO and was the Senior Director for Global Project Management Office and  
6 Information Security at Vishay Intertechnology, Inc., a Fortune 1000 company.  
7 Prior joining Vishay Intertechnology, Inc., I held various leadership positions in IT  
8 with Procter & Gamble and Ecolab, Inc. which are leading global companies.  
9 I have over 25 years of experience in the IT industry. I hold a Bachelor of  
10 Engineering degree in Electrical Engineering from National Institute of Technology,  
11 India and an MBA from Indian Institute of Management – Calcutta India.

12 **Q. How will you refer to the Company?**

13 A. When referring to the Florida Local Distribution Company business units (i.e.,  
14 Florida Public Utilities Company (Natural Gas Division), Florida Public Utilities  
15 Company-Fort Meade, Florida Public Utilities Company-Indiantown Division, and  
16 the Florida Division of Chesapeake Utilities Corporation d/b/a Central Florida Gas),  
17 I will refer to these entities collectively as “FPUC” or “the Company”. When  
18 referring to Chesapeake Utilities Corporation, the parent company, I will refer to it as  
19 “CUC” or the “Corporation.”

20 **Q. Have you filed testimony before the Florida Public Service Commission in prior**  
21 **cases?**

22 A. No, I have not.

23 **Q. Have you previously provided testimony before other regulatory bodies?**

1 A. No, I have not.

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

3 A. My testimony will discuss the following topics.

4 (i) Technology advancements implemented since the acquisition of FPUC by CUC.

5 (ii) Planned new technology implementation.

6 (iii) Improvements in cyber security.

7 **Q. Are you sponsoring any MFRs in this case?**

8 A. Attached as Exhibit VG-1 is a list of Minimum Filing Requirements that I co-  
9 sponsored.

10 **IT SERVICE LEVELS**

11 **Q. Please provide an overview of the changes in IT that the Corporation has  
12 implemented in recent years to the benefit of the Company's customers.**

13 A. Consistent with the ever-evolving technological landscape and changing needs of our  
14 businesses, the Company has strengthened its IT software, computer and  
15 telecommunications hardware, and network infrastructures to include necessary  
16 additional functionalities, as well as to ensure key financial, billing and other  
17 systems can be maintained in a safe manner without interruption even as we increase  
18 our use and reliance upon these key systems. IT has also increased its staffing, as  
19 well as the expertise of its staff, to address increased external risks, largely  
20 associated with cyber attacks, and also increasing demands for service.

21 Since its acquisition in October 2009, FPUC has benefited significantly from CUC's  
22 enhanced IT infrastructure as it has enabled FPUC to provide better customer service  
23 through: (1) its enhanced website; (2) more secure customer billing and enhanced

1           protections for customer personal information; (3) deployment of technology to  
2           enable employees to work remotely, which, among other things, provided necessary  
3           flexibility and resilience in operations during the COVID-19 pandemic; and (4)  
4           implementation of a compliance management system by using IFS AB, a leading  
5           enterprise software company and leading provider of enterprise resource planning  
6           solutions. In addition, CUC's technology enhancements have ensured that FPUC has  
7           the most accurate and timely financial information available necessary for strategic  
8           planning and critical business decisions.

9           The technology landscape continues to evolve at a rapid pace in order to keep up  
10          with continually changing customer, employee, and stakeholder expectations. The  
11          availability, reliability and performance of our technology infrastructure is key to the  
12          regular operations of all of CUC's business units, but also is key to our ability to  
13          address emergency events, as well.

14

#### 15          **TECHNOLOGY ADVANCEMENTS**

16          **Q.     What are some of the areas in which the Corporation has deployed newer,**  
17          **advanced technologies and applications?**

18          A.     Digital transformation is critical to the core operations of all CUC's business units.  
19          CUC is constantly investigating new ways to incorporate the power of data and  
20          communications technology to improve services and increase efficiency for our  
21          customers. Over the past 10 to 15 years, the key technology developments impacting  
22          CUC and its businesses have involved the expansion of mobile computing, the  
23          emergence of smartphones, network upgrades, enhanced social media and an  
24          expanded number of platforms, predictive analytics, and hyper-converged



1 infrastructure. In addition, our bandwidth requirements on wireless and wide area  
2 networks have increased to keep up with the upgrades in our capabilities and tools.  
3 Cyber security is critically important for data and information security as well as  
4 operational reliability. Threat actors include, among others, nation states, organized  
5 criminals driven by profit motive, as well as opportunistic attackers. The goals of  
6 the threat actors can include extortion through threat of data infiltration or  
7 ransomware, interrupting operations through attacking the network, computing  
8 infrastructure by deleting data or conducting “denial of service” attacks. As I discuss  
9 later in my testimony, these threats are very real and present significant risk not only  
10 to the Corporation as a whole, but to our customers as well. Defending against this  
11 threat requires a complete toolkit, necessitating investments in tools, personnel and  
12 implementation of best practices. Critical tools include email filters, firewalls,  
13 intrusion detection and prevention systems, end point protection and many others.  
14 The Corporation has made prudent investments in all these areas.  
15 We have also upgraded the Voice Over Internet Protocol or VOIP communication  
16 system to CISCO telephony, which is at the core of our customer call center. As will  
17 be discussed in detail in witness Parmer’s testimony, this upgrade provides improved  
18 call flows, which provides a better customer experience and improved call center  
19 effectiveness when responding to spikes in call volumes. Additionally, we have  
20 upgraded the Itron meter data management system and the software used to keep the  
21 system current. Both of these upgrades are critical components for FPUC to  
22 complete its monthly meter reading.

23 **Q. Would you please discuss some of the technology investments made to keep up**

1           **with the increased expectations of customers?**

2    A.    CUC and its business units are focused on fulfilling our obligation to our customers  
3           to ensure safe and reliable service, while maximizing customer experience. To fulfill  
4           that obligation, we must maintain a strong IT foundation. Our Customer Service and  
5           Field Operations departments are especially dependent on high speed  
6           communications and access to information and data, so it is imperative that we keep  
7           up with technology. CUC's IT function holds certain key expectations as it relates to  
8           our technology infrastructure, including, among other things, the ability to achieve  
9           higher availability, improved data security, and overall improvement in infrastructure  
10          resilience. FPUC has continued to make the necessary investments to provide the  
11          secure foundation required of technology. One of the investments CUC has made to  
12          the benefit of FPUC, is in a Tier 3 data center. A Tier 3 data center is designed to  
13          provide a higher uptime and redundancy for critical components of CUC's corporate  
14          network. This data center is physically maintained behind several layers of limited  
15          access doorway, next to a control room that is manned 24 hours per day, seven days  
16          a week, all year, with camera access to monitor the room. This includes redundant  
17          climate control, uninterrupted power supply, on-site backup generator, locked  
18          cabinets and multipath data access redundancy. We have upgraded our core server  
19          infrastructure in the data center by upgrading it to the Dell-EMC VxRail hyper-  
20          converged appliance, which is the next generation of virtualized server environment.  
21          This upgrade provides a higher level of reliability, uptime and scalability of the  
22          server infrastructure. This upgrade also supports the growing data volumes required

1 for existing and growing customer base and is critical to continue providing reliable  
2 services.

3 Additionally, we have setup a disaster recovery and co-location site with a third  
4 party vendor, Tierpoint, who is a leading data center provider. This site is essential  
5 to providing operational continuity at a backup site in the event of a failure of our  
6 primary data center. This alternative physical site ensures that our core and critical  
7 applications, such as dispatch systems, will continue to operate in an emergency.  
8 For further protection, FPUC has also implemented a data replication service called  
9 Zerto. This system ensures that our customer and operational data is protected in the  
10 event of data loss resulting from catastrophic events, such as a malicious ransomware  
11 attack.

12 **Q. Would you please discuss the changes that CUC has made as it relates to**  
13 **FPUC’s Customer Information Systems (“CIS”)?**

14 A. The existing CIS for FPUC was migrated to a hosted solution with a third-party  
15 vendor, Vertex. This third party hosted solution also enables the Company to  
16 provide a more consistent level of uninterrupted support.

17 **Q. Why was this migration necessary?**

18 A. The on-premises IBM AS400 that hosted the CIS had reached “end of life”. AS400  
19 mid-range systems were introduced in 1988 and have become obsolete and difficult  
20 to support internally in terms of staffing and maintenance support and provide the  
21 reliability and uptime requirement for a core critical system such as billing.

22 **Q. Is the Vertex system the final solution for the issues you have identified?**

1 A. No. The Corporation is currently evaluating a newer CIS system and we anticipate  
2 filing a separate petition at some future point to address it. The Company is not  
3 proposing approval of any future CIS system as a part of this rate proceeding.

4 **Q. Why is another CIS installation necessary?**

5 A. This later version of the ECIS product from Vertex, was based on newer technology  
6 in 2012. This product is called ECIS+. To date, ECIS+ is not as mature as expected  
7 and the support from the product vendor fell short of our expectations. Pending our  
8 anticipated future upgrade, we continue to support the legacy ECIS product by  
9 making spot upgrades where possible, and implementing customized solutions when  
10 necessary.

11 **Q. Has the Corporation made other changes in IT that ultimately benefit FPUC?**

12 A. Yes. Since the acquisition, we have upgraded the IT organization as well as customer  
13 service organization to be able to support the implementation of a modern CIS  
14 system which is demanding in terms of internal resources and change management.  
15 As mentioned earlier, we have upgraded the IT and customer service organization to  
16 add key leadership and technical positions. We are also going through a rigorous  
17 process to select an industry standard, modern and secure platform by utilizing  
18 industry expertise.

19 **CYBER SECURITY**

20 **Q. Would you provide some background on the cyber security risk?**

21 A. Yes. Since 2008, cybersecurity concerns have emerged as a significant concern that  
22 can adversely impact all organization and industries. Ransomware has become a  
23 commercial business for threat actors, with double extortion tactics now being used

1 against organizations. In a double extortion attack, the victim's sensitive data is  
2 exfiltrated in addition to encrypting the data to give the attacker additional leverage.  
3 According to a report by Sonicwall, a leading provider of firewall and next  
4 generation cybersecurity solutions, ransomware was up 151% in the first part of  
5 2021 compared to the prior year<sup>1</sup>.

6 The impact of ransomware is also getting costlier, with the average remediation costs  
7 approaching nearly \$1.4 million in 2021, as per a report by SOPHOS, a British  
8 security software and hardware company<sup>2</sup>. Threat actors have become more  
9 sophisticated, better funded and their numbers have grown. Affiliate programs  
10 involving cybercriminal organizations and syndicates carry out targeted attacks  
11 against organizations frequently, as seen in the Colonial Pipeline ransomware attack  
12 in 2021<sup>3</sup>. The energy industry, as a key part of the country's critical infrastructure, is  
13 a prime target. Advanced persistent threats have become a daily reality for energy  
14 companies. Modern cybercriminals spend significant amounts of time dissecting and  
15 eventually infiltrating their target, sometimes even going as far as writing custom  
16 malware for the software used by the target organization. This occurred with the  
17 2020 Solarigate attack in which nation state actors installed malware on SolarWinds  
18 software that was then passed to SolarWinds' infrastructure management customers  
19 around the world. In addition, the so-called "darkweb" has become the primary  
20 location where criminal organizations sell stolen corporate information, personally  
21 identifiable information or zero day exploits to be used in future attacks, all under the

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<sup>1</sup> <https://www.sonicwall.com/medialibrary/en/infographic/2021-mid-year-update-sonicwall-cyber-threat-report.pdf>

<sup>2</sup> [The State of Ransomware 2022 – Sophos News](#)

<sup>3</sup> <https://www.tsa.gov/news/press/testimony/2021/07/27/pipeline-cybersecurity-protecting-critical-infrastructure>

1 cover of anonymity. The number and type of threat actors continue to increase. A  
2 strong and prudent cybersecurity posture is essential to ensure operational reliability  
3 and resilience to serve our customers.

4 **Q. Has the Company made any changes in its systems regarding cyber security?**

5 A. Yes. The three basic tenets of cyber security are confidentiality, integrity and  
6 availability. We have made prudent investments around these tenets in an effort to  
7 strengthen our IT technology foundation including investments in data centers, core  
8 server infrastructure, and upgraded data networks. Cybersecurity concerns require  
9 investments that are in addition to foundational investments. We follow industry  
10 frameworks including NIST and ONG-C2M2 (Capability Maturity Model) and have  
11 made investments in technology and tools, personnel, policies, employee education,  
12 monitoring, vulnerability management.

13 **Q. What other steps has the Corporation taken to improve its cyber security  
14 environment?**

15 A. We invested in security educational tools, to ensure our employees can recognize and  
16 appropriately respond to the latest phishing attempts. We have also created a  
17 Cybersecurity team, staffed with multiple analysts who maintain “eyes on” the  
18 environment. CUC has also taken the following steps to further secure the  
19 environment:

- 20 • A Critical Incident Response Team was formed and is a key part of our governance.  
21 • Deployed key technology such as email gateway and data loss prevention which  
22 secures sensitive information to provide industry leading protection.

- 1 • Procured endpoint detection & response technology to provide crucial visibility into  
2 what traverses our environment.
- 3 • Engaged an industry leading company to engage in managed detection & response.  
4 Managed detection and response (MDR) is an outsourced service that provides  
5 organizations with threat hunting services and responds to threats once they are  
6 discovered.
- 7 • Invested in identity and access management solutions, in response to the credential  
8 theft campaigns, which have accelerated over the course of the COVID-19 pandemic  
9 and;
- 10 • Implemented a vulnerability management program to proactively identify  
11 vulnerabilities in our enterprise. This program leverages a NIST-approved suite of  
12 tools.
- 13 Each of these actions has benefited CUC's business units in Florida, as well as its  
14 business units in other states.

15 **Q. Are there any other changes that the Company made to support the new cyber**  
16 **security environment?**

- 17 A. Yes. FPUC has benefited from CUC's establishment of key leadership and specialist  
18 positions within the Business Information Services organization to keep up with  
19 evolving technologies and capabilities. In the past 7 years, the Corporation has  
20 established the following positions:
- 21 • Chief Information Officer, which is my current role, is part of the company  
22 leadership and oversee all aspects of the IT function including governance, IT  
23 operations and IT project delivery.

- 1 • Assistant Vice President of Enterprise Applications with responsibility for all  
2 business applications, data analytics and IT projects.
- 3 • Director of Infrastructure with responsibility for data and voice networks, data center  
4 operations and IT infrastructure operations.
- 5 • Director of Information Security with responsibility for cyber security.
- 6 • Help Desk Manager with responsibility for supporting all end users and providing IT  
7 services.
- 8 • Patching administrators who ensure that all software applications and devices in the  
9 company are patched to the acceptable level and reduce vulnerability to a  
10 cyberattack.
- 11 • Cyber Security analysts that report into IT monitor the network, perform triage of  
12 incidents and support user education.

13 **Q. Have the investments in the IT function been prudent?**

14 A. Yes, absolutely. As I have described, they have been necessary and prudent to stay  
15 current with technology advancement in a number of areas and to protect our  
16 systems, and customers, from sophisticated cyberattacks by a wide variety of bad  
17 actors.

18 **Q. Does this conclude your testimony?**

19 A. Yes.



1           CHAIRMAN FAY: Okay. Mr. Sandy, we are also  
2 going to enter Mr. Lake's testimony into the  
3 record?

4           MR. SANDY: Yes, Mr. Chairman. I believe that  
5 was also stipulated to by the parties.

6           CHAIRMAN FAY: Okay. So showing no  
7 objections, we will enter Mr. Lake's testimony as  
8 though read into the record.

9           (Whereupon, prefiled direct testimony of Kira  
10 Lake was inserted.)

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1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2  
3 Docket No. 20220067-GU: Petition for rate increase by Florida Public Utilities Company,  
4 Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company -  
5 Fort Meade, and Florida Public Utilities Company - Indiantown Division.

6 Prepared Direct Testimony of Kira Lake

7 Date of Filing: May 24, 2022

8  
9  
10 **Q. Please state your name and business address.**

11 A. My name is Kira Lake. My business address is 450 S. Charles Richard Beall Blvd.  
12 DeBary, FL 32713.

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

14 A. I am currently employed by Chesapeake Utilities Corporation (“CUC”) as the  
15 Director of Growth & Retention.

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

17 A. I graduated from Embry-Riddle Aeronautical University in 2003 with a Bachelor of  
18 Science degree in Air Traffic Management, and in 2007 with a Master of Business  
19 Administration degree. From 2007 through 2019, I worked for CUC’s Florida  
20 business units in various management roles within Energy Conservation, Energy  
21 Logistics, Financial Analysis and Growth and Retention departments.<sup>1</sup> As noted, I  
22 am currently the Director of Growth and Retention for all of CUC’s business units.

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

24 A. My current responsibilities include directing the activities of the Company’s Sales &  
25 Energy Conservation departments, to grow and retain customers in Florida,

---

<sup>1</sup> To be clear, I joined Florida Public Utilities Company just prior to its acquisition by CUC and have remained with the Company ever since.

1 Delaware and Maryland while supporting business, economic development and  
2 community relations. In my role, I collaborate with the Company's Operations,  
3 Customer Care, Marketing & Communications and Construction Services  
4 department's to prioritize growth initiatives, provide strategic direction and develop  
5 the internal infrastructure needed to align market-facing functions with the  
6 Company's growth objectives.

7 **Q. How will you refer to the Company?**

8 A. For purposes of clarity and ease of reference, I'd like to explain how I will refer to  
9 the various Florida business entities under the Chesapeake Utilities Corporation  
10 umbrella. When referring to the Florida local distribution company ("LDC")  
11 business units as a whole; i.e., Florida Public Utilities Company (Natural Gas  
12 Division), Florida Public Utilities Company-Fort Meade, Florida Public Utilities  
13 Company-Indiantown Division, and the Florida Division of Chesapeake Utilities  
14 Corporation d/b/a Central Florida Gas, I will refer to these entities jointly as "FPUC"  
15 or "the Company".

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

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

19 A. I will describe FPUC's growth since the acquisition by CUC. I will then describe the  
20 changes the Company seeks to make to its Area Extension Program ("AEP"), the  
21 Company's proposed addition of a Minimum Use Agreement, and discuss an over  
22 under adjustment in the growth and retention area.

1 **Q. Have you ever testified before the Florida Public Service Commission**  
2 **(“FPSC”)?**

3 A. Yes, I have submitted pre-filed testimony for the Company’s Energy Conservation  
4 and Purchased Gas Adjustment filings in Dockets Nos. 20160002, 20160004,  
5 20210002 and 20210004.

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

7 A. Yes, Exhibit KIL-1 will show the Company’s customer growth since 2010.

8 **Q. Are you sponsoring any Minimum Filing Requirements in this case?**

9 A. Yes. Attached as Exhibit KIL-2 is a list of MFRs that I co-sponsored.

10

11

### **Background**

12 **Q. Please provide a general overview of Chesapeake Utilities Corporation’s natural**  
13 **gas distribution operations in Florida.**

14 A. As described in greater detail by Company witness Hancock, CUC’s natural gas  
15 distribution companies in Florida own and operate approximately 3,043 miles of  
16 natural gas distribution mains, currently serving approximately 92,000 residential,  
17 commercial and industrial customers throughout the state. Since 2010, the Company  
18 has experienced an average of 2.68% growth annually (see Exhibit KIL-1).

19 **Q. Outside of acquisitions, has the Company experienced additional growth?**

20 A. Yes. The Company has experienced significant organic growth through both the  
21 expansion of natural gas distribution services into unserved and underserved areas,  
22 as well as acquisitions.

23 **Q. Would you please elaborate on the organic growth?**

1 A. Since the Company's last rate proceeding in 2008, it has expanded into Nassau and  
2 Alachua Counties, as well as Escambia County. The Company has been successful  
3 in establishing service to many new geographic areas of the state by finding large  
4 commercial and/or industrial accounts and extending distribution lines to provide  
5 service.

6 In addition, FPUC has experienced higher than the national average growth in their  
7 existing footprints. For example, from 2010 to 2020, the annual consumption of  
8 natural gas in the United States has increased by approximately 26.51%. In Florida,  
9 for that same period, the annual consumption has increased approximately 36.25%.  
10 (*eia.gov/dnav/ng/ng\_cons\_sum\_dcu\_SFL\_a.htm – Natural Gas Consumption by End*  
11 *Use*). The increase in natural gas consumption for FPUC over the same period is  
12 approximately 33.06%, which is 6.55% higher than the U.S. average.

13 While consumption has increased, Florida's population growth has also far exceeded  
14 the national average, fueling growth and expansions for the Company. For example,  
15 between 2010 and 2020, the average population growth across the U.S. was  
16 approximately 7.4% while the growth rate for Florida during that same period nearly  
17 doubled the national average at 14.6%. (*www.brennancenter.org. State Redistricting*  
18 *Profile: Florida. Oct 8, 2021, Yuriy Rudenski & Chris Leverton*).

19 According to state population forecasts, Florida can anticipate an increase of more  
20 than 309,000 people per year, or 849 people per day, which equates to a population  
21 projection of approximately 23.1 million residents by 2025.  
22 (*http://edr.state.fl.us/Content/conferences/population/demographicsummary.pdf;*  
23 *Demographic Estimating Conference Executive Summary, December 13, 2021*).

1 Similarly, the Florida Chamber of Commerce estimates Florida’s population to be  
2 between 24.4 and 25.4 million residents by 2030, also supporting an increase of over  
3 300,000 people per year. (*thefloridascorecard.org; Florida Chamber of Commerce*  
4 *Scorecard*).

5 **Q. Do the Companies have a strategic approach outlined in preparation for this**  
6 **anticipated growth?**

7 A. Yes, we do. The Company uses a multi-layered approach, which includes  
8 identifying potential areas for customer growth, engaging with economic  
9 development councils, Chambers of Commerce, residential building associations and  
10 other local organizations to assess potential for natural gas service and transforming  
11 business processes and systems to support anticipated growth. In addition, dollars  
12 have been earmarked to continuously improve website and mobile functionality of  
13 our online customer service tools including an updated user interface to meet  
14 customer service-related needs, American with Disabilities Act improvements for  
15 users with accessibility requirements, and yearly upgrades and site testing to  
16 maintain the highest level of accessibility for our customers. This will be discussed  
17 in more detail in Company witness Parmer’s testimony.

18

19 **Area Extension Program (“AEP”)**

20 **Q. Describe the Company’s current AEP and how it is used.**

21 A. Given that the AEP is a variation on the cost recovery model for extensions to serve  
22 new customers, I will start by providing some background on how extensions to  
23 serve customers are typically made.

1 Traditionally the Company, like other regulated gas utilities, extends facilities to  
2 provide service in accordance with Rule 25-7.054 of the Florida Administrative  
3 Code, which requires that extensions be made at no cost to the customer when the  
4 capital investment necessary to extend the Company's facilities to provide service is  
5 equal to or less than the Maximum Allowable Construction Cost ("MACC"). Under  
6 the rule, the MACC equates to four times the estimated annual gas revenue to be  
7 derived from the facilities less the cost of gas. The underlying purpose of this  
8 requirement is to ensure that extensions are made to serve to new customers with no  
9 upfront cost to the customer, as long as the anticipated revenue obtained through  
10 service to the new customer will provide the utility with a reasonable opportunity to  
11 recoup its initial capital investment in the new facilities within a reasonable amount  
12 of time. CUC's Florida LDCs have received approval from the Commission over the  
13 years to apply a more customer-friendly calculation of the MACC that is six (6)  
14 times the estimated annual gas revenue to be derived from the facilities less the cost  
15 of gas. The most recent approved increase of the MACC was for FPUC by PSC-  
16 2021-0148-TRF-GU, issued in Docket No. 20200214-GU. In instances, however,  
17 where the required investment cost exceeds the MACC, the customer is required to  
18 pay an advance, or Contribution in Aid of Construction ("CIAC"), for the difference  
19 that exceeds the MACC.

20 The AEP program is another way to recover construction costs that are in excess of  
21 the estimated six-year base revenues for an extension project. The AEP is a  
22 Commission-approved tariffed program designed to provide the Company with an  
23 optional method to recover the capital investment that exceeds the MACC for

1 extensions of natural gas service to new customers in a discrete geographic area.  
2 The AEP tariff provides for the determination of a monthly charge applicable to all  
3 natural gas customers located in the geographic area over an amortization period of  
4 up to 10 years. The AEP charge is applied as a fixed dollar amount and is calculated  
5 by a formula based on the amount of investment required and the projected gas sales  
6 and resulting revenues collected from customers in the AEP area. Across its Florida  
7 LDCs, the Company currently has 49 active AEP projects.

8 **Q. Explain how the Company seeks to modify its existing AEP.**

9 A. FPUC's AEP program has been in effect since January 17, 1995, in accordance with  
10 Order No. PSC-1995-0162-FOF-GU, issued in Docket No. 941291-GU. CFG's  
11 program has been in place for a similar length of time. Over the years, both  
12 programs have evolved. Most recently, in the Companies' tariff consolidation  
13 proceeding, Docket No. 20200214-GU, the AEP programs were consolidated and  
14 unified under the FPUC version of the program. Since then, the Companies have  
15 determined that the following additional changes would be beneficial to the program:

- 16 1. The AEP Recovery Amount should be divided by the number of customer  
17 premises projected to be served at the end of the completed build out date of  
18 the extension.
- 19 2. The Amortization Period should apply individually to each premise and not  
20 exceed seventy-two (72) Billing Months. The proposed period matches the  
21 Company's MACC calculation period. In the event a premise becomes  
22 inactive, the Amortization Period should be suspended until the premise is  
23 reactivated.



