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BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20220069-GU

Petition for rate increase  
by Florida City Gas.

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VOLUME 6  
PAGES 1032 - 1288

PROCEEDINGS: HEARING

COMMISSIONERS  
PARTICIPATING: CHAIRMAN ANDREW GILES FAY  
COMMISSIONER MIKE LA ROSA  
COMMISSIONER GABRIELLA PASSIDOMO

DATE: Tuesday, December 13, 2022

TIME: Commenced: 9:30 A.M.  
Concluded: 6:15 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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## I N D E X

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EXHIBITS				
NUMBER:			ID	ADMITTED
11-16	As identified in the CEL			1275
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194	FPL 2021 Settlement Order Excerpt		1125	1275
195	FPL 2010 rate order 2010-0153 excerpt		1134	1275
196	Order No. PSC-2011-0089, 2011 FPL settlement		1137	1275
197	Excerpt from Order No. PSC-2013-0023		1139	1275
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201	Emera 11/10/22 MD&A		1197	1278
202	PGS 2022 Earnings Surveillance Reports		1197	1278
203	Rule 25-14.004		1206	1275
204	Summary of FCG Capital Structure Changes in Dividends		1212	1275
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## 1 P R O C E E D I N G S

2 (Transcript follows in sequence from Volume  
3 5.)

4 CHAIRMAN FAY: All right. Commissioners, next  
5 we are going to move into witness Campbell. So,  
6 Mr. Wright, you are welcome to all your next  
7 witness.

8 MR. WRIGHT: Thank you. Florida City Gas  
9 calls Mark Campbell.

10 CHAIRMAN FAY: Commissioners, why don't we go  
11 ahead and take -- I know this is going to be sort  
12 of a long witness. We will go ahead and take a  
13 10-minute break, get everybody set up, and then at  
14 two o'clock we can begin witness Campbell, and then  
15 our staff could also pass out the exhibits that we  
16 have from the Office of Public Counsel at that  
17 time.

18 We'll start back at 2:00. Thank you.

19 (Brief recess.)

20 CHAIRMAN FAY: All right. Welcome back.

21 What we will do is, Mr. Wright, go ahead and  
22 get into witness Campbell. Just to give us some  
23 idea of this afternoon, from a timing perspective,  
24 I know we might need a break for the court  
25 reporter, and just for some folks to maybe stand up

1           for a minute. Mr. Rehwinkel or Ms. Wessling, for  
2           cross for Mr. Campbell, any sort of general idea of  
3           the timeline?

4           MR. REHWINKEL: I have a significant amount of  
5           cross for Mr. Campbell, and I believe -- I will  
6           try, but I believe it will be optimistic that I  
7           will finish by 5:00 or 6:00 today.

8           CHAIRMAN FAY: Okay. And, FEA, no cross?

9           CAPTAIN DUFFY: If we do have cross, it will  
10          be very little, but I don't anticipate it.

11          CHAIRMAN FAY: Okay. Mr. Moyle.

12          MR. MOYLE: A strong preference to try to wrap  
13          it up today, so I think I might be able to tailor  
14          my cross to whatever end time you might prefer.

15          CHAIRMAN FAY: Okay. Great. With that, just  
16          for disclosure for planning purposes, I think that  
17          if we are close this afternoon -- to later this  
18          afternoon, we will run a little bit overtime,  
19          potentially to 6:00 or somewhere around there,  
20          realistically for everybody, if that creates cost  
21          efficiencies and works for everybody. So I just  
22          want to put everybody on notice that we may do  
23          that. And depending on how it goes, we will adjust  
24          accordingly.

25          But with that, Mr. Wright, you are recognized.

1 MR. WRIGHT: Thank you.

2 Whereupon,

3 MARK CAMPBELL

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. WRIGHT:

9 Q Can you please state your full name for the  
10 record?

11 A Mark Campbell.

12 Q Have you been sworn?

13 A Yes.

14 Q And is your business address, Florida Power &  
15 Light Company, 700 Universe Boulevard, Juno Beach,  
16 Florida, 33408?

17 A Yes.

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

19 A I am the Senior Director of Financial  
20 Forecasting at Florida Power & Light Company, which is  
21 the parent company of Florida City Gas, or FCG.

22 Q And on May 31st, 2022, did you file 38 pages  
23 of direct testimony?

24 A Yes.

25 Q Do you have any corrections to your direct

1 **testimony?**

2 A No.

3 **Q If I asked you the questions contained in your**  
4 **direct testimony, would your answers be the same?**

5 A Yes.

6 MR. WRIGHT: Chairman, I would ask that  
7 Mr. Campbell's direct testimony be inserted into  
8 the record as though read.

9 CHAIRMAN FAY: Okay. Show it entered.

10 (Whereupon, prefiled direct testimony of Mark  
11 Campbell was inserted.)

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**BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 20220069-GU**

**FLORIDA CITY GAS**

**DIRECT TESTIMONY OF MARK CAMPBELL**

**Topics: Financial Forecast, Customers and Therms Forecasts, Drivers of 2023 Base Rate Increase Four-Year Rate Plan, Reserve Surplus Amortization Mechanism, Capital Structure and Cost of Capital Storm Damage Reserve, Changes in Tax Law**

**Filed: May 31, 2022**



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1 **Q. Are you sponsoring or co-sponsoring any exhibits in this case?**

2 A. Yes. I am sponsoring the following exhibits:

- 3 • MC-1 List of MFRs Sponsored or Co-Sponsored by Mark Campbell
- 4 • MC-2 Planning and Budgeting Process Guidelines
- 5 • MC-3 Forecasting Flowchart and Models
- 6 • MC-4 Major Forecast Assumptions
- 7 • MC-5 Drivers of the Increase in Revenue Requirements

8 I am co-sponsoring the following exhibit:

- 9 • MC-6 Reserve Surplus Amortization Mechanism

10 **Q. Are you sponsoring or co-sponsoring any Minimum Filing Requirements**  
11 **(“MFRs”) in this case?**

12 A. Yes. Exhibit MC-1 lists the MFRs I am sponsoring and co-sponsoring.

13 **Q. What test year is the Company using for its proposed base rate increase?**

14 A. The Company is using a projected 2023 Test Year based on the 12-month period  
15 ending December 31, 2023. The MFRs reflect information and data requested  
16 for various years since FCG’s last rate case, including the 2021 Historical Test  
17 Year, 2022 Prior Year, and 2023 Test Year.

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

19 A. The purpose of my testimony is to:

- 20 (1) Explain the process used for the preparation and approval of the forecast
- 21 upon which FCG’s projected MFRs are based;
- 22 (2) Explain the customer and therm<sup>1</sup> sales forecasts;

---

<sup>1</sup> A therm is a unit of heat energy equal to 100,000 British thermal units.

- 1 (3) Support the inflation forecast used as part of the budgeting process and for  
2 computing the Commission’s Operations and Maintenance (“O&M”)  
3 Benchmark;
- 4 (4) Explain the major cost drivers since FCG’s last general rate case that  
5 necessitate a base rate increase;
- 6 (5) Explain the core elements of FCG’s four-year rate plan including the use of  
7 the Reserve Surplus Amortization Mechanism (“RSAM”);
- 8 (6) Recommend the use of 59.6 percent equity ratio for FCG’s capital structure  
9 and support the 10.75 percent return on equity (“ROE”) recommended by FCG  
10 witness Nelson;
- 11 (7) Support the continued use of the Storm Damage Reserve provision from the  
12 Stipulation and Settlement Agreement in FCG’s last general rate case that was  
13 approved by Commission Order No. PSC-2018-0190-FOF-GU in Docket No.  
14 20170179-GU (the “2018 Settlement”), modified to reflect the Commission’s  
15 new storm rule for gas utilities; and
- 16 (8) Discuss FCG’s proposal for addressing any changes in tax law that may  
17 occur concurrent with or subsequent to the establishment of new base rates.

18 **Q. Please summarize your testimony**

19 A. FCG is proposing a four-year rate plan based on a projected 2023 Test Year  
20 ending December 31, 2023. The MFRs supporting FCG’s proposed base rate  
21 increase have been prepared using the same rigorous, established, and proven  
22 planning and forecasting processes employed by FCG’s parent, FPL. The  
23 MFRs have been prepared relying on inputs from internal and external subject

1 matter experts, processed through financial models widely used in the industry,  
2 and with review and approvals designed to ensure their reliability for use in  
3 setting rates.

4  
5 My testimony explains the process used to develop the forecasts for customers  
6 and terms for this filing, and demonstrates that these processes are  
7 fundamentally sound and consistent with criteria used by the Commission in  
8 evaluating forecasts. Additionally, I provide an overview of the current  
9 economic conditions for FCG, including the current inflationary pressures the  
10 Company is facing.

11  
12 FCG's proposed base rate increase is needed to address increased revenue  
13 requirements since 2018, the test year last used for establishing current base  
14 rates. The primary drivers of the change in revenue requirements are: (1)  
15 capital investment initiatives that support system growth and increased  
16 reliability and safety; (2) increasing operating and maintenance expense due to  
17 growth and inflation; (3) the change in the weighted average cost of capital; (4)  
18 revenue growth that also partially offsets the growth in base revenue  
19 requirements; and (5) the adoption of the RSAM-adjusted depreciation rates  
20 that also partially offset the growth in base revenue requirements.

21  
22 During the four-year period of FCG's 2018 Settlement (2018-2022), FCG has  
23 encountered rising inflation and increases in operating costs, as well as capital

1 investments impacting FCG's ability to achieve a reasonable return. In fact,  
2 FCG has earned below its authorized ROE range each year through 2021, and  
3 the Company also projects to earn well below its authorized ROE range in 2022.  
4 Further, as calculated on FCG witness Fuentes's Exhibit LF-4, absent a rate  
5 increase in 2023, FCG's earned ROE is projected to fall to 5.3 percent, which  
6 is substantially below the current authorized ROE range, as well as FCG's  
7 requested ROE as further discussed below and in the testimony of FCG witness  
8 Nelson.

9  
10 FCG is proposing a four-year rate plan that will allow FCG to continue to meet  
11 the natural gas needs of existing and new customers, continue to provide safe,  
12 reliable, and high-quality customer service, and have a reasonable opportunity  
13 to earn a fair rate of return on the Company's investments. A critical and  
14 essential component of FCG's proposed four-year rate plan is the adoption of  
15 the RSAM. The RSAM results in a significant reduction in the annual revenue  
16 requirement and, together with the other components of FCG's proposed four-  
17 year rate plan, will enable FCG to focus on driving performance and value for  
18 the benefit of customers while avoiding base rate increases through at least the  
19 end of 2026.

20  
21 FCG's financial recommendations in this filing include: (1) utilization of a  
22 capital structure with an investor sources equity ratio set to be equal to FPL's  
23 equity ratio of 59.6 percent from investor sources due to the fact FCG does not

1 issue its own debt or equity and obtains all short- and long-term financing  
2 through its parent, FPL; (2) an allowed ROE of 10.75 percent consistent with  
3 current capital market conditions and the Company's risk profile as discussed  
4 by FCG witness Nelson; and (3) the continuation of the Storm Damage Reserve  
5 provision approved in the 2018 Settlement, modified to reflect the  
6 Commission's new storm rule for gas utilities, for the recovery of prudently  
7 incurred storm restoration costs.

8  
9 Finally, FCG proposes a mechanism that will allow FCG to adjust base rates in  
10 the event tax laws change during or after the conclusion of this proceeding.  
11 Following enactment of such a law, FCG would calculate the impact of the  
12 change in tax law by comparing revenue requirements with and without the  
13 change, and submit the calculation of the rate adjustment needed to ensure FCG  
14 is not subject to tax expenses that are not reflected in the MFRs submitted with  
15 the subject base rate request.

16

## 17 **II. FORECASTING AND MFR PREPARATION PROCESS**

18

19 **Q. Describe your responsibility for the development of FCG's forecast.**

20 A. As Senior Director of Financial Forecasting, I have responsibility for  
21 developing the O&M budget, the capital expenditure budget, and the total  
22 Company per books financial forecast. I provide guidance to FCG's  
23 management to ensure that corporate assumptions were followed. I also

1 participate in presenting these budgets to the budget review committee  
2 (“Review Committee”). Key members of the Review Committee are the FPL  
3 Chairman, President and Chief Executive Officer; the FCG President; the NEE  
4 Executive Vice President, Finance and Chief Financial Officer; the FPL Vice  
5 President of Finance; the NEE Vice President, Controller and Chief Accounting  
6 Officer; and the FCG Senior Director and General Manager, Gas Operations.

7 **Q. What forecast years have been included in this filing?**

8 A. The Company is using a projected 2023 Test Year based on the 12-month period  
9 ending December 31, 2023. FCG has provided forecast years 2022 and 2023  
10 for use in this proceeding. The Company is proposing that new base rates be  
11 effective February 1, 2023, at a level sufficient to recover the Company’s  
12 revenue requirements in 2023 with an opportunity to earn a fair and reasonable  
13 return. FCG is using a projected 2023 Test Year in this proceeding to best  
14 reflect the Company’s revenues, costs, and investments during the year in which  
15 new rates are proposed to go into effect. The 2022 plan year is included as the  
16 2022 Prior Year, consistent with the Commission’s filing requirements.

17 **Q. Please summarize the process used to develop the forecasts underlying**  
18 **FCG’s filing in this docket.**

19 A. FCG applies the same rigorous and long-standing processes used by FPL in the  
20 development and approval of its O&M and capital expenditures budgets,  
21 financial forecasts, and MFRs. Similar to FPL, FCG has implemented a  
22 planning process step that is specifically focused on generating and evaluating  
23 productivity and efficiency to improve operating efficiencies through the



1 implementation of new technologies and automation of manual processes.  
2 While FCG has identified operating efficiencies and savings since its last base  
3 rate case, such as its revised meter testing program discussed by FCG witness  
4 Howard, the primary focus for FCG has been on managing costs under the terms  
5 of the 2018 Settlement where FCG has continually earned below its authorized  
6 ROE. As I discuss below, FCG's four-year rate plan will enable FCG to focus  
7 on new programs and initiatives to improve operating efficiencies and identify  
8 greater productivity savings, while continuing to provide safe, reliable, and  
9 affordable service to our customers.

10

11 The next step in the planning process was the development and approval of the  
12 Company's planning and budget assumptions. Assumptions including  
13 projections for inflation, customer growth, and therm sales growth. These  
14 assumptions were prepared by various subject matter experts, reviewed and  
15 approved by me, and ultimately evaluated and approved by the Review  
16 Committee. Once approved, these projections, together with detailed budget  
17 instructions, were issued to FCG Management in the FPL Planning and  
18 Budgeting Process Guidelines ("Planning Process Guidelines"), which apply to  
19 FCG. A copy of Planning Process Guidelines is provided as Exhibit MC-2.

20

21 The 2022 planning process resulted in the 2022-2026 O&M and capital budgets.  
22 The FCG business unit entered its forecast for O&M and capital into FPL's  
23 SAP system at the work breakdown ("WBS") level. Each activity is required

1 to have a unique WBS element that maps all activities and costs to the required  
2 Federal Energy Regulatory Commission (“FERC”) Uniform System of  
3 Accounts.

4  
5 Using the assumptions and Planning Process Guidelines, the FCG business unit  
6 prepares a budget presentation that describes its objectives and goals, key  
7 initiatives and assumptions, as well as a preliminary funds request to support  
8 those business objectives. In October 2021, the budget presentations were  
9 presented and reviewed with the Review Committee. This session involved a  
10 review and discussion of each of FCG’s goals, objectives, and funding requests  
11 for the next five years. The Review Committee engaged in an open dialogue  
12 concerning the assumptions presented to ensure that FCG developed a final plan  
13 that resulted in a great value proposition for customers for the foreseeable  
14 future. Upon completion of the session with the Review Committee, there were  
15 subsequent follow-up discussions with FCG management to resolve items  
16 raised during the review session. Final approvals were made in late 2021.  
17 Accordingly, the final plans and forecasts approved by the Review Committee  
18 reflect FCG’s current and best assessment of the business environment in the  
19 2023 Test Year.

20 **Q. How were forecasts other than O&M and capital expenditures developed?**

21 A. Concurrent with the development of the detailed O&M and capital expenditure  
22 budgets, other key components of the financial forecast were developed,  
23 including the therm sales and revenue forecasts. The therm sales forecast is

1 discussed later in my direct testimony and was reviewed and approved for use  
2 in the financial forecast by the Review Committee.

3

4 Other inputs into the financial forecast were prepared and provided by other  
5 subject matter experts. These inputs include other base revenues, various  
6 working capital items, taxes other than income taxes, and financing plans.  
7 These inputs were collectively reviewed and approved by me with the resulting  
8 comprehensive forecast reviewed and approved by the Review Committee.

9 **Q. How are all of the various inputs combined into a consolidated financial**  
10 **forecast?**

11 A. All of the above-mentioned items were provided as inputs into FCG's financial  
12 forecast and regulatory model developed by Utilities International Inc. ("UI").  
13 FCG has recently implemented the same UI platform that has been successfully  
14 used by FPL for its financial forecasting and in support of the preparation of  
15 certain MFR schedules for more than 20 years, including the MFRs that  
16 supported FPL's rate requests in Docket Nos. 001148-EI, 050045-EI, 080677-  
17 EI, 20120015-EI, 20160021-EI, and 20210015-EI.

18

19 A key attribute of the UI model is the common data repository ("CDR"), which  
20 houses forecast per book inputs by company, including all the plant-specific  
21 asset information. The CDR includes capital-related calculations, including  
22 depreciation expense. Additional calculations are performed in the Financial &  
23 Regulatory Information System ("FRI") model that produces a total company

1 balance sheet and income statement at a FERC account level and leads to the  
2 development of the FCG forecasted regulatory results (*i.e.*, net operating  
3 income (“NOI”), rate base, and capital structure) in the same manner as it does  
4 for historical regulatory amounts included in FCG’s Earnings Surveillance  
5 Reports (“ESR”). Commission required adjustments and Company proposed  
6 adjustments, which are supported by FCG witness Fuentes, are then applied in  
7 FRI so that adjusted amounts specific to base rates can be calculated.

8  
9 The adjusted results for NOI, rate base, and capital structure are then utilized to  
10 develop the various cost of service studies. The cost of service study calculates  
11 the revenue requirements at the individual rate class level and is the subject of  
12 the direct testimony of FCG witness DuBose. The completed financial forecast  
13 was then reviewed and approved by the Review Committee and is the source of  
14 forecast information for the MFRs filed in this proceeding. All MFRs were  
15 reviewed and approved by the originating departments, as well as the MFR  
16 sponsors and co-sponsors. Exhibit MC-3 contains a flowchart of the forecasting  
17 process and models.

18 **Q. What are the major assumptions that FCG used in developing its forecast?**

19 A. The major assumptions used by FCG in developing its forecast are listed in  
20 MFR G-6, which is attached as Exhibit MC-4 to my direct testimony.

1           **III. CUSTOMERS AND THERMS FORECASTING PROCESS**

2

3   **Q. What is the objective of the customer and therm forecasting process?**

4   A. The objective of FCG’s customer and therm forecasting process is to produce  
5       reliable, unbiased forecasts of customers and therm sales for the FCG system.  
6       Customer forecasts reflect the total number of active accounts served by FCG  
7       and include the impacts of new service installations combined with other  
8       factors, including changes in the number of inactive accounts. Therm sales  
9       reflect the amount of natural gas provided to all customers served by FCG.

10   **Q. Please summarize how the customer and therm sales forecasts were**  
11       **developed.**

12   A. The forecasts were developed using econometric and regression models as the  
13       primary tools. These models are statistically sound and include logically  
14       reasonable drivers obtained from leading industry experts. The forecasts were  
15       then evaluated for reasonableness by comparing forecasted trends against  
16       historical trends and other growth factors. This approach provides accurate  
17       forecasts that are used for all business purposes.

18   **Q. What statistical measures were used to evaluate the robustness of those**  
19       **forecast models?**

20   A. Consistent with industry standard practices, FCG evaluates the robustness and  
21       accuracy of its forecast models using statistical measures, such as adjusted R-  
22       squared and Mean Absolute Percentage Error (“MAPE”). Below are brief  
23       descriptions of those statistical measures:

- 1           • The adjusted R-squared is a measure that quantifies how much of the  
2           variations in history are explained by the models. Adjusted R-squared  
3           values range from 0 to 100 percent, and higher values are preferred.
- 4           • MAPE is a measure of model residuals, which are the differences  
5           between the model's estimate for a historical period versus the actual  
6           historical value. The residuals are expressed on an absolute percentage  
7           basis and then averaged. MAPE values range from 0 percent and  
8           upward, and lower values are preferred.

9   **Q.    Is this approach consistent with criteria used by the Commission in recent**  
10 **years to evaluate utilities' forecasts?**

11  A.    Yes. The Commission has evaluated utilities' forecasts based on the use of  
12       statistically sound forecasting methods and reasonable input assumptions (e.g.,  
13       Order Nos. PSC-16-0032-FOF-EI, PSC-14-0590-FOF-EI, PSC-13-0505-PAA-  
14       EI, PSC-12-0179-FOF-EI, PSC-12-0187-FOF-EI, PSC-09-0375-PAA-GU and  
15       PSC-04-0128-PAA-GU). Additionally, the Commission has also considered  
16       whether a forecast is applied consistently; that is, whether a forecast used for  
17       one purpose, such as a rate filing, is the same forecast used for other purposes.

1           **IV.    OVERVIEW OF CURRENT ECONOMIC CONDITIONS**

2

3   **Q.    Please describe the economic conditions in the FCG service areas.**

4   A.    As of December 2021, FCG provides service to approximately 116,000  
5           customers in nine counties in peninsular Florida. The economic conditions in  
6           FCG’s service area generally follow those for the State of Florida.

7

8           Since the first quarter of 2016 through the latter part of 2019, Florida’s economy  
9           saw strong growth as it recovered from the Great Recession, which lasted from  
10          December 2007 through 2009 but had lingering impacts which lasted well  
11          beyond the official end date of the recession. However, that growth halted in  
12          early 2020 due to the COVID-19 pandemic and the shelter in place orders that  
13          were implemented to mitigate the spread of the virus. This unprecedented  
14          shock to Florida’s economy resulted in significant declines in most economic  
15          measures, such as employment and retail sales. Through the latter part of 2021,  
16          many of the measures enacted to slow the pandemic had been lifted and the  
17          Florida economy has in large part recovered from the COVID-19 pandemic.  
18          Continued growth and expansion are projected to continue through 2023;  
19          however, FCG and the economy have seen significant inflationary pressures as  
20          further described below.

21   **Q.    What is the basis for the economic projections?**

22   A.    The economic projections used for the customer and terms forecasts are from  
23          IHS Markit’s November 2021 vintage economic projection, while the

1 Consumer Price Index (“CPI”) forecast is from IHS Markit’s August 2021  
2 vintage economic projection. IHS Markit is a recognized industry expert who  
3 has consistently provided objective and reliable economic projections. Similar  
4 to its parent, FPL, FCG has routinely relied on projections from IHS Markit for  
5 forecasting and budgeting purposes.

6 **Q. What inflation measure was used by FCG for budgeting purposes?**

7 A. For its budgeting process, FCG used IHS Markit’s forecast of CPI for all goods  
8 and services, which is also called overall CPI. This same CPI is also used when  
9 calculating the O&M Benchmarks. As previously discussed, the CPI forecast  
10 is from IHS Markit’s August 2021 vintage economic projection. FCG’s  
11 budgeting process begins earlier than the customer and therm forecasting  
12 process, and that is the reason why the budgeting process uses a different  
13 vintage of IHS Markit’s economic projection compared to the customer and  
14 therm forecasting process. This difference between the vintages is consistent  
15 with prior planning processes, including the planning processes used for FPL’s  
16 2021 retail base rate case.

17 **Q. What was the August 2021 IHS Markit forecast for inflation for 2022 and**  
18 **2023?**

19 A. Overall CPI was projected to increase by 2.4 percent and 1.7 percent in 2022  
20 and 2023, respectively. The cumulative increase from 2021 through the end of  
21 FCG’s proposed four-year rate plan (2026) was projected to be 11.0 percent.



1 **Q. Has the inflation forecast changed since the August 2021 vintage used for**  
2 **FCG’s budgeting and planning process?**

3 A. Yes. IHS Markit’s April 2022 vintage economic forecast shows overall CPI is  
4 now projected to increase by 4.5 percent and 1.9 percent in 2022 and 2023,  
5 respectively, with a cumulative increase of 13.5 percent from 2021 through  
6 2026. As described by FCG witness Nelson, current inflation rates are at their  
7 highest levels in 40 years. Thus, the most recent economic forecast indicates  
8 that inflation is projected to be even higher than what was used by FCG at the  
9 time it prepared this filing.

10

11 **V. DRIVERS OF 2023 BASE RATE INCREASE**

12

13 **Q. What is the amount of FCG’s requested base rate increase for the 2023**  
14 **Test Year, and how is it calculated?**

15 A. As explained in my testimony below, FCG is proposing a four-year rate plan  
16 that includes the adoption of the RSAM. Under the four-year proposal with the  
17 RSAM, FCG is requesting an incremental base rate increase of \$19.4 million  
18 for the 2023 Test Year as reflected on FCG witness Fuentes’s Exhibit LF-2.  
19 The incremental base rate increase is based on the difference between FCG’s  
20 projected net operating income of \$13.3 million and FCG’s required net  
21 operating income of \$34.7 million, multiplied by the revenue expansion factor  
22 of 1.3527, less \$5.7 million for the required reclassification of the Safety,  
23 Access, and Facility Enhancement (“SAFE”) program revenues from clause to

1 base rates, and less \$3.8 million for the previously approved Liquefied Natural  
2 Gas (“LNG”) Facility. Further details regarding the calculation of FCG’s  
3 requested incremental base rate increase are provided and explained by FCG  
4 witness Fuentes.

5 **Q. What are the primary drivers of the proposed base rate increase in the**  
6 **2023 Test Year relative to actual results for 2018, the last test year used for**  
7 **setting current base rates?**

8 A. The primary drivers of the change in revenue requirements are depicted on  
9 Exhibit MC-5 and are: (1) capital investment initiatives that support system  
10 growth, increased reliability and safety, and provide and enhance customer  
11 service; (2) growth in O&M expenses; (3) the change in weighted average cost  
12 of capital to more accurately reflect the actual funding of FCG’s operations; (4)  
13 revenue growth that partially offsets the increase in base revenue requirements;  
14 and (5) impact of adopting the RSAM-adjusted depreciation rates that also  
15 partially offset the growth in base revenue requirements. These drivers are  
16 reduced by: (1) the base rate revenue increase previously approved by the  
17 Commission in the 2018 Settlement for the LNG project; and (2) the  
18 reclassification of the SAFE program investments from clause recovery to base  
19 rates as required by Order No. PSC-15-0390-TRF-GU, Docket No. 150116-  
20 GU. Below is a summary of these drivers:

1	Capital Revenue Requirements <sup>2</sup>	\$24.9 million
2	Operating and Maintenance Expense	\$5.8 million
3	Change in Weighted Average Cost of Capital	\$5.3 million
4	Revenue Growth	(\$6.7) million
5	RSAM-Adjusted Depreciation Rates	(\$2.7) million
6		
7	Other	<u>\$2.4 million</u>
8	TOTAL	\$29.0 million
9	Less:	
10	LNG Revenue Increase	(\$3.8) million
11	Transfer of SAFE Investments	<u>(\$5.7) million</u>
12	TOTAL	\$19.4 million <sup>3</sup>
13		

14 Each of these drivers and adjustments are more fully described below and in the  
15 testimony of FCG witnesses Howard and Fuentes.

16 **Q. Please describe the capital initiatives that impact the revenue requirements**  
17 **for the 2023 Test Year.**

18 A. Since 2018 through the end of 2023, retail rate base is forecasted to increase  
19 approximately \$190 million or approximately 64%. This increase in rate base  
20 is primarily due to FCG's investments made to support system growth,  
21 increased reliability and safety, and provide and enhance customer service.  
22 These investments are prudent and necessary for FCG to fulfill its obligation to  
23 provide safe and reliable natural gas service to the customers and communities  
24 it serves.

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<sup>2</sup> Includes net working capital.

<sup>3</sup> Total does not add due to rounding.

1           Capital Requirements for Growth

2           Capital requirements for growth in this analysis represent the capital  
3           revenue requirements associated with the infrastructure needed to  
4           support the addition of new customers to FCG's system. The increase  
5           in the 2023 Test Year revenue requirement due to customer growth is  
6           \$7.4 million.

7  
8           As provided in my testimony below, from 2018 to 2023, FCG estimates  
9           that it will grow at approximately 7%, adding 7,668 new customers.  
10          Revenue requirements to support customer growth include the costs of  
11          expanding FCG's system to serve those new customers.

12  
13          FCG will have invested more than \$75.7 million in infrastructure  
14          necessary to support growth and the addition of new customers from  
15          2018 to 2023. The expenditures incurred to support growth are detailed  
16          by FCG witness Howard.

17  
18          Capital Requirements for Safety and Reliability

19          FCG will have invested approximately \$203 million from 2019 to 2023  
20          to meet FCG's obligation to provide safe and reliable gas service to all  
21          customers and communities it serves. The investments in safety and  
22          reliability are further explained by FCG witness Howard. The increase

1 in the 2023 Test Year revenue requirement due to these safety and  
2 reliability investments is \$15.5 million.

3

4 Capital Requirements for Customer Service

5 Since its last base rate case, FCG invested approximately \$16.2 million  
6 for a new customer information system necessary to provide service to  
7 customers as further explained by FCG witness Howard. The increase  
8 in the 2023 Test Year revenue requirement due to this customer service  
9 investment is \$2.0 million.

10 **Q. Please explain the change in weighted average cost of capital and its effect**  
11 **on the 2023 Test Year revenue requirements.**

12 A. The increase in the weighted average cost of capital is primarily driven by  
13 FCG's proposed increase in investor sources equity ratio from 48 percent to  
14 59.6 percent and the proposed change in ROE from 10.19 percent to 10.75  
15 percent, which are further explained below and in the testimony of FCG witness  
16 Nelson.

17

18 Investor Sources Equity Ratio

19 As further explained below and in the testimony of FCG witness Nelson,  
20 FCG is requesting a 2023 Test Year financial capital structure consisting  
21 of 59.6 percent common equity and 40.4 percent debt. The increase in  
22 the 2023 Test Year revenue requirement associated with the proposed  
23 capital structure is \$4.1 million.

1           ROE

2                   As discussed by FCG witness Nelson and supported in my testimony  
3                   below, FCG is requesting an ROE of 10.75 percent for the 2023 Test  
4                   Year. The increase in the 2023 Test Year revenue requirement  
5                   associated with the proposed ROE is \$1.2 million.

6   **Q. Please describe the effect that the increase in O&M will have on the 2023**  
7   **Test Year revenue requirements.**

8   A. FCG's O&M expenses have increased since the last rate case resulting in the  
9   need for an additional \$5.8 million in the 2023 Test Year revenue requirement  
10   associated with O&M. Approximately \$2.4 million of the increase in operating  
11   costs is attributable to inflation. The remainder is due to customer growth,  
12   system expansion, increased damage prevention efforts, and implementation of  
13   certain technologies that are necessary to continue to provide safe and reliable  
14   natural gas service as explained by FCG witness Howard.

15   **Q. Please describe the impact of revenue growth and its effect on 2023 Test**  
16   **Year revenue requirements.**

17   A. As provided in my testimony below, FCG is projected to have higher retail sales  
18   in 2023 than in 2018, resulting in an increase in retail base revenues and a  
19   corresponding decrease in the 2023 Test Year revenue requirements by \$6.7  
20   million.

1 **Q. Please describe the impact of the RSAM-adjusted depreciation rates**  
2 **included as part of FCG's four-year rate plan.**

3 A. As I discuss below, the RSAM is an essential component of FCG's four-year  
4 rate plan. The RSAM is available through the adoption of alternative  
5 depreciation lives and parameters, as described in greater detail by FCG witness  
6 Fuentes, that the Commission could approve in lieu of those presented in FCG  
7 witness Allis's 2022 Depreciation Study should the Commission adopt FCG's  
8 proposed four-year rate plan. As discussed in my testimony below, if the  
9 Commission declines to adopt FCG's four-year rate plan, the incremental  
10 revenue requirement would be based on the depreciation rates reflected in  
11 FCG's 2022 Depreciation Study presented by FCG witness Allis. As explained  
12 by FCG witness Fuentes, FCG's annual revenue requirement would increase by  
13 \$2.7 million if the Commission declines to adopt FCG's proposed four-year rate  
14 plan with RSAM.

15

## 16 **VI. FOUR-YEAR RATE PLAN**

17

18 **Q. Please summarize FCG's four-year rate plan.**

19 A. FCG's proposed four-year rate plan was designed to allow the Company to  
20 focus on efficiently and safely operating and growing its business, while  
21 providing customers with rate certainty. FCG's four-year rate plan includes the  
22 commitment not to request any additional general base rate increase effective  
23 prior to January 1, 2027, other than those requested in this proceeding.

1           The four-year rate plan includes certain components that are essential to the  
2           Company's ability to commit to such a plan:

- 3           • Provision of the necessary financial support, consistent with FCG's  
4           requested revenue increase for 2023 set forth in Exhibit LF-2 sponsored  
5           by FCG witness Fuentes. This includes changing its investor sources  
6           equity ratio to 59.6 percent in order to match the capital structure of its  
7           parent, which finances 100 percent of operations, and authorizing a  
8           return on equity of 10.75 percent as further discussed below and in the  
9           testimony of FCG witness Nelson.
- 10          • Approval of the RSAM detailed in my Exhibit MC-6, with a Reserve  
11          Amount of \$25 million, representing a portion of the theoretical reserve  
12          imbalance shown on Exhibit LF-5(B). The Reserve Amount would be  
13          available for use through the RSAM for the 2023-2026 period or until  
14          the next general change in base rates as further discussed below;
- 15          • Approval of the RSAM-adjusted depreciation rates set forth in Exhibit  
16          LF-5(B) and as discussed in the testimony of FCG witness Fuentes,  
17          enabling the Reserve Amount and lowering the revenue requirements  
18          for 2023 relative to the revenue requirements that otherwise would  
19          result from the 2022 Depreciation Study, as reflected in Exhibit LF-5(A)  
20          sponsored by FCG witness Fuentes; and
- 21          • A mechanism that will allow FCG to adjust base rates in the event tax  
22          laws change during or after the conclusion of this proceeding as  
23          discussed below.



1 Each of these components are essential to the Company's ability to commit to  
2 its proposed four-year rate plan.

3 **Q. Please describe the Commission's role and continued oversight to ensure**  
4 **that rates approved under FCG's four-year rate plan remain just and**  
5 **reasonable.**

6 A. As it would in the case of Commission-approved rates covering a multi-year  
7 period, the Commission retains full regulatory oversight with respect to FCG's  
8 rates and charges if it approves FCG's proposed four-year plan, and in that  
9 regard, FCG will continue to submit earnings surveillance reports consistent  
10 with current regulatory requirements.

11

## 12 **VII. RESERVE SURPLUS AMORTIZATION MECHANISM ("RSAM")**

13

14 **Q. Please explain why FCG is proposing an RSAM?**

15 A. A critical and essential component of FCG's four-year rate plan is the adoption  
16 of the RSAM. Use of the RSAM, together with the other components of FCG's  
17 proposed four-year rate plan, will enable FCG to avoid increasing base rates  
18 through at least the end of 2026. The four-year rate plan with the proposed  
19 RSAM will benefit FCG's customers in terms of providing customers with rate  
20 stability and certainty, avoiding repetitive and costly rate proceedings, and  
21 enabling the Company to continue to focus on providing safe, reliable, and  
22 affordable service to our customers. Without the proposed RSAM, FCG  
23 projects that it would fall at or below the bottom of its authorized ROE range

1 and would need to file an additional rate case in 2024 to support a base rate  
2 increase in 2025. Adoption of the RSAM avoids the need to file a rate case in  
3 2024, which avoids an additional base rate increase in 2025 and saves customers  
4 approximately \$2 million in estimated additional rate case expense.

5 **Q. Could you please describe the RSAM as proposed by the Company?**

6 A. Yes. FCG's proposed RSAM follows the same RSAM framework approved by  
7 the Commission in prior proceedings. The RSAM is an accounting mechanism  
8 that will be used by the Company to respond to changes in its underlying  
9 revenues and expenses during the four-year rate plan in order to maintain a  
10 Commission Adjusted ROE within the ROE range authorized by the  
11 Commission. In each earnings surveillance reporting period, the Company will  
12 record increases to expense (debits) or decreases to expense (credits) such that  
13 the overall resulting ROE for that rolling period equals a pre-established ROE  
14 within the authorized range.

15 **Q. Does the use of the RSAM result in cash or non-cash earnings?**

16 A. The RSAM results only in non-cash earnings. Simply put, the RSAM will allow  
17 FCG to absorb changes primarily in cash revenues and expenses while  
18 maintaining a pre-established ROE within its authorized range without an  
19 increase in customer rates.

20 **Q. Are there any limitations on the use of this mechanism?**

21 A. Yes. The RSAM cannot be used to cause the Company's earned ROE on a  
22 Commission Adjusted basis to exceed the top of the authorized ROE range.  
23 Similarly, the RSAM must be used, to the extent any amount is available, to

1 keep the Company's ROE at least at the minimum authorized ROE before the  
2 Company can seek an increase in base rates during the four-year rate plan.  
3 Additionally, the Company will be able to record debits (increases to expense)  
4 or credits (decreases to expense) in any accounting period, at its sole discretion,  
5 to achieve the pre-established ROE for that period. However, the Company  
6 will not be allowed to credit (*i.e.*, decrease) depreciation expense (and  
7 correspondingly debit/decrease the depreciation reserves) at any time during the  
8 four-year rate plan that would cause the Reserve Amount to be reduced below  
9 \$0. Similarly, FCG will not be able to debit (*i.e.*, increase) depreciation expense  
10 (and correspondingly credit/increase the depreciation reserve) at any time  
11 during the four-year rate plan that would cause the Reserve Amount to exceed  
12 the maximum amount of RSAM available for use.

13 **Q. What is the Reserve Amount that the Company is proposing to be available**  
14 **for use in an RSAM over the 2023-2026 period?**

15 A. The Company is proposing a Reserve Amount of \$25 million to be available  
16 for use in the RSAM as described above for the 2023-2026 period, which will  
17 enable FCG to avoid another base rate increase until at least the end of 2026  
18 while continuing to earn a reasonable rate of return. For ease of reference, I've  
19 included the terms that we are asking the Commission to approve, and which  
20 would govern the RSAM, in one document, Exhibit MC-6.

1 **Q. How is the proposed Reserve Amount to be established in order to**  
2 **implement the RSAM?**

3 A. For purposes of the RSAM, the Company requests approval of the RSAM-  
4 adjusted depreciation parameters and resulting depreciation rates discussed by  
5 FCG witness Fuentes. As explained in her testimony, approval of these  
6 parameters will support a Reserve Amount of up to \$52 million; however, FCG  
7 is only requesting an RSAM Reserve Amount of \$25 million be available for  
8 use during the four-year rate plan.

9 **Q. What accounts comprise the Reserve Amount?**

10 A. The accounts comprising the Reserve Amount represent the cost of removal  
11 component of FCG's depreciation reserve in its various plant accounts. The  
12 theoretical reserve surplus amounts reflected as part of FCG's depreciation  
13 reserve are the result of applying RSAM adjusted depreciation parameters  
14 shown on Exhibit LF-5(B) to FCG witness Fuentes's direct testimony.

15 **Q. In the event the Commission declines to adopt the RSAM, should the**  
16 **Commission consider adopting the RSAM adjusted depreciation**  
17 **parameters?**

18 A. No. The RSAM, and the set of RSAM adjusted depreciation parameters that  
19 enable it, are essential elements of FCG's four-year rate plan. Without the  
20 RSAM proposed in this proceeding, including the proposed Reserve Amount,  
21 the Company projects that it would need to file a rate case in 2024 to support a  
22 base rate increase in 2025. Therefore, the RSAM adjusted depreciation

1 parameters should only be considered together as a comprehensive four-year  
2 rate plan with the RSAM.

3

4 **VIII. CAPITAL STRUCTURE AND COST OF CAPITAL**

5

6 **Q. What capital structure is FCG currently operating under?**

7 A. In its last base rate case, FCG requested an equity ratio based on the  
8 consolidated capital structure of its then parent company, Southern Company  
9 Gas, because FCG did not at that time issue its own debt or equity and obtained  
10 all short- and long-term financing through Southern Company Gas.<sup>4</sup> As part of  
11 the 2018 Settlement, FCG agreed to a capital structure with a 48 percent equity  
12 ratio for all regulatory purposes, and a deemed equity ratio of no greater than  
13 49.1 percent for earnings surveillance reporting purposes.

14 **Q. Is it still appropriate to use the capital structure of Southern Company  
15 Gas?**

16 A. No. As explained by FCG witness Howard, on July 29, 2018, FCG became a  
17 wholly owned, direct subsidiary of FPL. Starting in 2019, FCG obtained all its  
18 short- and long-term financing needs through an intercompany loan with FPL.<sup>5</sup>

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<sup>4</sup> See *In re: Petition for rate increase by Florida City Gas*, Docket No. 20170179-GU, FCG Direct Testimony of Michael J. Morley at 17-18 (F.P.S.C. Oct. 23, 2017).

<sup>5</sup> See *In re: Application for authority to issue debt securities during calendar year 2019, pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida City Gas*, Docket No. 20180166-GU, Order No. PSC-2018-0550-FOF-GU (F.P.S.C. Nov. 19, 2018); *In re: Application for authority to issue and sell securities during calendar years 2020 and 2021, pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida Power & Light Company and Florida City Gas*, Docket No. 20190157-EI, Order No. PSC-2019-0472-FOF-EI (F.P.S.C. Nov. 6, 2019); *In re: Application for authority to issue and sell securities during calendar years 2020 and 2021, pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida Power & Light Company and Florida City Gas*, Docket No. 20200188-EI, Order No.

1           The interest rate on the Company’s debt borrowings from FPL reflects FPL’s  
2           weighted average borrowing costs, which is significantly lower than the interest  
3           rates FCG could otherwise obtain on its own. Therefore, FCG is requesting that  
4           its capital structure for the 2023 Test Year be set equal to the capital structure  
5           of FPL as further discussed by FCG witness Nelson.

6           **Q.    What investor sources equity ratio is FCG requesting in this proceeding?**

7           A.    FCG is requesting a 2023 Test Year financial capital structure consisting of 59.6  
8           percent common equity and 40.4 percent debt, which is equal to the capital  
9           structure of FCG’s direct parent, FPL.

10          **Q.    How did FCG project its long-term debt cost for purposes of this rate  
11          filing?**

12          A.    FCG utilized FPL’s long-term debt rate as all long-term financings are provided  
13          by FPL to FCG. FPL relies on the Blue Chip Financial Forecast which  
14          represents the consensus estimates of more than 40 economists/contributors.  
15          Cost projections for FCG’s long-term borrowings from FPL are shown in MFR  
16          G-3, Page 3. FCG’s blended cost rate for the test year is shown in MFR G-3,  
17          Page 2.

18          **Q.    How did FCG project its short-term debt cost?**

19          A.    Again, FCG utilized FPL’s short-term debt cost. FPL relies on the forward  
20          Intercontinental London Interbank Exchange Offered Rate (“LIBOR”) curve

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PSC-2020-0401-FOF-EI (F.P.S.C. Oct. 26, 2020); and *In re: Application for authority to issue and sell securities during calendar years 2022 and 2023, pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida Power & Light Company and Florida City Gas*, Docket No. 20210127-EI, Order PSC-2021-0409-FOF-EI (F.P.S.C. Nov. 1, 2021).

1 for its short-term debt cost projections. These projections are shown in MFR  
2 G-3, Page 4.

3 **Q. What are the other components of FCG’s capital structure, and where can**  
4 **support for those components be found in FCG’s filing?**

5 A. FCG’s requested 59.6 percent equity ratio is based on investor sources of  
6 capital, which includes only equity and debt components. However, FCG’s  
7 regulatory capital structure includes other sources, such as customer deposits  
8 and deferred income taxes, which in fact lower the amount of equity and the  
9 overall cost of capital upon which rates are actually set. Those components are  
10 found in MFR G-3, Page 2.

11 **Q. What Weighted Average Cost of Capital (“WACC”) would result from**  
12 **FCG’s requested capital structure?**

13 A. FCG’s proposed regulatory capital structure would produce a total WACC of  
14 7.09 percent in the 2023 Test Year. This overall WACC is reasonable and  
15 reflects the benefit to customers of FCG’s financial strength, including the  
16 benefit FCG receives from its parent.

17 **Q. Please comment on FCG witness Nelson’s proposed ROE of 10.75 percent.**

18 A. FCG witness Nelson recommends an ROE of 10.75 percent. An ROE of 10.75  
19 percent, as recommended by FCG witness Nelson, with a 100 basis points range  
20 from 9.75 to 11.75 percent would fairly compensate equity investors for the use  
21 of their capital over the 2023-2026 period of FCG’s proposed four-year rate  
22 plan. An ROE range of plus or minus 100 basis points is consistent with long-  
23 standing Commission practice.

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## IX. STORM DAMAGE RESERVE

**Q. Please describe the Storm Damage Reserve provision in the 2018 Settlement.**

A. In the 2018 Settlement, FCG was authorized to implement a storm reserve with an annual accrual of \$57,500 and a target reserve of \$800,000. As part of the 2018 Settlement, the parties agreed to revisit the reserve amount in the future if the reserve amount exceeds \$800,000 to determine if FCG should discontinue accruing the annual expense until additional storm-related costs are incurred and result in the reserve balance to decrease below \$800,000.

The 2018 Settlement authorized FCG to petition the Commission to seek recovery of costs associated with named tropical storms from customers. The recovery of storm costs from customers may begin on an interim basis (subject to refund following a hearing or a full opportunity for a formal proceeding), sixty days following the filing of a cost recovery petition with the Commission and shall be based on a 12-month recovery period if the storm costs do not exceed \$1 million. In the event the Company's storm costs exceed that level, any additional costs in excess of \$1 million shall be recovered in a subsequent year or years as determined by the Commission after hearing.

Finally, the 2018 Settlement provides that storm related costs shall be calculated and recovered consistent with the Commission storm rule applicable to the



1 electric utilities, Rule 25-6.0143, F.A.C.; however, eligible storm costs were  
2 limited to: (i) costs resulting from a tropical system named by the National  
3 Hurricane Center or its successor; (ii) the estimate of incremental storm  
4 restoration costs above the level of storm reserve prior to the storm; and (iii) the  
5 replenishment of the storm reserve to the level that existed prior to the named  
6 storm which caused FCG to petition the Commission for recovery.

7 **Q. Has the FCG Storm Damage Reserve reached the target reserve**  
8 **established in the 2018 Settlement?**

9 A. No. As of year-end 2021, the storm reserve balance was \$147,915. FCG  
10 projects that the storm reserve balance will be \$205,415 by year-end 2022 and  
11 \$262,915 by year-end 2023, assuming no future storm charges in those years.

12 **Q. Is FCG proposing to continue the Storm Damage Reserve provision from**  
13 **the 2018 Settlement in this proceeding?**

14 A. Yes. FCG is proposing to continue an annual Storm Damage Reserve accrual  
15 of \$57,500 and a target reserve of \$800,000, and to recover prudently incurred  
16 storm costs under the framework prescribed by the 2018 Rate Settlement. The  
17 only modification FCG is proposing is to calculate and recover the storm-  
18 related costs consistent with the Commission's gas storm rule, Rule 25-7.0143,  
19 F.A.C., which became effective June 28, 2021, rather than the storm rule  
20 applicable to the electric utilities as originally provided in the 2018 Settlement.

1 **Q. Did FCG file a Storm Damage Self-Insurance Reserve Study with the**  
2 **Commission as required by Rule 25-7.0143, F.A.C.?**

3 A. Yes. FCG filed its Storm Damage Self-Insurance Reserve Study with the  
4 Commission Clerk on January 14, 2022.

5 **Q. Does the Storm Damage Self-Insurance Reserve Study support the**  
6 **continuation of the storm reserve target of \$800,000?**

7 A. Yes. Based on the results of FCG's Storm Damage Self-Insurance Reserve  
8 Study, the continuation of FCG's storm reserve mechanism with a target of  
9 \$800,000 is reasonable and appropriate.

10

11

#### **X. POTENTIAL CHANGE IN TAX LAW**

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13 **Q. Please provide an overview of the potential change in tax law.**

14 A. In light of the continuing debate surrounding tax law in the United States, there  
15 exists the possibility for a change in tax law either during or after the conclusion  
16 of the rate case that could have a material impact on the four-year proposal  
17 being presented by FCG. FCG will not be able to quantify the impacts until  
18 such time as a final bill is passed and signed into law.

19 **Q. Has FCG accounted for or included any potential tax law changes in its**  
20 **current filing?**

21 A. No. FCG's 2023 Test Year forecast is based on current tax law as passed in the  
22 2017 TCJA.

1 **Q. How would changes to the corporate income tax rate impact the financial**  
2 **position of FCG?**

3 A. While the ultimate impact of any potential legislation is still unknown, the  
4 current Administration has discussed the potential for an increase in the federal  
5 corporate income tax rate or a tax calculated based on a company's pre-tax  
6 accounting profit, which would significantly increase FCG's cost of service.  
7 Any such proposal would likely result in an increase in FCG's tax expense and  
8 revenue requirements.

9 **Q. Please describe FCG's proposal for accounting for a change in tax law.**

10 A. FCG proposes that the impact of any permanent change in tax law be handled  
11 through an adjustment to base rates. Within 90 days of the enactment of the  
12 new tax law, FCG will submit the calculation of the required change in base  
13 rates to the Commission for review. If timing permits, FCG will submit a  
14 revised revenue requirement calculation for Commission consideration as part  
15 of FCG's base rate request. Otherwise, FCG will submit the calculation for  
16 Commission approval of a subsequent base rate adjustment. In no instance will  
17 FCG defer incremental income tax expense for 2022 or request the tax-related  
18 base rate adjustment be implemented before February 1, 2023.

19 **Q. How does FCG propose to quantify the impact of any potential change in**  
20 **tax law?**

21 A. FCG will quantify the impact of any permanent change in tax law on its base  
22 revenue requirement as projected in its forecasted earnings surveillance report  
23 ("FESR") for the 2023 Test Year that reflects the Commission's final base rate

1 order. The FESR will be prepared two ways: (1) utilizing current tax law under  
2 the TCJA; and (2) applying the new tax law. The difference in revenue  
3 requirements between the two FESRs will demonstrate the difference resulting  
4 from the new tax law and will be the amount that FCG proposes to utilize to  
5 calculate an adjustment to base rates for 2023. For 2024-2026, FCG proposes  
6 no adjustment to base rates consistent with its four-year rate plan. If a new tax  
7 law is not enacted until after 2023, FCG will utilize the FESR for the calendar  
8 year that includes the period in which the new tax law is effective, to determine  
9 the amount of the one-time base rate adjustment needed to ensure that FCG is  
10 not subject to unplanned changes in revenue requirements as a result of changes  
11 in tax law. For the time period between enactment of the new tax law and  
12 implementation of new tax-adjusted base rates, FCG will defer the impact of a  
13 new tax law to the balance sheet for collection or refund through the Natural  
14 Gas Conservation Cost Recovery Clause in the subsequent year. Any  
15 difference between actual income tax expense and the amount of the 2023 base  
16 rate increase will be recorded in net operating income and reflected in FCG's  
17 earnings surveillance reports for all periods. I note that FCG's proposal for  
18 accounting for a change in tax law is consistent with the tax reform adjustments  
19 approved by the Commission in Dockets Nos. 20200051-GU, 20210016-EI,  
20 and 20210015-EI.

1 **Q. How will FCG account for any changes in deferred taxes as a result of a**  
2 **new tax law?**

3 A. Depending on the nature of a final tax law, any deficient or excess deferred  
4 income taxes that arise will be deferred as a regulatory asset or liability on the  
5 balance sheet and included within FCG's capital structure. If the tax law  
6 continues to prescribe the use of the Average Rate Assumption Method, FCG  
7 will flow back or collect the protected deferred income taxes over the  
8 underlying assets remaining life to ensure compliance with Internal Revenue  
9 Service normalization rules. Similar to the TCJA, if the new tax law does not  
10 specify the treatment of unprotected deferred income taxes, FCG proposes to  
11 flow back or collect the unprotected deferred income taxes over a 5-year period,  
12 consistent with FCG's treatment under the TCJA and Order No. PSC-2018-  
13 0596-S-GU in Docket No. 20180154-GU. FCG will account for the impact of  
14 deferred income taxes as part of the calculation that will be completed within  
15 90 days of enactment of the new tax law.

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

17 A. Yes.

1 BY MR. WRIGHT:

2 Q Mr. Campbell, do you have Exhibits MC-1  
3 through MC-6 that were attached to your direct  
4 testimony?

5 A Yes.

6 MR. WRIGHT: Chairman, I will note these have  
7 been identified on the comprehensive exhibit list  
8 Exhibits 11 through 16.

9 CHAIRMAN FAY: Okay.

10 BY MR. WRIGHT:

11 Q Mr. Campbell, were these exhibits prepared by  
12 you or under your direct supervision?

13 A Yes.

14 Q Do you have any corrections to these exhibits?

15 A No.

16 Q Would you please provide a summary of your  
17 direct testimony?

18 A Sure.

19 Mr. Chairman and Commissioners, thank you for  
20 the opportunity to speak with you today.

21 My direct testimony explains and supports the  
22 need and drivers for FCG's proposed base rate increase,  
23 and explains the core elements of FCG's proposed  
24 four-year rate plan. Although, each of these are laid  
25 out in detail in my direct testimony, I will briefly

1 highlight some of the key issues and components  
2 underlying FCG's request in this proceeding.

3 FCG's proposed base rate increase is needed to  
4 address increased revenue requirements since 2018, the  
5 test year last used for establishing current base rates.  
6 During the four-year period of FCG's 2018 settlement,  
7 FCG has encountered rising inflation, increases in  
8 operating costs, as well as capital investments  
9 impacting FCG's ability to achieve a reasonable return.  
10 In fact, FCG has earned below its authorized ROE range  
11 each year through 2021. And the company also projects  
12 to earn well below its authorized ROE range in 2022.

13 Further, absent a rate increase in 2023, FCG's  
14 earned ROE is projected to fall substantially below the  
15 current authorized ROE range, as calculated by FCG  
16 witness Fuentes.

17 In this proceeding, FCG has voluntarily  
18 elected to propose a four-year rate plan based on a  
19 projected 2023 test year in order to provide rate  
20 stability and certainty to customers through at least  
21 the end of 2026, as well as to unlock tremendous  
22 benefits and savings for customers over the term of the  
23 four-year rate plan, as further explained in my  
24 testimonies. FCG's proposed four-year rate plan will  
25 allow FCG to continue to meet the natural gas needs of

1 customers -- of existing and new customers, continue to  
2 provide safe, reliable and high quality customer  
3 service, and have a reasonable opportunity to earn a  
4 fair rate of return on the company's investments.

5 A critical and essential component of FCG's  
6 proposed four-year rate plan is the adoption of the  
7 reserve surplus mechanism, RSAM. The RSAM results in a  
8 significant reduction in annual revenue requirement, as  
9 explained by FCG witness Fuentes. And together, with  
10 the other components of FCG's proposed four-year rate  
11 plan, will enable FCG to focus on driving performance  
12 and value for the benefit of customers while avoiding  
13 base rate increases through at least the end of 2026.

14 FCG's proposed RSAM follows the same RSAM  
15 framework approved by the Commission in prior  
16 proceedings. As described in my testimony and my  
17 Exhibit MC-6, the RSAM is a noncash accounting mechanism  
18 that will be used by the company to respond to changes  
19 in its underlying revenues and expenses during the  
20 four-year rate plan. FCG is proposing a reserve amount  
21 of \$25 million, to be available for use through the RSAM  
22 for the '23 to '26 period, or until FCG's next general  
23 rate base -- general base rate case, whichever occurs  
24 later.

25 Importantly, without the proposed RSAM, FCG



1 projects that it will fall at or below the bottom of its  
2 authorized ROE range, and would need to file an  
3 additional rate case in 2024 to support a base rate  
4 increase in 2025. Thus, adoption of the RSAM avoids the  
5 need to file a rate case in 2024, which avoids an  
6 additional base rate increase in 2025, and saves  
7 customers approximately \$2 million in estimated  
8 additional rate case expense.

9           As part of its proposed four-year plan, FCG is  
10 also proposing to continue the storm damage reserve  
11 provision, agreed to and approved in FCG's 2018 rate  
12 case settlement for the recovery of prudently incurred  
13 storm restoration costs. FCG is also proposing a  
14 mechanism to adjust base rates should there be a change  
15 in tax law either during or after the conclusion of the  
16 rates case, which this mechanism is similar to those  
17 recently approved by -- approved for other Florida  
18 utilities.

19           My testimony also supports the use of a 59.6  
20 percent investor sources equity ratio, nearing FCG's  
21 parent company, FPL. FCG receives all of its financing  
22 needs through its parent company, FPL. This provides  
23 customers significant savings in the form of lower cost  
24 debt than it could otherwise obtain on its own. As  
25 such, the company is requesting an investor sources

1 equity ratio of 59.6 percent, equal to the equity ratio  
2 of FPL.

3 Finally, my testimony supports FCG witness  
4 Nelson's recommendation of an ROE of 10.75 percent, with  
5 100 basis point range from 9.75 percent to 11.75  
6 percent.

7 In conclusion, FCG's proposed four-year rate  
8 plan results in significant value to customers and will  
9 enable FCG to focus on driving performance and value for  
10 the benefit of its customers, all while avoiding base  
11 rate increases and providing base rate stability for  
12 customers through at least the end of 2026.

13 Thank you. This concludes my summary.

14 **Q Thank you.**

15 **And on October 3rd, 2022, did you file 34**  
16 **pages of rebuttal testimony in this proceeding?**

17 **A Yes.**

18 **Q Do you have any of corrections to your**  
19 **rebuttal testimony?**

20 **A No.**

21 **Q If I asked you the questions contained in your**  
22 **rebuttal testimony, would your answers be the same?**

23 **A Yes.**

24 (Whereupon, prefiled rebuttal testimony of  
25 Mark Campbell was inserted.)

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **DOCKET NO. 20220069-GU**

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4 **FLORIDA CITY GAS**

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8  
9 **REBUTTAL TESTIMONY OF**

10 **MARK CAMPBELL**

11  
12  
13  
14  
15  
16 **Topics: Four-Year Rate Plan, Reserve Surplus**  
17 **Amortization Mechanism, Projected**  
18 **Rate Base, Directors and Officers**  
19 **Liability Expense, Parent Debt**  
20 **Adjustment, and Capital Structure**

21  
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24  
25 **Filed: October 3, 2022**

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1 **I. INTRODUCTION**

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

3 A. My name is Mark Campbell. My business address is Florida Power & Light Company,  
4 700 Universe Boulevard, Juno Beach, Florida 33408.

5 **Q. Did you previously submit direct testimony?**

6 A. Yes. On May 31, 2022, I submitted written direct testimony on behalf of Pivotal Utility  
7 Holdings, Inc. d/b/a Florida City Gas (“FCG” or the “Company”), together with  
8 Exhibits MC-1 through MC-5.

9 **Q. What is the purpose of your rebuttal testimony?**

10 A. The purpose of my rebuttal testimony is to respond to certain claims and  
11 recommendations in the testimonies of Office of Public Counsel (“OPC”) witnesses  
12 Schultz and Garrett and Federal Executive Agencies (“FEA”) witness Collins  
13 (hereinafter, collectively referred to as “Intervenor Witnesses” unless otherwise noted).

14

15 First, I will respond to the Intervenor Witnesses’ opposition to FCG’s proposed four-  
16 year rate plan. The Intervenor Witnesses attack the essential components of FCG’s  
17 proposed four-year rate plan, including the Reserve Surplus Amortization Mechanism  
18 (“RSAM”). Apparently, the Intervenor Witnesses are opposed to providing customers  
19 with rate stability, a lower revenue requirement, and avoided future rate case expenses.

20

21 Second, I will respond to the Intervenor Witnesses’ opposition to the proposed RSAM.  
22 Intervenor Witnesses seem to be most opposed to the RSAM, which is one of the core  
23 elements of the four-year rate plan. Most of the opposition stems from unsupported

1 speculation that the RSAM guarantees earnings at the high end of the authorized return  
2 on equity (“ROE”) range. The Intervenor Witnesses ignore the fact that FCG has  
3 demonstrated that its continued investments for the benefit of its customers in 2024  
4 through 2026 increase the revenue requirements in those years and, without RSAM,  
5 FCG is projected to fall below its proposed authorized ROE range and would need to  
6 file a rate case in 2024 to support a base rate increase in 2025. The RSAM, along with  
7 the other essential components of the four-year rate plan, is necessary to manage the  
8 revenue deficiency and the numerous uncertainties and risks over the period of FCG’s  
9 four-year rate plan.