1           3.    The “Recalculated AEP Surcharge” will be eliminated. Since the Company  
2                    is collecting a fixed AEP surcharge applicable to each customer premise to  
3                    which service is implemented over the six years following the in-service  
4                    date of the extension facilities, the Company is more assured of recovering  
5                    its costs for the extension and therefore, the recalculation of the AEP  
6                    Surcharge is no longer necessary.

7           The Company believes that these changes will result in less confusion to the  
8           customer concerning the AEP surcharge rate and reduce inquiries from customers for  
9           such, as well as allow for more straightforward administration of the AEP surcharge  
10          by the Company. The Company will continue to calculate the AEP rate based on the  
11          number of projected premises located on the extension facilities. This will continue  
12          to result in a fixed (monthly) AEP recover charge to the applicable customers and  
13          therefore, assure cost recovery for the extension by the Company. In addition, the  
14          revenues from the AEP surcharge will continue to be credited against the Company’s  
15          distribution main plant account, except the Company will retain its return on the  
16          capital investment equal to its allowed cost of capital that will be established in the  
17          rate proceeding. The AEP Surcharge is found on Original Sheet No. 6.152 of the  
18          proposed Tariff.

19   **Q.    What is the Company proposing in relation to the existing AEP projects?**

20   A.    If the FPSC approves the Company’s requested rate increase, the Company expects  
21          to be receiving higher revenues over the life of the existing AEP projects than was  
22          initially anticipated when the existing surcharges were developed. As a result, the  
23          Company is proposing to discontinue the current AEP surcharges when new rates go

1 into effect for existing projects. If approved, the Company will transfer all un-  
2 recovered excess construction costs from the current AEP program as of 12/31/22 to  
3 the applicable capital plant construction account. This is similar to the approach  
4 approved in FPUC's prior rate case in Order PSC-09-0375-PAA-GU when the  
5 Commission permitted the remaining costs associated with existing AEPs to be  
6 included within rate base.

7 **Q. Describe why the Company seeks to modify its tariff language to include an**  
8 **optional minimum use agreement?**

9 A. The Company continues to experience growth and is often presented with  
10 opportunities to serve new customers through the extension of facilities. While the  
11 Company looks forward to bringing natural gas to new customers, the Company is  
12 also aware that it must ensure that its general body of ratepayers are protected and  
13 that it is not left with unnecessary stranded investment. In that regard, the Company  
14 has determined that adding an additional tool to the Extension Policy toolkit would  
15 enhance the financial reliability of extension provided under its existing Extension  
16 Policy; that being, a minimum "take" commitment, which the Company believes  
17 could reduce or mitigate the potential for issues around customer usage, upon which  
18 the MACC and CIAC deposit are calculated. The tariff modification for which the  
19 Company now seeks approval would provide the Company with the option to require  
20 a non-residential customer, that will need a facility extension to receive service, to  
21 commit to receive service at a defined minimum level and to pay for such minimum  
22 level of service, even if the customer does not use the defined minimum amount in a  
23 given year; i.e., a "take or pay" provision. This option would be available in the

1 event that the Company determines that the cost to serve analysis and the customer's  
2 service requirements demonstrate that a minimum service commitment is prudent  
3 and would only be considered for non-residential customers.

4 The Company submits as the required revised tariff sheets (in legislative and clean  
5 formats) in Schedule E-9 reflecting the incorporation of additional language  
6 providing the Company with the option to include a minimum usage commitment.

7 The proposed revisions are in the public interest and will facilitate expansion of  
8 service to new customers, while protecting existing ratepayers on the Company's  
9 system.

10 **Q. Could you please explain the adjustments to account 920 of Schedule G-2 19f as**  
11 **it relates to the business developer manage and inside sales rep?**

12 A. Consistent with the growth the state has experienced, as well workforce aging, we  
13 have found it necessary to increase staff to meet the anticipated ongoing demand.

14 **Q. Does this conclude your testimony?**

15 A. Yes.

1           CHAIRMAN FAY: All right. And now, Mr.  
2           Munson, Mr. Bennett is your next witness.

3           MR. MUNSON: Yeah, Mr. Chair, we do have some  
4           exhibits.

5           CHAIRMAN FAY: We have exhibits.

6           MR. MUNSON: Yes, please.

7           CHAIRMAN FAY: Okay. Let me go back and do  
8           that.

9           So for Mr. Gadgil, we have CEL 21, is that  
10          correct?

11          MR. MUNSON: That's correct.

12          CHAIRMAN FAY: Showing no objection, enter 21  
13          into the record.

14          (Whereupon, Exhibit No. 21 was received into  
15          evidence.)

16          CHAIRMAN FAY: And then for Mr. Lake, I have  
17          CEL 22 and 23.

18          MR. MUNSON: That's correct, Mr. Chair.

19          CHAIRMAN FAY: Seeing no objection, both those  
20          exhibits into the record.

21          (Whereupon, Exhibit Nos. 22-23 were received  
22          into evidence.)

23          CHAIRMAN FAY: All right. Now Mr. Munson, you  
24          are welcome to call your next witness.

25          MR. MUNSON: And FPUC calls Mr. Jason Bennett,

1           please, Mr. Chairman.

2   Whereupon,

3   JASON BENNETT

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

7   EXAMINATION

8   BY MR. MUNSON:

9           **Q     Good morning.**

10          A     Good morning.

11          **Q     Can you go ahead and state your full name for**  
12 **the record, please?**

13          A     My name is Jason Bennett.

14          **Q     And who do you work for and what do you do**  
15 **there, please?**

16          A     Chesapeake Utilities Corporation. And I'm the  
17 Assistant Vice-President of Operation Services.

18          **Q     And can you please provide your business**  
19 **address for the record, please?**

20          A     1635 Meathe Drive, North West Palm Beach,  
21 Florida, 33411.

22          **Q     And did you have 15 pages of direct testimony**  
23 **filed in this case?**

24          A     I did.

25          **Q     And did you sponsor Exhibits JLB-1 and JLB-2**

1 in this case, Mr. Bennett?

2 A I did.

3 Q And you also prepared and filed an errata  
4 sheet filed on October 19th, 2022, is that correct?

5 A I did.

6 Q Beyond that, do you have any additional  
7 changes to your testimony or exhibits?

8 A I do not.

9 MR. MUNSON: Okay. At this time, Mr.  
10 Chairman, we move Mr. Bennett's direct testimony  
11 into the record as if read.

12 We note that his exhibits were previously  
13 marked in the Comprehensive Exhibit List as No. 24  
14 and 25.

15 CHAIRMAN FAY: Okay. Show those Exhibits 24  
16 and 25, and enter Mr. Bennett's testimony into the  
17 record as though read.

18 MR. MUNSON: Thank you, Mr. Chairman.

19 (Whereupon, prefiled direct testimony of  
20 Jason Bennett was inserted.)

21

22

23

24

25

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 Jason Bennett

Date of Filing: May 24, 2022

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

A. My name is Jason Bennett, and I'm the Assistant Vice President of Operation Services for Florida Public Utilities Company, (herein "FPUC"), FPUC-Indiantown Division, FPUC-Fort Meade, and Central Florida Gas ("CFG"), (also referred to herein jointly as "Companies"), as well as the parent corporation, Chesapeake Utilities Corporation ("Chesapeake" or "the Company"). My business address is 1635 Meathe Drive, West Palm Beach, FL 33411.

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

A. I graduated from the University of South Florida in 2000 with a Bachelor of Science degree in Accounting and a minor in Management Information Systems. Following brief stints as an office manager for a law firm and an accounting manager for an optical/vision care office, my career in the natural gas industry began in 2009 when I was employed by Black Hills Corporation. I worked in a number of accounting-related positions until I was promoted to Financial Manager for Nebraska. In 2018, I became the Manager of Regulatory and Finance and led a team responsible for the preparation and review of compliance filings, tariff updates and rate reviews as well

1 as the budgeting, forecasting, and overall financial analysis for Black Hills  
2 Corporation's operations in Nebraska.

3 **Q. Have you previously filed testimony before the Florida Public Service  
4 Commission?**

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

6 **Q. Have you previously filed testimony before any other regulatory bodies?**

7 **A.** Yes. As Manager of Regulatory and Finance, I filed testimony in a number of  
8 proceedings before the Nebraska Public Service Commission, including Application  
9 No. NG-109 for a general rate increase in 2019. My testimony supported the  
10 Application in the following areas: Filing Requirements, Accounting Methods, Capital  
11 Infrastructure Projects, System Safety Infrastructure Mechanism Renewal, Data  
12 Infrastructure Integrity Program, and Acquisition and Consolidation Synergies.

13 **Q. Please describe your current responsibilities.**

14 **A.** As Assistant Vice President of Operations Services, I lead teams that focus on  
15 Construction Services, Business Transformation, and Continuous Improvement. The  
16 Construction Services team is responsible for all regulated construction throughout the  
17 Chesapeake footprint. The Business Transformation and Continuous Improvement  
18 teams provide oversight of key initiatives that ensure the enterprise meets strategic  
19 goals. They are also responsible for developing the competencies of continuous  
20 improvement and change management throughout Chesapeake, including  
21 implementation of corporate-wide improvement projects. By developing these  
22 competencies, opportunities for efficiency are properly vetted and prioritized, root



1 cause issues are determined, and solutions are identified and implemented that are  
2 supported by leadership and the affected employees.

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

4 A. There are three primary purposes of my testimony. First, I will address the completion  
5 of the Company's Gas Reliability Infrastructure Program ("GRIP") and the potential  
6 need for a Phase 2, of GRIP. Second, I will provide support for certain safety and  
7 reliability projects being undertaken by the Company, including Safety Town. Third,  
8 I will provide support for certain Over-Under Items related to Operations.

9 **Q. Are you sponsoring any exhibits in this proceeding?**

10 A. Yes. I am sponsoring the following exhibit(s):

11 Exhibit JLB-1, Dover Field Training Facility (Safety Town)

12 **Q. Are you sponsoring any of the Company's Minimum Filing Requirement (MFR)**  
13 **schedules?**

14 A. Yes. Attached as Exhibit JLB-2 is a list of MFRs that I am sponsoring.

15

16 **I. GRIP Completion**

17 **Q. Please provide a brief background of the Company's GRIP?**

18 A. On February 3, 2012, Florida Public Utilities Company and the Florida Division of  
19 Chesapeake Utilities Corporation filed a joint petition seeking approval of new  
20 programs for each Company that would enable each to recover costs, inclusive of an  
21 appropriate return on investment, associated with accelerating the replacement of  
22 qualifying distribution mains and services. All of the remaining replacement  
23 investment would occur between July 2012 and June 2022. While the respective CUC

1 local distribution companies (“LDCS”) submitted a joint petition for two separate  
2 GRIP programs, the structures of the proposed programs are identical, and built upon  
3 the steel tubing replacement program approved for FPUC in its 2008 rate case.

4 **Q. Did the Commission approve the filing for GRIP?**

5 A. Yes. Recognizing the national call to encourage safety-related upgrades to natural gas  
6 facilities, better assure customers of the safety of natural gas service, and proactively  
7 address these issues, the Commission approved the Companies’ Gas Reliability  
8 Infrastructure Programs to facilitate replacement of suspect infrastructure by the  
9 Companies in an expeditious manner.<sup>1</sup>

10 At the time, the Commission specifically recognized the need for the Companies to  
11 replace higher risk facility segments on an expedited basis given heightened safety  
12 concerns following tragic events. There was also an acknowledged need to update  
13 infrastructure to remove facilities more susceptible to corrosion.<sup>2</sup>

14 **Q. Are the Companies moving the revenue requirement associated with GRIP into  
15 rate base?**

16 A. Yes, consistent with Commission Order No. PSC-2012-0490-FOF-GU, and as further  
17 described in the Direct Testimony of Company Witness Cassel, we are moving the  
18 GRIP investments into rate base, which will leave only the remaining true-up for the  
19 original GRIP program to be collected in the surcharge for 2023.

20 **Q. Will the GRIP program itself terminate at the end of the 2022 calendar year?**

21 A. Consistent with the original GRIP program and the Commission’s approval of it, GRIP  
22 would be scheduled to terminate at the end of this year. However, as we progressed

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<sup>1</sup> Order No. PSC-12-0490-TRF-GU, issued September 24, 2012, in Docket No. 120036-GU, at pgs. 11 and 19.

<sup>2</sup> Order No. PSC-12-0490-TRF-GU, issued September 24, 2012, in Docket No. 120036-GU, at p. 5.

1 on various GRIP projects, we have found that there are additional safety and access  
2 related activities that need to be addressed and could serve as the basis for an extended,  
3 or Phase 2, of the GRIP. The key issues we have identified are associated with  
4 additional problematic mains and services, as well as facilities located in rear lot  
5 easements.

6 **Q. Are the new safety and access issues identified appropriate for a program like**  
7 **GRIP?**

8 A. Absolutely. As such, the Companies anticipate requesting Commission approval,  
9 under a separate petition, for a Phase 2 of GRIP to extend the program to capture these  
10 additional safety and access-related issues on our systems. While the Company's  
11 systems are safe and adhere to industry standards, continuation of the anticipated new  
12 phase of this program will ensure that our facilities continue to meet ongoing federal  
13 initiatives and appropriately reduce any unnecessary risks to the public due to facilities  
14 that are aged or inaccessible.

15 **Q. Is the Company seeking approval of this new Phase 2 for GRIP in the context of**  
16 **this rate case?**

17 A. No. To be clear, the Company is not proposing Phase 2 for approval as part of this rate  
18 proceeding. The Company anticipates filing a separate petition to request Commission  
19 approval of Phase 2. However, given that this rate case does involve moving GRIP  
20 revenues into base and would otherwise preview the termination of the program at the  
21 end of this year, we felt it would be appropriate to advise the Commission in this  
22 context of our intent to pursue a new phase for GRIP.

23

1 **II. Safety & Reliability Projects**

2 **A. Damage Prevention**

3 **Q. What does the Companies' Damage Prevention program address?**

4 A. Across its platform, Chesapeake maintains damage prevention programs in all of its  
5 natural gas distribution areas, as reflected in its Operations and Maintenance ("O&M")  
6 Manuals. Among other damage prevention policies and best practices, the damage  
7 prevention programs in our O&M Manuals adhere to industry damage prevention  
8 standards and programs, including, federal Department of Transportation Rule 49  
9 C.F.R. §192.614, and state programs, like Florida's Sunshine 811 "Call Before You  
10 Dig" program. While the requirements of these types of programs vary from state to  
11 state, they generally require a utility to mark the location of its facilities within a  
12 required timeframe following notification of projects involving excavation near utility  
13 facilities.

14 **Q. Are these types of programs the only damage prevention mechanisms the  
15 Companies utilize?**

16 A. No. These "Call Before You Dig" laws are important and create a framework for  
17 utilities to build a more comprehensive damage prevention program around, but  
18 generally speaking, these programs serve as the baseline for our damage prevention  
19 efforts. Because the specifics of the state programs vary from state to state, utilization  
20 of these programs as the only measure would result in inconsistent damage prevention  
21 standards among our various distribution areas. As such, reliance on the state  
22 programs alone would prevent us from appropriately leveraging our corporate  
23 resources and incorporating industry best practices.

1 **Q. What more do Chesapeake and the Companies do to promote damage**  
2 **prevention?**

3 A. Chesapeake has established a natural gas distribution-wide Damage Prevention Plan  
4 to drive consistency and optimize results in the area of third party damage prevention.  
5 The Damage Prevention Plan consists of collecting and analyzing data from across the  
6 Chesapeake Utilities operating units. This data is the foundation for establishing and  
7 measuring key performance indicators. This data-driven approach allows for  
8 structured problem solving, establishment of strategic priorities and efficient actions  
9 as it relates safety and performance around damage prevention. It is also the basis for  
10 post-incident reviews, public awareness, and outreach campaigns.

11 **Q. What are the costs associated with this Damage Prevention Plan?**

12 A. Chesapeake already has a corporate-wide Damage Prevention Manager, as well as a  
13 Damage Prevention Coordinator in Florida. We plan on hiring a second Damage  
14 Prevention Coordinator for Florida given the growth in the state and the expansion of  
15 our systems. Estimated costs for the personnel and publication costs are included in  
16 the revenue requirement.

17 **Q. What are the responsibilities of the Damage Prevention Coordinators?**

18 A. The Damage Prevention Coordinators' primary responsibilities would include: (1)  
19 Serving as the liaison between excavators, the affected public, emergency responders  
20 and Chesapeake's distribution companies; (2) Promoting damage prevention of  
21 company underground facilities from excavation activities through ongoing training  
22 and communication with 811 excavators, internal and externally contracted facility-  
23 locating technicians, and other team members; (3) Providing statewide team member

1 training, guidance and support to ensure company-wide consistency of locate  
2 responses and 3rd party damage documentation, (4) Providing damage investigation  
3 assistance as needed.

4 **Q. What are the customer benefits of this enhanced Damage Prevention Program?**

5 A. Third-party damages are the top risk to our natural gas facilities, and a robust Damage  
6 Prevention Program is critical to protecting the integrity and reliability of our system  
7 and, most importantly, keeping our customers and employees safe.

8

9 **B. Leak Detection**

10 **Q. Please describe current leak detection efforts.**

11 A. Leak detection methods currently utilized across the Chesapeake platform meet all  
12 federal and state regulations and include, but are not limited to, ground-based leak  
13 surveys, public awareness, and system pressure monitoring. Ground-based leak  
14 detection typically involves a company employee or contractor walking the length of  
15 a pipeline while using handheld tools to detect the presence of methane. Ground-based  
16 leak surveys are completed at intervals consistent with the pertinent Company O&M  
17 Manual and Company procedures, but are typically 1 year, 3 year, or 5 year intervals  
18 for any given pipe based on pertinent risk factors. In recent years, Chesapeake has  
19 started moving its distribution companies towards a 3 year cycle for consistency,  
20 where applicable. Some parts of the system, such as business districts, are surveyed  
21 on an annual basis, consistent with the Pipeline and Hazardous Materials  
22 Administration's ("PHMSA") Rule 49 C.F.R. § 192.723(b)(1)("Leak Survey rule").

1 As a result of this schedule, the Companies will only conduct leak surveys on a portion  
2 of our pipeline system in any given year. During these surveys, leak detection  
3 equipment will inform the employee of the presence of a leak but does not quantify  
4 the leak in terms of flow rate or volume. As such, additional investigative work must  
5 be performed in order to determine the full extent of the leak, which is necessary to  
6 determine the appropriate next steps.

7 **Q. What are the proposed enhancements to the Leak Detection Program?**

8 A. The Companies plan to enhance our leak detection efforts through the use of satellite  
9 scans of the gas pipeline system. The Companies plan to accomplish this by receiving  
10 services from a third-party vendor that combines multispectral data from satellites and  
11 system data from the Companies.

12 **Q. What are the advantages to this technique?**

13 A. There are six distinct advantages to using this technique:

- 14 1) The Companies plan to scan the Companies' entire Florida system twice per  
15 year. This increases the amount of the system checked for leaks from < 50%  
16 to 200% per year.
- 17 2) This method enables leak detection without the need to put personnel and the public  
18 at potential risk.
- 19 3) The scans are completed with no environmental impact.
- 20 4) Leaks can be quantified in terms of volume and flow rate.
- 21 5) The satellite scans also enable the Companies to record additional measurements  
22 and system detail, including information on vegetation, erosions and land

1 movements, exposed pipe, land temperature, and change detections in the  
2 right-of-way.

3 6) Once the area is established and initial scans are completed, subsequent scans can  
4 be added on short notice. This can be critical in the cases of hurricanes and  
5 other natural disaster response since satellite scans can be performed quickly  
6 and over a wide area, even if an area is inaccessible by road.

7 **Q. What are the costs associated with this program?**

8 A. The first two years of the program are expected to have higher costs than subsequent  
9 years because of the time and external expertise needed to establish a data set for an  
10 area and to calibrate the algorithms. The current estimated costs for 2023 and 2024  
11 are \$1,458,491 and \$1,393,042 respectively. Going forward beyond 2024, the annual  
12 estimated cost is \$1,350,082.

13 **Q. Is there potential to save costs from traditional leak surveys?**

14 A. The potential for cost reductions in other activities may arise in the near future. The  
15 use of satellites is not yet accepted in lieu of the current practice of foot-based leak  
16 surveys by PHMSA; however, the Company is working with the satellite data vendor  
17 to gain acceptance. If accepted, the Company could potentially save on labor costs  
18 related to ground-based leak surveys.

19

20 **C. Safety Town**

21 **Q. Has Chesapeake taken additional steps to enhance safety for its customers and**  
22 **employees?**



1 A. Yes. In late 2020, the Company completed construction of a field training facility,  
2 commonly referred to as a “Safety Town”, in Dover, Delaware. Illustrations are  
3 included in Exhibit JLB-1, Dover Field Training Facility (Safety Town).

4 **Q. What motivated Chesapeake to construct such a facility?**

5 A. There were numerous motivating safety factors to constructing the Delaware Safety  
6 Town. Chesapeake wanted to:

7 1) Accelerate the learning process while complimenting on-the-job field experience  
8 for safety and compliance activities;

9 2) Respond to employee feedback requesting hands-on training opportunities;

10 3) Increase the opportunity to train with first responders;

11 4) Reinforce its commitment to training, safety and compliance;

12 5) Allow proactive preparation related to safety and compliance procedures that  
13 may arise in response to the proposed PHMSA Notice of Proposed Rulemaking  
14 Operator Qualifications Mega Rule, which revises how the integrity of pipeline  
15 systems are tested and heavily emphasizes the requirement for validation of data  
16 and records.

17 **Q. What are some specific training opportunities available at this Delaware Safety**  
18 **Town?**

19 A. Some of the training opportunities available relate to:

20 1) Emergency Response and situational awareness with first responders

21 2) Line locating

22 3) Atmospheric corrosion

- 1 4) Blowing Gas simulation
- 2 5) Cathodic protection
- 3 6) Welder qualifications
- 4 7) Operator qualifications (including main installation, repair and maintenance)
- 5 8) Excavation safety training
- 6 9) Leak investigation and repair
- 7 10) Excess flow valves
- 8 11) Propane Tank training
- 9 12) Certified Employee Training Program for Propane
- 10 13) Appliance venting training
- 11 14) Confined space training
- 12 15) Metering & Regulation Station Installation and repair

13 **Q. Does the Company plan to construct a similar Safety Town in Florida?**

14 A. Yes. The Company plans to construct a similar training facility on our existing  
15 property in DeBary, Florida. Doing so would provide local and regional employees  
16 and safety responders the same benefits experienced in Delaware.

17 **Q. What are some other benefits of a Safety Town?**

18 A. The main benefit is that Safety Towns provide dedicated training facilities that provide  
19 opportunities for both classroom time and hands-on experience with situations that  
20 mirror real world and emergency scenarios – both of which are critical to the training  
21 process. These facilities also provide a location where our employees can be evaluated  
22 and obtain their Operator Qualifications in a controlled simulation environment, as

1 provided in 49 C.F.R. §192.803. A Safety Town also provides the ability for training  
2 programs to evolve as necessary to keep pace with industry changes and best practices.  
3 For employees in Florida, a new Safety Town will provide an opportunity for increased  
4 speed to competency and enhanced abilities, which will result in a more effective and  
5 skilled workforce. Less experienced workers can gain effective knowledge more  
6 quickly and all workers will have the ability to be introduced to and trained on new  
7 technologies. Ultimately, installation of a new Safety Town will lead to a reduction in  
8 workplace errors, and therefore a reduction in the risks for injury to our employees,  
9 our customers, and safer, more reliable, distribution system.

10 **Q. What is the estimated cost and completion date of the Florida Safety Town?**

11 A. The Company has included estimates in this filing to have Safety Town completed in  
12 Spring 2023 at an estimated cost of \$1.2 million.

13

14 **III. Over-Under Items related to Operations**

15 **Q. Are there any over-under items related to Operations?**

16 A. Yes. I support adjustments over the historical test year related to headcount  
17 additions, the Damage Prevention Program and enhanced leak detection. These  
18 are included in Schedule G2-19i.

19 **Q. Please summarize the headcount additions.**

20 A. The company proposes 15 headcount additions that are required to support the  
21 significant growth over the past decade and to keep pace with future system  
22 expansions and growth. To be clear, these are incremental positions and are  
23 not included in base rates.

1           1) 3 incremental positions for the Damage Prevention Plan that are critical to  
2           protecting the integrity and reliability of our system and, most importantly,  
3           keeping our customers and employees safe;

4           2) 2 incremental positions related to safety and compliance that are critical to  
5           deploying and maintaining safe practices that keep employees and customers  
6           safe;

7           4) 2 incremental positions related to Engineering and Compliance that are  
8           critical to supporting the design and compliance of expansion, integrity and  
9           reliability construction projects;

10          5) 8 incremental positions related to Operations that are critical to maintaining  
11          operational and safety compliance standards with recent additions of  
12          transmission line, gate stations and general system expansion.

13   **Q.    Why are these headcount additions necessary now?**

14   A.    These incremental headcount additions are necessary and prudent to keep our  
15          systems safe and to continue to provide safe, reliable service to our customers.  
16          The combination of an aging and retiring workforce and the increase in  
17          resignations during the COVID-19 pandemic (referred to as the Great  
18          Resignation) have resulted in an overall workforce shortage affecting all  
19          industries, but more especially the utility industry.