10

11 Third, I will respond to OPC witness Schultz’s proposed adjustments to the projected  
12 2023 Test Year rate base. OPC witness Schultz recommends adjustments to cash  
13 working capital (“CWC”) and plant in service thereby reducing the proposed 2023 Test  
14 Year rate base by utilizing historical amounts and incorrect data within his analysis.  
15 As further explained below, OPC witness Schultz’s proposed adjustments to the 2023  
16 Test Year rate base are inappropriate and should be rejected.

17

18 Fourth, I will address OPC witness Schultz’s recommendation that FCG’s Directors  
19 and Officers Liability (“DOL”) expense should be disallowed and recovered from  
20 shareholders. As explained below, this insurance is a prudent cost to attract and retain  
21 skilled leadership and is part of conducting business for a large corporation and should  
22 be included as part of FCG’s cost of service.

23

1 Fifth, I will respond to OPC witness Schultz's Parent Debt Adjustment to FCG's  
2 income tax expense. OPC witness Schultz ignores the fact that FCG is financed by  
3 FPL's total pool of funds and specific third-party debt is not issued on behalf of FCG.

4

5 Finally, I will respond to the capital structure and weighted average cost of capital  
6 recommendations by OPC witness Garrett and FEA witness Walters. For the reasons  
7 explained below, as well as those more thoroughly explained in the rebuttal testimony  
8 of FCG witness Nelson, the Intervenor's capital structure and cost of capital  
9 recommendations are not appropriate and should be rejected.

10 **Q. Are you sponsoring any exhibits with your rebuttal testimony?**

11 A. Yes. I am sponsoring the following exhibits with my rebuttal testimony:

- 12 • Exhibit MC-7 – 2024 to 2026 Revenue Requirements;
- 13 • Exhibit MC-8 – Excerpts from the Florida Public Service Commission Staff  
14 Supreme Court Brief in Case Nos. SC21-1761 and SC22-12;
- 15 • Exhibit MC-9 – FCG's Responses to Staff Request for Production of  
16 Documents No. 11 and Interrogatories No. 64, 65, 71, and 73; and
- 17 • Exhibit MC-10 – Florida Public Service Commission 2021 Regulatory Plan.

18

19 **II. GENERAL OBSERVATIONS AND RESPONSES**

20 **Q. Before responding to the Intervenor Witnesses' specific adjustments and**  
21 **assertions, do you have any general observations about their recommendations?**

22 A. Yes. The Intervenor Witnesses recommend numerous adjustments to FCG's proposed  
23 base rate increase, which are not appropriate and should be rejected for the reasons

1 explained in FCG’s rebuttal testimonies. However, before addressing these individual  
2 adjustments, I think it is appropriate to put the Intervenor’s recommendations into  
3 perspective.

4  
5 The 2018 Settlement authorized an ROE range of 9.19 percent to 11.19 percent. As  
6 detailed in FCG’s direct testimonies and exhibits, the Company’s earnings surveillance  
7 reports (“ESRs”) and 2022 forecasted ESR filed with the Commission demonstrate that  
8 FCG has continually earned and expects to earn below its authorized ROE range each  
9 year since its last general rate case. Further, based on the Company’s projected 2023  
10 financial forecast, FCG projects that its earned ROE will be significantly below the  
11 bottom of the current authorized ROE range in 2023 without base rate relief.

12  
13 The 2018 Settlement also authorized an additional \$3.8 million base revenue increase  
14 when the Liquefied Natural Gas (“LNG”) Facility goes into service, which is projected  
15 to occur in March 2023 as explained by FCG witness Howard. Additionally, pursuant  
16 to Commission Order No. PSC-2015-0390-TRF-GU in Docket No. 20150116-GU,  
17 FCG transferred the current \$5.7 million of Safety, Access, and Facility Enhancement  
18 (“SAFE”) revenue requirements from clause to base rates in the 2023 Test Year. The  
19 additional \$3.8 million base revenue increase associated with the LNG Facility and the  
20 transfer of the \$5.7 million of SAFE program revenue requirements are both included  
21 in FCG’s proposed total base revenue increase as explained by FCG witness Fuentes.  
22 Notably, the Intervenor Witnesses do not dispute these previously approved amounts  
23 in their respective testimonies.



1 Despite these unrefuted facts, OPC proposes a total base revenue increase of no more  
2 than \$4,805,981 based on its witnesses various recommended adjustments.<sup>1</sup> FCG's  
3 2022 forecasted ESR projects the 2022 ROE to be 5.70 percent and its most recently  
4 issued June 2022 ESR shows actual earned ROE through June 2022 of 7.07 percent.  
5 OPC's proposed base revenue increase would not even bring FCG to the bottom end  
6 of its current authorized ROE range in the current year, let alone the bottom of the  
7 proposed 2023 ROE range. This is a nonsensical result given that FCG has continually  
8 earned and expects to earn below its current authorized ROE range each year since its  
9 last general rate case.

10

11 OPC's proposed adjustments, if adopted, would clearly violate the well-established and  
12 undisputed regulatory principle that FCG is entitled to a fair opportunity to earn a  
13 reasonable rate of return. For these reasons, as well as those more fully explained in  
14 FCG's rebuttal testimonies, OPC's recommended base revenue increase, based on its  
15 witnesses various recommended adjustments, must be rejected.

16 **Q. Do you have any additional observations regarding the Intervenor Witnesses'**  
17 **recommended adjustments?**

18 A. Yes. The vast majority of OPC witness Schultz's recommended rate base and net  
19 operating income adjustments are based on historical averages and balances. Although  
20 FCG could have elected to file a base rate case using a historic test year, it elected to  
21 file its proposed base revenue increase using a projected 2023 Test Year consistent with  
22 Commission-accepted practice. FCG selected a forecasted test year in order to properly

---

<sup>1</sup> See direct testimony of OPC witness Schultz, p. 5, line 16-18.

1 capture the additional investments it plans to make on behalf of customers, which  
2 provides the most accurate view of revenues as compared with the Company's cost to  
3 serve during the initial period new rates would be placed into effect. OPC witness  
4 Schultz largely ignores the 2023 Test Year forecast and, instead, seeks to limit FCG's  
5 claims to historical averages and balances. In essence, OPC witness Schultz  
6 improperly attempts to convert this proceeding into a historic test year rate case.  
7 Although historical averages and balances may be helpful in evaluating the  
8 reasonableness of a forecast, it should not and does not displace the use of a forecasted  
9 test year as suggested by OPC witness Schultz. In their rebuttal testimonies, the FCG  
10 witnesses will further address OPC witness Schultz's proposed adjustments to  
11 projected rate base and net operating income and explain why such adjustments are not  
12 appropriate and should be rejected.

13

14 Additionally, as FCG witness Nelson points out in her rebuttal testimony, the  
15 Intervenor Witnesses' reduction to the proposed ROE and equity ratio are based on  
16 inaccurate and flawed analysis. The ROEs proposed by the Intervenors would, in all  
17 cases, reduce FCG's ROE well below its current approved ROE. OPC witness Garrett  
18 even goes so far as to state that regulatory commissions, including this Commission,  
19 have been consistently and substantially incorrect in assessing and approving ROEs for  
20 decades. FCG witness Nelson's rebuttal testimony demonstrates that the Intervenor  
21 Witnesses' conclusions are erroneous, without merit, and should be rejected.

22

1 **III. FOUR-YEAR RATE PLAN**

2 **Q. Do the Intervenor Witnesses agree that FCG should implement a four-year rate**  
3 **plan?**

4 A. No. The Intervenor Witnesses' testimonies attack all the essential components of  
5 FCG's proposed four-year rate plan, including the outright rejection of the RSAM,  
6 which equates to a rejection of the four-year plan. As explained in FCG's direct case,  
7 FCG's proposed four-year rate plan will provide significant and unrefuted customer  
8 benefits, including: rate stability and certainty; no additional general base rate  
9 increases through at least the end of 2026; customer savings of nearly \$10.8 million  
10 over the term of the four-year rate plan due to the RSAM-adjusted depreciation rates;  
11 avoiding repetitive and costly rate proceedings saving customers an additional  
12 approximately \$2.0 million in rate case expense in 2024; enabling the Company to  
13 continue to meet the natural gas needs of existing and new customers; and continuing  
14 to provide safe, reliable, and high-quality customer service. Apparently, the  
15 Intervenor do not want FCG to provide these benefits to customers and, instead, prefer  
16 higher base rates and more frequent and costly base rate proceedings.

17 **Q. Has the Commission previously approved multi-year rate plans?**

18 A. Yes. The Commission has granted numerous multi-year rate plans and stay-outs to  
19 utilities under its jurisdiction over the past two decades and the results have been  
20 extremely beneficial to those customers.

1 **Q. If the Commission does not approve the proposed RSAM, including the RSAM**  
2 **depreciation parameters and corresponding Reserve Amount, what does this**  
3 **mean for the proposed four-year rate plan?**

4 A. Very simply, FCG would not be able to commit to its four-year rate plan. If the  
5 Commission declines to approve the RSAM or any other element of FCG's four-year  
6 rate plan, FCG has requested, in the alternative, that the Commission approve rates and  
7 charges sufficient to provide an incremental base rate increase of \$21.5 million<sup>2</sup> (total  
8 increase of \$31.3 million including the revenues associated with SAFE and LNG)  
9 effective February 1, 2023, which is \$2.7 million higher than the annual revenue  
10 requirements under FCG's four-year rate plan.

11

12 Even if this single 2023 base rate increase (without RSAM) was approved in full and  
13 without any adjustments, FCG projects a cumulative revenue deficiency of \$7.7  
14 million, which would be in excess of a 200 basis points reduction of ROE by 2025.<sup>3</sup>  
15 Thus, without the RSAM, FCG projects that it will fall at or below the bottom of its  
16 proposed authorized ROE range and would need to file an additional rate case in 2024  
17 to support a base rate increase in 2025, which would require an additional  
18 approximately \$2.0 million in estimated rate case expenses – just two years out from  
19 this current case.

---

<sup>2</sup> Including the adjustments and corrections reflected in Exhibit LF-12 attached to the rebuttal testimony of FCG witness Fuentes.

<sup>3</sup> See also Staff's Fifth Set of Interrogatories Nos. 64 and 71 and Staff's Fifth Request for Production of Documents No. 11, which are provided in Exhibit MC-9.

1 **Q. Please provide a general illustration of the relative difference in revenue**  
2 **requirements that customers are likely to experience between the Company’s**  
3 **proposed four-year rate plan and an outcome where RSAM is not approved.**

4 A. Based on the revenue requirements of the Company’s four-year rate plan (2023 as filed  
5 and an estimate of 2024 to 2026 as reflected on Exhibit MC-7), below is a summary of  
6 the impact on customers if the four-year rate plan is not approved:

- 7 • Base rates would be approximately \$2.7 million higher each of the four years  
8 due to the non-RSAM depreciation rates, or cumulatively about \$10.8 million;
- 9 • A base rate increase of approximately \$7.7 million is estimated to be required  
10 in 2025, or cumulatively approximately \$15.4 million additional cash revenues  
11 for 2025 and 2026; and
- 12 • Base rates would include a four-year amortization of approximately \$2.0  
13 million of additional rate case expenses incurred in 2024, or cumulatively  
14 approximately \$1 million of additional base revenues in 2025 and 2026.

15 Overall, the net cumulative increase in cash paid by customers over the period 2023-  
16 2026 if the four-year rate plan is not approved would be approximately \$27 million.

17

18 Additionally, customers would be accepting the risks and costs associated with the  
19 impact of higher inflation and interest rates. Conversely, the four-year rate plan puts  
20 the burden on FCG to appropriately manage through such risks and uncertainties over  
21 the four-year period. Again, FCG’s four-year rate plan, enabled by the RSAM, delivers  
22 bill certainty, reduces risk, and significantly lower rates for customers over the 2023-  
23 2026 period, and potentially beyond 2026.

1 **Q. What types of uncertainties and risks will the Company need to manage?**

2 A. While the Intervenor Witnesses are keen to explain how recent interest rate policy  
3 caused by record inflation levels affect equity valuation, they fail to consider the rising  
4 costs associated with just doing business in today's environment. As previously stated  
5 in my direct testimony, the Company's projections did not contemplate the nearly  
6 double- digit inflation or the corresponding large interest rate increases recently  
7 announced at the Federal Open Market Committee ("FOMC").<sup>4</sup> As a result, FCG has  
8 already experienced and projects to continue to experience tremendous pressures on  
9 operating budgets, including capital projects in the form of higher costs and increased  
10 cost of debt. These are significant events that occurred only a few months after the  
11 Company's base rate filing and highlight the potential risks and uncertainties the  
12 Company has committed to assume and manage as part of the four-year rate plan. To  
13 be able to assume this uncertainty and provide the significant benefits of rate stability  
14 and predictability to its customers, FCG requests approval of all the elements outlined  
15 in the four-year rate plan and described in my direct testimony.

16 **Q. Does the approval of FCG's four-year rate plan in any way diminish the**  
17 **Commission's jurisdictional authority to regulate FCG's rates, earnings levels, or**  
18 **quality of service?**

19 A. Absolutely not. While FCG's proposed four-year rate plan represents a commitment  
20 by the Company, it in no way diminishes the oversight and regulatory authority of the  
21 Commission. In fact, the Commission's oversight and regulatory authority during the  
22 proposed four-year rate plan would be no different than it was during the four-year

---

<sup>4</sup> The FOMC is a committee that conducts monetary policy for the United States central bank.

1 minimum term of the 2018 Settlement in FCG's last base rate case. As a primary  
2 example of this, FCG will continue to file the required ESRs on a quarterly basis.  
3 Through these reports the Commission will ensure that FCG is earning within the terms  
4 of the approved plan and can initiate an earnings investigation when appropriate,  
5 including the review of capital plant additions and/or retirements and non-clause O&M  
6 expenses. This process has efficiently and effectively served to protect customers  
7 during multi-year rate plans and stay-outs, and it will serve the same function during  
8 the term of the four-year rate plan being proposed in this proceeding.

9

10 Further, the Commission and parties will continue to review and examine the  
11 reasonableness and prudence of capital plant additions, retirements, and non-clause  
12 O&M expenses incurred beyond the forecasted 2023 Test Year (2024-2026). Indeed,  
13 the reasonableness and prudence of these post-Test Year costs would be reviewed and  
14 examined in the next applicable base rate proceeding in the ordinary course. Thus, in  
15 the next rate case, the Commission and parties would have the same level of review of  
16 the 2024-2026 costs as they currently do for the 2019-2022 costs in this case (*i.e.*, the  
17 cost incurred after the 2018 Test Year used in FCG's last base rate case). FCG notes  
18 that this is entirely consistent with the review and examination of post-Test Year costs  
19 that has been and will be applied to the multi-year rate plans with a nearly identical  
20 RSAM approved for Florida Power & Light Company (*see, e.g.*, Docket Nos.  
21 20210015-EI and 20160021-EI).<sup>5</sup>

---

<sup>5</sup> See also FCG's responses to Staff's Fifth Set of Interrogatories No. 65, which is provided in Exhibit MC-9.

1 **IV. RESERVE SURPLUS AMORTIZATION MECHANISM (RSAM)**

2 **Q. Please summarize your reaction to the Intervenor’s’ opposition to the RSAM.**

3 A. In general, the Intervenor Witnesses dismiss the significant customer value of FCG’s  
4 four-year rate plan enabled by FCG’s proposed RSAM and other core components.  
5 OPC witness Schultz and FEA witness Collins largely make unsubstantiated claims  
6 that the RSAM is only a mechanism that guarantees FCG will earn at the top of its ROE  
7 range, while ignoring the fact that the RSAM is a non-cash mechanism that will provide  
8 rate stability for FCG’s customers and avoid the potential for \$27 million in incremental  
9 base rate increases through at least the end of 2026. Additionally, the Intervenor  
10 Witnesses completely disregard the fact that the Company is able to utilize the RSAM  
11 to manage typical day-to-day fluctuations associated with running a utility business,  
12 while also having to absorb higher costs that are most certainly going to present  
13 themselves as a result of record inflation and rising interest rates as previously  
14 explained. Moreover, Exhibit MC-7, which provides information produced with  
15 FCG’s response to discovery, clearly demonstrates that the \$25 million of requested  
16 RSAM is only sufficient to allow FCG to earn at the proposed midpoint ROE,  
17 excluding any impacts from risks and uncertainties described in my testimony above.  
18 I submit that this is hardly the guaranteed return at the top of the ROE range as  
19 speculated by the Intervenor Witnesses.



1 **Q. FEA witness Collins claims the proposed RSAM should be rejected because such**  
2 **a mechanism does not incent the Company to manage its costs efficiently to the**  
3 **benefit of both its shareholder and customers. Do you agree with this claim?**

4 A. No. Exhibit MC-7 demonstrates that the RSAM will only allow FCG the opportunity  
5 to earn at its proposed midpoint ROE of 10.75 percent, and does not include additional  
6 inflationary and interest rate costs as well as other risks outlined in my testimony above.  
7 Based on these risks, the Company would need to identify and generate cost savings  
8 initiatives and smart investments to drive productivity improvements just to get to the  
9 midpoint ROE – let alone the top end of the ROE range as the Intervenors in this case  
10 seem to think is all but guaranteed.

11 **Q. OPC witness Schultz asserts that if the RSAM is approved it should only be used**  
12 **to bring FCG to the bottom of the ROE range. Do you agree with this assertion?**

13 A. No. OPC witness Schultz’s alternative RSAM proposal, if adopted, would provide no  
14 incentive for the Company to identify and implement new and innovative measures to  
15 drive productivity and generate costs savings. I also note that no such limitation has  
16 been required for similar RSAM mechanisms adopted for other utilities, such as FPL  
17 in Docket Nos. 20210015-EI and 20160021-EI or Peoples Gas System (“PGS”) in  
18 Docket No. 20200051-GU. OPC witness Schultz has failed to articulate a single reason  
19 why his limitation is appropriate for only FCG in this case.<sup>6</sup>

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<sup>6</sup> I also note that FEA witness Collins seems to think the RSAM does not incentivize the Company to manage costs, while OPC witness Schultz apparently thinks FCG should not be incentivized for finding cost savings that benefit FCG’s customers.

1 **Q. OPC Witness Schultz argues that the Commission may lack authority to create**  
2 **RSAM. Do you agree the Commission lacks authority to approve an RSAM?**

3 A. No. While I am not a lawyer, the Intervenors in this case have agreed to and the  
4 Commission has approved similar RSAM-type mechanisms within numerous base rate  
5 proceedings, including:

- 6 • Docket No. 20210015-EI (OPC and FEA agreed to an identical RSAM  
7 mechanism);
- 8 • Docket No. 20200051-GU (OPC agreed to a similar RSAM-type mechanism);
- 9 • Docket No. 20160021-EI (OPC agreed with and FEA did not oppose a similar  
10 RSAM mechanism); and
- 11 • Docket No. 20120015-EI (FEA agreed to a similar RSAM mechanism).

12 In addition, Commission Staff recently filed a brief with the Florida Supreme Court in  
13 Case Nos. SC21-1761 and SC22-12, that stated the Commission's consideration and  
14 approval of an RSAM is within the Commission's statutory authority to set just, fair,  
15 and reasonable rates. The Commission Staff's Supreme Court brief also describes the  
16 RSAM as an accounting mechanism, which represents a subject matter area the  
17 Commission routinely considers and decides in the ratemaking process and is, thus,  
18 within the Commission's power to consider. A copy of the relevant portions of  
19 Commission Staff's Supreme Court brief is provided in Exhibit MC-8.

20

21 Additionally, OPC witness Schultz's claim that the Commission has never established  
22 an RSAM mechanism for a gas company that resembles anything like what FCG  
23 proposes in this case is simply not true and is irrelevant. First, the establishment of an

1 RSAM through a depreciation reserve imbalance is not specific to the type of utility  
2 (*i.e.*, gas vs. electric) so narrowing his comparison to a gas company is irrelevant. Also,  
3 he falsely claims that PGS's mechanism is much different than the RSAM. The, PGS  
4 mechanism approved in Docket No, 20200051-GU, and agreed to by OPC, allows PGS  
5 to reverse \$34 million of non-cash accumulated depreciation through 2023, of which  
6 \$10 million has been reversed through June 2022. While not identical to the RSAM  
7 proposed in this case, the PGS mechanism represents a very similar reversal of non-  
8 cash accumulated depreciation over a specified time-period.

9

10 Nonetheless, OPC witness Schultz claims FCG's non-cash RSAM and PGS's non-cash  
11 mechanism are vastly different because, according to him, FCG's mechanism will be  
12 used to earn at the top of the ROE range. Again, this is simply false as explained above  
13 and in Exhibit MC-7. Further, I note that there is no limitation in the PGS non-cash  
14 mechanism approved in Docket No. 20200051-GU that in any way prevents PGS from  
15 using the non-cash mechanism from earning at the top of its authorized ROE range.

16 **Q. Does FCG's proposed RSAM create intergenerational inequities?**

17 A. Absolutely not. Because amortization of the depreciation reserve surplus may only be  
18 made prospectively as no correction can be made to the accounts of prior customers, it  
19 is unavoidable that there will be some difference in treatment among generations  
20 should depreciation parameters change during an asset's life. However, this in no way  
21 suggests any unfair or inequitable treatment of those customers. Given that FCG's  
22 assets span vintages with in-service dates at least as far back as the 1960s, a

1 depreciation reserve surplus is not the result of an over-collection from current  
2 customers.

3

4 As a theoretical estimate at the current point in time, based on current depreciation  
5 assumptions, the depreciation reserve surplus is very different from the deferred  
6 incremental variations in items like fuel costs that are recovered from, or refunded to,  
7 ratepayers through a fuel adjustment clause mechanism. For such fuel overcollections,  
8 the fuel has been consumed and its cost can be fully reconciled and addressed. For  
9 assets in service, the service life is still uncertain, and no permanent reconciliation and  
10 disposition is possible.

11

12 For these reasons, there is no customer refund obligation associated with a depreciation  
13 reserve surplus. If there is a depreciation reserve surplus, we would expect that current  
14 and future customers will pay less in depreciation expense than prior customers did for  
15 the use of the same asset, regardless of the time-period over which the surplus is  
16 amortized (whether or not FCG's RSAM proposal is approved). FCG further addressed  
17 the issues of intergenerational inequities in its response to Staff's Fifth Set of  
18 Interrogatories No. 73, which is attached to my rebuttal testimony as Exhibit MC-9.

19 **Q. Do the Intervenor Witnesses make any other statements that are speculative and**  
20 **unsupported that you would like to address?**

21 A. Yes. OPC witness Schultz claims non-cash earnings through an RSAM would  
22 somehow create current period increased dividend payments to shareholders. This  
23 claim is unsupported and incorrect as dividends are a function of cash earnings, and

1 clearly a shareholder would not accept RSAM as a dividend payment because it is a  
2 non-cash mechanism.

3

4 OPC witness Schultz speculates that excessive depreciation reserve surplus creation  
5 may well be a predicate to establishing larger reserve amounts over the years. This is  
6 purely speculative and irrelevant to the instant case and will be decided in future rate  
7 proceedings based on the actual facts and circumstances at that point in time.

8

9 OPC witness Schultz suggests that an excess depreciation reserve should be set up as a  
10 regulatory liability and returned directly to customers over a period of four years. I  
11 agree that the depreciation reserve surplus should be returned to customers, which is  
12 exactly what FCG is proposing in this case through the RSAM. The RSAM will be  
13 utilized for at least the four-year rate plan period to avoid costly rate cases and provide  
14 rate stability to FCG's customers. However, instead of establishing a regulatory  
15 liability as proposed by OPC witness Schultz, FCG proposes to continue to maintain  
16 the depreciation reserve surplus as a component of its depreciation reserve. In essence,  
17 what OPC witness Schultz is suggesting is very much in-line with the proposed RSAM  
18 over the four-year rate plan and would result in the same ratemaking treatment.

19

20 Finally, FEA witness Collins claims adjusting depreciation expense can increase rate  
21 base by distorting the accurate measurement of net plant value resulting in customers  
22 likely paying more return over a longer period of time. I disagree with this statement  
23 as FEA witness Collins assumes the depreciation parameters are somehow inaccurate.

1 As explained in the direct testimony of FCG witness Fuentes, the RSAM-adjusted  
2 depreciation rates are, with the exception of the LNG Facility, based on the depreciation  
3 parameters (*i.e.*, lives and net salvage) reflected for similar assets in the recent PGS  
4 base rate case settlement agreement approved by Commission Order No. PSC-2020-  
5 0485-FOF-GU in Docket No. 20200051-GU. With the exception of the LNG Facility,  
6 the natural gas assets and facilities on the FCG and PGS systems are similar and,  
7 therefore, the PGS depreciation parameters represent a reasonable alternative to those  
8 contained in FCG's 2022 Depreciation Study. Additionally, the RSAM-adjusted  
9 depreciation rates are generally within the range of alternative depreciation parameters  
10 typically proposed by other parties in litigating depreciation studies before the  
11 Commission.<sup>7</sup> I further note that, as shown in Exhibit MC-9 (FCG response to Staff's  
12 Fifth Set of Interrogatories No. 73), the depreciation lives that OPC witness Garrett  
13 proposed for Florida Public Utilities Company in the rate case pending in Docket No.  
14 20220067-GU are generally in line with the depreciation lives used in FCG's proposed  
15 RSAM-adjusted depreciation rates.

16 **Q. What are your conclusions regarding the Intervenor Witnesses' arguments**  
17 **against FCG's proposed RSAM?**

18 A. The Intervenor Witnesses' opposition to FCG's proposed RSAM is primarily based on  
19 unsupported and speculative assumptions and accusations as to how the RSAM will be  
20 utilized. This zero-sum thinking completely ignores that RSAM will enable a multi-  
21 year rate agreement that will keep customer rates low and stable, avoid multiple rate

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<sup>7</sup> In fact, an outside, independent depreciation expert in Docket No. 20220067-GU also recently used service lives of other Florida gas utilities to develop the recommended estimates. *See* Rebuttal Testimony of Patricia Lee in Docket No. 20220067-GU, which is available at: <http://www.floridapsc.com/library/filings/2022/07372-2022/07372-2022.pdf>.

1 increases, and allow FCG to focus on cost savings initiatives and investments, while  
2 assuming and managing potential risks and uncertainties over the four-year rate plan as  
3 described above. These efforts will undoubtedly enable FCG to focus on continuing  
4 and improving its ability to provide safe and reliable service, while identifying  
5 operational efficiencies and savings.

6

7 **V. PROJECTED RATE BASE**

8 **Q. Please summarize OPC witness Schultz's adjustments to FCG's rate base**  
9 **projected for the 2023 Test Year.**

10 A. OPC witness Schultz proposes the following unsupported adjustments that, if adopted,  
11 would collectively reduce FCG's projected rate base by \$32,387,362 as referenced in  
12 his Exhibit HWS-2, Page 5 of 28:

13 (1) The removal of the net utility plant acquisition adjustment related to  
14 Southern Company Gas's acquisition of AGL Resources, Inc. from NUI  
15 Corporation in 2016, which should be rejected for the reasons explained  
16 in the rebuttal testimony of FCG witness Fuentes.

17 (2) Reduce LNG Facility net plant costs due to the loss of the original site and  
18 related delays, which should be rejected for the reasons explained in the  
19 rebuttal testimony of FCG witness Howard.

20 (3) Removal of the Advanced Metering Infrastructure ("AMI") Pilot costs  
21 because it is only a pilot program, which should be rejected for the reasons  
22 explained in the rebuttal testimony of FCG witness Howard.

1 (4) Revision to proposed depreciation rates increasing FCG's non-RSAM  
2 rate base, further providing evidence that the Intervenor Witnesses refuse  
3 to recognize the benefits of the four-year rate plan, including RSAM,  
4 which I address throughout my rebuttal testimony. This proposed  
5 depreciation rate adjustment is further addressed in the rebuttal testimony  
6 of FCG witness Allis.

7 (5) A reduction of CWC on the basis of historical balances and flawed  
8 analysis, which should be rejected for the reasons I explain below.

9 (6) A general reduction of FCG's projected 2023 Test Year plant in-service  
10 based on historical averages, which should be rejected for the reasons I  
11 explain below and in the rebuttal testimony of FCG witness Howard.

12 (7) Reduction in rate base associated with his recommended adjustment to  
13 FCG's rate case expense, which should be rejected for the reasons  
14 explained in the rebuttal testimony of FCG witness Fuentes.

15 **Q. Do you agree with OPC witness Schultz's assertion that CWC is inflated based on**  
16 **actual 2021 CWC?**

17 A. No. OPC witness Schultz ignores the forecasted CWC and, instead, limited his  
18 evaluation to the historical CWC balances. As explained above, this case is based on  
19 a forecasted test year and not an historical test year. FCG evaluated major components  
20 of working capital on an account-by-account basis, applying well-established  
21 forecasting methodologies as explained in my direct testimony and outlined in Exhibits  
22 MC-2 through MC-4. Notably, the Intervenor did not directly challenge or oppose  
23 these forecasting methodologies.



1 Utilizing a historical balance in a forecast period is not prudent in preparing a forecast,  
2 rather a comparison to historical balances in a particular account can be useful in  
3 assessing reasonableness of the current forecast. As such, the following provides  
4 explanations for the primary drivers of the CWC increases specifically pointed out by  
5 OPC witness Schultz:

6

7 Cash – The Company targets a cash balance of \$5 million in projected periods.  
8 The primary purpose of this target is to provide the Company with enough cash  
9 on hand to conduct day to day operations. However, at the time FCG became  
10 a wholly-owned subsidiary of FPL, it was determined that establishing and  
11 maintaining a dedicated commercial paper program for FCG would be cost  
12 prohibitive. Therefore, FCG requests funds as needed for working capital from  
13 FPL on an ongoing basis, which establishes the minimum cash balance target.

14

15 Accounts Receivable – FCG projects accounts receivable using the 2021  
16 historical average days sales outstanding (DSO) and applies this ratio to  
17 projected revenues. The projected revenues include the proposed incremental  
18 revenue request in this filing of approximately \$18.9 million, as adjusted in  
19 Exhibit LF-11 provided with the rebuttal testimony of FCG witness Fuentes,  
20 and projected growth in revenues from overall demand. Revenues are  
21 increasing, hence the reason for the increase in the projected accounts  
22 receivable balance.