20

21   **Q.    Please summarize the Damage Prevention Plan additions.**

22   A.    As stated previously in my testimony, a robust Damage Prevention Program is  
23          critical to protecting the integrity and reliability of our system and, most

1           importantly, keeping our customers and employees safe. In addition to the 3  
2           positions, the Company also proposed an additional \$100,000 for additional  
3           communication, training, guidance and support with excavators, the affected  
4           public, and emergency responders.

5   **Q.    Please describe the enhanced leak detection additions.**

6   A.    As stated previously in my testimony, the Company plans to work with a third-  
7           party vendor that combines multispectral data from satellites and system data  
8           to detect leaks more timely and accurately. The projected costs for 2023 are  
9           \$1,458,492.

10 **Q.    Does this conclude your direct testimony?**

11 A.    Yes.



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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 Jason Bennett, 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

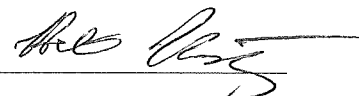
**FLORIDA PUBLIC UTILITIES COMPANY'S  
ERRATA SHEET TO THE DIRECT TESTIMONY OF JASON BENNETT**

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, Jason Bennett, originally filed on May 24, 2022:

**Direct Testimony**

Witness Name	Page and Line Number	Correction
Jason Bennett	Page 13, Line 12	Change cost of Safety Town of "\$1.2 million" to "\$3.0 million"

Respectfully submitted this 19<sup>th</sup> 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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*Attorneys for Florida Public Utilities Company*



1 BY MR. MUNSON:

2 Q Mr. Bennett, are you prepared to present a  
3 summary of your testimony?

4 A I am.

5 Q Please proceed.

6 A Good morning, Mr. Chairman and Commissioners.  
7 Thank you for the opportunity to discuss a request for  
8 rate relief.

9 My direct testimony covers three areas.  
10 First, I address the completion of the company's gas  
11 reliability infrastructure program, also known as GRIP,  
12 and the potential for a Phase II of GRIP.

13 GRIP enabled the recovery of costs associated  
14 with the accelerated replacement of qualifying  
15 distribution maintenance and services between July 2012  
16 and June 2022. GRIP was a direct response to the tragic  
17 events and the national call to encourage safety related  
18 upgrades to higher risk natural gas facilities  
19 susceptible to corrosion. While the company systems are  
20 safe and adhere to industry standards, the company  
21 intends to make a separate petition to extend the GRIP  
22 program to capture additional safety and access related  
23 issues on our systems.

24 Second, I provide support for certain safety  
25 and reliability projects being undertaken by the

1 company, including Safety Town. The company has  
2 established a natural gas distribution wide damage  
3 prevention plan to drive consistency and optimize  
4 results in the area of third-party damage prevention.

5 In addition to ensuring appropriate staffing,  
6 the company plans to enhance our leak detection efforts  
7 through the use of satellite scans of the gas pipeline  
8 system. The company has also begun construction of a  
9 field training facility referred to as Safety Town in  
10 DeBary, Florida.

11 Third, I provide support for certain  
12 over-under items to operations. The company proposes a  
13 number of headcount additions that are required to  
14 support the significant growth over the past decade, and  
15 keep pace with future system expansions and growth.  
16 They are necessary and prudent to keep our system safe,  
17 and to continue to provide safe, reliable service to our  
18 customers.

19 In closing, the company's GRIP safety and  
20 reliability projects and over-under items as discussed  
21 in my testimony are just a few examples of the continued  
22 efforts undertaken by the company made possible as a  
23 result of the acquisition that continue to provide safe  
24 and reliable service that our customers have come to  
25 depend on.

1 Thank you for your time today.

2 **Q Thank you, Mr. Bennett.**

3 MR. MUNSON: And at this time, Mr. Chairman,  
4 we tender Mr. Bennett for cross-examination.

5 CHAIRMAN FAY: Great. Thank you.

6 Ms. Christensen?

7 MS. CHRISTENSEN: No questions.

8 CHAIRMAN FAY: Okay. Mr. Moyle?

9 MR. MOYLE: Just a couple.

10 EXAMINATION

11 BY MR. MOYLE:

12 **Q Is safety the area of responsibility for which**  
13 **you have primary oversight?**

14 A I do not.

15 **Q No. You mentioned another petition coming in**  
16 **related to GRIP. What -- what -- and why is that being**  
17 **done?**

18 A The company is still contemplating submitting  
19 that petition. The reason for that is, as we were  
20 completing GRIP, we noticed other areas that could be  
21 improved in our system. One of those areas is pipelines  
22 that have limited access for employees to monitor.

23 **Q And is there a timing as to when that petition**  
24 **may be forthcoming?**

25 A We do not have that timing yet.

1           **Q     Thank you.**

2           MR. MOYLE:  That's it.

3           CHAIRMAN FAY:  Okay.  Thank you.

4           Staff?

5           MR. SANDY:  I have no cross, Mr. Chair.

6           CHAIRMAN FAY:  Okay.  I have one question for  
7           you, Mr. Bennett.

8           In it your testimony on page nine, you mention  
9           that the use of satellites, and then you say, if  
10          accepted, the company could potentially save on  
11          costs related to ground leak surveys.  If the  
12          company is pursuing that technology for use,  
13          wouldn't that almost guarantee there would be  
14          savings if that was implemented, assuming that  
15          PHMSA approved that as valid?

16          THE WITNESS:  Well, that's exactly the issue,  
17          is that PHMSA has not approved satellite scans as a  
18          substitute for ground leak surveys.

19          CHAIRMAN FAY:  And if they did, you could feel  
20          pretty confident that there would be savings?

21          THE WITNESS:  If that's -- if it is approved,  
22          there could be savings in the future.  Yes.

23          CHAIRMAN FAY:  Okay.  Great.  Thank you.

24          All right.  Redirect?

25          MR. MUNSON:  No redirect.  Thank you.

1           CHAIRMAN FAY: Oh, I apologize. Commissioner  
2 Passidomo. My apologies.

3           COMMISSIONER PASSIDOMO: That's okay.

4           CHAIRMAN FAY: You are recognized.

5           COMMISSIONER PASSIDOMO: Thank you. Thank  
6 you, Mr. Chairman.

7           I just -- on that same note, I just want to  
8 follow up because, you know, as the Chairman  
9 mentioned, so my understanding is that PHMSA has  
10 not -- has not accepted the satellite usage in lieu  
11 of base surveys, is that correct?

12          THE WITNESS: That is correct.

13          COMMISSIONER PASSIDOMO: So until that  
14 happens, and, you know, if this were to be  
15 approved, I understand there could potentially be  
16 savings, but isn't that just going to double -- you  
17 are going to have two different -- two different  
18 uses, or if you are going to use the satellites as  
19 well as the foot brace, that actually could  
20 potentially increase costs?

21          THE WITNESS: That is exactly right. And the  
22 reason it would increase costs is the ground-based  
23 leak surveys are currently conducted once every  
24 three years. In other words, our system is only  
25 evaluated, a portion of it, every three years.

1 With a satellite scan, it's possible to increase  
2 the monitoring of our system to over 200 percent,  
3 meaning twice a year. That can provide substantial  
4 benefits, especially in the case of natural  
5 disasters, where you can scan the system very  
6 quickly versus the ground-based leak surveys bass.

7 COMMISSIONER PASSIDOMO: Yeah. I see the  
8 validity in that. I think -- I guess I am just  
9 curious as to it potentially coming back later to a  
10 later day when this is actually accepted practice  
11 by PHMSA, is that something you all have  
12 considered?

13 THE WITNESS: I am sorry, could you repeat the  
14 question?

15 COMMISSIONER PASSIDOMO: Until the satellite  
16 practice is accepted practice by PHMSA, coming back  
17 at a later date to us to, you know, for that as the  
18 in lieu -- so you are not doing two different sort  
19 of scans because it will, until that is accepted  
20 practice, it's going to increase costs.

21 THE WITNESS: Well, correct. I mean, I don't  
22 know what PHMSA would predict in the future. They  
23 may say that satellite scans may be in addition to  
24 ground-based leak surveys. If at some point they  
25 do determine that satellite scans can actually

1           replace ground leak surveys, then there could  
2           possibly be a cost savings.

3           COMMISSIONER PASSIDOMO:   Okay.   That's all I  
4           have.

5           CHAIRMAN FAY:   Okay.

6           COMMISSIONER PASSIDOMO:   Thank you.

7           CHAIRMAN FAY:   Great.

8           All right.   Let's see, we have Exhibits 24 and  
9           25 --

10          MR. MUNSON:   That's correct.

11          CHAIRMAN FAY:   -- enter into the record  
12          without objection.   Okay, show those entered.

13                 (Whereupon, Exhibit Nos. 24-25 were received  
14          into evidence.)

15          CHAIRMAN FAY:   And, Mr. Munson, would you like  
16          your witness excused?

17          MR. MUNSON:   Yes, please.

18          CHAIRMAN FAY:   Let the record reflect that I  
19          did not give any more weight to your testimony  
20          because of that tie you are wearing.

21          THE WITNESS:   Okay.

22                 (Witness excused.)

23          CHAIRMAN FAY:   All right.   We will move next,  
24          I believe I have Mr. Rudolph, but, Mr. Munson, you  
25          are welcome to call your next witness.

1                   MR. MUNSON: Thank you, Mr. Chairman. The  
2                   company calls Ms. Devon Rudloff, please.

3                   Whereupon,

4   DEVON RUDLOFF

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

8   EXAMINATION

9                   BY MR. MUNSON:

10                  **Q       Good morning.**

11                  A       Good morning.

12                  **Q       Can you please state your full name for the**  
13 **record, please?**

14                  A       Yes. My name is Devon Rudloff.

15                  **Q       And who do you work for and what do you do,**  
16 **please?**

17                  A       I work to Chesapeake Utilities Corporation,  
18 and I am the Assistant Vice-President of Human  
19 Resources.

20                  **Q       And can you please provide your business**  
21 **addresses for the record, please?**

22                  A       It's 208 Wildlight Avenue in Yulee, Florida.

23                  **Q       All right. Ms. Rudloff, did you file -- did**  
24 **you have 20 pages of direct testimony filed in this**  
25 **case?**



1           A     Yes, I did.

2           Q     And did you sponsor Exhibits DR-1 and DR-2,  
3 **Ms. Rudloff?**

4           A     Yes.

5           Q     Do you have any changes to your testimony or  
6 **your exhibits?**

7           A     No, I do not.

8                   MR. MUNSON: At this time, Mr. Chairman, we  
9                   move Ms. Rudloff's direct testimony into the record  
10                   as if read. And we note that the previously  
11                   identified exhibits have been marked as Nos. 31 and  
12                   32 in the staff Comprehensive Exhibit List.

13                   CHAIRMAN FAY: Okay. Great. Show that  
14                   testimony entered as though read.

15                           (Whereupon, prefiled direct testimony of Devon  
16 Rudloff was inserted.)

17

18

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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 Devon Rudloff

Date of Filing: May 24, 2022

1 **Q. Please state your name and business address.**

2 A. My name is Devon Rudloff. My business address is 208 Wildlight Avenue, Yulee,  
3 Florida, 32097.

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

5 A. I am employed by Chesapeake Utilities Corporation as the Assistant Vice President  
6 of Human Resources.

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

8 A. I received a bachelor's degree in Psychology from Florida State University and have  
9 been in the energy industry for 32 years. I have 30 years' experience in Human  
10 Resources ("HR"), as well as my Senior Professional Human Resource ("SPHR")  
11 certification and SHRM-SCP certification (Society Human Resources Management  
12 Senior Certified Professional). I have been in HR leadership roles for over 25 years  
13 and was promoted to Assistant Vice President in 2015.

14 **Q. Please describe your current responsibilities.**

15 A. Currently, I am responsible for multiple key Human Resources functions for  
16 Chesapeake and its subsidiaries, including talent acquisition, professional  
17 development and training, employee relations, employee retention and reward,  
18 succession planning, compensation and benefits, policy management, compliance. I

---

1 am also responsible for enhancing and expanding our HR programs as we continue  
2 to grow our businesses. I will be transitioning to focus on talent acquisition,  
3 professional development and training, and succession planning for the greater  
4 Chesapeake platform in the near future.

5 **Q. How will you refer to the Company?**

6 A. For purposes of clarity and ease of reference, I'd like to explain how I will refer to  
7 the various Florida business entities under the Chesapeake Utilities Corporation  
8 umbrella. When referring to the Florida local distribution company ("LDC")  
9 business units as a whole; i.e., Florida Public Utilities Company (Natural Gas  
10 Division), Florida Public Utilities Company-Fort Meade, Florida Public Utilities  
11 Company-Indiantown Division, and the Florida Division of Chesapeake Utilities  
12 Corporation d/b/a Central Florida Gas, I will refer to these entities jointly as "FPUC"  
13 or "the Company".

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

16 **Q. Have you filed testimony before the Florida Public Service Commission in prior  
17 cases?**

18 A. No.

19 **Q. Have you previously provided testimony before other regulatory bodies?**

20 A. No.

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

22 A. My testimony will discuss the following topics:

23 1. Corporate philosophy and compensation

1           2. Covid-19 Pandemic response

2           3. Current market and talent acquisition challenges

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

4   A.    Yes. Exhibit DR-1 is the organization chart and DR-2 is the MFR I co-sponsored.

5

6   **CORPORATE PHILOSOPHY AND COMPENSATION**

7   **Q.    Please describe the Company's compensation philosophy.**

8   A.    Consistent with the enterprise-wide organizational construct of the Corporation, our  
9        compensation philosophy recognizes that our employees perform the most critical  
10       role in ensuring that all our business units are providing safe, reliable, and efficient  
11       service to customers. Our compensation philosophy is an important part of our  
12       corporate culture and mirrors our corporate values:

13       CARE: We put people first, both our customers and our employees. As such, safety is  
14       at the core of everything we do. We also focus on building trusting relationships, as  
15       well as fostering a culture of equity, diversity, and inclusion. We strive to make a  
16       meaningful difference everywhere we live and work.

17       INTEGRITY: We tell the truth. Moral and ethical principles drive our decision  
18       making every day, and we do the right thing even when no one is watching.

19       EXCELLENCE: We know we can achieve great things together. As such, we hold  
20       each other accountable to do the work that makes us better every day. Our mindset is  
21       to never give up and to strive to achieve excellence in everything we do, every day.  
22       Consistent with this philosophy, the Company's compensation philosophy is to  
23       reward employees by providing pay and benefits that are competitive in comparison

1 to the utility industry, as well as general industry (non-utility) employers, in order to  
2 attract, retain and motivate employees who are qualified to perform the functions  
3 needed by the Company for the ultimate benefit of our customers. This philosophy  
4 enables the Company to meet its obligations to provide safe, reliable and affordable  
5 service to its customers. When combined with our Chesapeake Cares program and  
6 our Mentoring Program, which I will explain later in my testimony, our corporate  
7 culture ensures our employees know we care and recognize their value. The result  
8 has been that the Corporation has been awarded Top Workplace for ten consecutive  
9 years in Delaware, two years in Florida and received an inaugural National Top  
10 Workplace in 2021.

11 **Q. What is the organization construct of CUC, and how has that impacted its**  
12 **approach to compensation**

13 A. In 2019, there was a change in the President and Chief Executive Officer (“CEO”)  
14 role for Chesapeake. Jeffry Householder was appointed to this position. Under his  
15 leadership, CUC has instituted an enterprise-wide approach to gain efficiencies,  
16 implement best practices, maintain consistency and compliance, reduce costs and be  
17 the best in class. A key to this approach has been the implementation of structural  
18 changes designed to better enable our businesses that operate on similar platforms to  
19 view and leverage best practices implemented by sister entities within the  
20 corporation. To accomplish this, Mr. Householder appointed one leader to oversee  
21 all the regulated entities and another leader to oversee all the unregulated entities.  
22 This enterprise-wide concept has allowed CUC to gain standardization, and  
23 efficiencies throughout the organization. As a result of these changes, new roles

1           were created and added to the Senior Leadership Team. Additionally, new positions  
2           have been created to reflect the over-arching, enterprise-wide scope of  
3           responsibilities. There are now officer roles (Assistant Vice President) for  
4           Operations Services and Energy Logistics. In addition, there are now Director roles  
5           for enterprise-wide scope of Construction Services, Operations Compliance, and  
6           Continuous Improvement. Please reference Exhibit DR-1, attached to my testimony,  
7           for a current organizational chart. This new structure better facilitates our ability to  
8           accomplish our corporate mission, which is, “We deliver energy that makes life  
9           better for the people and communities we serve.” Consistent with these  
10          organizational changes to effect enterprise-wide efficiencies and the implementation  
11          of best practices, we have implemented a holistic approach in compensation to  
12          ensure we attract and retain the best employees through a competitive compensation  
13          and benefits package. Our employees are our most critical resource when it comes to  
14          providing service to our customers. We like to say that our employees are the  
15          creative and powerful heart of our Company.

16       **Q.    What are the Chesapeake Cares program and the Mentoring Program you**  
17       **mentioned?**

18       **A.**    The Chesapeake Cares program is one of our many engagement programs where  
19          employees gather each quarter to celebrate and recognize others. Prior to Covid,  
20          these meetings were held onsite once a month. We’ve moved them to virtual  
21          quarterly meetings for now. During these meetings, we introduce all new  
22          employees, along with announcing birthdays and job anniversaries of employees  
23          celebrating during this quarter. It is also a time to have peer recognitions. We have

1 nomination forms that are tied to our Core Values. If an employee wants to  
2 recognize another employee for displaying one of our core values, they are  
3 encouraged to do so. The nomination card is read aloud so that the employee knows  
4 who nominated them and for what reason. Senior Officers usually lead these  
5 meetings and announce the employees. Our Engagement Coordinator along with our  
6 Cares Champions plan these meetings which are well received by our employees.

7 Our formal Chesapeake Mentoring Program was officially launched in June 2021.  
8 Each Officer is a Mentor to one or more mentees. There have been several informal  
9 mentorship relationships and Chesapeake wanted to have a more structured program.  
10 The program allows any employee to apply to be mentored. They are then paired  
11 with a Mentor. For the first launch we had just our Officer team be the Mentors.  
12 There are 52 mentees paired with 24 Officers. This is a yearlong program. The next  
13 phase of the program will be Officers selecting other Mentors to expand the  
14 program. We have received great feedback on this program, and it has allowed  
15 mentees to build relationships and learn about other areas of the company.

16 **Q. What are the components of the Company's total compensation package?**

17 A. Chesapeake Utilities Corporation offers the following components as part of our total  
18 compensation package: Competitive salaries; annual incentive performance plans;  
19 Sign-On Bonuses; Driver incentives; Relocation assistance; Tuition Reimbursement;  
20 Company provided Life Insurance; Company provided Long Term Disability  
21 insurance; Four Medical plan options including a Health Saving Account;  
22 Prescription plan; Vision Plan Flexible Spending Accounts and generous 401k  
23 Retirement Plan and a Roth 401(k) Savings Plan.

1 **Q. Please describe the Company's rewards package.**

2 A. In addition to the compensation related items listed above, FPUC also rewards our  
3 employees with Vacation Time and Sick Time. These hours are accrued each pay  
4 period. We also provide nine (9) Company paid holidays annually. FPUC's  
5 rewards package also includes free identity Theft Protection, Paid Holidays;  
6 Bereavement Leave, Jury Duty Leave, Employee Assistance Program, Wellness  
7 initiative, volunteer opportunities, and employee discounts for certain vendors such  
8 as Legoland, Wild Water Kingdom, and Six Flags Great Adventure.

9 At FPUC, we provide employees base pay and short-term incentive pay through the  
10 Company's Incentive Performance Plan ("IPP") which is based upon the employees'  
11 annual performance. In addition, employees within certain leadership roles are  
12 eligible for long-term incentive pay. This rewards structure is comparable to what is  
13 available in the market in both the utility and non-utility industry. FPUC offers  
14 employees a reasonable total rewards package, along with the opportunity to develop  
15 and grow within the Company.

16 In addition to the IPP, there are many other offerings for our employees such as  
17 flexible work hours, remote eligible roles, volunteer opportunities, training and  
18 development.

19 **Q. Please describe the IPP.**

20 A. The Incentive Performance Plan provides an opportunity to earn a portion of your  
21 salary in a onetime payment if certain Company and Individual Goals are achieved.  
22 The plan has a target of 6% of base pay. Targets are based on salary grade. Targets  
23 range from 6-20% of pay.



1 The primary objectives of the IPP are as follows:

- 2 • Reward each employee's individual contribution to the overall performance results  
3 consistent with their eligibility.
- 4 • Create alignment and link performance metrics related to CUC's and the individual  
5 business units' vertical strategy, operational objectives and financial targets to  
6 individual compensation;
- 7 • Create a line of sight for each employee to clearly understand how their performance  
8 contributes to the overall success of the Company;
- 9 • Recognize and reward performance achievement of departmental / team goals and  
10 metrics.

11 The IPP has the following distinct performance categories:

- 12 1. The Individual's Performance Rating (PR) annual score.
- 13 2. Chesapeake Corporate Earnings Per Share (EPS) overall annual results.
- 14 3. Consolidated Return on Equity (ROE)
- 15 4. Identified Non-financial goals (Safety for 2021)

16 **Q. Does the IPP apply to all employees?**

17 A. All non-union, non-officer, active employees are eligible for the IPP excluding those  
18 that are on commission-based plans, seasonal employees, summer help, and interns.  
19 Employees covered by a collective bargaining agreement will follow the provisions  
20 negotiated.

21 **Q. Does the Company utilize at-risk pay as part of its compensation structure?**

22 A. Yes. Commissioned employees in sales and marketing have at-risk pay as part of  
23 their compensation structure at FPUC.

1 **Q. (If yes to above) What are the percentages allocated between base pay and at-**  
2 **risk pay in the Company's compensation structure?**

3 A. After a commissioned sales employee at FPUC is hired, they receive a base pay with  
4 an initial salary "bridge" for the first few months of employment. That salary bridge  
5 is removed, and the employee is eligible for unlimited commissions based on sales.  
6 Most percentage allocations are approximately 25% base pay with 75% of pay at  
7 risk.

8 **Q. Why does the Company utilize this structure for compensation?**

9 A. We only use this structure for sales employees at FPUC. We believe the unlimited  
10 opportunities to earn commissions helps with sales and grows our business.

11 **Q. In your experience, is this compensation structure unique to the Company?**

12 A. No. This type of compensation structure for sales employees is very common.

13 **Q. How are goals set for an employee's at-risk compensation?**

14 A. The manager and the employee define the territory and the sales goals for each year  
15 and incorporate them into their Performance Review Form. Goals are based on prior  
16 territory sales quota goals and are designed to be realistic and achievable goals.

17 **Q. Are the goals focused on financial goals only, or do they include operational**  
18 **goals?**

19 A. The goals are operational goals based on sales quota and are for commissioned  
20 employees only. FPUC does not have an at-risk compensation structure for other  
21 roles. Only the IPP is at risk and is not part of base pay.

22 **Q. How does this aspect of the Company's compensation mechanism benefit its**  
23 **customers?**

1 A. Our at risk pay for commissioned employees helps customers by encouraging  
2 employees to build relationships with our customers and invest in educating them on  
3 the benefits of natural gas. We firmly believe that the direct use of gas is most  
4 efficient and as our customers use gas, this can help them save money on their  
5 overall energy bills.

6 **Q. What has the Company's approach been to corporate governance initiatives on**  
7 **Equity, Diversity, and Inclusion (EDI) from an HR perspective?**

8 A. Equity, Diversity and Inclusion have always been important to the organization.  
9 From an HR perspective, it has always been our culture to look at things through the  
10 lens of EDI. In recent years the company has expanded our EDI efforts and created  
11 Employee Resource Groups also known as ERG's. We are committed to equality  
12 and believe that an inclusive workplace culture is key to achieving our mission. Our  
13 EDI Council is focused on developing and supporting initiatives that strengthen  
14 diversity, equity and inclusion within Chesapeake and its subsidiaries, as well as in  
15 our communities. Our emphasis on equity, diversity and inclusion in the workplace  
16 means that we strive to create a work environment where everyone feels engaged,  
17 valued and respected regardless of race, age, physical ability, sexual orientation,  
18 gender, ethnicity or religion. This can also include diverse facets like income levels,  
19 education levels, parental status, geographic location and positions as well as other  
20 aspects that make us all unique.

21 Our vision is for everyone to embrace their differences and share their diverse  
22 experiences and backgrounds, which will transform our workplace, the communities  
23 that we serve and the world into a better place.

1 Our Company fosters an environment where people are valued, respected, and  
2 empowered to succeed. Our commitment to equity, diversity, and inclusion advances  
3 our culture and business success.

4 We created the Women In Energy Employee Resource Group (“ERG”) at  
5 Chesapeake several years ago. In 2020, we expanded this ERG initiative by creating  
6 5 additional ERGs, each with a different focus. They include our Black Employee  
7 Network (BEN); Veterans Resource Group; Wisdom Seekers & Sharers; SPARC  
8 which stands for Support-Promote-Attract-Retain-Connect aimed at millennial and  
9 younger employees; and EPIC, which stands for Equal Parts of Inclusive Cultures.

10 In 2022, we stood up two additional ERG’s: Diversabilities is on a mission to  
11 increase awareness, empathy, inclusion and advocacy for people with different levels  
12 of ability within our work family and community. HOPE, provides prayer, positive  
13 affirmation and knowledge of personal experiences to employees. It stands for  
14 heartfelt openly praying every day. We hope to continue to expand our ERGs based  
15 on what our employees are interested in. Each ERG has a Chair, and a co-chair, as  
16 well as steering committee of members that help plan their initiatives and goals for  
17 the year. We also conduct monthly EDI Wise educational opportunities for all  
18 Employees. For example, in May, our Veteran’s ERG Chair will present on  
19 Memorial Day and heroes that have given us our freedom today.

20 **Q. Is this consistent with CUC’s corporate philosophy on EDI?**

21 A. Yes.

22 **Q. Has the Company conducted a compensation study since its last rate case?**

1 A. Yes. Over the approximately 13 years since the Company's last rate case, the market  
2 for both technical and professional employees in the natural gas industry has,  
3 understandably, changed. Recognizing this, the Company engaged a third-party  
4 vendor, Willis, Towers & Watson, to help us evaluate the labor market and  
5 benchmark our compensation and benefit programs against the external market.  
6 Based on the results, we were able to appropriately adjust the salaries of four (4) of  
7 the Company's employees in Florida to ensure they were compensated at a level  
8 comparable to market. While this resulted in a total salary increase of only \$19,263  
9 across these four employees, the correction to compensation was important to  
10 demonstrate to our employees that they are valued by the Company. Moreover, the  
11 results indicated that our compensation for Florida employees was otherwise  
12 comparable to market.

13 **Q. How does CUC review the level of compensation for its officers?**

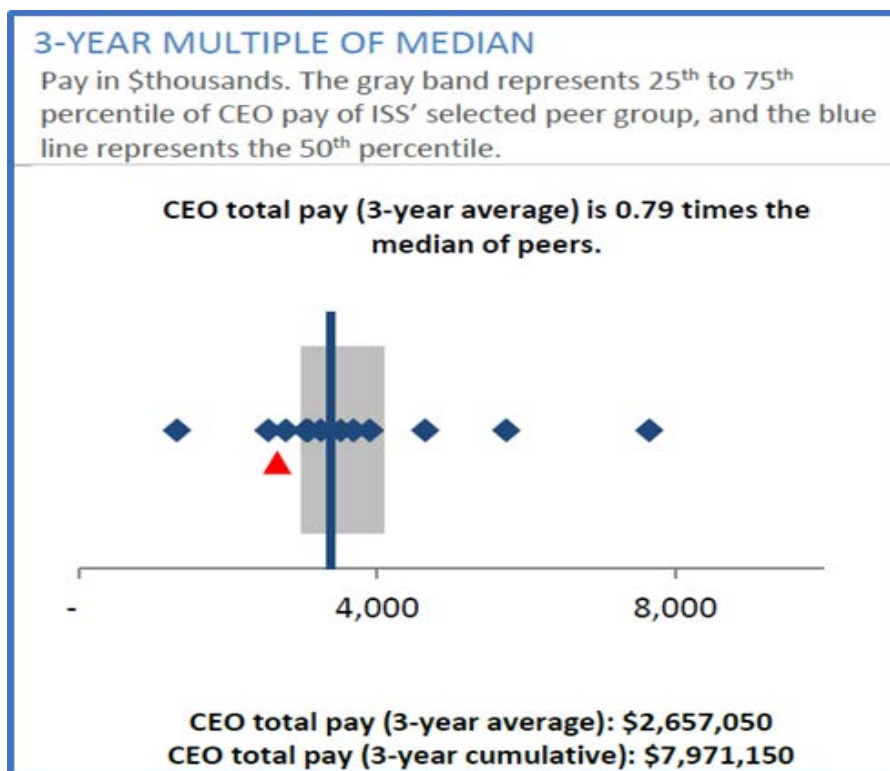
14 A. Compensation of the named executive officers of Chesapeake, which include the  
15 CEO, Executive Vice Presidents, Senior Vice Presidents, and Vice Presidents  
16 reporting to the CEO, is reviewed by the Compensation Committee of Chesapeake's  
17 Board of Directors. The Compensation Committee engages an outside consulting  
18 firm, F.W. Cook, to review executive compensation in the market and make  
19 recommendations to the Board of Directors on potential adjustments. Annually, each  
20 February, the Compensation Committee reviews base salaries of the named  
21 executive officers based on a market analysis prepared by the third-party  
22 compensation consultant. Any changes recommended in February, if approved by  
23 the Board of Directors, would be effective in April.

1 **Q. Has the Company reviewed its executive officer compensation compared to the**  
 2 **market?**

3 A. Yes, Institutional Shareholder Services Inc. (“ISS”) provided the Company an  
 4 analysis evaluating the CEO’s pay and the Company’s performance over the past  
 5 three years.

6 **Q. What were the results of the comparison?**

7 A. As shown in the graph below, our CEO’s total pay is within a reasonable range when  
 8 compared to peer companies, as it is slightly below the total median pay given to  
 9 CEOs at the other peer companies over the past three years.

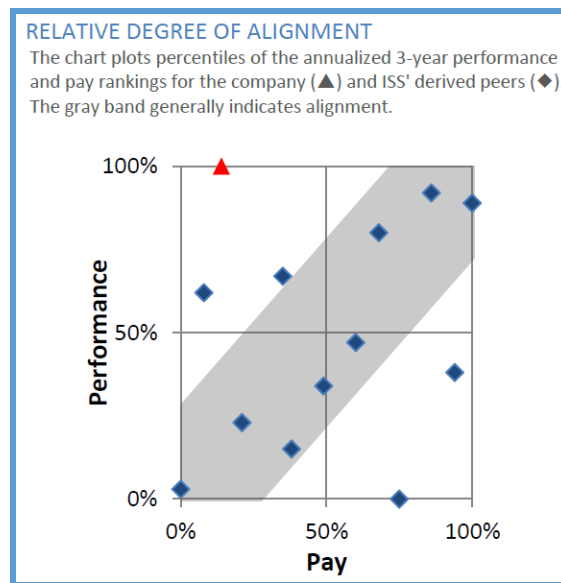


10

11 **Q. What did ISS conclude regarding the performance of the Company under Mr.**  
 12 **Householder’s leadership compared to its peer companies over the past three**  
 13 **years?**

14

1 A. Based on these four Economic Value Added (“EVA”) criteria: EVA Margin, EVA  
 2 Spread, EVA Momentum (Sales) and EVA Momentum (Capital), ISS determined  
 3 that the Company’s performance has exceeded all of its peers over the past three  
 4 years.



5

6 **Q. Is the executive compensation provided reasonable?**

7 A. Yes, while the executive pay is within the lower end of the range offered to CEOs at  
 8 peer utilities, it is reasonably aligned with performance, and the appropriate  
 9 allocation should be recovered from customers in this rate proceeding.

10 **Q. Has the Company made an adjustment in Schedule G-2 Page 19j for a vacancy  
 11 rate?**

12 A. Yes, there are always some positions that are open when someone leaves the  
 13 Company and before the re-hiring takes place. To account for this timing delay, we  
 14 have reduced in payroll based on the assumption that 3% of our salaries are not  
 15 currently filled. This adjustment is included in the over and under adjustment to  
 16 account 920.

1 **Q. Why is it appropriate to allocate a portion executive compensation to FPUC?**

2 A. Consistent with the enterprise-wide organizational construct of CUC, our  
3 compensation philosophy recognizes that our executive officers perform a critical  
4 role in ensuring that all our business units are providing safe, reliable, and efficient  
5 service to customers. As such, our compensation packages reflect a combined  
6 package of compensation and benefits designed to attract and retain skilled leaders  
7 within the industry. Said another way, our compensation packages for all our  
8 employees are designed to ensure we have the right people in place to maintain safe  
9 and reliable service to our customers in an ever-evolving industry. As shown above,  
10 the executive compensation allocated to FPUC is reasonable based upon the  
11 Company's performance and the market rate for executive compensation at peer  
12 companies.

13

14 **BENEFITS**

15 **Q. What is the Company's approach to designing benefits packages for employees?**

16 A. FPUC annually reviews our benefit packages and makes changes as needed that we  
17 believe will be enhancements that will attract and retain top talent. One recent  
18 example is that we heard from our Employee Resource Groups that employees  
19 wanted to celebrate Martin Luther King as a paid holiday. The Company added that  
20 holiday as another paid day off so that employees would no longer have to use their  
21 PTO/vacation time to celebrate that particular day.

22

23 **PENSION**



1 **Q. Does the Company provide a pension plan for its employees?**

2 A. The Company does not have a pension plan. The FPUC Pension plan was frozen in  
3 2010. However, the Company does offer a Retirement Savings Plan through a 401k  
4 and Roth 401k with a Company match up to 6 percent of contributions. Employees  
5 can defer 1% to 80% of their eligible earnings on a pre-tax basis. There are a wide  
6 variety of investment options available in the plan. We will match 100% of your pre-  
7 tax contributions up to a maximum of 6% of compensation. There is also an  
8 “automatic deferral feature” in the plan. If the employee does not specifically elect  
9 an alternate deferral amount (including zero), the Company will automatically  
10 withhold 3% from the paycheck each pay period and deposit that amount into the  
11 Plan as a salary deferral. If the employee is age 50 or older, or will reach age 50 at  
12 any time during the Plan Year, the employee will be eligible to make Catch-Up  
13 Contributions. To be fully vested in the “safe harbor” matching contribution, the  
14 employee will have to complete two years of service. Employees also have the  
15 option to contribute to a Roth Savings Plan. Roth contributions are deducted from  
16 the employee’s paycheck after taxes are withheld. Employees may elect Roth  
17 Contributions to your 401 (k) account in addition to or instead of your Pre-Tax  
18 Contributions. The employee’s combined Pre-Tax Contribution and Roth  
19 Contribution must meet certain limitations. We will match 100% of your pre-tax  
20 contributions up to a maximum of 6% of compensation.

21 In addition to the 401(k) and the Roth 401(k), there is a discretionary 401k  
22 Supplemental Employer Contribution if certain Company financial goals are met.  
23 This supplemental payment is paid out in Company stock if Company goals are

1 achieved. Payout is based on your age plus years of service times \$12.50 plus 1.25%  
2 added to eligible annual salary and is paid out in stock.

3

4 **COVID-19 PANDEMIC RESPONSE**

5 **Q. How has the COVID-19 Pandemic (“COVID”) impacted FPUC’s HR function?**

6 A. As we know, COVID is an ongoing pandemic impacting FPUC and companies  
7 across the United States. In March of 2020, FPUC, as well as Chesapeake as a  
8 whole, had to pivot and change the way we do business every day. The CEO  
9 strategically canceled all large gatherings and had 80% of our workforce become  
10 “remote” workers virtually overnight. We, along with the rest of the world thought  
11 this would be a temporary situation that would only last for a few weeks, though this  
12 was not the case. The Company formed several task forces to help guide the  
13 Company through this unprecedented event. One of these task forces is comprised  
14 of our HR department. The HR Task Force, known as the Pandemic Task Force, is  
15 responsible for screening, monitoring health status, and tracking employees  
16 (virtually) that have been exposed to the COVID virus. The HR Task Force  
17 maintains a confidential Employee Tracker of how many employees had been  
18 exposed, how many were out of work, and when the employees was/is “cleared” to  
19 return to work. The HR Task Force also helps in the planning of issues, frequently  
20 changing policies, and safety of our operations employees and customers.  
21 Additionally, there is a Communication Task Force and a Business Transformation  
22 Task Force set up to ensure that our Company culture would be preserved as best as  
23 possible throughout the prolonged periods of isolation.

1 **Q. What steps did FPUC take to protect its employees and customers during**  
2 **COVID?**

3 A. Our number one priority was, and is, the safety of our customers and employees.  
4 The Company decided to pay employees to stay home even if the Company was not  
5 allowing them to work. The HR Task Force created protocols where employees had  
6 to report to HR if they were sick. If they had any of the COVID symptoms, HR  
7 asked them to stay home until the employee was symptom free for 48 hours without  
8 fever reducing medicine. This impacted the Company financially, as we were not  
9 asking employees to use their own sick time or Paid Time Off (“PTO”) hours to  
10 cover these expenses.

11 **Q. How did the Company address staffing issues during the pandemic if employees**  
12 **could not work due to illness or because their childcare facilities were closed?**

13 A. FPUC wanted employees to care for the needs of their families while keeping  
14 employees protected from the spread of COVID. Therefore, the Company allowed  
15 employees to stay home, on paid leave, if they were sick with COVID or displayed  
16 COVID symptoms, or had been exposed to someone with COVID. FPUC called this  
17 “Pandemic Pay” and did not require the employees to use their sick or Paid Time Off  
18 (“PTO”) banks of time. Additionally, if the employee did not have daycare or the  
19 employee’s children were at home due to school closures, the Company also paid  
20 employees Pandemic Pay for these situations.

21 **Q. Did the Company do anything else “above and beyond” for employees during**  
22 **COVID-19?**

1 A. Yes. In addition to pandemic pay for employees, the Company also paid a pandemic  
2 premium for all field employees that were not remote. This premium pay was a 25%  
3 adder on base pay and continued from April 2020 to August 2020.

4

5 **CURRENT JOB MARKET AND TALENT ACQUISITION CHALLENGES**

6 **Q. What is the current job market like for the Company and what are some of the**  
7 **talent acquisition challenges?**

8 A. The pandemic has brought a major change in the job market. To our surprise, we  
9 have seen a reduction in the number of applicants in some of our job postings  
10 compared to the responses we received before the pandemic. Like other companies  
11 throughout the United States, the Company has felt the impact of what has been  
12 called the “Great Resignation,” which for us has resulted in a significant shift in  
13 employment trends. For our Company, we are now challenged to find qualified  
14 applicants, particularly in areas such as Business Information Systems (“BIS”), HR,  
15 and regulatory affairs, as compared to pre-Covid when these job openings would  
16 have been filled relatively quickly.

17 **Q. What are some of the challenges that the Company has seen in recruitment?**

18 A. In this competitive job environment, the Company has found that potential new hires  
19 expect incentives that we did not historically offer, such as “signing” bonuses and  
20 compensation for relocation. Not only have we had to adjust for these new  
21 expectations, but we have also experienced delays in background screening response  
22 time from our third party vendor, which has resulted in longer than normal times to  
23 process and onboard new hires. As a result, the Company has incurred additional

1 overtime and contractor expense in order to maintain safe and reliable service  
2 pending completion of the onboarding process for new employees.

3 The labor market continues to change. Roles that were once easy to recruit for are  
4 now difficult and costly. There are some roles that we have difficulty in receiving  
5 applicants. We've had to be creative in our recruiting strategies to find top talent.

6 **Q. Does the Company have an aging workforce that magnifies its recruitment**  
7 **concerns?**

8 A. Yes. We have an average age at FPUC of 49. We must be strategic in making sure  
9 we have successful knowledge transfer before employees retire. The Company will  
10 need to hire, in advance of retirement announcements, to ensure the safe, reliable  
11 operations continue daily.

12 **Q. Has the Company experienced challenges with retaining employees?**

13 A. Yes, in addition to the additional efforts the Company has had to develop to recruit  
14 new employees, the Company has had to increase salaries to attract and retain top  
15 talent in this competitive environment. Our average years of service for our  
16 employee base is 13 years. Although we do have tenured employees, there have been  
17 challenges with retaining some employees. The market has changed since the Covid  
18 pandemic, and we are adapting to retain top talent.

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

20 A. Yes, it does.

1 BY MR. MUNSON:

2 Q Ms. Rudloff, did you prepare a summary of your  
3 testimony?

4 A Yes.

5 Q Can you present that to us, please?

6 A Yes.

7 Good morning, Mr. Chairman and Commissioners.  
8 Thank you for the opportunity to address you today.

9 My testimony covers three areas. Our  
10 corporate philosophy on compensation, our COVID 19  
11 pandemic response, and our current talent acquisition  
12 challenges. Our compensation philosophy is an important  
13 part of our culture, and it mirrors our company values  
14 of care, integrity and excellence.

15 In addition to competitive salaries, we offer  
16 a variety of benefits to attract top talent. Our total  
17 rewards compensation package is designed to ensure that  
18 we have the right people in place to maintain safe and  
19 reliable service to our customers.

20 Regarding the COVID-19 pandemic, we, along  
21 with the rest of the world, had to pivot and change the  
22 way we do business. We created an HR Pandemic Task  
23 Force that was responsible for creating policies to  
24 ensure the safety of our employees and our customers.  
25 The company implemented pandemic pay to our employees

1 along with the pandemic pay premium for each field  
2 employee. Similar to recent storms and Hurricane Ian,  
3 front line first responders are the important part of  
4 our restoration. During the pandemic, our gas utility  
5 workers and our service technicians had a greater risk  
6 of exposure, but we made sure that our customers had  
7 safe and reliable natural gas.

8           And lastly, the current job market is full of  
9 talent acquisition challenges. The company has felt the  
10 impact of what has been called The Great Resignation,  
11 which for us as resulted in a significant shift in  
12 employment trends. We are now challenged to find  
13 qualified applicants, particularly in areas such as  
14 business information systems, human resources,  
15 regulatory and even CDL drivers.

16           In this competitive job market, we found that  
17 potential new hires expect incentives that we did not  
18 historically offer, such as signing bonuses and  
19 relocation assistance. The companies had to increase  
20 salaries to remain competitive.

21           This concludes the summary of my testimony,  
22 and I thank you for your time this morning.

23           **Q     Thank you, Ms. Rudloff.**

24           MR. MUNSON: At this time, Mr. Chairman, we  
25           tender the witness for cross-examination.

1 CHAIRMAN FAY: Thank you, Mr. Munson.  
2 Ms. Christensen?

3 EXAMINATION

4 BY MS. CHRISTENSEN:

5 Q Good morning, Ms. Rudloff. How are you this  
6 morning?

7 A Well, thank you.

8 Q Okay. Ms. Rudloff, as the Assistant  
9 Vice-President of Human Resources, are you familiar with  
10 the company's employee benefit plans and incentive  
11 compensation programs?

12 A Yes, I am.

13 Q Okay. And is it correct that the company has  
14 an incentive performance plan, or an IPP?

15 A Yes, that is true for certain eligible  
16 employees.

17 Q Okay. And under the IPP, the awards are based  
18 in part on Chesapeake Corporation's earnings per share  
19 and Chesapeake's consolidated return on equity, is that  
20 correct?

21 A That's two pieces of the component, yes.  
22 There are four components.

23 Q Okay. Would you agree that Chesapeake  
24 Corporation's earnings per share and the Chesapeake  
25 consolidated return on equity refers to the parent



1     **company, Chesapeake Utility Corporation?**

2           A     It refers to enterprise wide.    Yes.

3           Q     Okay.  So you would agree that the company has  
4     **attempted -- or with this incentive program, the company**  
5     **is charging Florida ratepayers for costs associated with**  
6     **incentive compensation programs that are related to**  
7     **Chesapeake Corporation's earnings per share and**  
8     **Chesapeake consolidated return on equity?**

9           A     No, I would not agree.  This enterprise wide  
10    EPS goal is something that we did to synergize all the  
11    different companies so that we all had the same team  
12    goals.

13          Q     Okay.  Is -- but Chesapeake Corporation, the  
14    parent corporation, that's the only one that actually  
15    has stock, correct, issues stock?

16          A     It is a Chesapeake Utilities Corporation  
17    stock, yes.

18          Q     Okay.  And OPC has proposed that CUC  
19    stockholders absorb the cost of the components of the  
20    IPP that are related to the parent company earning per  
21    share and the parent company's consolidated return on  
22    equity, is that correct?

23          A     Can you show me where that is in my testimony?

24          Q     It's not in your testimony.  Would you agree  
25    that OPC has taken the position that those components of

1 the IPP that are related to the parent corporation,  
2 CUC's earnings per share and return on equity should not  
3 be included in rates in this case?

4 MR. MUNSON: Mr. Chair, that's assuming facts  
5 that aren't in evidence.

6 CHAIRMAN FAY: Yeah, Ms. Christensen, you are  
7 asking her to confirm a position of OPC?

8 MS. CHRISTENSEN: Well, I could ask her if  
9 she's aware.

10 CHAIRMAN FAY: Yeah, that's fine.

11 BY MS. CHRISTENSEN:

12 Q Are you aware that that's OPC's position?

13 A I am aware that that is OPC's position.

14 Q Okay. The incentive compensation that is paid  
15 out under the IPP plan is subject to payroll taxes such  
16 as FICA and Medicare, is that correct?

17 A Yes.

18 Q And CUC, which is the parent corporation, also  
19 provides stock-based compensation to its executives and  
20 management, correct?

21 A That is correct, but that is not part of our  
22 IPP plan. That's something separate for executives.

23 Q Okay. The purpose of the stock-based  
24 compensation is to enhance shareholder value by linking  
25 the compensation of the officers and directors of CUC to

1 the increases in the price of Chesapeake common stock,  
2 is that correct?

3 A Can you repeat that question, please?

4 Q Sure.

5 The purpose of the stock-based compensation  
6 program is to enhance shareholder value by linking the  
7 competition of officers and directors of CUC to  
8 increases in the price of Chesapeake Utilities stock, is  
9 that correct?

10 A That's a part of it.

11 Q Okay. And by receiving stock-based  
12 compensation, that essentially puts the recipients into  
13 the same position as Chesapeake Utilities common  
14 stockholders who would then both benefit from increases  
15 in the price of Chesapeake utility common stock,  
16 correct?

17 A I need you to repeat the question again,  
18 please.

19 Q Sure.

20 Since the officers of the company, or certain  
21 officers of the company can receive stock-based  
22 compensation, that puts them in the same position of the  
23 Chesapeake common stockholders in that they both benefit  
24 from increases in the price of the stock?

25 A Yes. I think that's common in the industry,

1 that you want, as a team, to make sure that the company  
2 is growing.

3 Q Okay. The stock-based compensation that is  
4 paid out under the IPP plan is taxable income to the  
5 recipients and is subject to payroll taxes that have  
6 been paid by the company -- I think I just asked you --  
7 oh, is the stock-based compensation that is paid out  
8 taxable income to the recipients and is subject to  
9 payroll taxes that have been paid by the company, such  
10 as FICA and Medicare?

11 A I want to be clear that the stock -- there is  
12 no stock in the IPP plan that we are discussing as part  
13 of my testimony. That's totally separate.

14 Q Okay. Is there any taxable FICA or Medicare  
15 tax implication with the stock-based program?

16 A With the stock-based program, if people were  
17 to sell it, there would be taxes, you know, implied, but  
18 whatever the executives do with their stock is, you  
19 know, outside of the realm of the company.

20 Q Okay. Are you aware of any other Florida  
21 utilities, such as Florida Power & Light, that have  
22 agreed to certain components of the executive incentive  
23 compensation that should not be charged Florida  
24 ratepayers?

25 A I am not aware of that, no.

1 MS. CHRISTENSEN: Okay. I have no further  
2 questions for this witness. Thank you,  
3 Ms. Rudloff.

4 CHAIRMAN FAY: Okay. Mr. Moyle?

5 MR. MOYLE: I have a few.

6 EXAMINATION

7 BY MR. MOYLE:

8 Q Good morning.

9 A Good morning.

10 Q The -- could you just tell me, with respect to  
11 retirement benefits that your folks receive, there is a  
12 -- they get pensions, right?

13 A There is a frozen pension. We don't have a  
14 current pension. We have a 401(k) and a Roth 401(k).

15 Q Okay. And the frozen pension is -- so if  
16 somebody was there and they still are able to get the  
17 pension, is that right?

18 A Yes. It was frozen in 2006, I believe.

19 Q Okay. And do they also get a 401(k) in  
20 addition to the pension?

21 A Yes, they do.

22 Q Okay. And do they also get certain ones who  
23 may qualify, do they also get stock as well?

24 A Repeat the first part of the question.

25 Q I am just trying to understand whether someone

1 who gets a pension and a 401(k) has also the ability to  
2 get stock incentives?

3 A They do. Again, the 401(k) is optional. Not  
4 every employee, you know, chooses to participate in the  
5 401(k). We encourage that, as we have a company match,  
6 but there is a portion of the 401(k) that has a  
7 supplemental 401(k) discretionary, and that is paid in  
8 company stock.

9 Q Okay. And most people participate in the  
10 401(k) program, do they not, because it's matched?

11 A I don't have the exact numbers, but, no, I  
12 wish all of them did, but not all of them do.

13 Q A majority?

14 A A large, yeah, majority.

15 Q Okay. Is any of your workforce unionized?

16 A Yes.

17 Q And tell me about the workforce that's  
18 unionized.

19 A We have approximately seven different unions  
20 in Florida Public Utilities representing four different  
21 unions.

22 Q Okay. And with respect to the compensation  
23 that people in the unions receive, are those annual --  
24 annual increases? Are they only when the collective  
25 bargaining agreement is negotiated? And that's probably

1 not the greatest question, because you could have a  
2 three-year collective bargaining agreement with a  
3 two-percent increase, but just tell me about the  
4 unionized increase in salary, if you would.

5 A Sure. Absolutely. It's part of my world. I  
6 was the one to negotiate the union contracts, and they  
7 were all up for negotiations this year, all seven of  
8 them. But, yes, we have negotiated with the union  
9 employees that they do receive an annual wage increase.

10 Q Do you know how much? I guess you negotiated  
11 it. You probably do.

12 A Yes, I do. We negotiated a three-percent for  
13 this year, 2.75 percent for next year and 2.25 percent  
14 in year three.

15 Q Okay. And then comparing how the union folks  
16 are treated, how are the nonunion employees treated with  
17 respect to annual increases?

18 A So there -- everybody is -- everybody  
19 receives -- we treat everybody the same, right. So we  
20 don't recognize whether they are union or nonunion.  
21 Yes, they have a collective bargaining agreement and we  
22 abide by that, but as far from a corporate perspective,  
23 we look at all our employees the same. We want them to  
24 receive the same benefits, and so annually, our nonunion  
25 employees will have an opportunity for a merit increase,

1 and that's based on their performance, and there is  
2 usually a range of what they could get.