23

1            Stored Fuel – The Company projects its test year stored fuel balance using a  
2            monthly targeted stored fuel requirement. The main drivers of the increase in  
3            the stored fuel balance from 2021 are related to projected higher natural gas  
4            prices. I note that the gas curve used for the 2023 Test Year is significantly  
5            lower than the current projected gas price curve due to the various recent  
6            economic conditions significantly driving up prices. If the updated gas price  
7            curve were applied to the projected 2023 Test Year, it would result in an even  
8            higher stored fuel balance projection – again, one of the many risks FCG will  
9            need to manage through over the four-year rate plan period. Additionally, as  
10           explained in the direct and rebuttal testimonies of FCG witness Howard, the  
11           LNG Facility is expected to be placed in service in March 2023. As such, the  
12           Company included the expected initial fill value for the LNG Facility in the  
13           2023 stored fuel balance.

14  
15           Miscellaneous Deferred Debits – The most significant portion of this balance is  
16           associated with FCG’s pension asset. FCG is allocated its portion of the  
17           NextEra Energy, Inc. Employee Pension Plan (“Plan”) based on pensionable  
18           earnings of FCG as a percentage of total pensionable earnings in the Plan. The  
19           Plan’s pension asset has grown as a result of prudent investments, thereby  
20           generating income, which lowers current period operating expense and has the  
21           effect of resulting in a higher pension asset. Further details surrounding the  
22           Plan and related pension asset were provided in response to discovery in FEA’s  
23           Second Set of Interrogatories Nos. 11 and 12. Clearly, the increase in the

1                   miscellaneous deferred debit balance is based on prudent investments that result  
2                   in lower operating costs and should be included in FCG's rate base.

3   **Q.   Do you agree with OPC witness Schultz's proposed method of using a three-year**  
4   **historical average as the forecasted amount to be used for the 2023 Test Year plant**  
5   **in-service?**

6   A.   No.  Again, as explained above, this case is based on a projected test year, not a  
7   historical period test year and, as such, utilizing simple historical averages is not  
8   representative of a prudent forecast for a growing business.  Also, upon reviewing OPC  
9   witness Schultz's analysis, it appears he inadvertently used incomparable data in  
10   historical periods, specifically Exhibit HWS-2, Schedule B-4, pages 9 to 10.

11   **Q.   Can you further elaborate on OPC witness Schultz's use of incomparable data?**

12   A.   Yes.  For historical periods, OPC witness Schultz used the data provided in response  
13   to FEA's First Set of Interrogatories No. 4 for capital expenditures and OPC's First Set  
14   of Interrogatories Supplemental No. 87 for plant additions.  In both responses, the data  
15   provided is retail base only and excludes data for all clause investment.  OPC witness  
16   Schultz then compares the historical retail base capital expenditures and plant additions  
17   to the projected period amounts included in MFR Schedule G-1, pages 23 and 26 for  
18   capital expenditures; and MFR Schedule G-1, pages 5, 7, 24, 25, 27, and 28 for plant  
19   additions.  The flaw with this approach is that the projected MFR schedules utilized in  
20   OPC witness Schultz's analysis are presented as company per book, which includes  
21   both base rate and clause investment, while the historical periods OPC witness Schultz  
22   used only include base rate investments.  This approach is a classic "apples to oranges"  
23   comparison.  As such, any analysis provided by OPC witness Schultz's utilizing these

1 amounts and any corresponding calculations where it is relied upon are incorrect and  
2 should be rejected.

3 **Q. Do you have additional concerns with OPC witness Schultz’s analysis?**

4 A. Yes. OPC witness Schultz prepared three different analysis within Exhibit HWS-2,  
5 Schedule B-4, utilizing historical information as a means for supporting a downward  
6 adjustment to the projected 2023 Test Year plant in-service balance. However, in all  
7 three cases, the information utilized by OPC witness Schultz is incorrect and not  
8 appropriate for any type of analysis, let alone a proposed plant in-service balance for a  
9 test year forecast. Tables 1 through 4 below provide corrections to the analyses used  
10 by OPC witness Schultz to support his incorrect adjustment to plant in-service of  
11 (\$9,637,988) and related Accumulated Depreciation Adjustment \$460,884:

12  
13 **Table 1**  
14 Correction to Rebuttal Exhibit HWS-2 Schedule B4 pg.1 of 2 - Capital Additions

		Exhibit HWS - 2		
		Page 9 of 28		
		Net of LNG		
Line No	Year	Amount per Company	Correcting Adjustments	Corrected Capital Expenditures
Capital Expenditures				
1	2019	\$ 37,081,475	\$ 10,893,057	\$ 47,974,532
2	2020	\$ 33,606,381	\$ 13,756,458	\$ 47,362,839
3	2021	\$ 22,166,976	\$ 12,788,509	\$ 34,955,485
4	2022	\$ 50,965,926	\$ -	\$ 50,965,926
5	2023	\$ 52,494,513	\$ -	\$ 52,494,513
<b>7</b>	<b>Actual 3 Year Average</b>	<b>\$ 30,951,611</b>	<b>\$ 12,479,341</b>	<b>\$ 43,430,952</b>

15

16

1 Based on Table 1 above, OPC witness Schultz incorrectly presented the average capital  
 2 expenditures over the past 3 years from 2019 to 2021, resulting in an understatement  
 3 of the average capital expenditures of \$12,479,341.

4

5

6

**Table 2**  
Correction to Rebuttal Exhibit HWS-2 Schedule B4 pg. 1 of 2 – Plant Additions

		Exhibit HWS - 2			
		Page 9 of 28			
Line No.	Year	Net Additions	Correcting Adjustments	Corrected Net Additions	
Plant Additions					
1	2019	\$ 39,582,170	\$ 4,335,301	\$ 43,917,471	
2	2020	\$ 43,018,892	\$ 11,187,475	\$ 54,206,367	
3	2021	\$ 8,181,974	\$ 19,798,607	\$ 27,980,581	
<b>4</b>	<b>Actual 3 Year Average</b>	<b>\$ 30,261,012</b>	<b>\$ 11,773,794</b>	<b>\$ 42,034,806</b>	
5	2022	\$ 39,899,000	\$ -	\$ 39,899,000	
6	2023	\$ 116,602,971	\$ -	\$ 116,602,971	
7	LNG 2023	\$ (68,000,000)	\$ -	\$ (68,000,000)	
8	2023 excluding LNG	\$ 48,602,971	\$ -	\$ 48,602,971	

7

8

9 Based on Table 2 above, OPC witness Schultz incorrectly calculated the average net  
 10 plant additions over the past 3 years from 2019 to 2021, resulting in an understatement  
 11 of the average plant additions of \$11,773,794.

12

**Table 3**  
Correction to Rebuttal Exhibit HWS-2 Schedule B4 pg. 2 of 2 – Plant In-Service

Line No.	Year	Exhibit HWS - 2			Plant In Service		
		Page 10 of 28	Page 10 of 28	Page 10 of 28	Correcting Adjustments	Balance per Company - CORRECTED	Plant Difference per Company - CORRECTED
		Projected Amount per Company (A)	Actual Amount per Company (B)	Plant Difference (C)		(B) - Corrected	(C) - Corrected
1	December 31, 2021	\$ 533,362,897	\$ 533,362,897			\$ 533,362,897	
2	January	\$ 535,227,786	\$ 501,222,435	\$ (34,005,351)	\$ 34,379,756	\$ 535,602,191	\$ 374,405
3	February	\$ 537,479,224	\$ 503,232,956	\$ (34,246,268)	\$ 35,482,406	\$ 538,715,362	\$ 1,236,138
4	March	\$ 540,181,920	\$ 504,808,800	\$ (35,373,120)	\$ 36,796,414	\$ 541,605,214	\$ 1,423,294
5	April	\$ 543,190,062	\$ 505,765,774	\$ (37,424,288)	\$ 37,160,469	\$ 542,926,243	\$ (263,819)
6	May	\$ 546,426,804	\$ 507,514,975	\$ (38,911,829)	\$ 37,666,198	\$ 545,181,173	\$ (1,245,631)
7	June	\$ 549,900,449	\$ 508,137,282	\$ (41,763,167)	\$ 37,996,379	\$ 546,133,661	\$ (3,766,788)
8	<b>6 Month Average</b>	<b>\$ 542,067,708</b>	<b>\$ 505,113,704</b>	<b>\$ (36,954,004)</b>	<b>\$ 36,580,270</b>	<b>\$ 541,693,974</b>	<b>\$ (373,733)</b>

Based on Table 3 above, OPC witness Schultz has again incorrectly understated the actual plant additions during 2022 on a six-month average by \$36,580,270, essentially the entire difference he claims.

**Table 4**  
Correction to Rebuttal Exhibit HWS-2 Schedule B4 pg. 2 of 2 – Conclusion

				Exhibit HWS-2	
				Page 2 of 2	Corrected
				LNG	Net Additions
				Net Additions	Net Additions
1	2023 Plant Additions	\$ 116,602,971	\$ 68,000,000	\$ 48,602,971	\$ 48,602,971
2	2022 Plant Additions	\$ 39,899,000		\$ 39,899,000	\$ 39,899,000
3	Three Year Average			\$ 30,261,012	\$ 42,034,806
4	<b>Recommended Plant in Service Adjustment</b>			<b>\$ (9,637,988)</b>	<b>\$ 2,135,806</b>

Based on Table 4 above, even using OPC witness Schultz's erroneous recommendation to limit the amount of projected test year plant in-service to historical average balances, when the corrected information is used it results in an increase to plant in-service of

1 \$2,135,806 as compared to the reduction of (\$9,637,988) incorrectly proposed by OPC  
2 witness Schultz. However, as I've stated earlier in my rebuttal testimony, utilizing  
3 historical balances should only be used as a means of analyzing the reasonableness of  
4 a prudently prepared forecast. Based on the corrected information provided in Tables  
5 1 through 4 and as further explained by FCG witness Howard, the forecasted plant in-  
6 service balance is prudent and necessary for FCG to continue providing safe and  
7 reliable natural gas service to its new and existing customers.

8

9 **VI. DIRECTORS AND OFFICERS LIABILITY EXPENSE**

10 **Q. Please summarize OPC witness Schultz's adjustment to FCG's DOL Insurance**  
11 **expense.**

12 A. On pages 44 and 45 of his testimony, OPC witness Schultz recommends that the entire  
13 DOL Insurance expense be excluded from base rates because, according to him, it only  
14 benefits shareholders and does not provide a benefit to customers.

15 **Q. Do you agree with OPC witness Schultz assertion that DOL insurance provides**  
16 **no benefit to customers?**

17 A. No. DOL insurance is an essential and prudent cost to attract and retain skilled  
18 leadership, and is appropriately included in the Company's determination of revenue  
19 requirements in this case. DOL insurance is a necessary part of conducting business  
20 for a large corporation. In light of the growing risk of exposures related to corporate  
21 governance, it would be impossible to attract and retain experienced directors and  
22 officers without the protections offered by the DOL program.

1 **Q. Should the Commission include FCG's requested expense for DOL insurance in**  
2 **its revenue requirement calculation?**

3 A. Yes. Having skilled and talented leadership is critical to FCG's ability to deliver an  
4 outstanding value proposition for our customers. DOL insurance directly benefits  
5 customers and is a necessary and reasonable expense for FCG to provide service to its  
6 customers.

7  
8 **VII. PARENT DEBT ADJUSTMENT**

9 **Q. Please explain the income tax adjustment that OPC witness Schultz is**  
10 **recommending related to the effect on parent debt.**

11 A. As stated on page 50, lines 13 through 15 of his testimony, OPC witness Schultz  
12 recommends a reduction to FCG's forecasted income tax expense of \$359,109 in order  
13 to reflect the Parent Debt Adjustment he claims is required under Rule 25-14.004,  
14 F.A.C. OPC witness Schultz also claims that the initial investment of FPL in FCG  
15 contains a portion of the debt that is embedded in FPL's capital structure and FCG has  
16 failed to rebut the presumption in Rule 25-14.004(3), F.A.C., that "a parent's  
17 investment in any subsidiary...shall be considered to have been made in the same ratios  
18 as exist in the parent's overall capital structure."

19 **Q. Please describe your understanding as to the purpose of Rule 25-14.004.**

20 A. In essence, Rule 25-14.004, F.A.C., imputes the tax benefit of debt issued by a utility's  
21 parent company to the utility subsidiary based on the assumption that the parent  
22 company invested the proceeds of its debt issuances in the regulated subsidiary's equity  
23 in direct proportion to the debt in the parent company's capital structure.



1 **Q. Do you agree with OPC witness Schultz that an adjustment is required in this**  
2 **proceeding?**

3 A. No, I do not. In fact, Commission Staff also seem to believe that this adjustment should  
4 no longer be required. In Attachment B to the Commission's 2021 Regulatory Plan,  
5 which is provided as Exhibit MC-10, there is an indication that the Commission intends  
6 to "repeal Rule 25-14.004, F.A.C., Effect of Parent Debt on Federal Corporate Income  
7 Tax, as obsolete."

8 **Q. Please explain why an adjustment to income tax expense related to the impact of**  
9 **parent debt is not needed.**

10 A. Rule 25-14.004, F.A.C., is based on the premise that debt at the parent level supports a  
11 portion of the parent's equity investment in the subsidiary, which is not the case for  
12 FCG. OPC witness Schultz incorrectly claims the initial investment FPL made to  
13 acquire FCG contains a portion of debt. Upon the July 29, 2018 acquisition by FPL,  
14 there was no significant change in FCG's total per book capital structure value as  
15 inherited from Southern Company Gas<sup>8</sup> and the initial investment and resulting  
16 goodwill to acquire FCG is maintained at its parent company, FPL, as a non-utility  
17 investment. Additionally, FPL has continued to maintain FCG's historical capital  
18 structure inherited from Southern Company Gas, and FCG's operations are funded by  
19 FPL as I describe further in my rebuttal testimony below.

20

21 In addition, FCG has paid more dividends than contributions received to and from FPL,

---

<sup>8</sup> Upon acquisition on July 29, 2018 FCG was temporarily funded through equity until its Application for authority to issue debt securities was approved in Docket No. 20180166-GU, Order No. PSC-2018-0550-FOF-GU (F.P.S.C. Nov. 19, 2018).

1           respectively, since it became a subsidiary of FPL. This fact is not refuted by OPC  
2           witness Schultz.

3

4           Lastly, as I explained in my direct testimony and as evidenced by the annual Securities  
5           Applications filed with and approved by the Commission, FCG receives all of its  
6           financing from FPL's pool of funds. This pool of funds is available based on FPL's  
7           capital structure, which as currently approved by the Commission, represents a much  
8           higher equity ratio than FCG. Given this fact, a Parent Debt Adjustment is not  
9           applicable in this case as the parent company, FPL, holds a lower percentage of debt in  
10          its capital structure than FCG, and therefore no additional interest expense tax benefit  
11          exists at the parent company level.

12

13   **VIII. CAPITAL STRUCTURE AND WEIGHTED AVERAGE COST OF CAPITAL**

14   **Q.    Please summarize the capital structures proposed in this proceeding.**

15    A.    As explained in my direct testimony, as well as that of FCG witness Nelson, FCG has  
16          proposed a 2023 Test Year financing capital structure equal to the capital structure of  
17          FCG's parent company, FPL, which consists of 59.6 percent common equity and 40.4  
18          percent debt over investor sources. On pages 79 and 80 of his testimony, OPC witness  
19          Garrett proposes a capital structure with 48.7 percent equity and 51.2 percent debt over  
20          investor sources. Finally, FEA witness Walters proposes a capital structure with 50  
21          percent equity and debt over investor sources. Both Intervenor Witnesses assert that  
22          there is no merit in FCG adopting the capital structure of its parent, FPL.

1 **Q. Do you agree with the Intervenor Witnesses that there is no merit to the assertion**  
2 **that FCG should utilize its parent company's equity ratio?**

3 A. No. FCG leverages FPL's current capital structure for all of its financing needs, which  
4 provides a significant benefit to FCG's customers in obtaining significantly lower-cost  
5 debt than FCG could otherwise obtain on its own. Additionally, utilizing the parent  
6 company equity ratio is consistent with prior Commission practice where the utility  
7 does not hold or issue its own debt, and is consistent with the capital structure proposed  
8 in FCG's last base rate case. FCG witness Nelson further addresses FCG's capital  
9 structure and explains why Intervenor Witnesses' capital structure proposals should be  
10 rejected.

11 **Q. On page 70, lines 13 to 16 of his testimony, OPC witness Garrett asserts that**  
12 **utilities can increase revenue requirements by increasing its weighted average cost**  
13 **of capital ("WACC") and a commission must ensure the utility is operating at its**  
14 **lowest reasonable WACC. Do you have a response?**

15 A. Yes. First, a utility's WACC is not simply a lowest cost proposition, but rather a  
16 product of the overall capital structure and overall cost rates for each individual capital  
17 component. I believe a utility's WACC should be:

- 18 1. Reflective of market conditions, regulatory precedent, and regulatory  
19 requirements;
- 20 2. Provide the opportunity to recover all prudently incurred costs of servicing  
21 reasonable and low-cost debt; and
- 22 3. Provide a fair and reasonable return for equity investors thereby allowing  
23 FCG to continue meeting the natural gas needs of existing and new

1 customers while continuing to provide safe, reliable, and high-quality  
2 natural gas service.

3 FCG's proposed WACC meets the criteria set forth above, including leveraging its  
4 parent company's strong balance sheet and exceptional credit rating to obtain the  
5 lowest debt rates possible, therefore lowering the overall cost to FCG customers.

6 **Q. Does this conclude your rebuttal testimony?**

7 A. Yes.

1 BY MR. WRIGHT:

2 Q Do you have Exhibits MC-10 through -- I am  
3 sorry, MC-7 through MC-10 that were attached to your  
4 rebuttal testimony?

5 A Yes.

6 MR. WRIGHT: Chairman, I would note that those  
7 have been identified on the comprehensive exhibit  
8 list as Exhibits 103 through 106.

9 CHAIRMAN FAY: Okay.

10 BY MR. WRIGHT:

11 Q Mr. Campbell, were these exhibits prepared by  
12 you or under your direct supervision?

13 A Yes.

14 Q Do you have any corrections to any of these  
15 exhibits?

16 A No.

17 Q Would you please provide a summary of your  
18 rebuttal testimony?

19 A Yes. Mr. Chairman and Commissioners, thank  
20 you again for the opportunity to speak with you today.

21 My rebuttal testimony addresses the  
22 intervenors' opposition to FCG's proposed four-year rate  
23 plan and certain of their proposed adjustments. My  
24 rebuttal, together with the rebuttal testimony of FCG's  
25 other witnesses, explain in detail why each of the

1 intervenors' recommendations and adjustments are  
2 inappropriate and should be rejected. For purposes of  
3 my summary, I would like to focus on a few key issues.

4           Commissioners, as demonstrated by the  
5 company's earnings surveillance reports, FCG has  
6 continually earned and expects to earn below its current  
7 authorized ROE range each year since its last general  
8 rate case. Further, FCG projects that its earned ROE  
9 will be significantly below the bottom of the current  
10 authorized ROE range in 2023 without base rate relief.  
11 Notably, OPC's proposed adjustments, if adopted, would  
12 not even bring FCG to the bottom of its current  
13 authorized ROE range, let alone the bottom of the  
14 proposed 2023 range.

15           Simply stated, OPC's recommendations in this  
16 case would not provide FCG with an opportunity to earn a  
17 reasonable rate of return. The intervenors attack all  
18 the essential components of FCG's proposed four-year  
19 rate plan, including the outright rejection of the RSAM.

20           As explained in FCG's direct case, FCG's  
21 proposed four-year rate plan will provide significant  
22 and unrefuted customer benefits, including rate  
23 stability and certainty, no additional general rate base  
24 increases through at these the end of 2026, lower  
25 revenue requirements saving customers nearly \$10.8

1 million over the term of the four-year rate plan,  
2 avoiding repetitive and costly rate proceedings, saving  
3 customers an additional approximately \$2 million in rate  
4 case expense in 2024, and enabling the company to  
5 continue to meet the natural gas needs of existing and  
6 new customers. The intervenors ignore these benefits  
7 and apparently prefer higher base rates, and more  
8 frequent and costly base rate proceedings.

9           As detailed in my testimony, if the Commission  
10 declines to approve FCG's proposed four-year rate plan  
11 with RSAM, the overall net cumulative increase in cash  
12 paid by customers over the period 2023 to 2026 would be  
13 approximately \$27 million more than under FCG's proposed  
14 four-year rate plan.

15           Additionally, customers would be accepting the  
16 risk and costs associated with the impact of higher  
17 inflation and interest rates; whereas, FCG's proposed  
18 four-year rate plan puts the burden on FCG to  
19 appropriately manage through such risk and uncertainties  
20 over the four-year period.

21           The intervenors' opposition to FCG's proposed  
22 RSAM is primarily based on unsupported and speculative  
23 assumptions that FCG will use the RSAM to earn at the  
24 top of the ROE range. However, my rebuttal testimony --  
25 my rebuttal demonstrates that even with RSAM, FCG will

1 still need to identify and generate cost savings and  
2 productivity improvements just to get to the midpoint  
3 ROE.

4 My rebuttal also explains that OPC's proposed  
5 adjustments to rate base utilizing simple historical  
6 averages ignore that this case is based on a forecasted  
7 test year and are not representative of prudent forecast  
8 for a growing business.

9 Additionally, my rebuttal shows that OPC  
10 witness Schultz's adjustments to capital expenditure and  
11 net plan additions are flawed, because they incorrectly  
12 compared historical amounts that include only base with  
13 forecasted amounts that include both base and clause.

14 OPC's recommendation to exclude directors and  
15 officers liability insurance expense ignores that this  
16 is an essential and prudent cost to attract and retain  
17 skilled leadership, which I critical to FCG's ability to  
18 deliver an outstanding value proposition for our  
19 customers.

20 My rebuttal testimony also explains that OPC's  
21 proposed parent debt adjustment should be rejected.  
22 Simply put, there is no need to make any parent debt  
23 adjustment because FCG's proposed capital structure  
24 would be identical to its parent.

25 Finally, my rebuttal testimony explains that



1 intervenors' proposed capital structure recommendations  
2 should be rejected because they do not accurately  
3 reflect how FCG's regulated operations are actually  
4 financed.

5 In conclusion, intervenors' recommendations  
6 adjustments -- and adjustments are inappropriate and  
7 ignore the tremendous customer benefits and savings  
8 associated with FCG's proposed four-year plan.

9 Thank you. This concludes my summary.

10 **Q Thank you.**

11 MR. WRIGHT: We tender the witness for cross.

12 CHAIRMAN FAY: Thank you.

13 Mr. Rehwinkel?

14 MR. REHWINKEL: Thank you, Mr. Chairman.

15 EXAMINATION

16 BY MR. REHWINKEL:

17 **Q Good afternoon, Mr. Campbell.**

18 A Good afternoon.

19 **Q In your summary, you said something about if**  
20 **the Public Counsel's adjustments were accepted, that the**  
21 **company wouldn't be able to earn even the bottom of**  
22 **their range, something like that, right?**

23 A Yes.

24 **Q You would agree with me that any return that**  
25 **is earned by the company is measured against the costs**

1 and expenses that the Commission approves as reasonable,  
2 right?

3 A Yes. That's right.

4 Q Okay. So you wouldn't measure your return  
5 against what you originally filed if the Commission  
6 disallowed rate base and expense items in your test  
7 year, right?

8 A Yes. I think it would be measured against  
9 whatever is approved in this case.

10 Q Okay. So if there was a disallowance of an  
11 expense or rate base item, the base against which the  
12 achieved return is measured would be reduced from what  
13 the company originally proposed, all other things being  
14 equal, right?

15 A Yes. In your proposed example, all other  
16 things being equal, yes, as long as you are earning  
17 within your range, and based on the approved rate base  
18 and expenses included in your cost of service.

19 I will say, there has been -- each -- each one  
20 of the proposed adjustments included in the intervenors'  
21 testimony has been specifically rebutted by every single  
22 one of the FCG's witnesses. And the point I am trying  
23 to make in my oral summary is that even today, with the  
24 recommended revenue requirements that the -- that OPC's  
25 intervenor witnesses have proposed, we would not have

1 the ability to even earn at the bottom of our range.

2 Q Well, you are not suggesting, are you, that if  
3 the Commission made certain disallowances in the test  
4 year, that you would then put those costs back in the  
5 business and then measure your return against what had  
6 been disallowed by the Commission, are you?

7 A No. That's not what I am saying.

8 Q Just sort of some housekeeping at the start.  
9 When I say Florida Gas -- Florida City Gas, or FCG, I am  
10 referring to the d/b/a that the customers and Commission  
11 understand to be the regulated gas company, do we agree  
12 with that?

13 A I agree.

14 Q Okay. So if I prefer to Pivotal Holdings,  
15 which I will try not to do, you will understand it also  
16 means the regulated gas company that is the subject of  
17 this hearing, is that agreed?

18 A Agreed.

19 Q So let's go to the issue of the day, the RSAM.  
20 Is it your testimony that the proposed RSAM,  
21 or reserve surplus amortization mechanism, should be  
22 modeled after the RSAM that was included in the 2012,  
23 2016 and 2021 FPL settlement agreements?

24 A Yes, it's extremely similar to the FPL RSAM.

25 Q Okay. And isn't it true, except for the

1     **dollar value, that the mechanics of the FCG RSAM that**  
2     **you have proposed are nearly identical in every material**  
3     **way to the RSAM that FPL proposed in the most recent**  
4     **rate case in Docket Number 20210015?**

5           A     Yes, I would agree they are -- they are almost  
6     identical. They are very, very similar to what we  
7     proposed in that case. I will say there are some subtle  
8     differences than what was actually approved in the FPL  
9     case, but overall very, very similar.

10          Q     **Okay. And is it your testimony that the**  
11     **rationale supporting the FPL RSAM mechanisms are similar**  
12     **to the one proposed FCG RSAM mechanism?**

13          A     I am sorry, I didn't follow the first part the  
14     question.

15          Q     **Is it your testimony that the rationale that**  
16     **supported the FPL RSAMs that you pointed to in your**  
17     **testimony, that rationale is similar to the ones that**  
18     **support the proposed FCG RSAM?**

19          A     Yes. And I would say, to further expand on  
20     the rationale, I think the RSAM has proven to be a huge  
21     benefit for FPL customers over the years. I think if  
22     you look at some of our public reports that are out  
23     there, FPL has been able to utilize its four-year rate  
24     plans to really focus its business on identifying these  
25     innovative measures, and really driving productivity and

1 cost savings.

2 In fact, would he have identified already at  
3 FPL \$390 million of annual O&M savings for our  
4 customers. And over a four-year rate period -- or over  
5 a four-year stay-out period, that translates into  
6 roughly \$1.5 billion of cost savings for our customers.

7 So that is exactly what we are trying to  
8 propose here today, a mechanism that really allows the  
9 company to manage the business, both up and down, good  
10 and bad, while the business focuses is on identifying  
11 these very innovative type of productivity type savings  
12 that really drive cost savings for customers, that  
13 continue to accrue to them into the future well beyond  
14 this rate case.

15 Q In front of you, you have -- somewhere you  
16 have a stack of exhibits that I passed out. And I  
17 believe, five or six down, there is an exhibit that's  
18 FPL 2021 Settlement Order Excerpt. If you hunt through  
19 and locate that one.

20 A What's it -- I am sorry, what's it?

21 Q The FPL 2021 Settlement Order Excerpt. It  
22 should be about this thick.

23 CHAIRMAN FAY: Should be in about the middle  
24 of that stack, Mr. Campbell, there is some 2020  
25 excerpts and then there is the FPL 2021

1           **settlement --**

2           THE WITNESS: It says it in the description,  
3           right?

4           CHAIRMAN FAY: Yeah. It would be in the  
5           description. It would be just a five-word.

6           MR. REHWINKEL: Chris, they put the stack over  
7           here.

8           THE WITNESS: Glad it wasn't me.

9           MR. REHWINKEL: You thought I was gas lighting  
10          you, huh?

11          Okay, Mr. Chairman, can we get a number for  
12          identification?

13          CHAIRMAN FAY: Sure. 194.

14          MR. REHWINKEL: All right.

15          (Whereupon, Exhibit No. 194 was marked for  
16          identification.)

17          CHAIRMAN FAY: Mr. Campbell, he does that to  
18          all his witnesses, so don't feel --

19          MR. REHWINKEL: The Gator Seminole thing.

20          CHAIRMAN FAY: All right. Mr. Rehwinkel, you  
21          have 194. You are recognized.

22          MR. REHWINKEL: Thank you.

23          BY MR. REHWINKEL:

24           **Q     You have 194 with you?**

25           **A     I do.**

1           **Q     Are you familiar with this document?**

2           A     Just to confirm, it's the 2010 Florida rate  
3 order 2010 --

4           **Q     No, it should be the 2021.**

5           A     2021. Got it.

6           **Q     That will be 194.**

7           A     194?

8           **Q     Yes.**

9           A     Thank you.

10          **Q     I will start over again.**

11                   **Are you familiar generally with this order?**

12          A     Yes, generally.

13          **Q     Okay. And I call it an excerpt because I**  
14 **didn't attach anything after revised Exhibit B on page**  
15 **67. So this is an order that you have generally cited**  
16 **in your testimony, correct?**

17          A     Yes.

18          **Q     And you are relying on this to support your**  
19 **testimony on the RSAM that you proposed, right?**

20          A     I wouldn't say I am solely relying on this,  
21 but it's a piece of my testimony that supports the RSAM,  
22 yes.

23          **Q     Okay. Can you turn to page 43, and I am going**  
24 **to use the upper left-hand Commission pagination.**

25          A     Upper left-hand.

1 Q Do you see that?

2 A No, I don't. Upper left-hand corner?

3 Q Yeah. It says Order No., docket, and then the  
4 page.

5 A I got it. Okay.

6 Q All right. And page 43, paragraph 16, is this  
7 what you know to be the RSAM paragraph for the -- from  
8 the 2021 FPL order that continues on to page 46?

9 A Yes, it appears to be.

10 Q Can you turn to page 27, line five of your  
11 rebuttal testimony, please?

12 A You said page 27, line five of my rebuttal?

13 Q Yes. The reference here is to the R -- the  
14 RSAM provision in Order No. -- in the Exhibit 194, is  
15 that right?

16 A I don't think we are on the same page.

17 Q Okay.

18 A My 27 is a correction to the rebuttal exhibit  
19 of HWS-2.

20 Q Okay.

21 MR. REHWINKEL: Mr. Chairman, if you give me a  
22 second, let me get synced up here. I apologize --

23 CHAIRMAN FAY: Yeah, mine is too.

24 MR. REHWINKEL: -- misstep.

25 CHAIRMAN FAY: Go ahead, Mr. Rehwinkel, I will



1 let you get lined up.

2 MR. REHWINKEL: Okay.

3 MR. WRIGHT: Mr. Rehwinkel, page 16.

4 MR. REHWINKEL: Thank you, Mr. Wright, I  
5 believe so. Let me -- yes, thank you, Mr. Wright.

6 Let's go to page 16, and line nine. You are  
7 referencing on line nine and 10 the -- I apologize,  
8 line 11, the 20 -- it was a long night last night,  
9 Mr. Chairman, excuse me.

10 CHAIRMAN FAY: Okay.

11 BY MR. REHWINKEL:

12 Q Okay. Let me try this again, I apologize.

13 At page 16, lines six and seven, you reference  
14 the order that came out of Docket 20210015, is that  
15 right?

16 A Yes.

17 Q Okay. And would you agree with me that the  
18 RSAM on page 43 of Exhibit 194 and paragraph 16 is the  
19 current RSAM provision for FPL that was negotiated by  
20 the signatories to the agreement?

21 A I am sorry, what page again?

22 Q 43?

23 A 43? Yes.

24 Q Is it your understanding that this RSAM  
25 provision in paragraph 16 is a term of this settlement

1 agreement?

2 A Yes.

3 Q Okay. Can you turn now to page 55 of Exhibit  
4 194? And I would direct you to paragraph 30, and ask  
5 you to -- I think it's one, two, three, four, five, six,  
6 seven lines down, a little short of halfway down that  
7 paragraph, or maybe halfway down, you see it starts, no  
8 party?

9 A Yes.

10 Q Would you read that sentence aloud, please?

11 A No party will assert in any proceeding before  
12 the Commission or any court that this agreement or any  
13 of the terms in this agreement shall have any procedural  
14 value, except to enforce the provisions of this  
15 agreement.

16 Q You said procedural, but did you mean  
17 precedential?

18 A Yes. Sorry. The writing is very small. I am  
19 getting old.

20 Q Thank you.

21 You work for FPL, right?

22 A I do.

23 Q And FPL owns Florida City Gas?

24 A Yes.

25 Q Is it your testimony that this RSAM should be

1 used by the Commission as support for their proposal is  
2 inconsistent with the plain language of that provision?

3 A No. I don't think we are solely relying on  
4 the fact that it's been approved in a settlement  
5 agreement here. What we've done here in the FCG filing  
6 is we've presented a very similar four-year plan to  
7 FPL's, with a very similar almost identical RSAM  
8 mechanism.

9 Again, the point of this -- of our four-year  
10 -- our voluntary four-year plan is to bring customer  
11 value, rate stability and certainty. In fact, I would  
12 like to spend a few minutes, I think it's important that  
13 we go through and explain how the customer benefits.

14 MR. MOYLE: I am going to object. I mean, the  
15 question was, is what is being proposed  
16 inconsistent with this paragraph? Yes or no. He  
17 is off on a narrative. He is giving you the whole  
18 thing, and, you know, trying to get done today,  
19 just it's nonresponsive.

20 CHAIRMAN FAY: Yeah, Mr. Moyle, for purposes  
21 of -- OPC is questioning the witness now. If he  
22 has an objection to the way his question is being  
23 answered, he is perfectly capable of interjecting  
24 on that. I do understand we want to be efficient,  
25 but at the same time, we want to make sure we get

1 the information we need for the rate case.

2 So with that, as a remainder, Mr. Campbell,  
3 Mr. Rehwinkel's question was pretty direct, and to  
4 input other information not related to the question  
5 is something that we will stop. And so if you can  
6 make sure you answer the question and provide  
7 clarification to that answer, and then we will move  
8 on to the next question.

9 THE WITNESS: This is the clarification I was  
10 trying to provide, is I think he is trying to say  
11 that we are only providing our RSAM based on the  
12 fact that we had a settlement agreement. That's  
13 just not the case.

14 What we are doing is we are providing an RSAM  
15 to unlock a four-year plan that provides customer  
16 benefits. I think it's important that all of us  
17 understand what are those customer benefits, and  
18 that's what I wanted to lay out.

19 CHAIRMAN FAY: And we do -- we do have your  
20 testimony to review that information that you  
21 provided to us. And so for your response for Mr.  
22 Rehwinkel, and for that matter, FEA or the other  
23 Intervenors, we ask you to provide succinct answer,  
24 and if clarification is needed, we would appreciate  
25 you providing that. I don't want to discourage it

1 in any way, but with that said, just make sure it's  
2 on -- germane on target with the question.

3 THE WITNESS: Okay.

4 CHAIRMAN FAY: Thank you.

5 Go ahead.

6 MR. REHWINKEL: Mr. Moyle beat me do it, but I  
7 will say I appreciate Mr. Campbell's following your  
8 yes and no. He's -- of many witnesses I have  
9 crossed over the years, he is pretty good about yes  
10 and no, and I appreciate that.

11 BY MR. REHWINKEL:

12 Q As a part of preparing it your testimony,  
13 direct and rebuttal, you did not research the origins of  
14 the FPL RSAM, did you?

15 A No, I did not.

16 Q You didn't do any research into the efforts of  
17 the Commission in the early 2000s or the late 1900 --  
18 1990s to address the potential for stranded assets  
19 caused by potential deregulation and generation in  
20 transmission, did you?

21 A No, I am not familiar with that.

22 Q Isn't it true, though, that long before the  
23 2021 RSAM evolved, the Commission identified very large  
24 surplus imbalances for FPL in the 2009 rate case that  
25 were driven by previous efforts to minimize stranded

1 **assets by crediting the depreciation reserve with the**  
2 **proceeds from overearnings?**

3 MR. WRIGHT: I think that's asked and  
4 answered. He just said he was not aware, and we  
5 are getting into FPL and not FCG.

6 CHAIRMAN FAY: I am going to allow some leeway  
7 on this, Mr. Wright. I mean, I think the testimony  
8 includes, you know, equity correlation -- a number  
9 of references to FPL and the comparison as to what  
10 FCG has done related to that utility, and so I am  
11 going to allow some leeway.

12 It was a lengthy question, Mr. Rehwinkel. So  
13 let's just make sure, Mr. Campbell, if you feel you  
14 responded to that, you can say so, otherwise, you  
15 can provide the answer, or we can have the question  
16 read back too if you need to.

17 THE WITNESS: I will say I am not familiar  
18 with the 2009 settlement or the rate case.

19 BY MR. REHWINKEL:

20 **Q Well, let's do something here then.**

21 MR. REHWINKEL: I have an exhibit -- and thank  
22 you, Mr. Chairman, I will -- I think your  
23 observation is well taken.

24 I have passed out an excerpt from the 2010 FPL  
25 rate case, and I will confess, I do not know where

1 in the stack it is.

2 CHAIRMAN FAY: I believe it was the top one  
3 from my packet, Mr. Rehwinkel. But is it 2010 FPL  
4 rate order, 2010-0153?

5 MR. REHWINKEL: Yes.

6 CHAIRMAN FAY: Great. Okay.

7 BY MR. REHWINKEL:

8 **Q You would agree, would you not, that the 2021**  
9 **FPL RSAM had as its origin the surplus disposal method**  
10 **that the Commission ordered in the 2010 rate case, would**  
11 **you not?**

12 A I am sorry, I am not familiar with the surplus  
13 disposal.

14 **Q Okay. Well, turn to --**

15 MR. REHWINKEL: I guess, Mr. Chairman, I  
16 neglected to get a number.

17 CHAIRMAN FAY: 195.

18 MR. REHWINKEL: And this will be 2010 rate  
19 order, 2010-0153 excerpt.

20 (Whereupon, Exhibit No. 195 was marked for  
21 identification.)

22 BY MR. REHWINKEL:

23 **Q And would you agree, turning to the first**  
24 **page, that this is order issued March 17, 2010?**

25 A Yes.

1           Q     Okay. Can you turn to page 84. And again, I  
2     want to use the Commission's -- well, let's do this,  
3     actually. Let's go to page 87 first.

4                     Would you agree that in the third paragraph  
5     down, the Commission identified a  
6     1-billion-208.8-million-dollar bottom line reserve  
7     surplus?

8           A     I am not -- I have never read this before, but  
9     that's what this particular paragraph says, yes.

10          Q     And then it notes a \$314.2 million amount used  
11     to offset unrecovered costs associated with capital  
12     recovery schedules?

13          A     Yes, that's what it says.

14          Q     Leaving a reserve surplus of \$894.6 million?

15          A     Yes.

16          Q     To be amortized over a four-year period  
17     beginning January 1, 2010, do you see that?

18          A     Yes.

19          Q     Aren't you familiar with that 894.6-dollar  
20     number?

21          A     I am not overly familiar with that number, no.  
22     I have been with FPL for three years.

23          Q     Okay. So let's go back to page 84.

24                     Would you agree, in the third line down, that  
25     the Commission states in its order that in the 1990s,



1 **FPL was allowed to record additional depreciation**  
2 **expense to reduce the potential for stranded investment?**

3 A That's what the sentence says, yes.

4 Q Okay. And rather than take you through the  
5 rest of this order, you would agree with me that the  
6 order speaks for itself?

7 A I don't know what that means, speaks for  
8 itself.

9 Q All right. The Commission can read it, the  
10 parties can read it, it can be briefed?

11 A I mean, if I can explain, I don't know why we  
12 are going back in history all the way back on FPL's  
13 reserve surplus. You know, we've, again, prepared a  
14 plan with an RSAM mechanism given the need and to  
15 provide a four-year plan that will provide rate  
16 stability and certainty for our customers, as well as  
17 significant cash savings. I really don't understand why  
18 we are going through these right now.

19 Q Okay. Well, I will try to take you there.

20 MR. REHWINKEL: Mr. Chairman, I have passed  
21 out an order from 2011. I think it's toward the  
22 back of the stack at the bottom.

23 CHAIRMAN FAY: Okay. I will give everybody a  
24 minute to --

25 THE WITNESS: Which one is it? I am sorry.

1 MR. REHWINKEL: It says Order No.

2 PSC-2011-0089, 2011 FPL settlement.

3 THE WITNESS: 2011-0089.

4 CHAIRMAN FAY: Okay. It's about five or six  
5 down in my packet.

6 Mr. Wright, just let me know when you guys  
7 have it also.

8 THE WITNESS: Order No. PSC 2011-0089 --

9 MR. REHWINKEL: Yes, sir.

10 THE WITNESS: -- 2011 FPL settlement, okay, I  
11 have got it.

12 CHAIRMAN FAY: Okay. Go ahead and identify it  
13 as 196, Mr. Rehwinkel.

14 MR. REHWINKEL: Thank you.

15 (Whereupon, Exhibit No. 196 was marked for  
16 identification.)

17 BY MR. REHWINKEL:

18 Q So would you agree with me that this order is  
19 an order approving a stipulation that emanated from  
20 motions for reconsideration of that 2010 rate order?

21 A I have no idea. I have never reviewed this  
22 order.

23 Q Well, let's go to order page 12 up in the  
24 upper left-hand corner. Do you see in the second  
25 whereas it references order PSC-10-0153?

1 A Yes.

2 Q And that's the order we just talked about from  
3 the 2010 rate order?

4 A Okay.

5 Q And you see in the fourth whereas -- actually  
6 the third whereas, FPL had filed a motion for  
7 reconsideration?

8 A Yes.

9 Q Okay. And turn to page 20, if you will --  
10 before you do that. In the second whereas, do you see  
11 the parenthetical in the second line down that says the  
12 final order --

13 A It does.

14 Q -- it defines the 2010 as the final order?

15 A Yes.

16 Q Okay. So go on to page 20, paragraph seven.  
17 It starts off there: In the filing order, the  
18 Commission determined a net theoretical depreciation  
19 reserve surplus in the total amount of \$894 million. Do  
20 you see that?

21 A Yes.

22 Q And you recall that it said in that order  
23 disposing of that surplus, it was to be amortized over  
24 four years?

25 A Yes.

1 Q Okay. Would you agree that in this settlement  
2 agreement, that the parties negotiated that FPL would  
3 have the discretion to vary the amount of amortization  
4 of total depreciation surplus, i.e., that \$894 million?

5 A Yes.

6 Q Okay. All right. I have passed out an  
7 exhibit which is the 2012 order, which is an order you  
8 cite -- reference in your testimony generally, is that  
9 correct?

10 CHAIRMAN FAY: Do you have a description of  
11 it, Mr. Rehwinkel?

12 MR. REHWINKEL: It's -- I hope I passed it  
13 out. I apologize. It says 2013 on it. It says  
14 excerpt from Order No. PSC-2013-0023, parenthesis,  
15 2012 FPL settlement.

16 CHAIRMAN FAY: Okay, I have mine.

17 MR. REHWINKEL: Did you find that?

18 CHAIRMAN FAY: It's the second one in the  
19 stack.

20 THE WITNESS: I got it.

21 CHAIRMAN FAY: And that would be 197, Mr.  
22 Rehwinkel.

23 MR. REHWINKEL: Okay. Thank you.

24 (Whereupon, Exhibit No. 197 was marked for  
25 identification.)

1 BY MR. REHWINKEL:

2 Q Would you turn, please, to page 19 of the  
3 order, and look at paragraph 10 at the bottom. Do you  
4 see that?

5 A I see it.

6 Q Do you see the reference to the 2010-0153  
7 order?

8 A Yes.

9 Q And the \$894 million?

10 A Yes.

11 Q If you turn over to page 20, there was a  
12 direction, the first full sentence, the Commission  
13 directed FPL to amortize a total depreciation reserve  
14 surplus over four years ending in 2013?

15 A Yes, I see that.

16 Q And then the next sentence recounts the  
17 previous order 19 -- Exhibit 196 that the parties  
18 stipulated to vary that straight line amortization and  
19 give FPL discretion?

20 A I am sorry, which line was that in?

21 Q Well, the next sentence. Pursuant to the 2010  
22 rate case stipulation, the parties therein agree that in  
23 each year during the term of that agreement, FPL would  
24 have the discretion to vary the amount of amortization  
25 of the total depreciation reserve surplus --

1 A Yes.

2 Q -- et cetera. Okay.

3 And above, that the expectation was that the  
4 amortization of that \$894 million would end in 2013, do  
5 you see that?

6 A Yes.

7 Q Okay. Now, further on down in that, what is  
8 paragraph 10A, there is a reference to FPL having \$191  
9 million of total reserve depreciation surplus remaining  
10 at the end of 2012, do you see that?

11 A I think you are in 10B, right?

12 Q Just above 10B.

13 A Oh, yes. Yes, I see it.

14 Q Okay. Would you agree with me that the  
15 parties negotiated a reserve surplus and a reserve  
16 amount that took that projected \$191 million and added  
17 \$209 million of dismantlement reserve surplus to create  
18 a \$400 million reserve amount?

19 A I am sorry, where did you get the  
20 dismantlement reserve from? Maybe I missed it.

21 Q I'm probably doing that from my memory. The  
22 fourth line down, it references a fossil dismantlement  
23 reserve.

24 A Fourth line in 10B?

25 Q Yes?

1 A Yep, okay. Yes, I am with you.

2 Q Okay. So they took what was left over from  
3 the 894 million and they added some fossil dismantlement  
4 reserve surplus to get -- they reconstituted, if you  
5 will, \$400 million reserve amount?

6 A Yes.

7 Q Okay. And would you agree with me that FPL  
8 was given discretion to amortize the credit balance back  
9 and forth in the reserve amount to adjust earnings as  
10 provided in this settlement agreement?

11 A I would say they were given the flexibility to  
12 utilize it to manage the business based on fluctuations,  
13 yes.

14 Q All right. Is it your understanding that this  
15 order is the first instance of the what we now know is  
16 the RSAM?

17 A I am sorry, I am having trouble keeping up. I  
18 thought -- didn't we have one in the -- we've reviewed  
19 the 2010 settlement that was an RSAM.

20 Q Okay.

21 A That's what this -- I think that's what this  
22 is, right?

23 Q Well, I -- you saw it in the 2012, the 2016  
24 and the 2021 RSAM.

25 A Yes. Yes, I agree.

1 Q Okay. But you would agree with me that the  
2 genesis of this 2012 RSAM goes back to the 2009 rate  
3 case order, where the company had to dispose of an \$894  
4 million net reserve surplus?

5 A It appears that way. I am not real familiar  
6 with that time period, but it appears that way.

7 Q Okay. Let's go back -- let's hold -- keep  
8 Exhibit 197, and I would ask you to go back to page one.

9 You would agree with me that the background of  
10 this 2012 case recites that the company sought an  
11 overall first year rate increase of \$528 million, is  
12 that right?

13 A Yes. That's what it says here.

14 Q And also that the company sought an 11.25 ROE  
15 with a -- plus a 25 basis point ROE adder, for a total  
16 ROE request of 11.5 percent?

17 A Yes. That's what it says.

18 Q Okay. Now, if we turn to page three of this  
19 order, we see that the Commission's recitation of the  
20 essential terms of the 2012 agreement in the bullet  
21 points there indicates that the ROE was negotiated by  
22 the signatories at 10.7 percent, right?

23 A Yes.

24 Q And that the rate increase that was agreed to  
25 by the parties was \$378 million, right?



1 A Yes. That's right.

2 Q Okay. And you would agree that the ROE  
3 resulting from the negotiated agreement was 80 basis  
4 points less than what FPL had sought?

5 A 11 --

6 Q I just did 11 --

7 A Yes, roughly.

8 Q And the \$378 million rate increase that was  
9 negotiated was 33 percent less than what was filed,  
10 right?

11 A I would have to do a quick math, but subject  
12 to check.

13 Q Okay. Thank you.

14 And you would agree with me that paragraph 10  
15 that we looked at, the RSAM on pages 19, 20 and 21, was  
16 a negotiated term of this agreement, right?

17 A I am sorry, can you repeat the question?

18 Q Yes.

19 The RSAM provision, which is 10 -- paragraph  
20 10, starting at the bottom of one and carrying halfway  
21 down page 21?

22 A Yes.

23 Q You would agree with me that that's a term of  
24 this settlement agreement?

25 A Yes.

1           Q     And you would also agree with me, without  
2     having to reread this sentence, but on page 26 and page  
3     -- and paragraph 15, you see in the top line there, it  
4     has that same sentence about no party will assert any  
5     precedential value?

6           A     I am sorry, what line are you on?

7           Q     Well, if you go to page 26 -- I guess we will  
8     read it.

9                     It says: No party -- this is starting at the  
10    end of the first line -- no party will assert in any  
11    proceeding before the Commission that this agreement or  
12    any of the terms in this agreement shall have any  
13    precedential value. Do you see that?

14          A     Yes.

15          Q     That's the same sentence that was in the 2021  
16    agreement, right?

17          A     Yes.

18                   MR. REHWINKEL: All right. Mr. Chairman, I  
19    have passed out the thickest document in here, and  
20    it may have an incorrect title page on it.

21                   CHAIRMAN FAY: Okay. Are we going to also  
22    keep 197 handy, or are you done with that, Mr.  
23    Rehwinkel?

24                   MR. REHWINKEL: I think 197 can lay fallow for  
25    a while here.

1 CHAIRMAN FAY: Okay. Go ahead and give us  
2 what you believe, I guess, is the next --

3 MR. REHWINKEL: Yeah, I found a copy that had  
4 Mr. Howard's name on it and some different  
5 information.

6 CHAIRMAN FAY: I think you said it's the  
7 largest.

8 MR. REHWINKEL: Yeah, the thickest one.

9 CHAIRMAN FAY: Mine says Campbell on it.

10 MR. REHWINKEL: Okay. This is the 2016 FPL  
11 rate case prehearing order.

12 CHAIRMAN FAY: Okay. Mr. Wright?

13 MR. WRIGHT: Got it.

14 CHAIRMAN FAY: Okay. All right. Go ahead,  
15 Mr. Rehwinkel.

16 MR. REHWINKEL: All right.

17 CHAIRMAN FAY: We will label that 198, Mr.  
18 Rehwinkel.

19 MR. WRIGHT: I am sorry, what number?

20 CHAIRMAN FAY: 198, I believe, unless I missed  
21 one. Does that sound right?

22 (Whereupon, Exhibit No. 198 was marked for  
23 identification.)

24 BY MR. REHWINKEL:

25 Q So I just want to ask you about some questions

1 about this prehearing order -- well, first of all, in  
2 2016, there was also a negotiated settlement and an RSAM  
3 agreed to in that by the signatories, right?

4 A That's what I understand.

5 Q And you cited that 2016 RSAM provision in that  
6 order in your testimony, right?

7 A Yes, I did.

8 Q Okay. So in the 2016 agreement -- I mean,  
9 prehearing order, I would like to ask you to turn, if  
10 you will, to page 20. Actually, I probably should get  
11 you to turn to page 19, the page before.

12 A Okay.

13 Q This shows that, in Roman numeral VII, basic  
14 positions, and it starts with FPL's position. Do you  
15 see that?

16 A Yes.

17 Q And if you turn to the next page, you would  
18 agree with me that if we look in the third full  
19 paragraph, about halfway down, there is a sentence that  
20 starts with the proposal. And would you agree with me  
21 that the first year rate increase request filed by the  
22 company was \$826 million, in Romanette i?

23 A It's the first -- it's the third paragraph on  
24 this page?

25 Q Yeah, the third full one.

1           A     Okay. Can you repeat the question one more  
2 time, please?

3           Q     Yes, sir.

4                     About halfway down that paragraph, there as  
5 sentence that starts with the proposal, and it has  
6 several romanettes, Romanette i has a \$826 million  
7 revenue increase for the first year, right?

8           A     Yes.

9           Q     And Romanette ii has a subsequent year revenue  
10 increase of \$270 million, right?

11          A     Yes.

12          Q     Okay. And if you could turn over to page 23.  
13 Would you agree with me, in the first full paragraph  
14 there, that it recounts in this order that FPL was  
15 seeking an ROE midpoint of 11.5 percent, that includes a  
16 50-basis-point ROE adder?

17          A     Yes, I agree that's what it says.

18          Q     Okay. Now, I think we can put that aside.  
19 That just was sort of a background.

20                     If I can get you to look, you should have  
21 another excerpt from the 2016 settlement, and it says  
22 it's an excerpt from order PSC-2016-0650?

23                     CHAIRMAN FAY: 199, Mr. Rehwinkel.

24                     MR. REHWINKEL: Thank you.

25                     (Whereupon, Exhibit No. 199 was marked for

1 identification.)

2 BY MR. REHWINKEL:

3 Q Did you locate it?

4 A Excerpt from Order No. PSC-2016-0650 2016 FPL  
5 settlement?

6 Q Yes.

7 A What was the number again? I didn't catch  
8 that.

9 Q He just gave it 199.

10 A 199. Thank you.

11 Q So if I could get you to turn to page two of  
12 this order excerpt.

13 A Okay.

14 Q You would agree -- well, first of all -- well,  
15 you would agree that there was a \$400 million revenue  
16 increase for the first year negotiated by the parties?

17 A Yes. That's what says in the third bullet.

18 Q And a \$211 million plus subsequent year -- or  
19 second year revenue increase, right?

20 A Yes.

21 Q And you would agree with me that there was an  
22 RSAM provision included in this agreement, right?

23 A Yes.

24 Q And you cite to that agreement in your  
25 testimony, right?

1 A I do.

2 Q And if I could get you to turn to page 30, in  
3 paragraph 24.

4 A Paragraph 24?

5 Q Yes, sir.

6 A I am there.

7 Q Looking four lines from the bottom, would you  
8 agree that saying, no party will assert, sentence is  
9 found?

10 A Yes.

11 Q You would agree with me that the 2011, 2012  
12 and 2016 RSAM type mechanisms were all the product of  
13 compromised revenue requirements that were negotiated in  
14 rate case settlements, would you not?

15 A Yes. They were all approved as part of  
16 settlements. And as we outlined, there were compromises  
17 given in each of those settlement agreements.

18 Q Okay. But before they were approved, you  
19 would agree that they were negotiated and agreed to by  
20 the parties as a part of the compromise that they  
21 negotiated to resolve differences, including in revenue  
22 requirement and ROE, right?

23 A I would assume they did, yes. I was not  
24 parity to any of those negotiations, so I would assume  
25 that that's what happened.

1           Q     Would you agree with me that Florida City Gas  
2 does not have a history of building up excess  
3 depreciation surplus based on fears of stranded assets  
4 from deregulation?

5           A     I am sorry, can you repeat the last part of  
6 that question? I didn't catch the end.

7           Q     Yeah. Let me try to rephrase it, too.

8                     Would you agree with me that FPL does not have  
9 a history of building up excess depreciation surplus  
10 balances based on Commission efforts to write off, or  
11 write down potential stranded assets?

12          A     You said FPL in the beginning. Are we talking  
13 about --

14          Q     I mean FCG?

15          A     -- FCG? Are you talking about stranded assets  
16 and any history of doing that?

17          Q     I guess I should ask it this way: There is no  
18 history for Florida City Gas like FPL had from the 1990s  
19 to the 2009 rate case, where there was historic buildup  
20 of surplus depreciation because deregulation that was  
21 feared did not arise?

22          A     Not that I am aware of, but that doesn't mean  
23 it didn't happen, or anything like that, but I am not  
24 aware of that.

25          Q     Okay. You would agree in this case that your



1 expert witness, nationally recognized depreciation  
2 expert Mr. Ned Allis, has recommended depreciation rates  
3 based on his professional opinion that yield a  
4 theoretical depreciation reserve deficit, or a debit  
5 balance of \$2 million, right?

6 A Yes, I am aware of that.

7 Q FCG has not had a history of a depreciation  
8 surplus that the Commission has ordered to be returned  
9 to customers faster than using a remaining life  
10 technique, have they, to your knowledge?

11 A Not that I am aware of, but --

12 Q Okay. In your proposal before the Commission,  
13 you are not proposing to reduce your revenue requirement  
14 by 58.25 percent in exchange for receiving approval of  
15 an RSAM, are you?

16 A I am sorry, reducing revenue requirement by  
17 how much?

18 Q 58.25 percent.

19 A I don't understand where that number is coming  
20 from, but no.

21 Q All right. I apologize. You are supposed to  
22 read my mind on this. No. 826 million down to  
23 400 million, if you took 426 and divided it by 826,  
24 would you agree with me, that's about 58 percent?

25 A I think we are talking about FPL now, aren't

1 we?

2 Q We are.

3 A I still don't understand the question in the  
4 context of the FCG case.

5 Q So you would agree with me that in 2016 the  
6 parties negotiated FPL getting an RSAM, but it came with  
7 a reduced revenue requirement from 826 to 400 million.  
8 We went through that with the prehearing order and then  
9 the stipulation order. Do you recall that?

10 A Yes, FPL had, in each of those rate cases, was  
11 able to reach a settlement agreement, in -- which in  
12 every case the RSAM was made available flexibly.

13 Q But it was made available with a concomitant  
14 negotiated reduction in revenue requirement in ROE,  
15 right?

16 A Yes.

17 Q Okay. So my question to you was, if you can  
18 assume, subject to check, that 826 down to 400 is 58.25  
19 percent reduction, there is no such reduction in your  
20 proposal to the Commission, right?

21 A Subject to check, I will agree with your math.  
22 It seems reasonable. But, no, we do not have a  
23 settlement agreement here. What we have is the case  
24 that we have put forth today, which is a four-year plan  
25 with an RSAM mechanism available, and with our request

1 from an ROE capital structure, and that is the -- and  
2 that is the proposal that we have here today. We do not  
3 have a settlement agreement.

4 Q And there is no proposal by you that would  
5 say, we'll take a 95-basis-point reduction from 10.75  
6 percent to 9.8 percent if the Commission will just give  
7 us an RSAM, right?

8 A No. I am not sure we would put anything like  
9 that.

10 Q Okay. But that's what was negotiated in the  
11 2006 FPL RSAM containing settlement agreement, isn't it?

12 A 58-percent revenue reduction and a 95 percent  
13 reduction in the requested ROE?

14 A Again, subject to the check on the math, I  
15 will trust that you have done the math. I am not able  
16 to do math that quickly in my head, but, yes, there were  
17 negotiated terms as part of that agreement in which  
18 give, you know, gives and takes were negotiated among  
19 the parties. I can assume. I was not there.

20 Q Okay. No give and take here. It's all of  
21 what you asked for, including the RSAM, 100 percent  
22 revenue requirement, 100 percent of the equity ratio,  
23 100 percent of the ROE and 100 percent of the RSAM,  
24 right, that's your request?

25 A That is our request. Just like it was the

1 request in each of the proceedings that FPL put forward,  
2 it is they put a request forward in their -- in their  
3 docket, and then a settlement agreement was reached  
4 subsequent to that. What we've done here today's is we  
5 have put together a similar type of proposal, and we are  
6 here today to talk through and testify to that proposal.

7 Q Well, let's -- let's talk about that.

8 In 2011, FPL did not propose an RSAM. They  
9 asked that the Commission -- well, they agreed that the  
10 Commission order that they flow back \$894 million to the  
11 customers be varied such that they could have some  
12 discretion to amortize that credit to income, right?

13 A I was not part of those cases, but if it was  
14 not included in that case, then that was the case that  
15 went in, and it was part of the negotiated settlement  
16 that came out of that case.

17 Q Okay. And then in 2012, you would agree with  
18 me that FPL did not ask for an RSAM in their filing,  
19 they negotiated as a result of to the settlement of the  
20 case, right?

21 A Again, I was not part of that, but I believe  
22 that was the case from my knowledge, yes.

23 Q When you say that was the case, what I said  
24 or --

25 A I was not part of the 2012 case --

1 Q Okay.

2 A -- so I am not really aware of what was filed,  
3 but I believe that is true from what I understand.

4 Q Okay. Just so I am clear, the way I said it,  
5 you think is true?

6 A Yes.

7 Q Okay. That they did not ask for it in their  
8 petition --

9 A They did file.

10 Q -- they ended upset willing for it in the  
11 settlement?

12 A Yes.

13 Q Okay. And same thing in 2016. There was no  
14 concrete proposal -- and we could certainly look at the  
15 prehearing order. But short of going through the  
16 prehearing order, there was no RSAM proposed in the  
17 petition, would you agree with that?

18 A Yes, I agree with that.

19 Q Isn't it true that you are not aware of any  
20 natural gas companies in the country that have an  
21 amortization mechanism that is substantially identical  
22 to the one you propose?

23 A Yes. I would say there is -- as far as I  
24 know, there is nothing identical to what we proposing.  
25 But in my testimony, I point out that PGS does have a

1 very similar mechanism to what we are proposing here  
2 today. PGS has a -- has a mechanism that was also  
3 created out of a reserve imbalance. And PGS is also  
4 flowing back, or amortizing that as a noncash  
5 amortization back to its customers. Similar to the way  
6 that we have proposed here today.

7 Q Okay. Well, let's talk about PGS.

8 You reviewed the PGS settlement order before  
9 filing your direct testimony and rebuttal, right?

10 A Yes, I did review some of it.

11 Q Well, I guess I should I -- well, did you  
12 review it before your direct, or just review it before  
13 your rebuttal?