3 Q Okay. And I think Ms. Christensen may have  
4 asked you this, but in terms of incentive compensation  
5 plans, you all have an incentive compensation, do you  
6 not?

7 A We do. It's called the IPP.

8 Q Okay. And how many people, approximately, of  
9 your workforce qualify for that?

10 A It is -- we actually have negotiated it with  
11 the unions as well. So all of our union and nonunion  
12 employees that are non-officers are part of the IPP  
13 plan.

14 Q Approximately how many -- how many of your  
15 workforce, what percentage of your workforce hits the  
16 goal of the IPP plan?

17 A Usually 75 to 80 percent.

18 Q And is stock performance one of the  
19 measurements?

20 A The EPS and the return on equity are part of  
21 the -- two of the four requirements.

22 Q Okay. And are you aware -- I think you  
23 weren't aware of FPL, but are you aware of any situation  
24 in which the Commission as either ordered or, by  
25 agreement, the parties have settled the case and said



1 **the incentive compensation would be below the line?**

2 A I am not aware of that.

3 MR. MOYLE: Okay. That's all I have. Thank  
4 you?

5 CHAIRMAN FAY: Okay. Staff?

6 MR. SANDY: No cross, Mr. Chair.

7 CHAIRMAN FAY: Okay. Commissioners?  
8 Mr. Munson, redirect?

9 MR. MUNSON: No redirect. Thank you.

10 CHAIRMAN FAY: Okay. With that, Mr. Munson,  
11 we will enter exhibits on the Comprehensive Exhibit  
12 List 31 and 32 into the record without objection.

13 (Whereupon, Exhibit Nos. 28-30 were received  
14 into evidence.)

15 CHAIRMAN FAY: And, Mr. Munson, would you like  
16 your witness excused.

17 MR. MUNSON: Yes, please.

18 (Witness excused.)

19 CHAIRMAN FAY: Great.

20 And then what I would like to do, it's almost  
21 11:30 now. I want to make sure we are mindful of  
22 our court reporter here, for Mr. Grimard, or  
23 Grimard, and then Mr. Hancock, Ms. Christensen, how  
24 much time do you think you would need for each of  
25 those?

1 MS. CHRISTENSEN: I have a few questions for  
2 Mr. Grimard, probably 20, 30 minutes maybe at  
3 most --

4 CHAIRMAN FAY: Okay.

5 MS. CHRISTENSEN: -- based on how it's been  
6 flowing today.

7 CHAIRMAN FAY: Okay. Do you want to break  
8 now, or can we go ahead and move forward? Okay,  
9 let's do that.

10 Go ahead and call your next witness.

11 MS. KEATING: Thank you, Mr. Chair. FPUC  
12 calls Ms. Wraye Grimard.

13 CHAIRMAN FAY: So we all butchered your name  
14 then, didn't we?

15 MS. CHRISTENSEN: I do apologize for that.

16 Whereupon,

17 WRAYE GRIMARD

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

21 EXAMINATION

22 BY MS. KEATING:

23 Q Good morning, Ms. Grimard.

24 Would you please state your name and business  
25 address for the record?

1           A     My name is Wraye Grimard. My business address  
2     is 1295 56th Street North, St. Petersburg, Florida,  
3     33710.

4           Q     **And by whom are you employed?**

5           A     I am self-employed as an independent  
6     consultant and working for FPUC.

7           Q     **Okay. Thank you.**

8                   **And did you cause and prepared and filed in**  
9     **this proceeding 12 pages of direct testimony?**

10          A     I did.

11          Q     **Do you have any changes or corrections to that**  
12     **testimony?**

13          A     No, I don't.

14                   MS. KEATING: Mr. Chair, we ask that Ms.  
15     Grimard's direct be inserted into the record as  
16     though read.

17                   CHAIRMAN FAY: Okay. Show it inserted as  
18     though read.

19                   (Whereupon, prefiled direct testimony of Wraye  
20     Grimard was inserted.)

21

22

23

24

25

1 Before the Florida Public Service Commission

2 Docket No. 20220067-GU: Petition for rate increase by Florida Public Utilities Company,  
3 Florida Division of Chesapeake Utilities Corporation,  
4 Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company -  
5 Indiantown Division.  
6

7 Prepared Direct Testimony of Wraye Grimard

8 Date of Filing: May 24, 2022  
9

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

11 A. My name is Wraye Grimard. My business address is 1295 56<sup>th</sup> Street North, St.  
12 Petersburg, Florida 33710. I am President of Wraye Grimard LLC and I have provided  
13 consulting, regulatory, and tariff support for Florida Public Utilities Company  
14 (“FPUC” or “Company”) since May 2017.

15 **Q. Please describe your professional experience.**

16 A. I have over forty years of experience in the natural gas industry with a focus on federal  
17 and state regulatory, rates, and tariff matters. Prior to retiring in 2017, I worked for  
18 TECO Energy (“TECO”). At TECO, I was responsible for developing and managing  
19 SeaCoast pipeline’s intrastate pipeline services and regulatory matters, as well as  
20 TECO’s subsidiary, Peoples Gas System’s (“PGS”) transportation service programs.  
21 I oversaw and managed the evolution of PGS’s operating tariffs since 2000. I have  
22 testified before the Florida Public Service Commission (“FPSC”) for several matters  
23 related to fuel clause filings, tariff modification requests, and in rate case filings. Since  
24 2017, I have consulted and participated in the modification and consolidation of  
25 FPUC’s four operating tariffs, as well as provide subject matter expertise for the

1 implementation of the Company's Gas Transportation Service software that went into  
2 service on May 1, 2022.

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

4 A. The purpose of my testimony is to present and support the tariff modifications  
5 proposed as part of the Company's rate case filing. My testimony will describe the  
6 proposed modifications to i) the Company's Miscellaneous Charges, ii) rate schedules,  
7 iii) certain clauses and surcharges, iv) non-rate related tariff changes proposed by the  
8 Company in this proceeding, and v) additional changes to tariff language to make  
9 certain minor revisions for editorial purposes, or to correct or clarify language.

10 **Q. Are you sponsoring any exhibits in this proceeding?**

11 A. Yes. I am sponsoring Exhibit No. WG-1, which is a comparison of the Company's  
12 current and proposed Miscellaneous Charges. I am also sponsoring both the complete  
13 proposed Tariff Volume 2 (the "clean tariff") and the red-lined version of the tariff  
14 that are filed as part of the minimum filing requirement ("MFR") schedule E-9. These  
15 exhibits were prepared by me or under my direction.

16 **Q. Please describe the Company's most recent tariff consolidation efforts.**

17 A. Since 2014, the Company has received approval for the consolidation of certain  
18 surcharges and the recovery of associated expenses across business units. Most  
19 recently, the Company filed and received approval (FPSC Order No. PSC-2021-0148-  
20 TRF-GU) to implement the Company's final tariff consolidation in which the Maps  
21 and Counties and Communities Served, Technical Terms and Abbreviations, general  
22 Rules and Regulations, and transportation service programs were consolidated and  
23 made consistent.

1           **MISCELLANEOUS CHARGES**

2   **Q.    Please describe the proposed changes to the Company’s non-transport related**  
3           **miscellaneous service charges.**

4    A.    In general, the Company is proposing increases to each of its existing tariff  
5           Miscellaneous Charges. Exhibit No. (WG-1) provides a comparison of the Company’s  
6           current and proposed Miscellaneous Charges. As outlined in Witness Everngam’s  
7           testimony, a cost study was performed using operations, customer service, and  
8           accounting data to determine the Company’s cost to provide each service for which a  
9           Miscellaneous Service Charges was proposed, except the returned check charge that  
10          is established by Florida Statute. At this time, the miscellaneous service charge  
11          applicability is contingent on a customer’s rate schedule. Given the similarity of the  
12          field activities required to perform each of these miscellaneous services, it is no longer  
13          necessary to stratify the charges by rate class. Therefore, the Company is proposing to  
14          apply these charges by using service classifications (residential and non-residential)  
15          rather than rate classifications. Restructuring these charges to apply on a less-stratified,  
16          more consolidated basis will provide greater clarity for FPUC’s customers.

17   **Q.    Is the Company proposing any new Miscellaneous Service Charges?**

18    A.    Yes. In this filing, the Company is seeking approval to consolidate its non-  
19          transportation related miscellaneous service charges. To be clear, these service charges  
20          will apply across the entire FPUC platform, if approved. When identifying charges as  
21          “added” for certain areas, it is to reflect that the charge will be entirely new for  
22          customers in those areas. In this proceeding, the Company is requesting to add i) the  
23          Bill Collection with Service Disconnect Charge and ii) a Late Payment Charge to the

1 Florida Division of Chesapeake Utilities. units. In the Indiantown Division, the  
2 Company is proposing to add a i) Failed Trip Charge, ii) Temporary Disconnection  
3 Charge, iii) a Late Payment Charge, and iv) Bill Collection with Service Disconnect  
4 Charge. In the FPUC and Ft. Meade Divisions, the Company is proposing to add a Bill  
5 Collection with Service Disconnect Charge. Details concerning the Company's  
6 proposed Miscellaneous Service Charges can be found in Exhibit No. WG-1 which is  
7 a comparison of the Company's current and proposed Miscellaneous Service Charges.

8 **Q. Is the Company proposing changes to its miscellaneous transportation service**  
9 **charges?**

10 A. No.

11

## 12 **RATE SERVICE CHANGES**

13 **Q. Is the Company proposing to revise its tariff consistent with the rate design and**  
14 **other related rate modifications?**

15 A. Yes. Consistent with the rate design sponsored by Witness Taylor, the Company has  
16 made proposed reclassification and rate adjustments for some business units. The  
17 Company is submitting proposed revisions to its tariff as required in both legislative  
18 (red-lined) and final format. See, MFR Schedule E-9.

19 **Q. Please describe the changes to the Company's rate schedules.**

20 A. The Company has merged its base rates, consolidated its rate schedules, and adopted  
21 common rate schedule descriptions similar to those used by the former Florida Public  
22 Utilities Company tariff. The base rate applicable to the sales service rate schedules is  
23 now referred to (commonly) as the "Non-Fuel Energy Charge" and the base rate

1 applicable to the transportation service rate schedules is now referred to (commonly)  
2 as the “Transportation Charge.” The interruptible rate schedules continue to be closed  
3 at this time.

4

## 5 **CLAUSES AND SURCHARGES**

6 **Q. Is the Company proposing to make any changes to its current clauses and**  
7 **surcharges applicable to any of the distribution systems?**

### 8 Recovery of Bad Debt Expense Associated with Specific Clauses

9 A. Yes. The Company is proposing to recover bad debt expense associated with  
10 individual cost recovery mechanisms and riders within each specific recovery  
11 mechanism or rider. Specifically, the Purchased Gas Cost Recovery Factor  
12 (“PGCRF”) Sheet No. 7.425, the Energy Conservation Cost Recovery (“ECCR”)  
13 factor Sheet Nos. 7.402 through 7.406, and the Swing Service Rider (“SSR”) Sheet  
14 Nos. 7.412 through 7.415, will include the bad debt expense associated with each  
15 individual cost recovery mechanism or rider. The Company has removed the bad debt  
16 expense associated with the PGCRF, the ECCR, and the SSR from the Company’s  
17 proposed base rates. The Company proposed to allocate associated bad debt costs  
18 across rate classes in accordance with the cost allocation methodology currently in  
19 place for each of the associated cost recovery mechanisms.

### 20 Base Rate Tax Change

21 The Company is also proposing to implement a base rate adjustment to the Company’s  
22 Non-Fuel Energy charges and Transportation Service charges to recover or refund  
23 base rate expenses that result from a state or federal governmental mandated tax



1 increase or decrease. Each time the federal or state corporate income tax rate changes  
2 from the rate(s) approved in the Company's current rate case, the Company will make  
3 a one-time adjustment to base rates to implement the effects of the tax change(s).  
4 Within one-hundred twenty (120) days following the tax rate change, the Company  
5 will file a forecasted surveillance earnings report for the year in which the tax reform  
6 will become effective with the Commission. In that filing, the Company will quantify  
7 the impact of the tax rate change on current rates and calculate the rate adjustment  
8 requested for each customer. The adjustment will be calculated by applying a uniform  
9 percentage change to the Non-Fuel Energy Charge, and Transportation Charge to  
10 reflect the change in tax rates. The revised rates would remain in effect until either the  
11 tax rates change again or the Company files its next rate case. The Company is  
12 proposing to defer all unprotected excess deferred taxes as either a regulatory asset or  
13 liability and include them in the FPSC capital structure and will flow the savings back  
14 to customers. The Company is proposing a five (5) year flow back period for assets or  
15 liabilities less than \$800,000 and a ten (10) year flow back period for assets or  
16 liabilities greater than or equal to \$800,000. Protected excess deferred taxes will also  
17 be recorded as either a regulatory asset or liability and included in the FPSC capital  
18 structure and will be flowed back to customers consistent with the Average Rate  
19 Assumption Method ("ARAM") remaining life.

#### 20 Environmental Surcharge

21 Because there will no longer be separate companies, and FPUC and CFG have  
22 different mechanisms to address environmental costs, one mechanism for treating the  
23 costs needs to be established as part of the consolidation. The tariff was designed

1 based on the treatment in the CFG tariff. In Docket No. 20090125-GU (*Petition for*  
2 *Rate Increase by Florida Division of Chesapeake Utilities Corporation*) in Order No.  
3 PSC-10-0029-PAA-GU, the Commission approved certain Environmental Clean-up  
4 Costs and a cost recovery mechanism.<sup>1</sup> This Environmental Clean-up Recovery  
5 Mechanism was applicable to a Manufactured Gas Plant (“MGP”) located in the  
6 Florida Division of Chesapeake Utilities Company’s service area in Winter Haven. In  
7 this instant filing, the Company is seeking approval to take a similar approach as it  
8 relates to other similar environmental clean-up projects for which the Company is  
9 responsible. Specifically, the Company is seeking, as explained in greater detail by  
10 Witness Cassel, recovery of certain environmental cleanup costs through an  
11 environmental surcharge. Tariff Sheet Nos. 7.419 through 7.420 reflect the  
12 Environmental Cost Recovery Surcharge that encompasses the costs associated with  
13 remediation activities for all Company service areas including the Florida Division of  
14 CUC (Winter Haven) West Palm Beach and the Key West MGP sites.

15 Area Extension Program (“AEP”) and Recovery Modifications

16 The Company’s Area Expansion Program is a Commission-approved program  
17 designed to provide the Company with an optional method to recover the capital  
18 investment that exceeds the Maximum Allowable Construction Costs (“MACC”) for  
19 the extension of gas service to new customers in discrete geographic locations. The  
20 Company is proposing three modifications to its AEP and associated cost recovery

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<sup>1</sup> By Order No. PSC-14-0052-PAA-GU, issued January 27, 2014, in Docket No. 130273-GU, In re: Petition for approval to extend environmental surcharge by Florida Division of Chesapeake Utilities Corporation, the Commission approved an extension of the Company’s Environmental Surcharge. This extended the fixed surcharge by 20 months and allowed Chesapeake to recover an additional \$380,781 related to remediation activities of the Company’s former MGP site in Winter Haven, Florida. A final true-up of the surcharge was approved by Order No. 2016-0562-PAA-GU, issued December 16, 2016, in Docket No. 20160153-GU.

1 mechanism, which are discussed in more detail within the testimony of Witness Lake.  
2 The Company believes that these changes will result in less confusion to the customer  
3 concerning the AEP surcharge rate and reduce inquiries from customers, as well as  
4 allow for more straightforward administration of the AEP surcharge by the Company.  
5 The AEP Rider is found on Sheet No. 7.303 of the proposed tariff.

6 Minimum Volume Commitment Tariff and Agreement

7 As discussed in more detail within the testimony of Witness Lake, the tariff  
8 modification for which the Company now seeks approval would provide the Company  
9 with the option to require a customer that will need a facility extension to receive  
10 service, to commit to receive service at a defined minimum level and to pay for such  
11 minimum level of service “take-or-pay” provision. The proposed Minimum Volume  
12 Commitment provision is found on Sheet No. 6.152 and the corresponding proposed  
13 Minimum Volume Commitment Agreement is found on Sheet Nos. 8.170 through  
14 8.173 of the proposed tariff.

15

16 **NON-RATE RELATED TARIFF CHANGES**

17 **Q. Please describe changes to non-rate related tariff language requested by the**  
18 **Company in this docket.**

19 A. In addition to those tariff revisions that relate to rate changes described previously, the  
20 following testimony summarizes the Company’s non-rate related tariff revision  
21 proposals filed in this case.

22

23

1           Title Page

2           The Company is proposing the title page be changed to reflect the Company name,  
3           Florida Public Utilities.

4           Miscellaneous and General Information

5           The Company proposes this page now includes a “Statement of Agents” that provides  
6           no employee or agent of the Company has authority to make any promise, agreement,  
7           or representation inconsistent with the tariff.

8           System Maps

9           The Company proposes the Indiantown and Ft. Meade service area maps make it clear  
10          that these service areas are applicable to the Indiantown and Ft. Meade customers  
11          acquired through the respective mergers and located within their respective city  
12          boundaries.

13          Technical Terms and Abbreviations

14          The Company proposes the definition of “Company” has been updated as Florida  
15          Public Utilities Company. In addition, the Company proposes to include new  
16          definitions for “FPUC Ft. Meade Service Area” and “FPUC Indiantown Service  
17          Area,” “CFG Service Area” and “FPUC Service Area” have now been included in the  
18          tariff.

19          General Rules and Regulations

20          The Company proposes to add language to make consistent that telemetry is required  
21          for all interruptible customers and those sales service customers that use greater than  
22          1,500 Therms per day.

1 The Company proposes to change the automatic electronic payment for customer bills  
2 to align with the Company's current business processes.

3 Transportation Service Rules and Regulations

4 The Company is proposing that Individual Transportation Service will be available to  
5 those customers served under the Company's rate schedules Contract Transportation  
6 Service and Flexible Gas Service as well as those customers served under a special  
7 contract that has been explicitly approved by the FPSC. Currently, the Indiantown  
8 business unit allows individual customers that use greater than 25,000 therms an  
9 option to transport on an individual basis, as opposed to an aggregated basis. This  
10 proposal was made to make the Indiantown business unit rules consistent with the  
11 other business units' individual transportation service applicability.

12 The Company is proposing to add language to make the telemetry requirement for  
13 transportation service customers consistent across service areas.

14 With the initiation of an electronic sign-up process for transportation service  
15 customers by pool managers, the Company proposes that the language referencing the  
16 provision of the Letter of Authorization ("LOA") form to the Company be changed to  
17 require the non-residential transportation customers and pool managers to execute the  
18 LOA prior to the electronic enrollment of the customer into one of the Company's  
19 transportation service programs. The pool manager will be required to retain the  
20 original copy of the LOA. Upon Company request, the pool manager will be required  
21 to produce the original LOA between the customer and pool manager.

1 The deadline for the initial enrollment, pool transfer, or transport customer drop has  
2 been made consistent and clarified across service areas and set at ten (10)  
3 business/working days prior to the first day of the succeeding month.

4 The Company is requesting that the nomination language in the Company's tariff be  
5 updated to include those required fields to be included on the Pool Manager's  
6 nominations to the Company. These changes are necessary to allow the Company to  
7 evolve from a manual confirmation process to a more efficient automated confirmation  
8 approval process.

9

#### 10 **MINOR REVISIONS**

11 **Q. Briefly describe changes to the tariff the Company characterizes as editorial,**  
12 **corrections, and clarifications.**

13 A. In addition to those tariff revisions proposed by the Company above, the Company is  
14 requesting approval by the Commission for the following tariff corrections and  
15 clarifications.

#### 16 Counties and Communities Served

17 The Company requests approval for Counties and communities that are served by the  
18 Company's propane affiliate and that were included erroneously in the Company's  
19 recent tariff consolidation revisions be removed.

#### 20 Technical Terms and Abbreviations

21 The Company proposes the term "Area Extension Program (AEP) Recovery Amount"  
22 definition was inadvertently left out of the recent tariff consolidation filing be  
23 reinstated to the tariff in this instant filing.

24

1           General Rules and Regulations

2           The Company requests approval for the provision for the Company to request a new  
3           or additional security deposit for existing customers, pursuant to Commission Rule  
4           25-7.083 (4), that was inadvertently left out of the recent tariff consolidation be  
5           reinstated in the proposed version of the tariff.

6           Transportation Service Rules and Regulations

7           The Company requests the security requirement calculation for pool managers be  
8           corrected to be equal to the greater as opposed to the lesser of \$10,000 and the  
9           calculation dependent on the pool manager's delivery requirements, as proposed by  
10          the Company.

11          Last, the Company proposes language pertaining to a pool manager's performance  
12          related to non-delivery penalties, operational flow order, and alert day penalties be  
13          clarified, and calculation methodologies be clarified and corrected as proposed by the  
14          Company as well.

15   **Q.    In your opinion, are the Company's proposed changes to the miscellaneous rates,**  
16   **clauses, and surcharges just and reasonable?**

17   A.    Yes. The rates modifications proposed by the Company are just and reasonable and  
18          result in each customer moving toward a more uniform contribution to costs associated  
19          with providing the service(s) requested.

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

21   A.    Yes.

1 BY MS. KEATING:

2 Q And, Ms. Grimard, you also had an exhibit with  
3 your testimony, is that correct?

4 A Yes.

5 MS. KEATING: And, Mr. Chair, I believe that  
6 is marked as --

7 CHAIRMAN FAY: 33?

8 MS. KEATING: There you go, 33.

9 CHAIRMAN FAY: Okay.

10 BY MS. KEATING:

11 Q Ms. Grimard, did you prepare a summary of your  
12 testimony?

13 A Yes, I did.

14 Q Would you please go ahead and present that?

15 A Thank you.

16 Good morning. Thank you for the opportunity  
17 to address you today.

18 The purpose of my direct testimony is to  
19 describe the company's reasoning and methodology for the  
20 proposed modifications to the miscellaneous service  
21 charges and other tariff changes. The modified  
22 miscellaneous service charges have been determined using  
23 consolidated and standardized processes across all four  
24 Florida business units.

25 In this docket, the company has proposed to



1 have one standardized set of miscellaneous service  
2 charges for the Florida business units. These rate  
3 changes are fully supported by the cost of service, with  
4 the exception of the returned check charge that was  
5 established pursuant to Florida Statute.

6 My testimony also includes modifications to  
7 the company's rate schedules, resulting from the  
8 company's proposed rate changes. In my testimony, I  
9 have also proffered language to the purchased gas cost  
10 recovery factor, the energy conservation cost recovery  
11 factor, and the swing service rider that, if approved,  
12 will allow the company to recover the bad debt expenses  
13 associated with each of these individual clauses through  
14 that associated clause. These bad debt expenses have  
15 been removed from the company's base rates.

16 In addition, the company is proposing a base  
17 rate adjustment to recover a refund income tax expenses  
18 resulting from future state or federal governmental  
19 income tax increases or decreases.

20 Last, the company has filed non-rate related  
21 tariff changes to allow for complete consolidation of  
22 the company's non-transportation tariff related  
23 provisions.

24 This concludes the summary of my testimony.

25 **Q Thank you, Ms. Grimard.**

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

3 CHAIRMAN FAY: Great. Thank you.

4 Ms. Christensen, you are recognized.

5 EXAMINATION

6 BY MS. CHRISTENSEN:

7 Q Good morning. Good morning, Ms. Grimard.

8 You are a consultant for FPUC regarding the  
9 tariff changes in this matter, is that correct?

10 A That's correct.

11 Q And you stated that you had worked for Peoples  
12 Gas System also, is that correct?

13 A That's correct.

14 Q Now, you worked on the FPUC tariff  
15 consolidation and modification for the four divisions,  
16 right?

17 A Yes, I did.

18 Q And those consolidations were to make the  
19 terms and conditions consistent, correct?

20 A Yes.

21 Q The prior tariff consolidation and  
22 modification that you previously worked on, in that, did  
23 FPUC change any of the rates?

24 A No, it didn't.

25 Q Okay. However, in this rate case, FPUC is

1 proposing to increase -- or is proposing increases to  
2 each of its existing tariffed miscellaneous service  
3 charges, is that correct?

4 A That's correct.

5 Q And FPUC is requesting to add certain  
6 miscellaneous service charges to divisions that  
7 currently do not have them, am I understanding that  
8 correctly?

9 A That's correct. We are trying to standardize  
10 the tariff so that all of the applicable charges apply  
11 across all four business units.

12 Q Okay. In looking at these charges  
13 specifically, I think you have them in WG-1, page one,  
14 of your exhibit. You start listing out the various  
15 service charges for -- or the miscellaneous service  
16 charges for the various divisions, is that correct?

17 A That's correct.

18 Q Okay. And page one deals with the Chesapeake  
19 division?

20 A Yes, ma'am.

21 Q And then page two is Indiantown?

22 A Correct.

23 Q Page three is Fort Meade?

24 A That's right.

25 Q And then finally -- or page three, I'm sorry,

1 is Fort Meade, and then page four, finally, is Florida  
2 Public Utility?

3 A Correct.

4 Q Okay. Looking at the charges for Chesapeake  
5 division on page one of four, would you agree that the  
6 increases to the service charges are essentially more  
7 than \$10 each?