14 A Before my direct.

15 Q Okay. But you didn't mention it in your  
16 direct, though, did you?

17 A No, I do not.

18 Q Okay. So you didn't see it as being enough of  
19 an analog, if you will, to refer it to the Commission as  
20 a precedent in your direct testimony?

21 A No. I think in the direct testimony, there  
22 was no requirements to put that forth. And as part of  
23 rebuttal, we responded to intervenor questions as to --  
24 as to the context, and that's -- that's when we included  
25 it.

1           Q     Okay.  Would you agree that the PGS  
2     amortization mechanism is one way, as compared to the  
3     two-way that's in your RSAM proposal?

4           A     Yes, it's a one-way credit back to customers,  
5     so it's the way that they negotiated their settlement  
6     agreement.

7           Q     Now, when you say credit back to the  
8     customers.  Is there anything in the agreement that said  
9     it is being credited to the customers?

10          A     I don't -- I am not sure --

11          Q     Okay.

12          A     -- if there is anything that specifically  
13     states that.

14          Q     And once the company uses, or makes a debit to  
15     depreciation reserve and credit to income, they can't  
16     reverse that and restore any of the amount that they  
17     took out of the depreciation reserve, is that correct?  
18     Is that your understanding?

19          A     Yes.  They can only credit depreciation  
20     expense.

21          Q     Okay.  You would agree with me that the PGS  
22     reserve amount is significantly smaller than the FCG  
23     one, right?

24          A     I don't think that's --

25          Q     I mean the amount that's available to

1 **amortize.**

2 A I don't think that's correct.

3 **Q How is that incorrect?**

4 A I believe PGS has \$36 million of reserve  
5 available. We've requested \$25 million to be available.

6 **Q Okay. 34 maybe?**

7 A 34.

8 **Q Okay. All right. So you are saying that**  
9 **because 34 is a bigger number than 25?**

10 A Yes.

11 **Q Okay. Would you agree with me that PGS has a**  
12 **rate base of about \$1.6 billion, subject to check?**

13 A Subject to check.

14 **Q Okay. And would you agree with me that FCG's**  
15 **rate base -- retail rate base is about \$400 million?**

16 A Yes.

17 **Q Okay. So you would agree with me that PGS is**  
18 **basically four times larger than Florida City Gas?**

19 A Yes. But to clarify, I believe the reserve  
20 imbalance that was created at PGS was well over \$200  
21 million, of which I was not a party of their settlement  
22 agreement, and I don't understand what they would need  
23 in order to make their plan work, but they requested --  
24 they settled on \$36 million to be available; whereas,  
25 FCG, we had a \$52 million imbalance, of which we have



1 requested \$25 million be available for us to be able to  
2 manage through a four-year plan. I also believe PGS's  
3 plan is a three-year stay-out.

4 Q So you said had a \$52 million surplus. You  
5 actually -- your expert says that your theoretical  
6 reserve surplus is two million, right?

7 A No, I don't think that's correct. I think  
8 it's a deficit of two million, according to witness  
9 Allis.

10 Q That's right. But there is no surplus. You  
11 are asking -- you are asking the Commission to create a  
12 surplus --

13 A Yes.

14 Q -- right?

15 A I think it's important -- let's -- I would  
16 like to put the RSAM parameters into perspective. I  
17 think what's being challenged here is that witness Allis  
18 has proposed particular depreciation lives and  
19 parameters, and our RSAM parameters, I think even  
20 witness Allis said, are well within a reasonable range.

21 And what we mean by a reasonable range is that  
22 -- first I think -- I would like to take you through one  
23 of our discovery responses. It's actually an exhibit to  
24 my rebuttal testimony, MC-9, pages 12 and 13.

25 CHAIRMAN FAY: This is in response to the

1 question?

2 THE WITNESS: Yes.

3 CHAIRMAN FAY: Okay. Where are you taking us?  
4 Go ahead.

5 THE WITNESS: I want to explain the  
6 reasonableness of the RSAM parameters that we are  
7 using in context to what witness Allis has  
8 proposed.

9 CHAIRMAN FAY: Okay. And are you referencing  
10 something in your testimony?

11 THE WITNESS: Yes, Exhibit MC-8.

12 CHAIRMAN FAY: Okay.

13 MR. REHWINKEL: Mr. Chairman, I am --

14 THE WITNESS: I'm sorry, MC-9, pages 12 and  
15 13.

16 MR. REHWINKEL: My -- I would object,  
17 because --

18 CHAIRMAN FAY: Go ahead, Mr. Rehwinkel.

19 MR. REHWINKEL: -- there may be a better  
20 opportunity for this type of explication, but my  
21 question was only about the size of Peoples and  
22 FCG, and the amount of surplus that was available.  
23 I mean, I just think it's --

24 CHAIRMAN FAY: To your point, Mr. Rehwinkel,  
25 you are trying to get a size comparison. Just so

1 we understand your clarification for this exhibit.

2 THE WITNESS: He is -- he is asking about the  
3 size of the reserve that we have available of  
4 \$52 million, and I want to put in context as to how  
5 that was created through the RSAM depreciation  
6 parameters versus what was proposed by witness  
7 Allis.

8 CHAIRMAN FAY: Okay. I think that's  
9 appropriate. Go ahead.

10 THE WITNESS: Okay. So on page 12 of Exhibit  
11 MC-9, the chart in the middle of the page. So what  
12 this is illustrating is these are the six major  
13 accounts that make up, I believe, \$60 million of  
14 the \$52 million of reserve -- of reserve imbalance  
15 that has been created through the RSAM parameters.

16 So this first chart, what this is showing is  
17 the 2014 study as approved, 2018 as proposed, 2018  
18 study as approved, and 2022 proposed study by  
19 witness Allis in this case. So this is showing the  
20 depreciation lives from 2014, '18 and 2022 based on  
21 the depreciation studies.

22 The thing I want -- and what I want to take  
23 away from this illustration is that every single  
24 study, you will see that the -- that the  
25 depreciation lives have been increasing in every

1 single study.

2 And then once we do that one, flip to the next  
3 page, on page 13. At the bottom of the page, there  
4 is a similar chart, and that shows had the 2022 FCG  
5 RSAM proposed depreciation lives.

6 As you can see, for each one of these line  
7 items, the depreciation lines that we are proposing  
8 are very similar to the proposed OPC depreciation  
9 lives that was proposed by OPC's witness for each  
10 one of those line items.

11 CHAIRMAN FAY: Okay.

12 THE WITNESS: In addition to that, if you look  
13 at the RSAM proposed lives versus the proposed  
14 lives by our depreciation witness, they are  
15 extremely similar, well within the range of what we  
16 can expect might happen in the next 50, 60, 70  
17 years.

18 These depreciation studies are estimates based  
19 on a number of factors that we won't know until  
20 these assets have fully lived their useful life.  
21 And at that point in time, that is when we will  
22 know if those depreciation lives are accurate or  
23 not.

24 What I take away from this is we see  
25 increasing -- increases in depreciation lives in

1 the last three studies. And my takeaway is it's  
2 completely reasonable by the time we get to the  
3 next depreciation study in 20 -- in five years from  
4 now, the RSAM depreciation parameters could very  
5 likely be the depreciation study parameters -- or  
6 lives that actually come out of the study.

7 I just wanted to put that in perspective, that  
8 these RSAM parameters are very reasonable, and they  
9 are not some, you know, we are picking an 80-year  
10 life versus the witness that has 30-year life.  
11 They are very tight, and really within the range of  
12 reasonableness.

13 CHAIRMAN FAY: Okay. Mr. Rehwinkel, go ahead.

14 BY MR. REHWINKEL:

15 Q So you said RSAM parameters, but you meant  
16 depreciation parameters, right?

17 A RSAM depreciation parameters.

18 Q Okay. And you are not an expert in  
19 depreciation, right?

20 A I am not an expert in depreciation.

21 Q You never have performed a depreciation study?

22 A I have not.

23 Q Mr. Allis did not recommend the rates that  
24 would yield a \$52 million surplus, did he?

25 A No, he did not. But he did testify that they

1 are in the realm of a reasonable range.

2 Q He did not endorse them as his -- based on his  
3 opinion, did he?

4 A He did not.

5 Q Okay. So F -- PGS is four times larger than  
6 FCG on rate base, would you agree with me?

7 A Yes, subject to check.

8 Q Okay. And a company that's four times larger  
9 would imply that \$100 million surplus amortization  
10 amount would be appropriate for them on a proportionate  
11 basis, compared to your proposed \$25 million  
12 amortization amount, right?

13 A I don't -- no, I don't think I agree with the  
14 context of the question.

15 You know, when -- when FCG is deciding on the  
16 amount of RSAM that it needs available to -- over a  
17 four-year period, it's depicted in my exhibit, MC --  
18 MC-7, where we came up the \$25 million reserve surplus  
19 RSAM in order to unlock the significant value in the  
20 four-year plan.

21 You know, there is significant value in the  
22 plan. Again, I really think this is important that we  
23 go through this as to what the significant value is in  
24 the plan, because I think in context to what we are  
25 going through right now, this is why we are proposing

1 the RSAM. I believe it's page 11 on my testimony -- on  
2 my rebuttal testimony. So the RSAM --

3 CHAIRMAN FAY: Mr. Campbell, if you could,  
4 just be efficient with the response.

5 THE WITNESS: Sure. Sure.

6 CHAIRMAN FAY: You said page 11?

7 THE WITNESS: Yeah, page 11, real quick.

8 So No. 1, the first benefit that customers are  
9 going to receive is lower depreciation rates, which  
10 is going to result in a \$2.7 million reduction in  
11 the 2023 revenue requirement.

12 CHAIRMAN FAY: So, Mr. Campbell, I am go just  
13 going to interrupt you real quick.

14 So just for clarification, Mr. Rehwinkel, can  
15 you repeat your question?

16 MR. REHWINKEL: I asked the witness if the  
17 fact that Peoples is four times larger than FCG on  
18 rate base would suggest that an appropriate  
19 amortizable amount of depreciation surplus for them  
20 would be \$100 million. That was my question.

21 CHAIRMAN FAY: Okay. So, Mr. Campbell, if you  
22 can, for your response -- and I want to make sure  
23 your lawyers have an opportunity to weigh in here,  
24 but we have your prefiled testimony and information  
25 here for us to review. If you are able to answer

1 the question in succinct way. If you are not, you  
2 can point to the testimony and review that for us.  
3 But otherwise, your sort of redirecting us to the  
4 prefiled testimony that we have in here instead of  
5 responding to his question.

6 So, Mr. Wright, go ahead.

7 MR. WRIGHT: That's fine. If you can answer  
8 the question, that would be fine. We can, if we  
9 need to, we can ask on redirect.

10 CHAIRMAN FAY: Go ahead, go ahead, Mr.  
11 Campbell.

12 THE WITNESS: So my answer would be no. I  
13 don't think reserve surpluses are in the amount you  
14 need in order to unlock a plan are symmetrical to  
15 the amount of rate base that you might have.

16 BY MR. REHWINKEL:

17 Q So it sounds like you are saying that F --  
18 that Peoples Gas didn't have a plan that they were  
19 trying to unlock?

20 A I don't know what Peoples Gas was trying to  
21 do.

22 Q Okay. So -- but you are saying that the  
23 Commission ought to look to Peoples Gas as some sort of  
24 analog or a reference point that supports your proposal,  
25 right?



1           A     Yes. Well, in context of what we are using  
2 Peoples Gas here for is we have actually utilized  
3 Peoples Gas' depreciation parameters in order to support  
4 our RSAM parameters. The reason being is the Peoples  
5 Gas parameters were recently approved in the 2020  
6 settlement. It's a very similar gas utility to FCG. It  
7 is larger, but it is in the same geographical location  
8 with very similar assets.

9                     So we didn't just cherrypick kind of  
10 depreciation lives and say, you know, this is what we  
11 are going to use out of thin air. We actually utilized  
12 a utility in the same state, same geographic location  
13 with similar times of assets. And we used those  
14 depreciation parameters in order to calculate the RSAM.

15           **Q     Would you agree with me that FPL has a retail**  
16 **rate base of about \$50 billion?**

17           A     Yes. It's roughly around that.

18           **Q     Okay. So FPL, on an investment basis, is 125**  
19 **times larger than FCG, right?**

20           A     Yes.

21           **Q     So if you multiplied -- and would you agree**  
22 **with me that the 2021 reserve amount is one \$1.45**  
23 **billion?**

24           A     Yes.

25           **Q     Would you agree with me that 1.45 billion**

1 times 1.25 -- no, I apologize. Would you agree with me  
2 that 125 times 25 million is 3.125 billion?

3 A Subject to check, yes.

4 Q So on a proportionate basis, FCG is asking  
5 this commission to approve a reserve amount that would  
6 equate to a \$3.125 billion reserve amount for FPL,  
7 right?

8 A No. I think what we are asking for is a  
9 reserve amount that will unlock the four-year rate plan.  
10 I put together MC-7 which, demonstrates that we need \$25  
11 million of RSAM in order to get back to the midpoint ROE  
12 over the four-year plan.

13 I also want to call to attention that getting  
14 to that 20 -- actually, that \$25 million gets us to the  
15 middle point, but does not assume the extraordinary  
16 inflation that we've currently been seeing, the 40-year  
17 record inflation is not included in that forecast. The  
18 increasing interest rates to combat that inflation is  
19 not in that forecast.

20 The use of that \$25 million to get back to the  
21 midpoint is a very conservative estimate as to what we  
22 need. And we think, based on that, we are going to have  
23 to find productivity and cost savings, as I talked about  
24 earlier, just to get back to the midpoint at this point.

25 Q You would agree with me that FPL has been able

1 to achieve the top of the ROE range for each of the last  
2 11 years, except 2017, when they were only able to get  
3 to an 11.08 year-end ROE because of Hurricane Irma?

4 A In general, I will say FPL has been able to  
5 get to the top of the range, yes.

6 Q Okay. And they did that with an RSAM that, in  
7 2011, was 894 million, in 2012 was 400 million, in 2016  
8 was 1.0 something billion, right?

9 A So I will agree with the numbers that you  
10 quoted, but FPL did not utilize the RSAM to get to the  
11 top of the range. If you go back and look at the  
12 filings that we've made in some of the evidence that's  
13 out there. Again, FPL has utilized these four-year rate  
14 plans to go into the business, identify these innovative  
15 type of projects, productivity savings, everything we  
16 can possibly do to go and push costs out of the  
17 business, they have identified already through these  
18 four-year -- as I said earlier, \$390 million of cost  
19 savings that will accrue annually to customers over a  
20 four-year period. And that is \$1.5 billion of savings.  
21 That is what FPL uses in order to earn at the high end  
22 of the range.

23 The surplus mechanism is only utilized in  
24 order to fluctuate the daily fluctuations in operating a  
25 business, and it would never be able to get above the

1 midpoint ROE without those identified productivity  
2 savings.

3 **Q** So would you agree with me that if you use the  
4 1.45 billion and you ratioed it down based on the  
5 relationship of 50 billion to 400 million, that an RSAM  
6 for FCG would be indicated at no more than, say, \$11.8  
7 million, right?

8 **A** If you -- yes, based on that math, that is how  
9 that would work. Now, you also have to look at FCG has  
10 been underearning every single year for the last four  
11 plus years. And it's in a much different circumstance  
12 coming into this rate case than FPL ever was. So, you  
13 know, I don't think you can take these proportionalities  
14 in a -- in a -- in a box and kind of extend that out  
15 into FCG. It just -- it doesn't really make sense to  
16 me.

17 Again, I have put together an exhibit, MC-7,  
18 that demonstrates that we need -- and again, we had \$52  
19 million of reserve available to us based on the RSAM  
20 depreciation parameters that we utilized from PGS, but  
21 we only asked for what we need in order to make this  
22 four-year rate plan work.

23 **Q** So just to be clear, your proposal to the  
24 Commission is that you get the full boat, if you will,  
25 of revenue request, what, 20 something -- 18 or 22

1 million dollars, right?

2 A That is the proposal we have today.

3 Q And if you get that, you are not going to be  
4 worried about this underearning that you are saying you  
5 are in now, because you will be brought up to the  
6 midpoint of the range that you are asking for, right?

7 A I am sorry, can you repeat the question? I  
8 want to make sure I fully understood what you are  
9 asking.

10 Q You said that you have had chronic or historic  
11 overearnings -- underearnings, and your are underearning  
12 now, right?

13 A Yes.

14 Q Okay. So that past has nothing to do with  
15 what you could use the RSAM for once you get rates set,  
16 new rates that go into effect in February at the  
17 midpoint, whatever it is, but you are asking for 10.75,  
18 right?

19 A Yes. That's correct. We would be asking for  
20 revenues to get to 10.75 percent in 2023.

21 Q And if the Commission gave you the opportunity  
22 to earn that, you wouldn't be down below the bottom of  
23 the range, you would be at the midpoint and would you  
24 have the RSAM to allow you to keep -- to earn up to the  
25 top of the range, wouldn't you?

1           A     No, we wouldn't have an RSAM to earn up to the  
2 top of the range. Again, I am going to reference page  
3 11 of my rebuttal testimony. We have estimated in  
4 Exhibit MC-7, we have demonstrated and we have put  
5 together an exhibit that demonstrates that we would  
6 need, in 2025, we would fall more than 200 basis points  
7 below our approved ROE, which would necessitate a base  
8 rate increase. And this is on the premise that we would  
9 -- that we would receive the revenue -- the 2023 revenue  
10 request that we are asking for.

11                     Again, that's \$7.7 million an extremely  
12 conservative number, and that would be what we would  
13 need in revenues that equates to about \$15.4 million in  
14 cumulative cash revenues from customers in '25 and '26.

15           **Q     Let's go back to Peoples. And do you have**  
16 **with you an exhibit that's an excerpt from Order No.**  
17 **PSC-2020-0485?**

18           A     I am sorry, can you repeat that one more time?

19           **Q     It's -- the parentheses say 2020 PGS**  
20 **settlement. Do you see that?**

21           A     Yes, I have it.

22                     MR. REHWINKEL: Would this be 200, Mr.  
23 Chairman?

24                     CHAIRMAN FAY: Yes.

25                     (Whereupon, Exhibit No. 200 was marked for

1 identification.)

2 BY MR. REHWINKEL:

3 Q You are familiar with this document, are you  
4 not, the 2020 settlement agreement with Peoples Gas?

5 A I am vaguely familiar with it.

6 Q Okay. You would agree with me, would you not,  
7 that PGS, or Peoples Gas -- well, let's go to page 15 of  
8 the order. This indicates, on subparagraph C there,  
9 that the study that Peoples filed had a depreciation  
10 reserve surplus of 245 million, right?

11 A Yes.

12 Q Okay. And you would agree with me that it was  
13 not based on alternative depreciation rates, right?

14 A Correct.

15 Q And you would agree with me that Peoples did  
16 not propose an amortization mechanism in their rate case  
17 filing, right?

18 A I am not as familiar with their rate case  
19 filing, but I am not -- I don't believe they did.

20 Q And that's a difference between Peoples and  
21 what you are proposing here, right?

22 A Yes, that is a difference. And I have never  
23 claimed that they are the same. I have only said that  
24 they are similar.

25 Q Okay. And you would agree that what is --

1 starts on the previous page as paragraph four on page  
2 14, and continues on to page 15, is the negotiated term  
3 that allows Peoples to amortize some of the depreciation  
4 surplus, right?

5 A Yes.

6 Q And you would agree that that amount was  
7 34 million?

8 A Yes.

9 Q All right. And as it was a negotiated term,  
10 you don't know what concessions were made on ROE or  
11 revenue requirements for the one-way Peoples Gas -- PGS  
12 amortization mechanism to be included in that agreement,  
13 do you?

14 A I am not familiar with all the negotiation,  
15 no.

16 Q That would be a no and then --

17 A No.

18 Q And you don't know whether or not, or to what  
19 degree the Peoples' amortization mechanism was agreed to  
20 as a concession to get an ROE agreed to of less than  
21 10 percent, do you?

22 A No, I was not part of those negotiations.

23 Q Okay. You also would agree that Peoples  
24 agreed to encumber \$12 million of that 34 million  
25 contingent upon completion of certain projects, right?



1           A     Yes, there were some provisions in there that  
2 required them, I think they are laid out down below in  
3 this exhibit.

4           Q     You would agree that Peoples cannot use the  
5 reserve amortization to offset storm costs, right?

6           A     Which one was that? I will just confirm.

7           Q     Look, if you will, at C Romanette iv, at the  
8 bottom of 15.

9           A     Yes. It says the amortization permitted under  
10 this paragraph is not intended to be used to recover any  
11 storm damage recovery costs.

12          Q     Okay. FCG would be allowed, if approved, to  
13 use their RSAM to offset storm costs, would they not?

14          A     Yes. That's something that would be taken  
15 under consideration. It's not been a restriction that  
16 we have proposed in this case.

17          Q     Okay. Wouldn't you agree that there is, I  
18 think you have noted them before, but the parameters and  
19 rates that are included in attachment -- I mean Exhibit  
20 C and D on pages 215 and 217 of this exhibit, these  
21 represent further --

22          A     I am sorry, where are we at?

23          Q     I am sorry. Just the last page of the  
24 exhibit?

25                   CHAIRMAN FAY: You are still on Exhibit 200,

1           **Mr. Rehwinkel --**

2                   MR. REHWINKEL: Yes, sir.

3                   CHAIRMAN FAY: -- the last two pages?

4                   THE WITNESS: Exhibit C?

5 BY MR. REHWINKEL:

6           **Q     Yes, and D.**

7           A     And D, okay.

8           **Q     They are kind of tiny, but I think the C is**  
9 **the parameters, and D is the resulting expenses -- or**  
10 **rates and expenses?**

11          A     From my memory, I think that's correct.

12          **Q     Okay. You would agree that these rates and**  
13 **expenses on the last page, Exhibit D, all other things**  
14 **being equal, they would make that \$245 million number**  
15 **bigger, right?**

16          A     Honestly, I am not sure.

17          **Q     Okay. Wouldn't that normally what a reduction**  
18 **in expenses would do?**

19          A     Is that what this is? I can't read this. I  
20 am sorry.

21          **Q     You don't have an microscope, an electron**  
22 **microscope?**

23          A     No, I haven't reviewed this before, so --

24          **Q     Okay. So as I am looking at Exhibit D, I see**  
25 **in the box at the far right, if you could follow me,**

1 column on the left inside that box says, revised a cruel  
2 rate, and then a cruel at revised rates, and then it has  
3 a difference in expense. And at the total line at the  
4 very bottom, it shows 3,751,536, if I believe, do you  
5 see that?

6 A I heard you, but I can't quite see it, but  
7 okay.

8 Q Okay. You can't -- I guess you are saying you  
9 just don't know whether this would have an impact one  
10 way or the other on the reserve amount -- I mean on the  
11 reserve surplus?

12 A We are saying this has less expense, less  
13 depreciation expense?

14 Q Well, I think, to your point, there is  
15 probably one section that has more and one less --

16 A Okay.

17 Q -- so there's an increase, yeah. So, okay,  
18 fair point.

19 Would you also agree with me that the witness  
20 for Peoples Gas proposed resolving the \$245 million  
21 surplus imbalance using the remaining life technique?

22 A I did not review the depreciations -- I  
23 believe you are talking about PGS, right?

24 Q Yes, sir.

25 A I am not sure. I did not review the -- that

1 part of it.

2 Q Well, did you see Mr. Schultz's testimony  
3 where he quoted the witness for Peoples Gas?

4 A Yes, I do think I remember that. Yes.

5 Q Okay. You didn't have any reason to disagree  
6 with that, right?

7 A No.

8 Q Okay. You would also agree with me that in  
9 his professional opinion in supporting the study that he  
10 filed, Mr. Allis recommended reducing, or resolving the  
11 \$2 million deficit using remaining life technique,  
12 right?

13 A Yes, I believe that's what he recommended.

14 Q And you would also agree with me that Mr.  
15 Garrett, Public Counsel's depreciation expert,  
16 recommended using remaining life technique to resolve  
17 any imbalance that would be created by his rates,  
18 correct?

19 A Yes, I believe that's right.

20 Q Okay. And you would agree with me that the  
21 Public Service Commission, in litigated depreciation  
22 cases, has overwhelmingly used remaining life technique  
23 to resolve imbalances, either debit or credit, in  
24 setting depreciation rates, correct?

25 A Yes, I believe that's correct. But I just

1 want to -- the RSAM that we are proposing is really the  
2 vehicle that really allows us to unlock the value in  
3 that four-year plan, and that's why we are proposing  
4 that today. Not based on depreciation studies and  
5 things of that nature.

6 **Q You would agree with me that FCG is proposing**  
7 **to create a surplus, \$52 million surplus for the sole**  
8 **purpose of enable the creation of the RSAM, right?**

9 A Yes. The \$52 million in the RSAM parameters  
10 is what -- is what enables us to create a \$25 million  
11 RSAM that we are requesting today.

12 **Q And that's the only reason you are asking to**  
13 **create that surplus, right?**

14 A Yes. In the context of unlocking the  
15 significant value, the \$27 million in cash savings that  
16 I spoke about in my oral summary, we believe the RSAM  
17 depreciation parameters, as I outlined and we walked  
18 through, are very reasonable parameters, very reasonable  
19 depreciation lives, right in the range, and it unlocks a  
20 significant value for our customers, \$27 million of cash  
21 savings; while, FCG, over the four years, is going to  
22 take over the burden of managing through the significant  
23 inflation, the rising interest rates that we are  
24 currently seeing. That's why we are asking for the \$25  
25 million, is to unlock that four-year plan.

1           **Q     You are a forecaster, right?**

2           A     Yes.

3           **Q     I read the New York Times today that**  
4     **depreciation -- depreciation -- inflation is cooling.**  
5     **Is that inconsistent with your understanding of where**  
6     **inflation is going?**

7           A     I believe that's the first article I have  
8     heard of that's been talking about that, but I think if  
9     you ask anybody, or anyone goes to the grocery store  
10    these days, or puts gas in their car, I mean, everything  
11    has been much more expensive these days, and inflation  
12    has raged on, and some of that damage has already been  
13    done, and we are going to grow off of that now.

14          **Q     But there is a -- this is a forecast test year**  
15    **case, so what matters is what inflation will be like in**  
16    **the future, right?**

17          A     Yes. And we have not reflected that increase  
18    in inflation in any of our forecasts. So my point is,  
19    is that our -- all of the forecasts that we've put  
20    forth, they are extremely conservative, because they  
21    were all locked down in 2021, before this inflation hit,  
22    before the increasing interest rates, and none of that  
23    has been included in any of our forecasts.

24                    Would you mind if I took five minutes?

25          **Q     Yeah, I was going to ask. You look a little**

1     **uncomfortable.**

2                   **CHAIRMAN FAY:**  No, we were fine.  I was going  
3     to break right around 4:00, but I think now is fine  
4     to go ahead and do that.  We will give our court  
5     reporter and everybody a break, and then we will  
6     start right back here right at 4:00.  Well, let's  
7     do right at 3:50, that will give us a few minutes  
8     just to stretch our legs.

9                   **Thank you.**

10                   (Brief recess.)

11                   **CHAIRMAN FAY:**  All right.  I think we are  
12     about ready to get started back.  It looks like  
13     we've got some exhibits being passed out real  
14     quick.

15                   **MR. REHWINKEL:**  Yeah, Mr. Chairman, I have an  
16     exhibit in there I discovered --

17                   **CHAIRMAN FAY:**  Okay.

18                   **MR. REHWINKEL:**  -- too late that it was one of  
19     those copied every other page, so I have --

20                   **CHAIRMAN FAY:**  Okay.  So just real quick, Mr.  
21     Rehwinkel, we will be replacing this from one of  
22     the ones we have already in our stack?

23                   **MR. REHWINKEL:**  Yes.

24                   **CHAIRMAN FAY:**  I see it okay.  So Emera

25                   November 10 --

1 MR. REHWINKEL: That's correct.

2 CHAIRMAN FAY: -- we will take the original  
3 version that we had and replace it with this one?

4 MR. REHWINKEL: Yes. Thank you.

5 CHAIRMAN FAY: Okay. All right. And then  
6 when you are ready, Mr. Rehwinkel, Mr. Campbell,  
7 and you are ready, we can --

8 MR. REHWINKEL: All right, are you ready?

9 THE WITNESS: Ready.

10 CHAIRMAN FAY: Okay.

11 BY MR. REHWINKEL:

12 Q Did you mention earlier about a 200 basis  
13 points being \$700 million in revenue requirements?

14 A No, I don't think I mentioned that.

15 Q Okay.

16 A \$7.7 million in revenue requirements.

17 Q Okay. So 100 basis points would be 3.85?

18 A 100 basis points is roughly 3.5 million of  
19 revenue requirement.

20 Q Okay.

21 A So I said roughly. So 7.7 million is, I think  
22 I said over 200 basis points.

23 Q Okay. So if 300 -- if \$3.5 million is 100  
24 basis points for FCG, that would mean that 3.5 divided  
25 into 25 million is about seven times, right?



1           A     That's about right.

2           Q     Okay. Do you know what 100 basis points is  
3 for FPL? Is it about \$300 million?

4           A     About \$360 million.

5           Q     Okay. And 360 divided into 1.45 billion is  
6 significantly less than seven times, right?

7           A     Yes, but were different things in FPL's  
8 settlement agreement that allowed it to be able to  
9 operate under those terms. They had a subsequent base  
10 rate increase -- a subsequent base rate increase, and  
11 they also had SoBRAs in each of the outer years.

12                     We are not asking for that today. We are  
13 asking for one revenue increase in 2023, and then we are  
14 asking for a \$25 million RSAM in order for us to manage  
15 through the remaining -- the -- over the four-year plan,  
16 possibly beyond that four-year plan. There is no  
17 limitation as to whether we have to stop and come back  
18 in at the end of 2026. If everything is -- if we still  
19 have RSAM available, we could continue to stay out  
20 longer than the four-year plan.

21           Q     So would it be FCG's intention to start with  
22 \$25 million, and like FPL has done, 2011, '12, '16 and  
23 '21, to continue and use that ad infinitum?

24           A     I don't know.

25           Q     That's not out of the realm of possibility, is

1 it, that this is sort of the nose under the tent, you  
2 would want to keep doing this?

3 A Nothing is outside the realm of possibility,  
4 but we haven't thought past what we would do in the next  
5 rate case. We don't know what kind of depreciation  
6 parameters will be available at that time. There are a  
7 lot of things to actually consider when you look at  
8 these four-year plans. And I can't sit here today and  
9 tell you that we are going to do another RSAM case in  
10 2026 or 2027. I don't know.

11 Q Okay. Is it your testimony that the four-year  
12 plan proposal that you have, coupled with the RSAM, will  
13 -- gives you a lot of confidence that you can stay out  
14 for four years even though these post filing  
15 inflationary costs that are driven by oil -- oil prices,  
16 gallons prices, the war in Ukraine, those are not baked  
17 into your filing, is that right?

18 A That's right. It's -- it's our commitment in  
19 this plan. We put together our forecast with the best  
20 available information at that time, and we are still  
21 committed to staying out over a four-year period, even  
22 with all these headwinds that we are up -- that we are  
23 up against. I have full faith in this company that they  
24 will hit the ground running having an RSAM available to  
25 manage the business, and really finding those

1 productivity savings, really finding those cost savings  
2 which are going to benefit our customers well into the  
3 future.

4 Q So you have a lot of confidence that you have.  
5 You said headwinds, but you got a lot of headroom, don't  
6 you, with this plan? Seven times, 100 basis points goes  
7 into 25 million, you have a lot of cushion?

8 A No, I don't think we have a lot of cushion. I  
9 have demonstrated that in MC-7. Again, the RSAM only  
10 allows us to get back to the midpoint, not including the  
11 current economic environment, the inflation, the  
12 interest rates, that is what the 125 million gets us to,  
13 and that's what we've illustrated in the evidence in my  
14 exhibit.

15 Q Okay. I think it was Mr. Howard referred some  
16 questions about any projections of AMI benefits, AMI  
17 Pilot benefits that might enure in this four-year  
18 period. Are you proposing or forecasting that there  
19 will be AMI meters put in that will help you drive  
20 efficiencies?

21 A I believe the pilot program, and I am not as  
22 familiar with the pilot program as witness Howard is,  
23 but the pilot program is a program that we are putting  
24 in, and we do think there is a lot of benefits to be had  
25 from this program. And as such, we are -- we are asking

1 for a pilot program to test that, and to start to  
2 understand what those benefits might be. So at this  
3 point, we have not baked in any of those benefits into  
4 our current forecast.

5 **Q Does not baking in mean that you don't have**  
6 **any idea what the benefits will be, or have you done an**  
7 **estimate that there will be benefits?**

8 A We have an idea, as I think witness Howard has  
9 gone through, and I am not as familiar with what those  
10 benefits might be, but we -- at this point, we do not  
11 have a dollar value associated with those benefits, and  
12 that's what the pilot program is for.

13 **Q Go back to Exhibit 200, if you can, page 16.**

14 A This is the 2020 PGS settlement?

15 **Q Yes, sir.**

16 A Page 16.

17 **Q And I am going to direct you to paragraph**  
18 **five.**

19 Paragraph five continues on to page 17, and I  
20 would like to ask you if you could look on page 17 in  
21 that first paragraph that starts on the prior page, you  
22 see about, I don't know, seven lines down, it starts, as  
23 a part of base rate?

24 A I am sorry, are we on page 16?

25 **Q We are on 17. I just start you off on 16.**

1 A Okay. And what line?

2 Q It's about six lines down.

3 A Okay. I am there.

4 Q As a part of the base rate freeze signed -- I  
5 mean, agreed to herein, the company will not seek  
6 Commission approval to defer for later recovery in rates  
7 any costs incurred or reasonably expected to be incurred  
8 from the effective date through and including December  
9 31, 2023, which are the type which historically or  
10 traditionally have been or would be recovered in base  
11 rates unless such deferral in subsequent recovery is  
12 expressly authorized herein or otherwise agreed to by  
13 each of the parties. Do you see 245?

14 A Yes.

15 Q And you would agree that that's a negotiated  
16 term in this agreement?

17 A Yes.

18 Q FCG, as a part of their four-year plan, is not  
19 making a commitment not to seek regulatory assets, are  
20 they?

21 A I am not exactly sure what this is related to,  
22 to be honest with you. What is the regulatory asset?  
23 It's just to defer later recovery in rates and costs.

24 Q Do you understand how a regulatory asset is  
25 created in a utility ratemaking environment?

1 A Yes.

2 Q So if a utility incurred an abnormal expense,  
3 let's say in the year 2024 --

4 A Yep.

5 Q -- that they thought was something that would  
6 be -- that would hurt their earnings, they could ask the  
7 Commission to credit income and debit a regulatory  
8 asset, and then recover it in the future?

9 A Got it. I am -- yes, I understand.

10 Q Okay. So my question to you is: Is there any  
11 commitment, as a part of your four-year plan, to not ask  
12 for any regulatory assets?

13 A No, I don't think there is a commitment there.

14 Q Okay. Wouldn't you agree that use of a  
15 regulatory asset would be a mechanism that would allow  
16 you to stay within the four-year agreement?

17 A Yes. But any time you create a regulatory  
18 asset, as I understand it, you would have to come and  
19 obtain Commission approval for such asset.

20 Q Okay. Can you see -- can you look on --  
21 further on down, there is a paragraph that starts, a new  
22 with notwithstanding? It's on still on page 17,  
23 underneath that sentence I read. It's in the next --  
24 it's in the first full paragraph of that sentence --  
25 that page.

1           A     Okay.  Yep.

2           Q     You see that?  Notwithstanding, the foregoing  
3   Peoples agrees that upon formal approval of this  
4   agreement by the Commission, it will dismiss with  
5   prejudice its COVID-19 petition in Docket No.  
6   20200178-GU, and will not file any other petition  
7   seeking deferral of COVID-19 costs during the term of  
8   this agreement.  Do you see that?

9           A     Yes.

10          Q     There is no such commitment made by FCG, is  
11   there?

12          A     There is not.  But we have not actually  
13   requested any recovery of COVID expenses.

14          Q     Okay.  But you are not agreeing not to request  
15   such recovery through a regulatory asset during the  
16   four-year period that you are suggesting for a stay-out,  
17   right?

18          A     To clarify, COVID-19 regulatory asset?

19          Q     Yes.

20          A     We have not, but I -- I think that's -- that's  
21   kind of passed by.  We don't have any more kind of, I  
22   would say, costs associated with COVID 19 anymore that I  
23   think that we would need to come in for approval on to  
24   create a regulatory asset.

25          Q     You would agree that Peoples, during 2020,

1 agreed to forego the opportunity to ask for a COVID -- a  
2 regulatory asset as a part of the overall deal that  
3 included their one-way amortization, right?

4 A Yes.

5 Q Would you also agree with me, if we turn back  
6 to the -- would you -- I think -- I had it in a -- would  
7 you agree with me, short of dragging out another order,  
8 that PGS asked for a \$61.7 million base rate increase,  
9 net of the bare -- the cast iron and bare steel rider?

10 A I am not familiar with that agreement, but  
11 subject to check, I will agree.

12 Q Okay. And you would agree with me that in the  
13 settlement agreement, that Peoples agreed to a base  
14 rates increase of 58 million, that included 23.6 of  
15 transfer of cast iron bare steel rider surcharge into  
16 base rate recovery?

17 A I am sorry, where are you referencing?

18 Q Look at page three, if you will. And I am  
19 looking at the second bullet point.

20 A Yes, I would agree with that.

21 Q Okay. So if 23.6 deducted from 58 million is  
22 about 34.4 million, would you agree with that?

23 A Yes.

24 Q Okay. So there was a revenue concession that  
25 was achieved in the Peoples Gas case that allowed them



1 **have this one-way amortization, right?**

2 A I don't know if that's what allowed them to  
3 have the one-way amortization, but seems like it was a  
4 concession as part of the settlement agreement.

5 Q Okay. And you would also agree that Peoples  
6 agreed to a 9.9 ROE compared to the 10.5, I think it  
7 was, that they asked for in their case?

8 A I would agree, based on the settlement  
9 agreement, it's 9.9. I don't remember or recall what  
10 they asked for.

11 Q Okay. I am cutting out questions as I am  
12 scrolling.

13 With respect to the RSAM and the range that  
14 you would like to operate in, would you agree with me  
15 that if the Commission, for the sake of argument, was to  
16 set rates at 10.25 percent, just for the sake of  
17 argument, that would imply a -- actually, let's use  
18 10.5, that would imply a range of 9.5 to 11.5, right?

19 A Assuming 100 basis points, yes.

20 Q Yes. You would agree with me that an achieved  
21 ROE of 9.6 would be just as reasonable as an achieved  
22 ROE of 11.4?

23 A I would agree that it would -- a 9-6 would be,  
24 in your hypothetical example, within the range, yes.

25 Q And would that be a reasonable level of

1 **earnings?**

2 A Yes.

3 Q Okay. Now, wouldn't you agree with me that if  
4 the goal is to use an RSAM to stay out, that as long as  
5 you could bring your earnings up to some point in --  
6 just inside the bottom of the range, you would be able  
7 to stay out for that period of time?

8 A Yes. But to clarify again, the RSAM is not a  
9 mechanism that gets you to a certain point in the range.  
10 As I demonstrated again in MC-7, the RSAM is a mechanism  
11 that allows us to get back to the midpoint ROE over the  
12 four-year rates plan, and that's not including the  
13 significant headwinds, the interest rates and inflation  
14 that we have talked about. So it's going to take  
15 productivity and cost savings just to get to the  
16 midpoint.

17 And what the RSAM is really utilized for is to  
18 help the -- help the business manage the day-to-day  
19 fluctuations, both good and bad, less expense, more  
20 expense, to manage that business, and to really refocus  
21 the business on identifying these productivity type  
22 savings that we need to identify to keep accruing, and  
23 keep benefiting customers past this rate case.

24 Q Isn't it true you said -- well, isn't it true  
25 that in your RSAM proposal, that there is a

1 pre-identified ROE point that you would use the RSAM to  
2 hit?

3 A I am sorry, can you reference where I say that  
4 in my testimony?

5 Q Let's look at your MC-6.

6 A Okay.

7 Q Okay. So is it your understanding that the  
8 reserve surplus amortization mechanism is not designed  
9 to allow you to achieve a predetermined return on  
10 equity?

11 A No -- yeah, well -- sorry, no, the RSAM  
12 mechanism helps us to manage the everyday fluctuations  
13 in the business. However, from an accounting  
14 standpoint, generally speaking, when we set the plan for  
15 each year, we have to look at the facts and  
16 circumstances, and at that point in time, we have to set  
17 a ROE target for the year. Our auditors require us to  
18 do that.

19 Q And hasn't that ROE target for FPL always been  
20 the top of the range, or almost always been the top of  
21 the range?

22 A I don't know if it's always been the top of  
23 the range, but it is usually over the range, after we  
24 take into consideration -- as part of the budgeting  
25 process, we start looking into the productivity type

1 improvements and the cost savings that we are going to  
2 have, and we factor that all in in determining what is a  
3 reasonable ROE target that we can use for that year.

4 Q You would agree with me that -- let me see if  
5 I can use do this without using exhibits -- that Peoples  
6 Gas reported an achieved ROE of 9.77 percent in  
7 September -- in their most recent September 30, 2022,  
8 Earnings Surveillance Report?

9 A I don't know, but subject to check in the  
10 exhibits, I will agree with you.

11 Q Okay. And would you agree with me that Emera,  
12 Peoples Gas' ultimate parent, reported that as of  
13 September 30, 2022, they have utilized or reversed \$14  
14 million of the \$34 million?

15 A Subject to check, I will -- I will agree with  
16 that.

17 Q Okay.

18 MR. REHWINKEL: And, Mr. Chairman and Mr.  
19 Wright, Mr. Wright offered to stipulate to  
20 exhibits. I have two exhibits that I can put into  
21 the record that support this so that if there is  
22 any doubt about it, or we can just rely on him  
23 agreeing --

24 MR. WRIGHT: Well, certainly, Mr. Rehwinkel,  
25 we did offer to stipulate orders. They say what

1           they say, we are happy to do that. Maybe you can  
2           identify which orders you are proposing, or which  
3           exhibits?

4           MR. REHWINKEL: Yes. I have one exhibit.  
5           It's the one that we recently substituted. It's  
6           the Emera November 10, '22, management discussion  
7           and analysis, or MD&A. And on page 14 -- I didn't  
8           mean to leave the highlighting. This is mine and  
9           not Emera's. It has that piece of information.  
10          And there is another exhibit that has the last  
11          three Peoples Gas surveillance reports.

12          MR. WRIGHT: Chairman, I know that Mr.  
13          Rehwinkel asked Mr. Campbell questions around  
14          these. I am trying to be lenient here, but I don't  
15          see how these are relevant to FCG at all. I mean,  
16          I wouldn't stipulate to them. If anything, I would  
17          probably object to them coming into this case as  
18          not being relevant to FCG or its RSAM mechanism, or  
19          how that RSAM mechanism will be used for FCG.

20          CHAIRMAN FAY: Okay. And, Mr. Rehwinkel, you  
21          said the second one is PGS 2022 earnings  
22          surveillance report?

23          MR. REHWINKEL: Yes.

24          CHAIRMAN FAY: Okay. I have the Emera  
25          November 10, '22, MD&A -- okay, well, it sounds

1           like for purposes of communication, FCG is saying  
2           it relates to orders they would stipulate to. It  
3           doesn't sound like these exhibits would be  
4           stipulated to --

5           MR. REHWINKEL: Okay.

6           CHAIRMAN FAY: -- so let's go ahead and just  
7           identify them, and then when we go to put exhibits  
8           into the record, we will have Mr. Wright state his  
9           organizations at that time --

10          MR. REHWINKEL: Okay.

11          CHAIRMAN FAY: -- and then address them  
12          individually.

13          So we'll have the MD&A as 201 and then the  
14          earnings surveillance as 202.

15          MR. REHWINKEL: Okay.

16          CHAIRMAN FAY: And your objections are noted  
17          at this time, Mr. Wright, and we will take them up  
18          when we get to the exhibits.

19          MR. REHWINKEL: Thank you.

20          (Whereupon, Exhibit Nos. 201-202 were marked  
21          for identification.)

22          MR. REHWINKEL: And I wasn't trying to get one  
23          in under the -- I was just trying to save time.

24          CHAIRMAN FAY: No, if you are able to  
25          stipulate them, great, but it sounds like there is

1 differences on them, so we will work through them.

2 MR. REHWINKEL: I understand.

3 BY MR. REHWINKEL:

4 Q Okay. So let's take up what's 202, which is  
5 the surveillance reports first, if we can --

6 A I am sorry, which surveillance reports?

7 Q It's Peoples -- PGS 2022 earnings surveillance  
8 reports compiled. And my representation to you, this is  
9 the March, June and September 2022 quarterly earnings  
10 surveillance reports for Peoples Gas?

11 A Okay.

12 Q Okay. And let's do a little bit of  
13 housekeeping on a subject to check that I got you to  
14 agree to.

15 Schedule 2, which is two pages from the back,  
16 this is Schedule 2 from the June -- I am sorry, the  
17 September 30, 2022, surveillance report. Do you  
18 remember see Schedule 2 in the upper right-hand corner?

19 A Yep. I am there.

20 Q Okay. And the far right column, column 11, it  
21 says, total rate base, and then it has an FPUC -- I  
22 mean, FPSC adjusted line about three numbered populated  
23 lines from the bottom, 1.671953, and those are in  
24 thousands?

25 A I am sorry, which lines? Cast iron bar?

1 Q Well, if you go -- actually, the last three  
2 lines all have the same number 1.671953 for rate base,  
3 do you see that?

4 A Yep.

5 Q That just shows that FP -- that PGS is four  
6 times bigger than --

7 A Yes, bigger than FCG.

8 Q Okay. And would you agree, if you look on  
9 Schedule 1, including flex revenues on a proforma  
10 adjusted basis and a PSC adjusted basis, the earned  
11 return on equity for Peoples Gas for September 2022 was  
12 9.77 percent?

13 A Yes. And I will be honest, I don't know what  
14 flex rate revenues are.

15 Q Okay. For -- without them, it's 9.43 percent,  
16 right?

17 A Okay.

18 Q And then if we -- if we did the same exercise  
19 on ROE on the June 2022 surveillance report, we see  
20 either a 10.07 with or a 9.71 ROE without flex revenue.  
21 Do you see that?

22 A Yes.

23 Q And then finally, on the March surveillance  
24 report, we see 10.4 with and a 1.06 without ROE  
25 achieved?



1           A     Yes.

2           **Q     Okay.  So would it be fair to say that Peoples**  
3 **has used their opportunity to amortize differently than**  
4 **the only other exemplar we have, which is FPL, which is**  
5 **they are not taking it to the top of the range?**

6           A     Again, I don't think PGS or any of these other  
7 utilities can actually claim the amount of O&M savings  
8 and cost savings that FPL has.  FPL has -- is -- is the  
9 lowest bill in the state of Florida, in -- in all of the  
10 IOUs right now, and they have been able to do this  
11 through this productivity savings.

12                     Again, the RSAM mechanism is not a mechanism  
13 that allows FPL to earn at the top of the range.  They  
14 cannot earn anywhere over the midpoint without the  
15 productivity savings that we've talked about.  And  
16 without the enormous efforts they put in since, I think  
17 we started talking 2012 is when these plans came into  
18 play, they have identified significant savings, and they  
19 continue to identify significant savings which allows  
20 them to earn up towards the top of the range, and  
21 continue to stay out over four-year periods.

22           **Q     Was that a yes plus that example?**

23           A     I think I did say yes.  Sorry.

24           **Q     Okay.  And then, just if we can, to Exhibit**  
25 **201, if we could look at --**

1 A Which one is 201?

2 Q It's the Emera.

3 A Sorry.

4 Q And on page one, it just shows Emera  
5 management discussion and analysis as of November 10,  
6 2022, do you see that?

7 A Yes.

8 Q Okay. And then if you flip over to page 14,  
9 there is a discussion related to Peoples Gas. And it  
10 says, in the third paragraph, under gas utilities and  
11 infrastructure, where I have -- it's my highlighting,  
12 not Emera's: PGS anticipates earning within its allowed  
13 ROE range in 2022, and expects rate base in USD earnings  
14 to be higher than in 2021. PGS expects favorable  
15 customer growth in 2022, and residential and commercial  
16 rates volumes in 2022 are expected to increase at a  
17 level slightly below customer growth. The PGS rate case  
18 settlement, which was approved in November 2020, also  
19 provides the ability to reverse a total of \$34 million  
20 USD of accumulated depreciation through 2023. Through  
21 September 2022, PGS reversed 14 million USD accumulated  
22 depreciation. The reversal of the remaining accumulated  
23 depreciation is expected to occur over the '22 and --  
24 2022 and 2023 period, do you see that?

25 A Yes.

1           **Q**     So it appears that the results that Peoples  
2     has presented under the amortization mechanism that you  
3     point to is to come in -- is to use this amortization to  
4     be at a point that's below their midpoint, right?

5           **A**     Yes. And again, I was not part of their  
6     settlement. I am not part of their budgeting and  
7     forecasting process. I am not part of any of their  
8     processes as to how they run their business. You know,  
9     they have to do what they think is right for them in the  
10    way that they operate their business, and this is how  
11    they are operating their business.

12          **Q**     Would you also agree with me that Peoples Gas,  
13    as a part of the settlement that resulted in them having  
14    this one-way amortization mechanism, they agreed to make  
15    a parent debt adjustment as a part of the compromise on  
16    revenue requirements?

17          **A**     I believe they did make a parent debt  
18    adjustment. I am not sure how that came out as part of  
19    the compromise or settlement agreement, and things of  
20    that nature.

21          **Q**     Okay. If there was a catastrophic event that  
22    in -- that caused costs that would put the company  
23    outside the range without the creation of a regulatory  
24    asset, would there be an exception to the four-year plan  
25    that you propose for such an event?

1           A     So I will you, yes, there is an exception, but  
2     what we have in the four-year plan is not a guarantee.  
3     It is a commitment by the company to operate within the  
4     four-year plan to utilize the RSAM to stay out for the  
5     benefit of our customers.

6                     If there was a catastrophic -- and I think  
7     during witness Howard's testimony, Mr. Moyle had a, you  
8     know, we lost 80 percent of our system example, that  
9     would certainly be a facts and circumstances that would  
10    definitely require us to come back in here for some type  
11    of relief, but it would have to be an absolute  
12    extraordinary event, or something of that nature -- or  
13    something of that nature that we would not be able to  
14    manage through under the current terms of the agreement.  
15    But it is a commitment by FCG to operate, and we have  
16    shown that we believe we can stay out over the four-year  
17    period, and we will commit to do that.

18           **Q     Let's go to the parent debt adjustment.**

19           A     Okay.

20           **Q     All right. You are the one witness associated**  
21 **with that, right?**

22           A     Yes.

23           **Q     And I think you have told me before, you have**  
24 **expertise in finance, is that right?**

25           A     Yes.

1           **Q     You have an undergraduate and a Master's**  
2 **degree in accounting, and you are a CPA, right?**

3           A     Yes.  And I would say my expertise in finance  
4 in this case is really related to my day-to-day job  
5 functions.  I am -- I own and manage the entire FPL and  
6 FCG forecast.  That includes balancing our capital  
7 structure, working with treasury, making sure we are  
8 financing correctly, doing financing with them.  In  
9 addition to that, my team does the forecasted earnings  
10 surveillance reports.  My team also puts together the  
11 ESRs monthly.  My team calculates the RSAM each month  
12 that gets booked.  All of these factors is what is my  
13 expertise in this case today.

14          **Q     Okay.  And I think I maybe demoted you**  
15 **yesterday.  You and Mr. Ferguson report to Mr. Bores?**

16          A     Yes.  That's right.

17          **Q     And Mr. Bores is the -- what is his title?**

18          A     The Vice-President of Finance.

19          **Q     Okay.**

20          A     I think witness Fuentes also took my CPA  
21 license from me today.

22          **Q     I reminded her of that.**

23          A     Yeah.

24          **Q     And you are also -- who is this, Mr. Bores is,**  
25 **like, the CFO of FPL, is that the function?**

1           A     Not officially, but I think you could, you  
2 know, say that's somewhat of his responsibilities, yes.

3           **Q     On your direct testimony, you did not address**  
4 **the parent debt adjustment, did you?**

5           A     In my direct testimony?

6           **Q     Yeah.**

7           A     I did not.

8           **Q     Just in your rebuttal, right?**

9           A     Yes.

10          **Q     Why didn't you address it in your direct?**

11          A     It was not an issue that we thought that  
12 needed to be addressed in our direct testimonies. We  
13 thought the MFRs that we filed spoke for themselves, and  
14 there was no need to address it in the direct case.

15          **Q     So what MFRs did you file that spoke for**  
16 **themselves? Can you tell me?**

17          A     I can't remember the exact MFR off the top of  
18 my head.

19          **Q     All right. There was some questioning of Ms.**  
20 **Fuentes yesterday and some redirect today about MFR**  
21 **C-26, do you recall that?**

22          A     Yes, I was listening. Yes.

23          **Q     Is that where the company felt like they made**  
24 **their case in the filing on whether a parent debt**  
25 **adjustment applies?**

1           A     Yes.  I think the way we made our case in the  
2 MFRs, in the required MFRs, was that over the term FCG  
3 has actually distributed more money from FPL than it's  
4 actually in contributions from FPL, such that they  
5 wouldn't have any additional amounts invested in their  
6 equity that would be coming from the parent company's  
7 debt.  And that was -- that was kind of how we had put  
8 it in the MFRs, and we thought it was a non-issue until  
9 the rebuttal testimony -- until the intervenor  
10 testimonies came in, and at which time we addressed the  
11 issue in my rebuttal testimony.

12           **Q     You said over the what?**

13           A     Since FPL has owned FCG, since that term, FCG  
14 has distributed more money to FPL than FPL has inserted  
15 into FCG's equity.

16           MR. REHWINKEL:  Okay.  Before we get into that  
17 point, Mr. Chairman, I think I have distributed a  
18 copy of the parent debt rule.  I hope I have.

19           CHAIRMAN FAY:  Yep.

20           MR. REHWINKEL:  Yes.  If we can give it a  
21 title for -- I mean, order number -- exhibit number  
22 if you would like.

23           CHAIRMAN FAY:  Sure.  203.

24           (Whereupon, Exhibit No. 203 was marked for  
25 identification.)

1 BY MR. REHWINKEL:

2 Q You are familiar with the parent debt rule,  
3 25-14.004?

4 A I am. I have it here.

5 Q Okay. You would agree that this rule has not  
6 been repealed?

7 A Yes.

8 Q Okay. And you would agree that FCG did not  
9 seek a waiver of the application of this rule, right?

10 A Yes.

11 Q Okay. Opening the rule up and looking at this  
12 first paragraph that's -- it's not numbered. It just  
13 starts, in Commission proceedings, do you see that?

14 A I am sorry, I was actually in my support file.

15 Q That's okay. Under the title of the rule,  
16 just the very first line --

17 A Okay.

18 Q -- you see Commission proceedings?

19 A Yes.

20 Q You would agree that we are now in a  
21 Commission proceeding to establish revenue requirements,  
22 or address overearnings, right?

23 A Yes.

24 Q Okay. And it's the revenue requirement part  
25 of that, right?



1 A Yes.

2 Q And it's not a proceeding entered into under  
3 Rule 25-14.003, which I will represent to you is a  
4 repealed rule relating to actuary changes?

5 A Okay, I would agree with that.

6 Q Okay. You would agree that FCG is regulated  
7 company, right?

8 A Yes.

9 Q And you would agree that there is a parent  
10 subsidiary relationship between FCG and FPL?

11 A Yes.

12 Q And would you agree that FCG and FPL join in  
13 the filing of a consolidated income tax return, right?

14 A Yes.

15 Q The only area of disagreement within this  
16 paragraph is whether parent debt may be invested in the  
17 equity of FCG, is that right?

18 A In its equity, that's right.

19 Q Yes.

20 As a CPA, and someone who works in finance and  
21 the regulatory reporting and forecasting, you have a  
22 working understanding of this rule, is that right?

23 A Yes.

24 Q All right. So do you have a copy of MFR C-26  
25 with you?

1           A     I don't think I sponsored that so I don't  
2 think it's in my binder.

3           **Q     Okay. I can double check though?**

4           MR. REHWINKEL: Do you mind if we give him a  
5 copy?

6           MR. WRIGHT: That's okay.

7           MR. REHWINKEL: Okay.

8           THE WITNESS: Okay.

9 BY MR. REHWINKEL:

10          **Q     Okay. Thank you.**

11                   **And is this the only MFR schedule that you are**  
12 **aware of that relates to the calculation of the parent**  
13 **debt adjustment?**

14          A     As far as I know, but again, I didn't sponsor  
15 this MFR, so --

16          **Q     Okay. So we have a little bit a crossover --**  
17 **or overlap here. You are on the issue, and Ms. Fuentes**  
18 **sponsored the MFR schedule right?**

19          A     Yes. And I am on the issue because we see it  
20 as a forecasted test year issue based on capital  
21 structure, which is more in my area of expertise.

22          **Q     Okay. So can you read the note there that's**  
23 **been read several times, but for the purposes of your**  
24 **testimony, can you just read the note at the bottom?**

25          A     Sure.

1 Florida City Gas is not including an income  
2 tax adjustment for interest expense of Florida Power &  
3 Light Company's investment in equity of Florida City  
4 Gas. Florida City Gas' dividend to parent have exceeded  
5 equity contributions from parent.

6 **Q Where is that demonstrated that equity**  
7 **contributions are exceeded by dividend payments?**

8 A Where is that demonstrated?

9 **Q Yes.**

10 A You mean in numbers?

11 **Q Well, however it would -- however it would be**  
12 **proven to the Commission that that's the case.**

13 A I don't think there was a requirement in the  
14 filing to show that, so we made our statement as to why  
15 this is not applicable to FCG, and that was our  
16 statement in the MFR that this is not applicable due to  
17 the fact that distributions have exceeded contributions.

18 **Q Okay. Well, you would agree with me that**  
19 **before some day in July of 2018, that FPL had not**  
20 **invested even one dollar in FCG, right?**

21 A I am sorry, can you repeat the question?

22 **Q Yes. Assuming that the closing of the**  
23 **ownership of -- acquisition of FPL occurred in July of**  
24 **2018, say before July 1 of 2018, FPL had never invested**  
25 **a single dollar in FCG, right?**

1 A Yeah. That's right.

2 Q And as of July of 2018, that would be the  
3 earliest opportunity FPL would have had to invest money  
4 in FCG, right?

5 A Yes, that's right.

6 Q Okay. So for the purposes, you -- again,  
7 going back to your answer that talked about over time.  
8 The starting point of that over time period would have  
9 been whatever day in July of 2018 FPL actually became  
10 the owner of FCG, right?

11 A Starting from that date?

12 Q Yes.

13 A Yes.

14 Q Okay. Wouldn't you agree with me that since  
15 July of 2018, all the way up through the end of December  
16 31, 2021, FCG paid no more than \$63,750,143 in dividends  
17 to FPL?

18 A I don't have that number in front of me, but  
19 that could be right. Do you -- where are you  
20 referencing that number from?

21 Q Okay. Well, exhibit -- do you have Exhibit  
22 186 with you? It's --

23 A I think I remember seeing that.

24 MR. REHWINKEL: Mr. Chairman, I have passed  
25 out an exhibit that is titled Summary of FCG

1 Capital Structure Changes in Dividends.

2 CHAIRMAN FAY: Okay. Hold on one second. Mr.  
3 Rehwinkel, you are saying in the recent stack that  
4 we have left?

5 MR. REHWINKEL: Yes.

6 CHAIRMAN FAY: Oh, I see it. Actually my last  
7 one. Okay.

8 THE WITNESS: My stack starts at 187 here.

9 MR. REHWINKEL: Okay.

10 CHAIRMAN FAY: Mr. Rehwinkel, are you  
11 recommending we utilize this exhibit instead of  
12 going to 186?

13 MR. REHWINKEL: I'm going to see if I can  
14 shortcut it.

15 CHAIRMAN FAY: Okay.

16 MR. REHWINKEL: It may save time if I don't  
17 have to go through him what I did with Ms. Fuentes.

18 CHAIRMAN FAY: Okay. That's fine.

19 (Whereupon, Exhibit Nos. 204 was marked for  
20 identification.)

21 BY MR. REHWINKEL:

22 **Q But I can get you, I think, a copy of 186.**

23 **A** It's right here under my binder. I apologize.  
24 I just noticed it.

25 **Q It's the umbrella. If I wouldn't have given**

1 it to you, you wouldn't have found it.

2 Okay. So 204, I would represent to you that  
3 this document, at least on the top line, it reflects the  
4 dividends that we went through with Ms. Fuentes  
5 yesterday. I put in yellow the three that would, or are  
6 the dividends that were paid since FPL owned the  
7 company; 20 million in 2021, 40 million in 2019, and  
8 maybe 3,750,143 in 2018.