8 A I would agree with the math, correct.

9 Q Okay. Now let's look at the service charge  
10 proposal that is being made for Indiantown. And  
11 similarly, you would agree that those changes are  
12 greater than \$10 a piece, and that there are some  
13 additional new tariffs that have been added for  
14 Indiantown, correct?

15 A I would agree with the math. The charges were  
16 derived from a cost of service, and the company's cost  
17 to provide these services have gone up more than \$10  
18 over the years.

19 Q Okay. Again, looking at page three of four,  
20 the same would be true that for Fort Meade, you are  
21 showing a greater than \$10 increase for the service  
22 charges, miscellaneous service charges, in addition to  
23 potentially some new tariffs?

24 A Correct.

25 Q And finally, the FPUC division, you are also

1 looking at the majority of these tariffs growing out  
2 more than \$10, although there is maybe one or two that  
3 went down, correct?

4 A Correct.

5 Q All right. Looking at -- you also testified  
6 to bad debt, correct, in your direct testimony?

7 A I did.

8 Q Okay. And I think you start that testimony on  
9 page five of your direct testimony?

10 A Yes.

11 Q And FPUC is proposing to collect bad debt  
12 related to the clauses and the riders with those clauses  
13 and riders, is that correct?

14 A That's correct.

15 Q Okay. And then would it be correct to say  
16 that this bad debt would then become part of the  
17 calculation of the clause and riders changing every  
18 year?

19 A That's correct. And that would be subject to  
20 the true-up in the clauses as well.

21 Q All right. Would you agree that bad debt  
22 expense associated with these clause and riders are  
23 currently being collected in base rates?

24 A They are currently being collected in base  
25 rates. However, for this case, the company has excluded

1    them from the base rates because we feel it's more  
2    appropriate to collect the charges through the  
3    individual clauses.

4           **Q     Right.  But those bad debt expenses would have**  
5    **been in the historical test year, correct?**

6           A     Correct.  The company didn't -- I am sorry,  
7    the company did make an adjustment, though, to pull  
8    those out.

9           **Q     Okay.  Did -- are you aware of any other**  
10   **Florida gas company that is collecting a portion of its**  
11   **bad debt outside of base rates?**

12          A     No, I am not aware of it, but the way the gas  
13    companies work relative to gas supply and, versus  
14    transportation customers, we feel it's more appropriate  
15    that the bad debt is associated with each individual  
16    clause, is collected in that manner.

17          **Q     Okay.  But you are not aware of any other**  
18   **company that's doing that currently, are you?**

19          A     No, I am not.

20          **Q     Can you please explain how the company can**  
21   **precisely calculate the actual customer writeoff**  
22   **specific to the portion -- to that portion of the bill?**

23          A     I am not privy to that.  I don't know.

24          **Q     Okay.  I think you also discussed the proposal**  
25   **to add additional language for a base rate tax change**

1 provision?

2 A That's correct.

3 Q The company is proposing to deal with  
4 unprotected excess deferred taxes as part of that  
5 proposal, correct?

6 A Correct.

7 Q And the company is proposing -- and the  
8 company is proposing how to deal with the flowback on  
9 any time go change on these unprotected excess taxes  
10 that might arise from a timing change if there is a tax  
11 change in the future, is that correct?

12 A That's my understanding. Yes.

13 Q You are not aware of any pending tax change on  
14 the federal level at this time, are you?

15 A No, I am not.

16 Q Okay. Are you aware of any pending tax  
17 changes on the state level at this time?

18 A No, I am not.

19 Q And would you agree that FPUC could file a  
20 limited proceeding if any federal or state tax change  
21 were to occur that would cause them to earn below their  
22 range?

23 A The company certainly does have that right,  
24 but it's more efficient to deal with it in this case,  
25 and moving forward with the door swinging both ways in

1 favor of the customers and for recovery by the company,  
2 it would be probably more efficient.

3 Q Are you aware whether or not the company came  
4 in with the last tax change in 2017?

5 A No, I am not.

6 Q Okay. Would you agree that any limited type  
7 proceeding would be close in time to the change in a tax  
8 law? In other words, that would be closer in time to  
9 the actual act being enacted rather than trying to do  
10 something preemptively when you don't know what the  
11 parameters will be?

12 A Well, in this case, the company is proposing  
13 only to implement once there is a tax law change, and so  
14 it wouldn't be preemptive until there is a tax law  
15 change.

16 Q Right. But you wouldn't know what the scope  
17 of those tax changes are until any legislation is  
18 enacted, right?

19 A That's correct.

20 Q Okay. So you wouldn't -- you know, by doing  
21 this today, you don't know if you are going to be  
22 missing certain items that may be beneficial to the  
23 company or to customers, correct?

24 A Well, I think that the provision in the tariff  
25 is broad enough that we would capture both -- we would



1 capture those benefits for the company, or, rather, for  
2 the customer.

3 Q But it only deals with a changes in tax rate,  
4 not any sort of credits or writeoffs, or anything like  
5 that, correct?

6 A Correct.

7 Q Okay. You would also agree that the company  
8 and all interested parties have better information the  
9 closer in time they are to any tax change that's made?

10 A Could you repeat that, please?

11 Q You would agree that we would have better  
12 information about what tax changes were being made when  
13 it's closer in time to when that actual change is being  
14 made, rather than trying to do it today without having  
15 any legislation in front of us?

16 A Not necessarily. I think, again, the  
17 provision is such that once the -- once the law changes,  
18 it can be implemented if it is a rate change, if it is a  
19 tax rate change.

20 Q Okay. You also talk about environmental  
21 surcharges as part of your testimony, correct?

22 A Correct.

23 Q And your testimony is, in part, to support  
24 FPUC's request to establish an environmental surcharge?

25 A Correct.

1 Q Right now, CUC was the only division that had  
2 an environmental surcharge, correct?

3 A That's my understanding. Yes.

4 Q And you cite the order that continued the  
5 environmental surcharge as part of your testimony,  
6 correct?

7 A Yes.

8 Q And you agree that this established surcharge  
9 related to the specific environmental cleanup projected  
10 in base rates in that order, correct?

11 A Correct.

12 Q And again, the surcharge was extended for the  
13 project, first until December 1st 2013 and then, by the  
14 order that you refer to, until 2015, correct?

15 A I don't have the order in front of me so I  
16 can't corroborate what you are telling me.

17 Q But it was extended several times, correct?

18 A From -- I know of one time. I am not sure  
19 about the others.

20 Q Okay. But then it sequentially ended. There  
21 is no -- currently no surcharge, correct?

22 A It was temporary.

23 Q All right. And you would agree that the only  
24 other way that these types of -- or that currently, the  
25 majority of these costs are being recovered is through

1 **base rates, correct?**

2 A That's my understanding. And we are still on  
3 the environmental charge, correct?

4 Q Correct.

5 A Yes.

6 Q **And it's been at least seven years since 2015,**  
7 **when it -- when I would suggest to you, subject to**  
8 **check, was the end date of the CUC surcharge, correct?**

9 A Well, I agree that it's been seven years since  
10 2015, but, I -- subject to check, I wouldn't know.

11 MS. CHRISTENSEN: Okay. I think that may be  
12 all the questions I have for her. Yep, that's it.

13 CHAIRMAN FAY: Okay.

14 MS. CHRISTENSEN: Thank you very much.

15 CHAIRMAN FAY: Mr. Moyle?

16 MR. MOYLE: I just have a few.

17 CHAIRMAN FAY: Sure.

18 EXAMINATION

19 BY MR. MOYLE:

20 Q **You were involved in the consolidation of the**  
21 **tariffs, correct?**

22 A Yes, sir.

23 Q **Right. And with respect to industrial**  
24 **customers, who, you know, my FIPUG members are**  
25 **industrial customers, are you aware of any negative**

1 consequences resulting from the consolidation of the  
2 tariffs?

3 A No, I am not.

4 Q Broad general question. I know Ms.  
5 Christensen showed you some forms. But with respect to  
6 the service charges, can you tell the Commission what  
7 percentage increase the service charges will be, if  
8 approved as requested by the company?

9 A I don't have that information with me,  
10 Commissioners.

11 Q No ballpark?

12 A I am really not good at math on the fly.

13 Q I am not -- I am not in any context.

14 MR. MOYLE: That's all I have. Thank you.

15 CHAIRMAN FAY: Okay. Thank you, Mr. Moyle.  
16 Staff?

17 MR. SANDY: No cross, Mr. Chair.

18 CHAIRMAN FAY: Thank you. Commissioners?  
19 Okay. With that, redirect?

20 MS. KEATING: Just a couple, Mr. Chair.

21 CHAIRMAN FAY: Okay.

22 FURTHER EXAMINATION

23 BY MS. KEATING:

24 Q Ms. Grimard, Ms. Christensen asked you earlier  
25 about moving a bad debt expense out of base into the

1 clauses. I just want to be clear for the record. So  
2 the company made those adjustments prior -- with the  
3 filing of the rate case, correct?

4 A That's correct.

5 Q And so, if the Commission were to reject that  
6 request, then bad debt expense in base would need to be  
7 increased accordingly, is that correct?

8 A That's correct.

9 Q Okay. And then she also asked you some  
10 questions about the miscellaneous service charges across  
11 the four current business units. Just to be clear, Fort  
12 Meade, was it regulated prior to being acquired by FPUC?

13 A It was a governmental agency.

14 Q So to your knowledge, was it ever subject to a  
15 cost of service study?

16 A No, it wasn't.

17 Q Okay. And then one last quick thing I want to  
18 touch on, the request to modify the taxes with changes  
19 in the tax law. Just to be clear, is it the company's  
20 intent that the change would be made upon the effective  
21 date of the tax change?

22 A Within 120 days is what I understand.

23 Q Okay. And would that flow both ways? In  
24 other words -- let me back up.

25 If the tax went down, would that benefit be

1     **flowed back to the customers through a corresponding**  
2     **change?**

3           A     Yes, it would.

4           Q     **Okay. Thank you, Ms. Kennedy Ms. Grimard.**  
5     **That's all I have?**

6           A     Thank you, Commissioners.

7           CHAIRMAN FAY: All right. Ms. Keating, we  
8     have CEL 33 being entered into the record without  
9     objection.

10          MS. KEATING: Thank you.

11          (Whereupon, Exhibit No. 33 was received into  
12     evidence.)

13          CHAIRMAN FAY: Ms. Grimard, we didn't excuse  
14     you yet. You ran off on us.

15          MS. KEATING: May the witness be excused, Mr.  
16     Chair?

17          CHAIRMAN FAY: Ms. Grimard, you are excused.  
18     (Witness excused.)

19          CHAIRMAN FAY: All right. Commissioners, we  
20     have Mr. Everngam, which I believe, let me confirm  
21     with the parties, is stipulated testimony?

22          MR. MUNSON: That's correct.

23          CHAIRMAN FAY: Okay. Let's go ahead and,  
24     without objection, enter Mr. Everngam's testimony  
25     as though read into the record. Show that done.

1                   (Whereupon, prefiled direct testimony of Matt  
2   Everngam was inserted.)

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1                                    BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

5                                    Prepared Direct Testimony of Matthew Everngam

6                                    Date of Filing: May 24, 2022

7

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

9        A.     My name is Matthew M. Everngam and my business address is 500 Energy Lane,  
10        Dover, Delaware 19901.

11

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

13        A.     I am employed by Chesapeake Utilities Corporation as the Director of Regulatory  
14        Strategy and Alternative Energy. In this capacity, I am responsible for overseeing the  
15        Corporation's regulatory activities with regard to new business, alternative energy,  
16        and strategic distribution projects. I also lead the regulatory activity for the  
17        Corporation's pipeline transmission business units.

18

19        **Q.     Describe the scope of your responsibilities.**

20        A.     My responsibilities include directing the preparation of regulatory strategic planning,  
21        and development of rates, programs and filings for the Corporation's distribution  
22        entities in Maryland, Delaware, and Florida. I oversee the preparation of both  
23        routine and non-recurring special filings for the Corporation and its business units at  
24        the Federal Energy Regulatory Commission (FERC). My department also assists in



1 the management of tariffs and rate design for state and federally-regulated business  
2 units.

3

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

5 A. I received a Bachelor of Science degree in Business Administration with a  
6 concentration in Management and a Master of Business Administration from  
7 Salisbury University in Salisbury, MD. I was initially hired by Chesapeake as a  
8 Regulatory Analyst II in October 2010. Prior to joining Chesapeake, I was employed  
9 by Edward Jones Investments as a Financial Advisor. My duties at Edward Jones  
10 included investment portfolio construction, financial filings analysis and economic  
11 trend monitoring. In this position I held Series 7 and Series 66 licenses with the  
12 National Association of Securities Dealers (“NASD”).

13

14 **Q. How will you refer to the Company?**

15 A. For ease of reference, when referring to the Florida local distribution company  
16 (“LDC”) business units as a whole; i.e., Florida Public Utilities Company (Natural  
17 Gas Division), Florida Public Utilities Company-Fort Meade (“FPUC-Fort Meade”),  
18 Florida Public Utilities Company-Indiantown Division (“FPUC-Indiantown”), and  
19 the Florida Division of Chesapeake Utilities Corporation d/b/a Central Florida Gas  
20 (“CFG”), I will refer to these entities jointly as “FPUC” or “the Company”. When  
21 referring to them individually, I will use the specific name or acronym associated  
22 with the individual LDC.

1           When referring to Chesapeake Utilities Corporation, the parent company, I will refer  
2           to it as the “CUC” or the “Corporation.”

3

4   **Q.    Have you filed testimony before the Florida Public Service Commission in prior**  
5   **cases?**

6   A.    While I have been involved in FPUC dockets before with the Florida Public Service  
7    Commission (“Commission”), I have not filed testimony before the Commission in  
8    prior cases.

9

10 **Q.    Have you previously provided testimony before other regulatory bodies?**

11 A.    Yes, I have previously testified before both the Maryland Public Service  
12    Commission and the Delaware Public Service Commission on numerous occasions  
13    including base rate cases, purchased gas adjustment hearings, and infrastructure rider  
14    petitions.

15

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

17 A.    My testimony will discuss the following topic.

18       (i) The Company’s requested interim rate relief, as calculated in and supported by  
19       the Schedule F – Interim Rate Relief MFRs.

20

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

22 A.    Yes, I am sponsoring the Schedule F MFRs associated with the Company’s request  
23       for interim rates and have provided the Interim Rate Tariff sheets as Exhibit ME-1 to

1 my testimony. Additionally, Exhibit ME-2 lists the MFRs which I sponsor or co-  
2 sponsor.

3

4 **Q. Which MFRs do you sponsor in this case?**

5 A. In addition to the Schedule F MFRs mentioned above, I sponsor the Schedule E-3  
6 MFRs and co-sponsor G-2-6 through G-2-11.

7

8 **INTERIM RATE RELIEF**

9 **Q. Is the Company seeking interim rate relief in this processing?**

10 A. Yes, the Company is seeking interim rate relief because, as of the historic test year,  
11 FPUC is not earning a sufficient return on its investment to provide the Company the  
12 opportunity to earn a fair rate of return. Without appropriate rate relief, this under-  
13 earning will hinder the Company's ability to continue to provide efficient, reliable  
14 service to the communities and customers that it serves. With the length of the rate  
15 case process, interim rates will mitigate our negative earnings posture through the  
16 pendency of the rate case and until final rates can be put in place. While the  
17 Company has successfully worked to control costs and expenses, as evidenced by the  
18 fact that none of the Company's LDC business units have filed for a base rate  
19 increase in over a decade, the impact of inflation on the cost of materials and labor  
20 since the last rate proceedings has put negative pressure on the Company's returns.  
21 Since the previous rate cases, the Company has invested significantly in distribution  
22 infrastructure, expanding service to previously unserved Florida customers. Utilizing  
23 the methodology authorized in Section 366.071, Florida Statutes, the Company has

1 calculated that it requires annual interim relief of \$7,542,362, based on the historical  
2 test year ending December 31, 2021. The Company is below the low point of  
3 allowable returns and, without rate relief, is projected to continue to experience  
4 declining returns.

5

6 **Q. How did you derive the revenue deficiency used in your interim rate relief**  
7 **calculation?**

8 A. The derivation of the 2021 revenue deficiency is summarized on the Schedule F-7s  
9 in the minimum filing requirements, with the total consolidated calculated interim  
10 rate relief of \$7,542,362 found on the Company's Consolidated Schedule No. F-7,  
11 Line 7 - "Revenue Deficiency". The Company has provided a both set of  
12 consolidated Schedule Fs and individual Schedule Fs for each current LDC business  
13 unit.

14 The interim rate relief revenue requirement is determined by multiplying the end-of-  
15 period December 31, 2021, rate base by the required rate of return as stated in  
16 Section 366.071(5)(b)(2) of the Florida Statutes, which provides the operating  
17 income required. This required operating income is then compared to the 2021  
18 operating income from the achieved rate of return, as stated in Section  
19 366.071(5)(b)(1) which is the rate of return earned by the utility with appropriate  
20 adjustments, to determine the Company's revenue deficiency. The Company's  
21 adjustments are detailed on Schedules F-3 and F-5. The deficiency in operating  
22 income is expanded using the revenue expansion factor of 1.3487, see Schedule F6  
23 for the calculation of the revenue expansion factor, to arrive at the additional revenue

1 required to realize a fair rate of return on rate base. The Company's required rate of  
2 return is 5.38% as is shown on Schedule F-8 in the MFR, and the December 31,  
3 2021, rate base is \$434,446,383 as provided in Schedule F-1. The Company's  
4 interim rate relief requirement is based on its end-of-period rate base investment, as  
5 allowed in 366.071(5)(a), since this amount represents the actual used and useful  
6 plant providing service to customers. The required rate of return of 5.38% is a  
7 consolidated rate taken from the weighted average rate of returns on the individual  
8 LDC business unit F-7 Schedules. In determining the required rate of return for  
9 interim rates, the Company followed the parameters prescribed in 366.071(5)(b)(2)  
10 including using the minimum range of the last authorized rate of return on equity  
11 established in the most recent individual rate proceeding.

12 One additional adjustment has been made to the total requested interim rate relief. A  
13 downward adjustment in the amount of \$413,107 has been applied to the calculated  
14 relief of \$7,542,362, resulting in an adjusted requested interim rate relief of  
15 \$7,129,255. The Company made this downward adjustment in an effort to mitigate  
16 the upward rate pressure that FPUC-Indiantown Division and FPUC-Fort Meade  
17 Division customers would experience if they were charged the full rate increase  
18 necessary to meet their required rates of return. As shown in F-10 Indiantown page  
19 2 of 2 and F-10 Ft. Meade 2 of 2, the required rate increases for those two LDCs  
20 would be 257.58% and 41.23% respectively. I will further discuss the rate increase  
21 methodology utilized for FPUC-Indiantown and FPUC-Fort Meade later in my  
22 testimony.

1 The impacts of interim rate relief, stated in percentage terms as an increase on base  
2 rates and charges, are shown in the F-10 Schedules for each individual business unit.

3

4 **Q. How has the Company applied the requested interim rate relief to the rate**  
5 **classes?**

6 A. On each LDC's Schedule F-10 the total requested interim rate relief is divided by  
7 total customer charge and energy charges in order to calculate a percentage increase  
8 for the individual LDC. That percentage is then multiplied by the customer and  
9 energy charge for each individual class to derive the dollar increase per class. This  
10 dollar increase is divided by annual therm sales to calculate the per therm increase to  
11 be charged to each class during the interim rate period.

12 For the Company's fixed charge rate classes in the CFG business unit, the total  
13 required revenue increase has been divided by the total estimated number of bills to  
14 calculate an amount to be added to the current fixed charges. As these customers are  
15 not charged a per therm usage rate, this is the most appropriate manner to allocate  
16 their portion of the requirement interim rate relief.

17 The proposed interim rates by class are shown in Exhibit ME-1.

18

19 **Q. Please describe the adjustments made to the Company's requested interim rate**  
20 **relief for Florida Public Utilities Company-Indiantown and Florida Public**  
21 **Utilities Company-Fort Meade Division.**

22 A. As previously stated, the calculated interim rate relief necessary for FPUC-  
23 Indiantown and FPUC-Fort Meade would result in an increase of 257.58% and

1 41.23%. As discussed in the Testimony of Witness Taylor, the Company has  
2 proposed total final rate increases of approximately 24.1% and 18.5% for FPUC-  
3 Indiantown and FPUC-Fort Meade. For interim rate relief purposes, the Company  
4 has utilized those same total rate increase percentages in the F-10 Schedules for  
5 those two LDC business units.

6

7 **MISCELLANEOUS SERVICE CHARGES**

8 **Q. Is the Company proposing any changes to the Service Charges in this filing?**

9 A. Yes. Most of the Company's proposed service charges are provided in the required  
10 MFR Schedules E-3 1-6 with any additional proposed service charges done utilizing  
11 the same methodology. Each service charge was independently evaluated in order to  
12 determine the appropriate cost and revenue requirement. Our operations department  
13 reviewed historical work orders, and our field technicians and customer service team  
14 were consulted in the process. Each component of the task to be charged a service  
15 fee was identified, tagged, and assigned a time involved to complete. Labor costs,  
16 transportation costs and overheads were applied to the tasks based upon the  
17 estimated time to perform the job. Additionally, all materials and supplies necessary  
18 for completion of the task were identified. Then, based on the aforementioned work  
19 order data and operations department responses regarding the typical costs and  
20 average time to complete, final service charge amounts were determined.

21

22 With this filing, the Company proposes the following new service charges:

1 A service charge for the initial connection of a service is proposed at \$75.00 for  
2 residential customers and \$125.00 for commercial customers. A service charge for  
3 the reconnection of a service is proposed at \$60.00 for residential customers and  
4 \$70.00 for commercial customers. A service charge to temporarily disconnect and  
5 then reconnect a service due to customer request is proposed at \$55.00. A service  
6 charge for making changes to an existing account is proposed at \$45.00. A service  
7 charge for failure by the customer to be at the designated service location when the  
8 customer has scheduled services (i.e. missed appointment) is proposed at \$55.00. A  
9 service charge used during collection activities in the field is proposed at \$55.00. A  
10 service charge used for service requests after hours is proposed at \$200.00. After  
11 hours is defined as any time outside the hours of 8 to 5, Monday through Friday.

12

13 **Q. Does this conclude your testimony?**

14 A. Yes.



1           CHAIRMAN FAY:  And, Mr. Munson, we are going  
2           to enter in Comprehensive Exhibit List Exhibits 34  
3           and 35.

4           MR. MUNSON:  That's correct.  Thank you.

5           CHAIRMAN FAY:  Without objection, show those  
6           entered into the record.

7           (Whereupon, Exhibit Nos. 34-35 were received  
8           into evidence.)

9           CHAIRMAN FAY:  And with that, what I would  
10          like to do, we have -- FPUC has one more direct  
11          before we get into the other witnesses, and then  
12          rebuttal.  Ms. Christensen, what do you think?

13          MS. CHRISTENSEN:  I have less than a handful  
14          of questions, so we could probably do him real  
15          quick.

16          CHAIRMAN FAY:  Yeah, let's go ahead and do --  
17          let you call your witness, Mr. Hancock, and then we  
18          will break lunch.

19          MR. MUNSON:  Very good.

20          Mr. Chair, we are prepared to call Mr. Bill  
21          Hancock, please.

22          CHAIRMAN FAY:  Okay.

23          Whereupon,

24                                       BILL HANCOCK

25          was called as a witness, having been previously duly

1 sworn to speak the truth, the whole truth, and nothing  
2 but the truth, was examined and testified as follows:

3 EXAMINATION

4 BY MR. MUNSON:

5 Q Good morning. Mr. Hancock, can you please  
6 state your full name for the record?

7 A Bill Hancock.

8 Q And who do you work for and what do you do  
9 there?

10 A Florida Public Utilities, and I am the  
11 Assistant Vice-President of Energy Logistics and Fuel  
12 Supply.

13 Q And can you please provide your business  
14 address for the record, please?

15 A Yes. It's 331 West Central Avenue, Suite 239,  
16 Winter Haven, Florida.

17 Q Thank you.

18 And did you have 25 pages of direct testimony  
19 filed in this case?

20 A I did.

21 Q And did you sponsor Exhibits BH-1 and BH-2 in  
22 this case, Mr. Hancock?

23 A That's correct. I did.

24 Q Do you have any addition -- do you have any  
25 changes to your testimony or your exhibits in this case?

1           A     I do not.

2                   MR. MUNSON:  At this time, Mr. Chairman, we  
3           move Mr. Hancock's direct testimony into the record  
4           as if read.  And we note that the previously  
5           identified exhibits have been marked as Nos. 26 and  
6           27 in the staff's Comprehensive Exhibit List.

7                   CHAIRMAN FAY:  Okay.  Show that testimony  
8           entered.

9                   (Whereupon, prefiled direct testimony of Bill  
10          Hancock was inserted.)

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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 William D. Hancock

Date of Filing: May 24, 2022

1       **Q.    Please state your name and business address.**

2       A.    William D. "Bill" Hancock, 331 West Central Avenue, Suite 239, Winter Haven,  
3           Florida 33881.

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

5       A.    I am employed by Chesapeake Utilities Corporation as the Assistant Vice President  
6           of Fuel Supply and Energy Logistics.

7       **Q.    Briefly describe your educational background and employment experience.**

8       A.    I earned my Bachelor of Arts Degrees in Philosophy and Business Administration  
9           with a concentration in Economics from Westminster College (Missouri) in 1995. I  
10          received a Master of Business Administration degree with an emphasis in  
11          Entrepreneurship from the University of Missouri – Kansas City in 1999.

12          I have 25 years of experience in commodity buying, selling, and price risk  
13          management. Since 2001, I have been employed in the natural gas and propane  
14          industry. I have been responsible for various aspects of the purchase and sale of  
15          natural gas. Specifically, price risk management, procurement, scheduling, and sales.

16          I have been employed by Chesapeake Utilities Corporation since 2009. I have held  
17          various gas supply responsibilities including the provision of retail natural gas  
18          services through Florida Public Utilities Company's former marketing affiliate

1 Peninsula Energy Services Company ("PESCO"). As Assistant Vice-President with  
2 PESCO, I was responsible for PESCO's retail customer sales, covering industrial and  
3 commercial customers in Florida, Delaware, Maryland, West Virginia, Pennsylvania,  
4 and Ohio. These customers were associated with eighteen different utility shipper  
5 programs on various local distribution company systems in these states.

6 Upon the consummation of the sale of PESCO by Chesapeake Utilities Corporation  
7 in 2019, I was appointed Assistant Vice President of Energy Logistics and Fuel  
8 Supply.

9 **Q. Please clarify how you will refer to the various entities involved in your**  
10 **testimony.**

11 A. For purposes of clarity and ease of reference, I'd like to explain how I will refer to  
12 the various Florida local distribution company ("LDC") systems under the  
13 Chesapeake Utilities Corporation umbrella. When referring to the Florida LDC  
14 business units as a whole; i.e., Florida Public Utilities Company (Natural Gas  
15 Division), Florida Public Utilities Company-Fort Meade, Florida Public Utilities  
16 Company-Indiantown Division, and the Florida Division of Chesapeake Utilities  
17 Corporation d/b/a Central Florida Gas, I will refer to these entities jointly as "FPUC"  
18 or "the Company". When referring to specific systems individually, I will specify the  
19 divisional name.

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

22 **Q. Please describe your current responsibilities with the Company.**

1 A. Currently, I am responsible for the Company's Fuel Supply and Energy Logistics  
2 Department. As the Assistant Vice President of Energy Logistics, I am responsible  
3 for procurement of gas, contracting for pipeline capacity, and managing the  
4 Company's Third-Party Shipper ("TPS") program (also referred to as the Company's  
5 state-approved retail choice program). I am, therefore, responsible for certain  
6 operational functions, which fall under the Energy Logistics component of my role,  
7 as well as long-term, fuel-related initiatives under the Fuel Supply component of my  
8 role.

9 My day-to-day responsibilities include i) managing the daily operations surrounding  
10 physical gas receipts and deliveries to end use customers; ii) managing the  
11 Company's TPS pools and transportation services for our end use customers; and iii)  
12 managing the receipts and deliveries of fuel supplies to and from the Company's  
13 distribution systems.

14 I'm also responsible for developing our long-term strategies for upstream pipeline  
15 capacity procurement, and as such, I coordinate with other management areas within  
16 the Company and CUC to ensure our strategy fully supports the Company's i)  
17 localized operational requirements; ii) specific development projects; and iii) our  
18 longer-term strategy for expansion into new and underserved service areas  
19 throughout the state.

20 **Q. Have you previously filed testimony before the Florida Public Service**  
21 **Commission?**

22 A. No.

23 **Q. Have you previously testified before other regulatory bodies?**

1 A. No.

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

3 A. My testimony primarily relates to seven specific matters.

4 (1) I will provide an overview of CUC's natural gas distribution systems in Florida.

5 (2) I will provide an overview of the Company's transportation programs in the state  
6 of Florida, and the Company's approach regarding retail choice programs.

7 (3) I will discuss some of the changes that the Company has made to  
8 transportation/shipper programs that i) consolidate the transport services offered by  
9 the Company, ii) align the internal processes necessary to provide transport services  
10 and, iii) support a healthy and competitive environment for third party shippers and  
11 end-use customers.

12 (4) I will describe some of the market influences on gas price and supply.

13 (5) I will discuss cost and availability of capacity on upstream transmission pipelines  
14 in the company's market area.

15 (6) I will discuss secondary capacity and the effects it has on end-use customers.

16 (7) Finally, I will discuss the efficiency gains and fuel clause savings due to the  
17 merger of CUC and FPUC.

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

19 A. Yes. Exhibit BH-1, which is a list of Minimum Filing Requirements (MFR) that I am  
20 co-sponsoring and BH-2 which is a map of Florida Gas Transmission Company's  
21 ("FGT") transmission facilities in Florida.

22

1       **I.     NATURAL GAS TRANSMISSION AND DISTRIBUTION SYSTEMS AND**  
2       **SERVICES OVERVIEW**

3       **A. Systems**

4       **Q.     Would you please describe the gas transmission infrastructure of the state of**  
5       **Florida, and how the Company uses it.**

6       A.     The Company procures its natural gas capacity from three of four, interstate  
7       pipelines operating in FGT, Gulfstream, and Southern Natural ("SONAT").  
8       Currently, the Company does not hold capacity on the fourth pipeline, Sabal Trail.  
9       The original pipeline, FGT, is the largest pipeline in the state, with a maximum  
10      operating capacity (within the market area) of approximately 3.1 billion cubic feet  
11      (bcf) per day. FGT has more linear miles of pipe, more interconnects, and serves  
12      more Florida residents than any other pipeline. FGT is also the only pipeline that  
13      serves certain areas of the state, especially the Company's service territory in south  
14      Florida. Generally, FGT has two operating areas, the western division (west of the  
15      Florida border) and the market area (east of the western division, the entirety of the  
16      pipeline system in the state of Florida). Broadly, gas is received into the pipeline in  
17      the Western Division and delivered out of the pipeline in the market area. Exhibit  
18      BH-2 depicts the FGT system. Gulfstream is a simpler system, with receipt points in  
19      and around Mobile Bay. Gulfstream delivers gas into central Florida beginning in  
20      Manatee County. The Company has two points from which gas supply is delivered  
21      on Gulfstream, both in the Polk County/Central Florida Gas (CFG) area. SONAT is a  
22      more complex system with multiple supply points. SONAT delivers into Northeast  
23      Florida (Nassau and Duval counties) and is the primary source of supply for our



1 customers in the Northeast portion of the state. The majority of capacity assets that  
2 the Company holds are on FGT with smaller quantities of Gulfstream and SONAT  
3 capacity.

4 **Q. Would you please provide an overview of FPUC's natural gas distribution**  
5 **systems in Florida?**

6 A. FPUC, as a whole, is Florida's third largest natural gas Local Distribution Company  
7 ("LDC") and serves approximately 92,000 customers 26 counties across the state of  
8 Florida. Our service to residential customers is divided between customers referred  
9 to as our retail sales customers; i.e. Purchased Gas Adjustment ("PGA") customers,  
10 for whom we provide bundled gas service, and those customers in one of our  
11 transportation service pools for whom we provide unbundled transportation service  
12 only. These latter customers in our transportation service pools receive their gas  
13 supply from TPS companies. I refer to third-party entities that use our system to  
14 supply gas to end users as both TPS and also as gas marketers ("Marketers").

15 **Q. Please describe the Company's system utilized to deliver gas to customers and**  
16 **the Company's geographical footprint.**

17 The Company operates 3,043 miles of gas lines throughout the state of Florida. The  
18 Company serves customers in the northwest area of Florida as far west as Pensacola,  
19 as far east as Fernandina Beach in northeast Florida, and as far south as West Palm  
20 Beach/Boca Raton. In addition, the Company has significant operations in Central  
21 Florida, including the Deland, Sanford, New Smyrna, and Winter Haven areas.

22 Over time, the Company has grown both organically through extensions to serve  
23 customers, as well as through acquisitions of other natural gas distribution systems,

1 as will be described in more detail in the testimony of Company witness Cassel. As a  
2 result of these various acquisitions over the years, the distribution systems serving  
3 various areas are not contiguous, and in most instances, are not directly  
4 interconnected. The facilities that, to date, have been operated under the Florida  
5 Division of Chesapeake Utilities Corporation d/b/a Central Florida Gas ("CFG") in  
6 Polk County are mostly contiguous with the exception of the facilities located in the  
7 Bartow, Florida area. Newer facilities, in Suwannee and Escambia Counties serving  
8 industrial customers and the City of Pensacola are non-contiguous. The original  
9 FPUC Gas facilities, primarily located on the east side of Florida, serve areas located  
10 in northwest Florida's Treasure Coast, east central Florida north of Florida's Space  
11 Coast, and southeast Florida. While run by FPUC, these systems are not contiguous.  
12 Likewise, the FPUC Indiantown Division ("Indiantown") and the FPUC Fort Meade  
13 Division ("Fort Meade") operated as independent systems prior to acquisition by  
14 FPUC are not directly interconnected with any other FPUC distribution system.

## 15 **B. Services**

### 17 **i. Transportation Service**

#### 18 **Q. What is meant by a "Shipper" program?**

19 **A.** Certain customers receive only transportation service from the Company. These  
20 customers buy their natural gas supply from third parties who then use our pipes to  
21 deliver the gas to the customer. These suppliers are referred to as Third Party  
22 Shippers, or "TPS" for purposes of our tariff. Shippers, or TPS on our systems, buy

1 gas for industrial and some commercial customers, as well as pools of residential  
2 customers on the CFG part of our system.

3 **Q. Has transportation service offered by the Company evolved over time?**

4 A. Yes. Since 2000, when the Commission adopted Rule 25-7.0335, Florida  
5 Administrative Code, requiring each LDC to offer gas transportation service to all  
6 non-residential customers, transportation services across each of the current CUC  
7 LDCs in Florida has evolved. At present, two of the LDC systems (CFG and  
8 Indiantown) are fully unbundled and provide transportation service only, while the  
9 other two LDCs (FPUC Natural Gas and Fort Meade) continue to provide both sales  
10 and transportation services. Prior to its acquisition by FPUC, the Commission  
11 approved Indiantown's transition to providing only gas transportation service by  
12 Order No. PSC-02-1655-FOF-GU, issued November 26, 2002. By Order No. PSC-  
13 02-1646-TRF-GU, issued November 25, 2002, the Commission approved the Florida  
14 Division of Chesapeake Utilities Corporation's multi-phase Transitional  
15 Transportation Service Program ("TTS"), which was designed to gradually transition  
16 all remaining sales customers to transportation service. By Order No. PSC-07-0427-  
17 TRF-GU, issued on May 15, 2007, the Commission authorized Phase Two of that  
18 TTS Program.

19 While FPUC did, as noted, implement transportation service tariffs, consistent with  
20 Rule 25-7.054, Florida Administrative Code, it did not exit the gas sales market.  
21 Consequently, FPUC participates in the Purchased Gas Adjustment cost recovery  
22 proceedings, pursuant to which it recovers the costs associated with obtaining and  
23 delivering natural gas to customers, as does the Fort Meade division.

1           Once fully implemented, the Florida CUC LDC's various transportation service  
2           programs were modified only slightly over time. For instance, in Docket No.  
3           20170067-GU, the Company petitioned to suspend CFG's open enrollment process.  
4           A couple of years later, in Docket No. 20190036-GU, the Company requested and  
5           received approval from the Commission to change the imbalance cash-out  
6           mechanism applicable to FPUC and Fort Meade. In Docket No. 20190201-GU, the  
7           Company requested and received approval from the Commission to modify the pool  
8           balancing process on the FPUC and Fort Meade systems. These changes made the  
9           Company's various gas transportation services i) more equitable for all parties, ii)  
10          aligned incentives between the TPS serving customers on our system and the  
11          Company, and iii) streamlined the management of the programs for the Company's  
12          Energy Logistics staff.

13          In 2020, the Company petitioned the Commission for approval to consolidate the  
14          terms, conditions, and program provisions of its tariffs. Included in that petition  
15          was also a request to establish consistent transportation service programs across  
16          the four Florida LDCs. Establishing uniform transportation service rules and  
17          processes provides greater uniformity of service and ease of administration of the  
18          programs. Additionally, transportation customers and pool managers encounter a  
19          less confusing and less cumbersome process, particularly for those marketers that  
20          do business in various areas across the Company platform. The Commission  
21          approved the tariff consolidation, including consolidation of our transportation  
22          service programs, by Order No. PSC-2021-0148-TRF-GU, issued in Docket No.  
23          20200214-GU.

1       **Q.     Has consolidation of the tariffed transportation service programs for CUC's**  
2       **Florida LDCs been beneficial the Company and its customers?**

3       A.     Yes. There are a number of benefits that have resulted from the consolidated  
4       transportation program, each of which has direct benefits to the retail customer. First,  
5       our customer-facing employees will be able to respond to customer's questions about  
6       our programs more quickly, efficiently, and accurately given that program  
7       distinctions based on which system the customer is served by will be eliminated.  
8       Second, these changes increase the understandability and flexibility of our  
9       transportation service program, which will encourage more shippers to compete for  
10      customers on our system and should result in lower prices for customers. In addition,  
11      the changes implemented will better ensure that similarly situated customers have  
12      similar service options, structures and pricing available to them, regardless of where  
13      they receive service. Consolidation of these programs also positions our operations  
14      staff to better plan for growth of the system. Finally, the consolidation program  
15      includes a mechanism for allocating the costs for new capacity contracts to our end  
16      use customers enrolled in TPS service. This allocation mechanism ensures that the  
17      PGA paying ratepayers do not subsidize the TPS customers.

18      As a part of the new shipper program, we have implemented a new gas management  
19      software so that the process of TPS pool maintenance (adding/dropping customers,  
20      scheduling gas onto the system) is more streamlined and requires less human  
21      intervention. Previously, a TPS was required to manually send completed paperwork  
22      to Energy Logistics via email. In the future, most simple tasks will be automated,  
23      and any TPS on our system will be able to effectuate these transactions themselves

1 without FPUC employee intervention. The system went into production on May 1<sup>st</sup>,  
2 2022. We expect it to facilitate automation of many manual processes and provide a  
3 level of service to our TPS and end user community that is significantly higher than  
4 the previous more manual processes allowed.

5  
6 **ii. Retail Gas Supply Service**

7 **Q. Please describe how the Energy Logistics department manages the gas supply**  
8 **function for the Company.**

9 A. The Energy Logistics department manages supply processes across three different  
10 timelines to supply gas to the Company's customers.

11 Each year, we perform a Request for Proposal (RFP) process for annual gas supply  
12 quantities to encourage competition from suppliers that have an interest in providing  
13 us supply. We enter a contract with the most competitive supplier for our gas needs.

14 Monthly, after effectuating capacity releases to TPS on our system and special  
15 contract customers, we utilize the balance of the remaining interstate capacity to  
16 supply our PGA pool, or retail sales, customers. We procure baseload supply  
17 whenever possible, that is priced on a less-volatile monthly price.

18 Finally, on a daily basis, we balance our retail sales customers' needs by occasionally  
19 buying or selling gas to supplement the monthly deliveries.

20 **Q. Please further describe the Company's sales service customer pool.**

21 A. Sales service is provided in the Company's FPUC and Fort Meade service areas. The  
22 Company currently provides sales service to approximately 66,000 residential and  
23 commercial customers. To provide sales service, the Company procures gas supplies,

1 upstream pipeline capacity, and ancillary services such as no-notice transportation  
2 service necessary to meet the daily demand of its sales service customers. Costs  
3 associated with providing sales service are passed through to the Company's sales  
4 service customers through the Company's PGA cost recovery factor clause.

5 **Q. Please describe the Company's process for the purchase of system supply gas.**

6 Gas supply is purchased by the Company for resale to our PGA retail gas supply  
7 customers served by the Company's Fort Meade and FPUC business units. To  
8 acquire gas supply, the Company issues a Request for Proposal ("RFP") to gas  
9 suppliers.

10 Typically, the industry standard is to procure the majority of gas supply on a monthly  
11 basis where the gas quantities purchased are the same each day of the month. This  
12 type of gas procurement is called "baseload." Baseload gas is purchased on a first of  
13 month price, so the buyer is not exposed to volatility associated with imbalances of  
14 supply and demand in the day-to-day market. The Company purchases nearly all its  
15 gas by procuring baseload gas to cover forecasted demand. From time to time, we  
16 purchase or sell spot supply as needed for the purposes of load balancing. In those  
17 instances, we either purchase or sell based on the daily price, available in the market  
18 on that day.

19  
20 **iii. Capacity Planning and Environment**

21 **Q. Would you describe the upstream pipeline capacity and natural gas market**  
22 **influences currently impacting the Company's gas supply?**

1 A. As mentioned previously, the Company is served by the three interstate pipeline  
2 systems, FGT, Gulfstream, and SONAT. The Company contracts for primary firm  
3 capacity entitlement on each of these pipelines for purposes of serving retail gas  
4 load. Portions of this capacity are released to TPS on both a short-term and a long-  
5 term basis as part of the Company's state-approved retail choice program, while other  
6 portions of this capacity are used by the utility to serve its retail service customers.  
7 The Company also maintains capacity for daily swing and peaking requirements, as  
8 well as for future growth. The Company acquires gas to serve its customers at certain  
9 receipt points on the upstream transmission pipelines for which we have capacity  
10 contracts. Each one of the agreements with FGT, Gulfstream, and SONAT specifies  
11 a firm receipt point and a firm delivery point, as well as the quantity of gas that the  
12 Company is entitled to receive at each point. When using capacity from its  
13 contracted receipt point to its contracted delivery point(s), it can be said that you are  
14 using capacity on its "primary path." The alternative is "secondary path" capacity.  
15 Capacity used in its primary path has priority over capacity that is being used in a  
16 secondary path. During times of high demand, deliveries on primary path capacity  
17 will flow, while deliveries on secondary capacity may be cut by the pipeline. Thus,  
18 primary capacity is sometimes referred to as "firm" capacity, while secondary  
19 capacity is considered somewhat less "firm" and less reliable.

20 Optimally, the Company would hold sufficient capacity in aggregate for our total  
21 customer demand using the primary path available for delivery of gas in each of the  
22 market areas where customer load exists. Holding sufficient capacity is important,  
23 but it is equally critical that the capacity be associated with the Company's customer



1 load centers. Additionally, the capacity contracts must specify the correct points of  
2 delivery, in sufficient quantities. This is important since the Company has operations  
3 in areas where the FGT pipeline is constrained. FGT has several areas that are  
4 constrained on its delivery system. Referring to my Exhibit BH-2, the map of FGT's  
5 facilities in Florida, you will note that FGT has two primary pipelines that run down  
6 the peninsula portion of the state. The Company must continually address specific  
7 constraints on the West Leg (the section of the pipeline providing service to Tampa  
8 and the Central Florida region), the East Leg (the section of pipeline running from  
9 Union County to Miami Dade County, downstream of FGT compressor station 16),  
10 and in the Southeast Group (a particularly constrained area of Broward and Miami  
11 Dade county, downstream of FGT compressor station 21) in order to ensure its  
12 ability to deliver sufficient gas supply to its various service areas and systems. The  
13 periods when demand is greater than available capacity are cyclical, and can span  
14 many years until subsequent FGT system expansion project is constructed.  
15 Therefore, it is critical for the Company to be able to forecast its needs as accurately  
16 as possible to plan for future growth and supply needs.

17 **Q. Has there been a change in the upstream capacity management practices of the**  
18 **Company since the acquisition of FPUC by CUC, and if so, what are those**  
19 **changes?**

20 Although I was not with the LDC side of the business at the time of the acquisition,  
21 based on information I have gleaned from prior records and information available  
22 regarding pre-merger functions, there has been a change in capacity management  
23 practices, and those changes have been positive for the Company and its customers.

1 FPUC historically relied on the secondary capacity market to serve system supply  
2 customers. CFG and Indiantown unbundled the transportation service from the sales  
3 service function some time ago and providing transportation service only for some  
4 time. As such, these systems have historically depended on the TPS to augment the  
5 Company's capacity releases with secondary deliveries. A recognizable outlier, Fort  
6 Meade, aggregated its capacity with other municipalities and depended on a third  
7 party to manage day to day and future growth requirements through diversity with  
8 other municipalities prior to its acquisition by FPUC.

9 Now, as a subsidiary of FPUC, the Company relies on primary firm capacity to  
10 deliver gas supplies to the Company delivery points in constrained areas and to new  
11 incremental markets.

12 **Q. Does the Company hold sufficient primary firm capacity to serve all sales and**  
13 **transportation customers across its system?**

14 A. No. The Company does not hold sufficient primary capacity to serve its entire  
15 customer base.

16 **Q. Does the Company utilize the secondary capacity market?**

17 A. Yes, but only to the extent that we allow shippers to supplement our primary  
18 capacity with secondary market capacity.

19 **Q. Would you please explain in greater detail what the secondary capacity market**  
20 **is?**

21 A. Transmission pipelines are financed through the execution of long-term primary firm  
22 capacity service agreements. The pipeline's customers, typically regulated utilities,  
23 enter into contracts for a quantity of daily capacity that is equivalent to their daily

1 maximum gas requirement. These contracts are often long-term, with some  
2 extending 20 or 30 years. A company uses its maximum requirement infrequently  
3 and usually as a function of weather or other extraneous variables. Even during an  
4 extreme cold event that has the potential to occur once a decade in Florida, the cold  
5 temperatures only last for 2-3 days. This means that on an average day, there are  
6 capacity entitlements that are not used on the pipeline.

7 The Federal Energy Regulatory Commission ("FERC") has created a robust capacity  
8 release process that allows entities holding surplus capacity to be matched up with  
9 entities in search of capacity. Another similar option is for the party with capacity  
10 surplus to sell delivered gas to the party with a capacity need. In either case, the  
11 party with surplus capacity entitlements earns a small return on what would  
12 otherwise be a wasting asset. The process of bilaterally transacting in this way is  
13 broadly called the secondary market. Supply and demand impact the value of the  
14 capacity bought/sold in this fashion. In times of average or low demand, it is typical  
15 for capacity to trade at a discount to the value on the transmission pipeline's rate  
16 card. In periods of high demand, it is not unusual for the value of the capacity in the  
17 secondary market to be higher than the pipeline rates.

18 **Q. How do the Company's customers benefit from the secondary capacity market?**

19 A. Allowing secondary capacity has three primary benefits. First, it serves to make the  
20 delivery costs of gas onto the system less expensive, and therefore end-use customers  
21 pay less. Second, it enables the TPS to supplement their margins and therefore  
22 encourages healthy competition among TPS who are active on our system over the  
23 long term. Finally, it allows the utility to hold a reduced quantity of primary

1 interstate capacity, which allows for more complete utilization of all capacity  
2 holdings, and therefore a reduction in capacity being charged to the PGA. Relying on  
3 secondary capacity does, however, have its risks. Most importantly, it is less reliable  
4 than firm capacity. For example, from time to time, typically due to extreme  
5 temperatures in the weather, the market for surplus capacity dries up. No market  
6 participant has any "extra" capacity and on the rare occasions when all firm capacity  
7 is delivering at the maximum, there is simply no secondary capacity available. As  
8 such, fully reliance on secondary capacity means you run the risk of being unable to  
9 deliver gas supplies to customers during high-use periods.

10 **Q. How can a utility evaluate the efficiency of its capacity holdings versus system**  
11 **consumption?**

12 **A.** One simple metric that can be used to evaluate the capacity utilization is to compare  
13 the volume of gas consumed by customers on the system to the aggregate capacity  
14 holdings. Over time, the differential between utilization and capacity holdings can  
15 change. For instance, in 2009, prior to the turnback of capacity associated with the  
16 merger of FPUC and CFG, the coverage ratio of capacity to retail volumes was  
17 107%. That means, in aggregate over the entire calendar year, the Company as a  
18 whole held 7% more capacity than the system had demand for gas, on average. This  
19 coverage ratio has been decreasing from 2009. It has been at or near 60% for the last  
20 several years. This means that for every 10 dekatherms delivered to the system, the  
21 Company currently holds primary firm capacity for only 6 dekatherms of this  
22 demand. TPSs make up the balance of this supply and the capacity necessary for  
23 delivery via access to the secondary market.

1 **Q. Does the Company allow TPS on its systems to utilize secondary capacity?**

2 A. Yes. As I will describe further, the Company's current shipper programs run along a  
3 continuum from having no access to secondary capacity to having full access to  
4 secondary capacity. Secondary sources for supply typically return the least expensive  
5 transportation costs for retail contracts; however, this practice can expose the end-  
6 use customers to supply disruption under certain extreme circumstances. Primary  
7 supply ensures reliability but is also the most expensive supply solution. We  
8 recognize many large end-use customers are in competitive businesses where energy  
9 costs matter. We also believe there is a balance that needs to be struck when dealing  
10 with the secondary market. Therefore, the new shipper program allows TPS to larger  
11 customers to supplement 50% of their pool's supply with secondary capacity/supply.  
12 We believe this 50%/50% allocation equitably balances the supply reliability of  
13 primary capacity with the cost sensitivity of the secondary market.

14 It should be further noted that only larger customers, who are provided service  
15 pursuant to the Company's rate schedules CTS or FGS or are otherwise served  
16 pursuant to a Special Contract that has been approved by the Commission, qualify  
17 for the shipper pool that is supplemented with secondary capacity. Due to the level of  
18 delivery risk, secondary capacity may be appropriate for those customers. In  
19 contrast, it is inappropriate for residential/small commercial (higher priority)  
20 customer classes – those customer classes that are reliant upon gas for home heat and  
21 human needs concerns or other end uses that do not readily have an alternate form of  
22 energy supply. Hospitals typically participate in the TPS program, but typically they  
23 have alternate fuel backup on site. Nursing homes typically do not participate in the

1           TPS program, and are served via 100% primary capacity allotment through the  
2           Company's PGA clause.

3           **Q.    Are there disadvantages to designing a shipper program with the intent of**  
4           **allowing secondary capacity to be used by Marketers for the benefit of large end**  
5           **use customers?**

6           A:    There are two main disadvantages of relying upon secondary supply. First, when  
7           electric generation is at peak load, and therefore does not have any extra capacity to  
8           release into the secondary market, customers served by TPSs utilizing secondary  
9           capacity risk potential service interruptions. This is why it is important that only  
10          large, sophisticated customers have access to these TPS pools, as the larger  
11          customers are more likely to be able to plan for and arrange contingencies in the  
12          event of a short-term interruption. For these facilities, contingency plans might  
13          include temporary operational curtailment (partial or full) or the switching to a  
14          backup fuel source.

15          A second drawback of secondary capacity is that the utilization of secondary  
16          capacity mutes the market signal that would otherwise be sent to the interstate  
17          pipeline when an area is growing and facing constraint and thus a good candidate for  
18          capacity expansions. To be clear, economic development and growth do not occur  
19          without access to primary capacity. Utilization of secondary capacity, when  
20          available, is the most efficient short-term use of the capacity and of the pipeline asset  
21          that supports gas delivery, which makes the market more efficient by raising  
22          throughput and lowering costs. However, when those holding firm, primary capacity  
23          begin to utilize their entitlements more completely, the load served by secondary

1 capacity can be exposed to interruption more frequently because less capacity is  
2 released into the secondary market. Thus, while its use carries certain benefits and  
3 efficiencies, reliance upon secondary capacity can, for a time, mask the need for new  
4 pipeline projects to provide incremental supply, delaying relief to LDCs, shippers,  
5 and customers in capacity constrained regions – sometime for years.

6 **Q. How has the Company addressed this issue through its planning processes?**

7 A. The Company's capacity planning is designed to ensure we can deliver gas to  
8 customers on all parts of our system and that we do so in the most efficient, low cost  
9 manner possible. For instance, in Southeast Florida, FGT has already created a  
10 named constraint point designated "south of compressor station 21." Our Delray and  
11 Boca Raton gates are within this affected area. There is no capacity available for  
12 subscription that has a primary delivery point on the east leg, and certainly nothing  
13 that reaches all the way to the very southeast of the system (South Palm Beach  
14 County). The Company has therefore designed an alternate solution that will enable  
15 it to continue providing safe and reliable gas service to the high-growth area in and  
16 around West Palm Beach.

17 Specifically, this alternative approach has involved partnering with Florida Power &  
18 Light ("FPL"). The approach originated in 2017, when the Company acquired  
19 additional capacity on FGT. At the time, FGT had a small quantity of capacity  
20 available with delivery points on the Western leg of their system. The Company  
21 requested a primary delivery point for the new capacity at FPL's Martin Power Plant,  
22 the delivery point located at the extreme South and East of FGT's western group of  
23 delivery points. This made it possible to deliver to our system on the Western side of

1 the state. Additionally, we entered a commercial agreement with FPL wherein FPL  
2 agreed to receive gas on the Company's behalf at the Martin plant, and then to  
3 deliver a like quantity of gas onto the Florida Southeast Connection ("FSC") Pipeline  
4 on the Company's behalf for movement south of Martin. We then built two new city  
5 gates on our West Palm Beach distribution system to interconnect with FSC. By  
6 virtue of this unique commercial arrangement, the Company has been able to utilize  
7 its capacity on FGT's western leg to ensure delivery of gas to the constrained and  
8 difficult to reach Southeastern area of the state. The Company brought these points  
9 into service in 2020 and 2021, respectively, and anticipates that, over time, they will  
10 play a significant role in ensuring our ability to maintain reliable supply for our  
11 customers in the Southeastern part of the state.

12 **Q. Has the acquisition of FPUC by CUC resulted in benefits for FPUC in terms of**  
13 **capacity holdings and costs?**

14 A. Yes. For one, as noted above, the larger company platform has enabled us to utilize  
15 our FGT access points on FGT's western leg to benefit the Company and its  
16 customers in the capacity constrained portions of the state. This also enables the  
17 Company to utilize the capacity it holds more efficiently, which is important given  
18 the rising cost of new capacity, which I will address later in my testimony. The  
19 Company is also now better able to manage its capacity holdings, thereby enabling it  
20 to turn back excess capacity when it can produce savings for our customers and to  
21 likewise acquire capacity when necessary to ensure continued reliable service.

22 For instance, after the acquisition by CUC, and as discussed by the Company in  
23 Docket No. 20110133-GU, the Company was able to turnback interstate capacity to



1 FGT. At the time, projections reflected that the combined interstate pipeline  
2 capacity quantity held by FPUC and CFG was greater than the quantity required to  
3 provide reliable service to customers. Therefore, in August 2010, concurrent with the  
4 expiration of one of the Company's capacity contracts, 25% of the existing monthly  
5 capacity was returned to FGT, resulting in savings of more than \$900,000 per year,  
6 which was passed on to customers through the PGA mechanism.

7 **Q. Have the capacity markets changed since CUC acquired FPUC?**

8 A. Yes, as have the Company's capacity needs. Interstate capacity costs have increased  
9 significantly over time and continue to escalate. This is due to a number of factors,  
10 the primary one being that costs have increased to build new pipelines. The three  
11 major costs relevant to pipeline construction, labor costs, pipe costs (steel), and land  
12 costs, have all increased over time due to inflation, as well as other exogenous  
13 variables that impact prices. Additionally, it is getting more challenging to permit  
14 and construct interstate pipelines. Throughout the country, dozens of projects have  
15 been terminated or postponed in the last few years, due to permitting issues,  
16 regulatory concerns, and cost overruns. Thus, while demand for capacity continues  
17 to increase, the market has been slow to build the much-needed new capacity.  
18 Consequently, the price for existing capacity has also escalated. By way of example,  
19 in 1993, the FERC mandated open access to the interstate pipeline system. At that  
20 time, the rate associated with the newly developed FTS-1 rate schedule on FGT was  
21 below \$0.20 per dekatherm. Currently, the FTS-1 rate for FGT is \$0.5150 per  
22 dekatherm, while the rate for capacity on the newest pipeline, Sabal Trail  
23 Transmission, is \$1.5680 per dekatherm.

1 **Q. How has the Company addressed its incremental interstate pipeline capacity**  
2 **requirements and subsequent costs?**

3 A. The Company has had a decreasing capacity coverage since we turned back capacity  
4 in 2010. While the Company acquired some capacity in 2017 as a response to growth  
5 needs, the coverage ratio maintained remains at a relatively low level. Reflecting the  
6 significant growth and expansion on our system statewide, the Company projects  
7 that it will need to acquire additional capacity in the near future to maintain the  
8 appropriate reserve margin for essential service and future growth.

9 **Q. What other mechanisms has the Company utilized to manage its capacity**  
10 **needs?**

11 A. The Company uses capacity more efficiently today than it has at any point in the last  
12 10 years. The Company has firm capacity rights on the interstate pipelines and  
13 releases capacity, on a temporary basis, each month on behalf of transportation  
14 customers to pool managers. The Companies now manage their pipeline capacity  
15 portfolio as a whole, rather than acquiring and releasing capacity on a piecemeal  
16 basis across its various Company systems.

17 In this filing, the Company is also proposing to further update its capacity release  
18 methodology and release capacity to pool managers in an equitable manner across  
19 the FPUC platform, eliminating distinctions between the four gas systems.  
20 Specifically, the Company proposes to release monthly capacity based on the  
21 transportation customers' same month/prior year billed therm quantities. This will  
22 give the pool managers interstate pipeline capacity rate certainty from year to year.  
23 Any natural gas consumed by the transportation customers that is in excess of the

1 natural gas delivered by the pool managers will be addressed by the Companies  
2 through the swing service rider.

3 **Q. Can the Company avoid the need to acquire additional, expensive interstate**  
4 **capacity?**

5 A. Ultimately, no. The Company will need to acquire additional interstate capacity in  
6 order to ensure that it can continue to provide safe, reliable natural gas service for its  
7 customers across the state. This is due to the significant growth on the Company's  
8 system in several parts of the state, and anticipated additional growth.

9 The state is growing as people migrate to Florida from other parts of the country.  
10 Florida's economy is growing along with these new residences, and they want gas.  
11 From a residential perspective, it is an important source of energy for efficient  
12 residential homes. From an industrial perspective, natural gas creates economic  
13 opportunity and is highly desired by businesses large and small. In reality, the  
14 necessity to acquire new tranches of capacity should be viewed as a positive, as it is  
15 representative of and commensurate with the growth that the state continues to enjoy.

16 **Q. Would you please summarize your testimony?**

17 A. The Company has continually evolved with the demand of its customers, TPSs, and  
18 marketing influences. Over a period of five years, the Company has consolidated and  
19 modified its transportation services to make them more equitable for all stakeholders.  
20 The Company has modified its upstream capacity portfolio as warranted to address  
21 pipeline constraints, distribution system integrity and to address customer growth  
22 and expansion opportunities. These efforts have resulted in customer growth of over

1                   30% in the last decade (2012-2021), and customer volume growth of over 75% in the  
2                   same time frame.

3       **Q.    Does this conclude your testimony?**

4       A.    Yes.

1           CHAIRMAN FAY: I have the same exhibits. We  
2           are good to go, Mr. Munson.

3           MR. MUNSON: Thank you.

4 BY MR. MUNSON:

5           **Q     And, Mr. Hancock, are you prepared to present**  
6           **a summary of your testimony?**

7           A     Yes, I am.

8           **Q     Please proceed.**

9           A     Good morning, Commissioners. Thank you for  
10          the opportunity to address you today.

11                   The purpose of my direct testimony is to  
12          describe the company's supply strategies and third-party  
13          transportation programs. The companies have various  
14          programs to supply cost-effective gas service to  
15          customers, both residential and commercial/industrial.

16                   In 2020, the company petitioned to  
17          establish consistent transportation service programs  
18          across the four Florida LDCs, establishing uniform  
19          transportation service rules and processes provides  
20          greater uniformity of service and ease of administration  
21          of programs. Additionally, transportation customers and  
22          pool managers encounter less confusion and a less  
23          cumbersome process. There are a number of benefits that  
24          have resulted from the consolidation of the  
25          transportation program, each of which has direct

1 benefits to the retail customer.

2 First, our customer facing employees are able  
3 to respond to customers' questions more quickly and  
4 efficiently.

5 Second, these changes have made programs more  
6 flexible and easy to understand. And in addition, the  
7 changes implemented better ensure that similarly  
8 situated customers have similar service options and  
9 similar cost structures regardless of where they happen  
10 to receive service.

11 Consolidation of these programs also positions  
12 our operations staff to better plan for the growth of  
13 our system.

14 Finally, the consolidation program includes a  
15 mechanism for allocating the costs for new capacity  
16 contracts to our end use customers enrolled in  
17 third-party transportation service.

18 The company's tariff design transportation  
19 service programs, capacity planning process and cost  
20 sharing mechanisms are each designed to provide  
21 competitive costs and reliable service to our end use  
22 customers, whether they are residential, commercial or  
23 industrial.

24 This concludes the summary of my testimony.  
25 And I would like to thank the Commissioners for their

1 time this morning.

2 **Q Thank you, Mr. Hancock.**

3 MR. MUNSON: Mr. Chair, we tender the witness  
4 for cross exist.

5 CHAIRMAN FAY: Thank you.

6 Ms. Christensen, you are recognized.

7 MS. CHRISTENSEN: Thank you.

8 EXAMINATION

9 BY MS. CHRISTENSEN:

10 **Q Good morning, Mr. Hancock. You testified**  
11 **about the capacity of transportation pipelines, is that**  
12 **correct?**

13 A Yes. That's correct.

14 **Q Okay. And referring to page 22 of your direct**  
15 **testimony -- if you want to, I will give you a minute to**  
16 **get there. You state that in August 2010, after CUC and**  
17 **FPUC combined services, you determined that you held**  
18 **more capacity than you needed to provide reliable**  
19 **service, is that correct?**

20 A Yes. That's correct.

21 **Q Okay. And when you renegotiated the capacity**  
22 **contracts, you turned back to 25 percent of the existing**  
23 **monthly capacity to the pipeline, correct?**

24 A Of one of our contracts, that's correct. Not  
25 of our collected portfolio, but of one of the contracts.

1 Q Okay. And you testify in direct that created  
2 a savings of approximately \$900,000 per year?

3 A That's correct.

4 Q And those costs -- are those costs reflected  
5 as part of the PGA or the clause?

6 A Yes. They would directly lower the PGA.

7 Q Okay. Since that time, is it correct the  
8 company has acquired new capacity?

9 A Yes, we have.

10 Q Objection. And I think you specifically state  
11 in your testimony that that occurred in 2017?

12 A That sounds right. I would need to reference  
13 my testimony, but that does sound correct.

14 Q Have you acquired any other additional  
15 capacity, other than the one that you mentioned in 2017,  
16 since then?

17 A No.

18 Q Okay. And the company is currently projecting  
19 new capacity needs in the near future, is that what you  
20 are testifying -- you have testified to?

21 A Certainly we continue to grow, and we are  
22 always looking at that. We do not have immediate needs  
23 to procure additional capacity.

24 Q Okay. So you are not looking for additional  
25 capacity at this time?



1           A     That's correct.

2           Q     Okay.  Would you agree, and I think you may  
3     have testified this, that the cost of industry capacity  
4     has increased significantly over the time -- over time  
5     and is continuing to escalate?

6           A     Capacity continues to increase.

7           Q     Okay.  And the increasing cost for capacity  
8     would offset any cost savings from the initial turnback  
9     of the 25-percent capacity in 2010, correct?

10          A     I would disagree with that, and here's why:  
11     As we looked at our capacity portfolio in 2010, there  
12     are a few numbers that we know that are easy to talk  
13     about.  One is the total amount of contracts, as far as  
14     the total deliverability of contracts; and the other is  
15     the system demands, right?  In 2010, that number, that  
16     ratio was 107 percent, as per my testimony, right?

17          Q     Okay.

18          A     Once we turned back the capacity and we have  
19     continued to grow over time, you know, even with the  
20     capacity acquisition that we recently made, our capacity  
21     ratio, right, is around 65 percent, let's say below  
22     70 percent, right?  So even though we continue to  
23     acquire capacity, we are at a lower utilization factor.  
24     So that -- the capacity that we've acquired has gone to  
25     supply incremental new accounts.

1           **Q**     Okay.  Would you -- and just additional  
2           questions, since you deal with the pipeline and the  
3           pipeline capacity.  Would you agree that natural gas  
4           prices fluctuate base based on market conditions?

5           A     Certainly.

6           **Q**     Okay.  And recently, those market conditions  
7           for the price of natural gas have increased  
8           significantly?

9           A     Well, they did for a while, in the first  
10          second and third quarter, but they are actually down  
11          significantly in the last month.

12                   MS. CHRISTENSEN:  Okay.  All right.  I have no  
13          further questions.  Thank you.

14                   CHAIRMAN FAY:  Okay.  Great.

15                   Mr. Moyle?

16                   MR. MOYLE:  I have just a few.

17                                   EXAMINATION

18          BY MR. MOYLE:

19           **Q**     In response to a question from Ms.  
20          Christensen, you referenced a 65, 67 percent capacity.  
21          Can you explain exactly what that means?

22           A     Sure.  So our consumption on our system in  
23          relative to our capacity holdings, right, on an annual  
24          basis, you take the total amount of capacity holdings  
25          and the total amount of system consumption, and we

1 have -- we hold that ratio, we hold less than we consume  
2 as a system, and the ratio is about 65 percent.

3 **Q And what you are referencing of the 65 percent**  
4 **is firm transportation to serve your load, is that**  
5 **right?**

6 A That's right.

7 **Q And you were at 107 percent capacity**  
8 **previously, is that right?**

9 A That's right. In 2010, that ratio was 107  
10 percent.

11 **Q And what's the Best Practice in the industry**  
12 **with respect to a ratio of having firm transportation to**  
13 **serve, in effect, firm load?**

14 A It varies greatly, not only in Florida, but in  
15 other markets as well. Different companies have  
16 different approaches. We feel confident about our  
17 approach, and that it serves our customers while keeping  
18 costs managed as much as possible.

19 **Q What happens if -- if -- if you are short?**  
20 **Have you been short?**

21 A We have never been short.

22 **Q And are you -- you are in the market every day**  
23 **trading, is that right, picking up, picking up non-firm**  
24 **capacity if you do have a load that's over the 65**  
25 **percent?**

1           A     We actually don't do that.  Actually, what we  
2 do is we sell off our extra capacity in the monthly, or  
3 the seasonal market, to make sure that our cost  
4 structure stays low.  If we had a need to procure  
5 capacity, we certainly would, but that's not been our  
6 position.

7           **Q     And with the 65-percent that you have now, are**  
8 **you, on a monthly basis, are you finding that you are**  
9 **selling off some of that as well?**

10          A     We are still selling off some of that.  That's  
11 right.  It's primarily because our industrial customers  
12 in our third-party transportation program receive a  
13 capacity allocation of 50 percent of their needs.  So if  
14 you hold 65 percent of your total, and you allow  
15 secondary deliveries to your system for your third-party  
16 transportation program, that's kind of how you wind up  
17 long.

18          **Q     Okay.  And you mentioned your strategies**  
19 **moving forward and the projected forecast.  Ms.**  
20 **Christensen asked you a little bit about the cost of the**  
21 **commodity, you know, of the natural gas itself, not the**  
22 **transportation, and I think she got you to say, well,**  
23 **when the -- when the cost is up, the demand reduces, is**  
24 **that righted?**

25          A     I am not positive I said that.  If I --

1 Q Let me just ask it, is that right?

2 A I would certainly say that there are certainly  
3 circumstances in the marketplace where higher price  
4 directly impacts consumption.

5 Q Okay. And from your business perspective, you  
6 expect growth you told the Commission, correct?

7 A Yes.

8 Q Do you -- the Commission had a report the  
9 other day, 10-year site plans from utilities and the  
10 renewables are growing pretty significantly. I think  
11 it's going to be near 22 percent at some point. Is that  
12 -- is that something that encroaches upon your business,  
13 if you will?

14 MR. MUNSON: Mr. Chair, objection. Assumes  
15 facts not in evidence.

16 MR. MOYLE: I can ask without reference to the  
17 22 percent solar just --

18 CHAIRMAN FAY: Yeah, just in general, if there  
19 is a shift in renewables, but obviously the report  
20 is not a component of this record.

21 THE WITNESS: Sure. So my perspective on  
22 that, and this is, you know, this isn't the  
23 company's perspective, but it's mine as an energy  
24 professional, right? Is you think about Florida,  
25 we are a constrained marketplace, right? Right

1           now, there is high demand for natural gas, and  
2           there are certain geographies in the state that  
3           don't have sufficient pipeline capacity, right?

4                     As power plants, which are, you know, 80 to 90  
5           percent of consumption of natural gas in the state,  
6           right, as they move -- as they move to renewables,  
7           what we ought to see is those constraints become  
8           less significant, and direct use customers, like  
9           LDCs serve, ought to be able to get access to  
10          capacity even more reliably and even more cheaply  
11          than they do today, because there will be a little  
12          bit of extra space in the pipeline. That's my  
13          perspective.

14       BY MR. MOYLE:

15               **Q     Okay. And just a brief follow-up on that.**  
16       **With respect to the constrained areas, where are those?**

17               A     Generally, the further south you go and the  
18          further east you go, that's where you will find the  
19          constraints, right? The east leg of FTT, which begins  
20          at Jacksonville, specifically Compressor Station 16, and  
21          everything south of that, all the way to Miami, is  
22          constrained. It has a capacity of about a billion cubic  
23          feet a day, and it typically runs at a billion cubic  
24          feet a day, and there is really just a little bit of  
25          extra space. And then the Miami-Dade area is an

1 additional constraint. It's Compressor Station 21.

2 Q So what -- the Commission has 10-year site  
3 plans for electrical stuff. But with respect to natural  
4 gas, is the plan to alleviate constraints to say, well,  
5 you know, renewables are coming and that will have some  
6 relief on them? Or are there other steps being taken to  
7 alleviate constraints, additional compression? Could  
8 you just share that strategy, if you would?

9 A All of that is being, you know, considered.  
10 You know, the market needs to react to provide  
11 additional capacity into the marketplace. At some point  
12 in the future, this is not market, not FPU, but the  
13 market, natural gas in general, right? And so, you  
14 know, pipeline looping, compression, interconnections  
15 that don't currently exist that may exist in the future  
16 are all strategies that we need to consider in order to  
17 continue natural gas growth, especially, you know, on  
18 the eastern half of the state.

19 Q Okay. And a consequence, given where we are  
20 today, if you have constraints that cannot be addressed,  
21 I mean, you can't -- you can't put more gas through the  
22 pipe than allowed, you potentially could have situations  
23 where large users of natural gas are not able to use it  
24 to run power plants or industrial facilities, is that  
25 right?

1           A       That's absolutely right. But I would also say  
2       that that's the case in every geography, even in places  
3       like the Utica, or the Marcellus, you know, there are  
4       localized capacity constraints that inhibit the siting  
5       of large industrial facilities without additional  
6       pipeline capacity. That's just something that the  
7       industry needs to deal with.

8           **Q       Okay. Thank you for that.**

9                   **CHAIRMAN FAY: Great. Thank you.**

10                   **Staff?**

11                   MR. SANDY: No cross.

12                   CHAIRMAN FAY: Okay. I just have one quick  
13       question for you.

14                   In your testimony on page 11, you talk about  
15       the RFP process, and there is a line, line 13 under  
16       that, where it says, we enter a contract with the  
17       most competitive supplier for our gas needs. Just  
18       he help me understand what component of that would  
19       be protective of customers? And I don't want you  
20       to speak to any proprietary component of it, but  
21       just how that process would be protective of  
22       customers.

23                   THE WITNESS: Sure. So the gas that we  
24       purchase becomes a part of our purchased gas  
25       adjustment and gets sold to customers, and so it



1 matters that we buy it right. And so we do buy is  
2 it right, and this is the process.

3 You know, about once a year we do this RFP  
4 process. We ask the market to provide prices at  
5 the receipt points along the pipeline where we own  
6 primary firm capacity. So there is some in Texas,  
7 some in Louisiana, some in Alabama, some in  
8 Florida. Just a mixed bag, if you will, right?  
9 And at each of those points, there are pricing  
10 indexes. Platts is a pricing resource that the  
11 industry uses. And what we do is we negotiate the  
12 differential that sits on top of the index.

13 So for example, you know, Destin, Florida, is  
14 a receipt point where we buy a fair amount of gas.  
15 The industry buys a fair amount of gas there. The  
16 Platts index is Zone 3, and our negotiated  
17 differential -- now, this isn't the case but, you  
18 know, it might be a penny, or two pennies, or it  
19 might be negative a penny, right? And that's just  
20 the localized supply and demand at that point and  
21 what that point can -- the gas that's coming to  
22 that point, what it costs. And so those are some  
23 of the things that we are always watching, so --

24 CHAIRMAN FAY: So you have no incentive to pay  
25 a higher amount, obviously, but there are other

1 variables that are taken into account other than  
2 the specific price?

3 THE WITNESS: Absolutely.

4 CHAIRMAN FAY: Okay.

5 THE WITNESS: Service matters. The capability  
6 to access supply in difficult environments matter,  
7 right? So, you know, someone might have the  
8 cheapest price, but, you know, they are a couple of  
9 guys in a stand-up shop, you know, and they don't  
10 have any assets or balance sheet to back them up,  
11 right? It's tougher to accept that very cheap  
12 price when someone else that has \$1 billion balance  
13 sheet, and has the capability to supply across  
14 various points, for example, what if the supply  
15 gets cut, you know, can the firm, you know, move it  
16 to a different alternative receipt point and  
17 resupply the gas, you know?

18 So service matters, the capability to perform  
19 particularly matters. That's a very important  
20 variable.

21 CHAIRMAN FAY: Okay. Great. Thank you.

22 Redirect?

23 MR. MUNSON: No redirect. Thank you, Mr.

24 Chairman.

25 CHAIRMAN FAY: Okay. With that, we will enter

1 exhibits marked 26 and 27 into the record without  
2 objection. Showing those entered.

3 (Whereupon, Exhibit Nos. 26-27 were received  
4 into evidence.)

5 CHAIRMAN FAY: And, Mr. Munson, would you like  
6 your witness excused?

7 MR. MUNSON: Yes, please.

8 CHAIRMAN FAY: Okay. Mr. Hancock, you are  
9 excused. Thank you for your testimony.

10 (Witness excused.)

11 CHAIRMAN FAY: All right. With that,  
12 Commissioners we will break for lunch. We will  
13 come back. It looks like we, based on our time, we  
14 will be able to get finished this afternoon. But  
15 in there is any other specifics to the stipulations  
16 that you want to bring back after lunch, that would  
17 be the time to do it.

18 We will be back here at 1:30 thanks so much.

19 (Lunch recess.)

20 (Transcript continues in sequence in Volume  
21 5.)

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## CERTIFICATE OF REPORTER

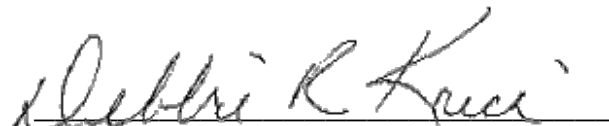
STATE OF FLORIDA     )  
COUNTY OF LEON     )

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.



DEBRA R. KRICK  
NOTARY PUBLIC  
COMMISSION #HH31926  
EXPIRES AUGUST 13, 2024