9 A Okay. I don't see the page, but I know you  
10 went through this extensively with witness Fuentes, and  
11 I was listening and I can accept that.

12 Q Okay. So -- and then in 2021, off of the  
13 balance sheet, I have placed in here \$151,380,644 of  
14 paid-in capital at the end of 2021; do you see that?

15 A I don't know what page you are on, so --

16 Q Okay. Well, I am looking first of all, if you  
17 can -- do you have Exhibit 204 with you? I think we did  
18 that while you were looking for 186. It's entitled  
19 Summary of FCG Capital Structure.

20 A I can maybe summarize this a little bit more,  
21 because I am not actually responsible for sponsoring  
22 what happened in 2021. In fact, FCG's position is this  
23 is a test year rate case in 2023. And the simple fact  
24 of the matter is, at the time we acquired, that FPL  
25 acquired FCG, its capital structure did not change. And

1 then since that time, and as of 2023, we are requesting  
2 the same exact investor sources equity ratio and debt  
3 ratio as FPL, such that any money that's invested in  
4 FCG's equity from FPL, any debt provided from FPL to  
5 FCG, is at the same ratio, such that FPL is not holding  
6 any additional debt on its books in which it's getting a  
7 tax benefit from interest expense that they would need  
8 to push down to FCG. It is at the same ratio.

9           And if you read the rule, I believe it's line  
10 three -- let me just double check here. So if you read  
11 the rule, subsection (3), it says the presumption that a  
12 parent's investment in any subsidiary, or in its own  
13 operations, shall be considered to have been made in the  
14 same ratios as exist in the parent's overall capital  
15 structure. That's exactly what we are proposing today,  
16 is that they are in the same ratio, such that there is  
17 no tax benefit at FPL that should be pushed down to FCG.

18           **Q     So would you agree with me that the annual**  
19 **reports that are included in Exhibit 186 show the actual**  
20 **capitalization of FCG at the end of 2021?**

21           A     What page is that on on 186?

22           **Q     It would be, I think Bates 16, which is the**  
23 **upper right-hand corner this time.**

24           A     Okay. And just -- I have never reviewed these  
25 before --

1 Q Okay.

2 A -- so bear with me. Okay.

3 Q So on the far right, we see a balance end of  
4 year, there is the 151 million and change of paid-in  
5 capital, \$6.225 million in retained earnings, and a  
6 total proprietary capital on line eight of 157,606,098,  
7 do you see that --

8 A Yes.

9 Q -- may be 96 -- 98, do you see that?

10 A Yes.

11 Q And then there is, in the long-term debt line,  
12 of 16 -- 170,625,000 of long-term debt, right?

13 A I am sorry, where are you at? Yes, I see  
14 that. I agree.

15 Q Okay. Now, would you agree with me, subject  
16 to check, that if you added the 157 and the 170, and  
17 took that product and divided -- divided it by the  
18 equity, would you get 48 percent?

19 A Subject to check, but that would make sense.

20 Q That would be the equity ratio that's shown on  
21 this --

22 A 48 percent equity, yep.

23 Q And that's the equity ratio that's authorized  
24 for FCG today, right?

25 A That's right.



1 Q Okay. So this shows the actual capitalization  
2 of FCG, right?

3 A It appears to. Yes.

4 Q Okay. And this is a capitalization that, if  
5 you work through time from 2018, 2019, 2020 and 2021, it  
6 shows the changes in the way FPL actually capitalized  
7 this subsidiary, right?

8 A I am sure it would, yes.

9 Q Okay. And to get from this point to whatever  
10 equity ratio that you would have in 2023, would you have  
11 to make debits and credits on the balance sheet to get  
12 the equity balance up, or it would be 59.6 equity ratio,  
13 right?

14 A I am not sure why it be would 59.6 percent.

15 Q I thought that's what you were asking for.

16 A In 2023. These are all --

17 Q Yes.

18 A -- if you are you talking about these forms,  
19 these are all based on actuals.

20 Q I understand that.

21 A Oh, so you are saying as we forecast up to  
22 actual, yes --

23 Q Okay.

24 A -- it would get us up to 59.6 percent.

25 Q To transition from this point to 59.6, you

1 would have to -- FPL would have to put more debt -- I  
2 mean, more equity into this relative to the debt, right?

3 A Yes.

4 Q Okay. And paying dividends is not going to  
5 exceed the amount of paid-in capital or equity  
6 contributions that the parent would make to get to that  
7 59.6 number, right?

8 A I don't know. We would have to go and look at  
9 that, but that could be possible, yes.

10 Q I mean, it's mathematically impossible, isn't  
11 it, to get from -- if you have got \$63 million --

12 A No, it's -- also your -- your equity also  
13 grows by the amount of retainings and earnings you have  
14 each year, so it's not absolutely impossible. But  
15 depending on the amount of time that we look at this,  
16 there could be a situation where, you know, if it's six,  
17 seven, eight years, you could start looking at a fact  
18 pattern where you start dividending more money back up  
19 to FPL as you are balancing the capital structures and  
20 staying within and targeting that approved capital  
21 structure.

22 Q Okay. I agree with that. But as of today,  
23 and then through the end of next year, it's not going to  
24 be possible to have dividends of FPL exceed paid in  
25 capital from FPL if you have a 59.6 percent equity

1 **ratio, right?**

2 A That's probably true. We would have to insert  
3 equity into FCG to gets them up to the 59.6 percent.

4 Q Okay. Is it true, putting aside your theory  
5 on how the FPL -- I mean, the parent debt rule is to be  
6 applied, is it true as of the date that the C-26  
7 schedule was filed, that dividends to FPL had exceeded  
8 paid-in capital to FPL over the time that they owned it?

9 A Through 2021?

10 Q Yes.

11 A Yes.

12 Q How is that true?

13 A How is it true?

14 Q Yes.

15 A FPL -- or FCG dividended more money up to FPL  
16 than FCG contributed down. It's due to earnings growth,  
17 and things of that nature.

18 Maybe I don't understand your question, but --

19 Q Okay. So would you agree with me that FCG has  
20 dividended no more than 63.375 -- \$63.750 million up to  
21 FPL since the day FPL bought the company?

22 A I actually have -- I can say it's 63 million  
23 based on what you have gone through.

24 Q Okay. I mean, is there anything -- any other  
25 dividends that would have been paid that didn't show up

1 **in the annual report?**

2 A I have -- I have no idea. I am not familiar  
3 with the annual report.

4 Q Okay. And you would agree that the paid-in  
5 capital balance is 151 million, right?

6 A Again, I -- I do think this is kind of a moot  
7 point as to my statement earlier as to why we feel like  
8 there is not a parent debt adjustment. It really  
9 doesn't matter how much equity that FPL has infused into  
10 FCG, and how much debt it has infused into FCG. It  
11 is -- at this point, before 2023, FPL actually holds a  
12 much lower percentage of debt in its capital structure  
13 than what FCG does.

14 As we stated earlier, FCG has a 52 percent  
15 debt and 48 percent equity. FPL has 59 percent equity  
16 and 40.4 percent debt, such that FPL infusing any money  
17 into FCG at those same ratios, FPL is holding a much  
18 lower percentage of debt than FCG currently is.

19 So there is no additional benefit from a --  
20 from a interest expense standpoint in that there is a  
21 tax deduction on that interest expense, because FPL  
22 holds less debt. That's the simple fact.

23 So going back through 2021, and contributions  
24 and distributions, that was just one data point.

25 Really, there is no parent debt adjustment here given

1 the ratios as to how each one of these companies are  
2 capitalized today versus how we are proposing them to be  
3 capitalized into 2023, being identical.

4 **Q So is the statement that's made in that MFR,**  
5 **is that something that shouldn't have been made?**

6 A No, I think it was still a true statement that  
7 we made there. It's -- and that is one data point, and  
8 I have that in my rebuttal testimony. But again, I said  
9 that data point, and as I said, that's how we had thrown  
10 out that MFR at that time when we saw intervenor  
11 testimony come in challenging that, we went back through  
12 and we really went through all of the criteria as to why  
13 there is no parent debt adjustment at FCG. We never  
14 thought of it as an issue when we did the direct case.

15 **Q I guess I am still at a loss based on the**  
16 **numbers that are in the MFR -- in the annual reports how**  
17 **it can be said that 63 million is greater than 151**  
18 **million.**

19 A I will tell you the numbers that I had was not  
20 63 million versus 100 million, so I am not exactly sure  
21 what's in those reports. I never looked at those  
22 reports before. But the schedules that we put together  
23 and the way that we capitalized the contributions, or  
24 the dividends up, had -- were more than the  
25 contributions into FCG.

1           **Q**    What were the dividends -- what was the number  
2    you had?

3           A    I don't remember off the top of my head.  
4    There was a support file that we had, but --

5           **Q**    Let's go to the tax mechanism.

6           A    Okay.

7                   MR. REHWINKEL: I'm getting close, Mr.  
8    Chairman.

9                   CHAIRMAN FAY: Okay.

10   BY MR. REHWINKEL:

11           **Q**    On page 35, line 11 of your testimony.

12           A    Directs or --

13           **Q**    Rebuttal. I am sorry.

14           A    Page 35?

15           **Q**    Yes.

16           A    I don't have a page 35 in my rebuttal.

17                   CHAIRMAN FAY: Mr. Rehwinkel?

18   BY MR. REHWINKEL:

19           **Q**    Oh, I apologize. It is your direct testimony.  
20   My bad.

21           A    It's a long day.

22           **Q**    It is.

23           A    Okay. I am there.

24           **Q**    All right. You asked the Commission to  
25   approve in this case a tax adjustment mechanism, like

1 the one FPL he negotiated in the 2021 FPL settlement  
2 agreement, right?

3 A Yes, as well as I believe all the other  
4 Florida IOUs as well.

5 Q Okay. And they all negotiated those  
6 agreements, right, those tax provisions, right?

7 A I believe they were all settlement agreements.

8 Q Yeah. So you are not aware of -- well, the  
9 Commission has never ordered a tax -- prospective tax  
10 adjustment mechanism like the one you are proposing,  
11 have they --

12 A I am --

13 Q -- outside of a settlement agreement?

14 A I am not sure.

15 Q On page 35, you begin your discussion of the  
16 tax rate adjustment mechanism in your direct, right?

17 A Yes.

18 Q Now, on line 17, you note that there may --  
19 there was -- in May, there was debate about a potential  
20 change in the tax law, right?

21 A Yes.

22 Q The Inflation Reduction Act became law in  
23 August of '22, right?

24 A Yes.

25 Q Okay. So would you agree with me that the

1     **Inflation Reduction Act did not have any impact on the**  
2     **costs that FCG, on its own, will incur?**

3           A     Yes. Based on our current assessment right  
4     now, we do not foresee any impacts related to the  
5     Inflation Reduction Act on FCG.

6           Q     **Okay. So is it fair to say that IRA, or**  
7     **Inflation Reduction Act, is in your rear-view mirror,**  
8     **and now what you are asking for approval for is**  
9     **something that would be in the future?**

10          A     Again, I think we are still assessing IRA. I  
11     don't foresee there to be anything related to FCG, and I  
12     think anything that has come out of IRA in this  
13     provision in the FPL settlement agreement has been  
14     nothing but positive for customers. However, at this  
15     point in time, I do not foresee anything related to IRA  
16     affecting FCG.

17          Q     **Okay. So -- and I think there was notices of**  
18     **identified adjustments, or something like that, filed in**  
19     **this case?**

20          A     Yes, witness Fuentes.

21          Q     **Okay. Nothing in that brought IRA, right?**

22          A     No, nothing on that.

23          Q     **And on page 37, lines 17 through 20, you**  
24     **mentioned several dockets, right?**

25          A     Yes.



1           Q     And these are the cases that have a mechanism  
2     in the settlement agreement that was negotiated, right?

3           A     Yes.

4           Q     All right. And you are citing as precedent  
5     those agreements, including the 2021 FPL agreement, for  
6     adoption of this proposal, right?

7           A     I am pointing out that there has been very  
8     similar mechanisms approved in recent, obviously,  
9     settlement agreements.

10          Q     Okay. And you are asking the Commission to  
11     look to those for comfort in approving your proposed  
12     agreement in this litigated case, right?

13          A     Yes. I think it does provide some comfort  
14     that this has been done before. And, again, like I  
15     right cited before, I know FPL was just in here  
16     recently, and it resulted in a fairly large credit to  
17     our customers, a give back of cash, which was a really  
18     nice provision to have that we could come in here and do  
19     that right away.

20          Q     Okay. And you recall, we went through on page  
21     55 of the 2021 order, in paragraph 30, that sentence  
22     that said no party will --

23          A     Yes, I --

24          Q     -- cite a term of the agreement as precedent,  
25     right?

1           A     Yeah, it seems like a standard clause in these  
2 settlement agreements, yes.

3           **Q     Why does that -- the fact that that's there**  
4 **not prohibit you from citing to that FPL order as**  
5 **precedent?**

6           MR. WRIGHT:  Objection, calls for a legal  
7 speculation.

8           MR. REHWINKEL:  Well, he -- if I might, he --

9           CHAIRMAN FAY:  Go ahead, Mr. Rehwinkel.

10          THE WITNESS:  So I am not -- I am not telling  
11 the Commission what they can or cannot do, and all  
12 I am doing is citing facts here, that there were  
13 mechanisms like this approved as part of settlement  
14 agreements.  I am not trying to say that you should  
15 rely on these, or tell you what to do, or -- I am  
16 not a lawyer.

17          I am just, in my mind, I have seen that these  
18 have been approved before, whether it be part of a  
19 settlement agreement or a litigated case, and just  
20 kind of as reference here that this has been done  
21 before.

22          And again, like I referenced earlier, we were  
23 in here as FPL very recently, it provided benefits  
24 to customers, so I think it's a good provision.

25          MR. REHWINKEL:  Well, Mr. Chairman, I have

1 Exhibit, 2017 Gulf Power Prehearing Order Excerpt.

2 CHAIRMAN FAY: Okay.

3 MR. REHWINKEL: 205?

4 CHAIRMAN FAY: Okay.

5 MR. REHWINKEL: Is it 205?

6 CHAIRMAN FAY: 205, yep.

7 MR. REHWINKEL: Okay, thank you.

8 (Whereupon, Exhibit No. 205 was marked for  
9 identification.)

10 BY MR. REHWINKEL:

11 Q Mr. Campbell --

12 A I am still finding it.

13 Q -- this document?

14 A 2017 Gulf Power Prehearing Order Excerpt?

15 Q Yes.

16 A 205?

17 Q Yes, sir.

18 A Okay.

19 Q Okay. And you would agree, if you look on the  
20 first page, that this is an excerpt from the prehearing  
21 order in the Gulf Power 2016 rate case?

22 A Yes, that's what it appears to be.

23 Q Okay. And if you could turn to the second  
24 page, which is the excerpted page 107 from that order.

25 A Okay. I am there.

1 Q There is a ruling section, and then there is a  
2 discussion of OPC Issue 1A. Do you see that at the  
3 bottom?

4 A Yes.

5 Q Have you ever seen this order, or been made  
6 aware of its existence?

7 A I have not.

8 Q The order -- the issue that the Public Counsel  
9 attempted to raise read: In the event federal  
10 legislation is passed and signed into law between now  
11 and a reasonable period after new base rates become  
12 effective that results in a change in the corporate  
13 income tax rate to which Gulf is subject, or changes in  
14 the depreciation allowance for tax purposes associated  
15 with plant additions incorporated in test year rate  
16 base, what adjustments or provisions, if any, should the  
17 Commission make to address such changes?

18 And it goes on, but I want to ask you, isn't  
19 this very similar to what you are asking the Commission  
20 to consider, is that there ought to be a process for  
21 addressing future changes in tax rates?

22 A That's what it appears to be, yes.

23 Q So could you turn over to the next page, which  
24 is 108. And the ruling here says: I find the issue is  
25 premature and not ripe for consideration at this time.

1     **Should federal tax changes occur in the future, the**  
2     **issue may be addressed at the appropriate time in a**  
3     **separate proceeding. Do you see that?**

4           A     Yes.

5           Q     **And just over on the next --**

6           MR. WRIGHT: Chairman, I am sorry. I have got  
7           to interrupt here. I mean, there is no foundation  
8           for this. This is a Gulf Power order. It's not  
9           discussed by witness Campbell. I fail to see how  
10          this is relevant here. This is a prehearing order.  
11          It's not a final order. I just don't see what we  
12          are doing here. We are talking about a contested  
13          issue in a prehearing order in a completely  
14          unrelated docket, on an unrelated utility, in  
15          unrelated matter.

16          CHAIRMAN FAY: Yeah, go ahead, Mr. Rehwinkel.

17          MR. REHWINKEL: Mr. Chairman, I recently was  
18          arguing with Mr. Wright in the docket --

19          CHAIRMAN FAY: Is your mic on? I am having  
20          trouble hearing.

21          MR. REHWINKEL: It's just me not being -- my  
22          fault.

23          CHAIRMAN FAY: Go ahead.

24          MR. REHWINKEL: I was recently in a docket, I  
25          think it was the consolidated storm protection plan

1 docket, and I asked for reconsideration of a  
2 Prehearing Officer's order in the same exact  
3 standard applies as if the full commission had  
4 ruled applied to that, I had to meet the same  
5 standard.

6 The prehearing order here was not challenged.  
7 It became final. And it is the final ruling by the  
8 Commission, whether it's made by one Commissioner  
9 or all five. That is the posture in which  
10 prehearing orders are in if they are contested and  
11 become a ruling and become final. Whether it's  
12 final because prehearing -- because reconsideration  
13 isn't taken, or final because reconsideration is  
14 taken and it is denied, it becomes the final order  
15 of the Commission.

16 So this is the law of the Commission on  
17 whether a issue can even be raised on a tax  
18 adjustment.

19 CHAIRMAN FAY: Yeah, and I agreed with some of  
20 your other correlations to the testimony in the  
21 other utilities that you have -- you set the record  
22 with comparisons and differences between those. I  
23 don't see a correlation here.

24 And I will say you do have the witness on  
25 record previously stating his position about his

1 interpretation of the Inflation Reduction Act,  
2 which seems to accurately portray the position you  
3 are putting in the record. I don't know if this is  
4 an attempt to sort of resubstantiate that position,  
5 but I am not sure it's necessary here.

6 So it is -- it is a stretch, Mr. Rehwinkel. I  
7 am going to agree with Mr. Wright on this. I don't  
8 think that it's, you know, appropriately correlated  
9 here. But if your question is regarding the  
10 Inflation Reduction Act component of it, I think  
11 you sufficiently asked and had that answered by Mr.  
12 Campbell.

13 MR. REHWINKEL: Well, in the sense that this  
14 is an order of the Commission, and it can be cited,  
15 I really don't need his agreement about its status.  
16 We can argue that in our brief.

17 CHAIRMAN FAY: That's fair, Mr. Rehwinkel.  
18 But if you want the witness to respond to the  
19 question of the exhibit, then it would need to be  
20 in or out, and so --

21 MR. REHWINKEL: He answered my question. I  
22 was just going to ask him if Mr. Patronis'  
23 signature was on the next page. That was my last  
24 question on this order.

25 CHAIRMAN FAY: Okay. Well, we will move on

1 from this order then. I have never heard of this  
2 Mr. Patronis person, but I appreciate your  
3 question.

4 So with that, Mr. Rehwinkel, move onto your  
5 next line of questioning. And that was 205, Mr.  
6 Rehwinkel?

7 MR. REHWINKEL: Yes, Commissioner.

8 CHAIRMAN FAY: Okay, go ahead.

9 BY MR. REHWINKEL:

10 Q You said earlier that, in so many words, the  
11 IRA is in the rear-view mirror with respect to FCG,  
12 right?

13 A I hope so, but we have not made our final  
14 determination on that yet.

15 Q There is no evidence in this case that says  
16 that that's still a live issue?

17 A Yes, I would agree with that.

18 Q Okay. The tax mechanism you are proposing is  
19 really forward-looking, and looking at a newer -- I  
20 mean, a distinct future tax law change, right?

21 A If I remember correctly, but I -- this  
22 provision is there if a change in -- related to tax  
23 reform occurs and we don't have it in our MFRs or in our  
24 base rates, and it's a substantial difference, that we  
25 can come back in, whether good or bad -- I am sorry,



1 good or bad, whether it's refund the customers or needs  
2 to come back to the company, that's why it's there.

3 Q Okay. And you are not here to testify that  
4 you know of any tax law changes that are pending that  
5 you expect to be proposed or adopted during the four  
6 years that you are asking the Commission to address in  
7 this case, is that right?

8 A That's right.

9 Q Okay. Just real quickly. Are you aware of  
10 whether there are any mergers or negotiations for merger  
11 or sale of the company, or part of the company, while we  
12 sit here today?

13 A I am not aware of any mergers or anything of  
14 that nature.

15 Q Okay. Would you likely be someone to know if  
16 there was such activity going on?

17 A At some point in time, I think if there was a  
18 serious merger or acquisition going on, I would be  
19 notified in order to really, you know, if it was a  
20 serious --

21 Q Okay.

22 A -- acquisition or merger, yes, I think that  
23 would come across my desk at some point.

24 Q That's my last question, and I hope all your  
25 discomfort is solely your back and not me. Thank you,

1     **but I hope that discomfort goes away.**

2           A     Thank you.

3           CHAIRMAN FAY:   Okay.   Thank you, Mr.

4           Rehwinkel.

5           FEA?

6           CAPTAIN DUFFY:   No cross from FEA.

7           CHAIRMAN FAY:   Okay.   Mr. Moyle.   You are  
8           recognized.

9           MR. MOYLE:   Thank you.

10                           EXAMINATION

11    BY MR. MOYLE:

12           Q     **Good afternoon.**

13           A     Good afternoon.

14           Q     **There is a number of topics want to discuss**  
15    **with you, and I am going to try to hit them pretty**  
16    **quickly, and you have been here for the time we've been**  
17    **in hearing, and understand the kind of yes/no, and if**  
18    **explanation is warranted, try to be judicious in that.**  
19    **Are we good with that?**

20           A     Okay.   I will try and explain my answers where  
21    I think necessary.

22           Q     **There was an exhibit that Mr. Rehwinkel**  
23    **provided, I am not sure he used, I want to ask you to**  
24    **look at.**

25           CHAIRMAN FAY:   **What's the title?**

1           MR. MOYLE:  It's the tax -- tax folio for the  
2           property down in Broward County.

3           CHAIRMAN FAY:  The Miami-Dade County folio?

4           MR. MOYLE:  Yes.  Yeah, Miami-Dade County  
5           folio.

6           CHAIRMAN FAY:  Do you have that, Mr. Campbell?

7           THE WITNESS:  Yes, I do.

8           CHAIRMAN FAY:  Okay.  Mr. Wright?

9           MR. WRIGHT:  I have it.

10          CHAIRMAN FAY:  Okay.

11         BY MR. MOYLE:

12                 **Q     If you flip to the second -- or the first full**  
13         **page in this exhibit, I guess it's one of six, it says**  
14         **that the owner of the property is Florida Power & Light,**  
15         **correct?**

16                 MS. HELTON:  Mr. Chairman, before we go down  
17                 this line, can we identify it for the record --

18                 CHAIRMAN FAY:  Sure.

19                 MS. HELTON:  -- with a number?

20                 CHAIRMAN FAY:  Yeah.  Let's give it 206.

21                 (Whereupon, Exhibit No. 206 was marked for  
22                 identification.)

23                 MR. MOYLE:  I guess I am sort of adopting it,  
24                 so is it will be FIPUG's 206.

25                 CHAIRMAN FAY:  Okay.

1 BY MR. MOYLE:

2 Q The document shows FPL as owning the property,  
3 correct?

4 A That's what it says. Yes.

5 Q And if you flip to the third page, it shows  
6 the tract being 77.91 acres. Do you see where it says  
7 full legal description?

8 A Yes. I am sorry, I am not sure what this  
9 exactly is.

10 Q Yeah. It's -- it's the property search  
11 records that's maintained by the property appraiser in  
12 Miami-Dade County.

13 A Okay.

14 Q So that's front page, Pedro Garcia, I think he  
15 is the Miami-Dade Property Appraiser.

16 Really what I want to do, there was discussion  
17 on this LNG facility, you have been here, you heard a  
18 lot of that discussion. Do you know, as we sit here  
19 today, who owns the property that -- that was originally  
20 proposed to be the site for the LNG facility?

21 A I have no idea.

22 Q And so you don't have any information about  
23 any transfers, or, you know, counsel for Florida City  
24 Gas asked yesterday whether there was an option, I mean,  
25 you don't have any --

1           A     Yeah, I think from my high level  
2 understanding, it was options. And I don't believe FCG  
3 ever exercised any of the options. What I do know is  
4 anything related to that original site that we first  
5 went to that did not work out has been written off and  
6 is totally off the books.

7           **Q     And with respect to the property, the property**  
8 **value, I mean, the land in Miami-Dade County is going up**  
9 **and up and up, correct?**

10          A     Yeah, that generally seems to be the case, but  
11 I am not a real estate expert.

12          **Q     Yeah. And one of your witnesses had a chart,**  
13 **where they said we went out and got 100 properties, and**  
14 **we hired a commercial appraiser, an industrial person,**  
15 **and they had a bunch of numbers associated with the**  
16 **property. I am trying to understand what ultimately**  
17 **became of that property.**

18          A     I am not sure I the correct witness for this.  
19 This would be a good question for witness Howard. He  
20 is -- he would be the person that, as the general  
21 manager, that would know the answers to these questions.  
22 Not myself.

23          **Q     Did he stick around, or is he --**

24          A     I have no idea.

25          **Q     All right. The -- I want to talk just for a**

1 minute about the ROE and the equity ratio. I heard you  
2 essentially say that, largely for simplicity purposes,  
3 that y'all were proposing to get the same ROE and the  
4 equity ratio, Florida City Gas is seeking the same as  
5 what is enjoyed by FPL; is that right?

6 A No, that's not exactly what I said. We are  
7 asking here today that, as FPL funds 100 percent of  
8 FCG's operations and provides all the financing, there  
9 is regulatory precedent for this. And, in fact, FCG's  
10 current equity ratio is that what is requested when it  
11 was owned by Southern Company Gas, which reflects  
12 Southern Company Gas' equity ratio.

13 Simply put, FCG benefits from FPL's capital  
14 structure in the form of extremely low cost debt that  
15 FCG could not otherwise obtain on its own. As such, we  
16 are requesting that we set the capital structure and  
17 equity ratio and debt ratio equal to its parent company.

18 Q And equity ratio right now is what, 48  
19 percent?

20 A 48 percent.

21 Q And you are proposing that it go up double  
22 digits, to 59.6?

23 A Yes, to reflect its parent company in the way  
24 it finances its business.

25 Q Have you been involved in any other rate cases

1 **besides this one?**

2 A I was the support witness for witness Bores in  
3 the FPL 2021 case. I supported many witnesses in that  
4 case, and was responsible for preparing the forecast,  
5 the numerous forecasts we had in that proceeding,  
6 including the stand-alone FPL, stand-alone Gulf and  
7 client combining the two entities.

8 **Q When you say support witness, what's that?**

9 A I was the person sitting over there with him.  
10 I was responsible for making sure all of his MFRs were  
11 done, put his books together. If anything were to  
12 happen to witness Bores, I would have replaced him on  
13 the stand.

14 **Q Okay. But a support witness, they don't find  
15 their way to the chair where you are today, do they?**

16 A Hopefully not.

17 **Q All right. So today is your first day  
18 appearing as a witness at the Commission?**

19 A Yes, it is.

20 **Q You are familiar when equity ratio is talked  
21 about, I mean, you have heard the saying about debt is  
22 cheaper than equity. Do you agree with that as a  
23 general proposition?**

24 A Yes, I have heard that before, but you have to  
25 have a well-balanced capital structure.

1           **Q     Right.  So what does debt being cheaper than**  
2 **equity mean to you?  I mean, you are the financial**  
3 **person, right?**

4           **A     I think when you look at your capital**  
5 **structure, you have to take into account, you know, debt**  
6 **is more risky and equity is less risky.  You have to**  
7 **have a balanced capital structure.  I think FPL's**  
8 **capital structure has been extremely beneficial to its**  
9 **customers.**

10                   I also think witness Nelson has really covered  
11 a lot of this in her direct testimony and in her  
12 rebuttal testimonies.

13           **Q     The -- with respect to the impact on**  
14 **ratepayers, ratepayers pay more for equity than they do**  
15 **debt, correct?**

16           **A     Yes, they pay a higher return on equity.**

17           **Q     Right.  So your request today, if you are**  
18 **looking at it from an impact on ratepayers, taking it**  
19 **from 48 percent equity ratio to 59.6, is going to have a**  
20 **significant impact on the rates that FIPUG members and**  
21 **other customers pay compared to the current setting of**  
22 **48 percent, correct?**

23           **A     Yes, it does have an impact on rates, but it's**  
24 **also a way that FCG is able to attract capital.  In**  
25 **order to make these smart investments and necessary**



1 investments into its infrastructure, it has to have debt  
2 and equity investors in order to do that. So what we  
3 are requesting here today is that FCG's capital  
4 structure and equity ratio and debt ratio be equal to  
5 the way that it's funded through FPL, and the benefits  
6 that it gets from that capital structure.

7 Q That would have been a good answer to your  
8 lawyer's redirect question. I just wanted you to  
9 acknowledge that, yes, that's going to cost ratepayers  
10 additional money, which you did.

11 There has never been any indication that you  
12 have that Florida City Gas has ever had a problem  
13 attracting capital with a 48 percent equity ratio, is  
14 there?

15 A Not that I am aware of.

16 Q So the answer you just gave about attracting  
17 capital is more theoretical than anything?

18 A It's important as you go forward.

19 Q It would be a lot easier to manage the books  
20 of the two companies if everything is the same in terms  
21 of the equity ratio and the ROE, and whatnot, is that  
22 correct?

23 A No. It has nothing to do with being easy to  
24 manage the books. I don't think it's any easier to  
25 manage the books because of that.

1           Again, it's -- as I stated before, it's,  
2       because FCG is getting the benefits of FPL's capital  
3       structure, we think -- and there is regulatory precedent  
4       that when a parent funds 100 percent of the sub's  
5       financing, both debt and equity, that they would have  
6       the same capital structure, or equity ratio and debt  
7       ratio as it's parent company.

8           **Q     Did y'all go out and look for other sources of**  
9       **funding besides the parent?**

10          A     We did do our financing application in 2019,  
11       which was approved by the Commission.

12          **Q     But in terms of -- who provided the financing**  
13       **in 2019 that you referenced?**

14          A     It was a financing application that was  
15       submitted to this commission. We provided that, FCG.

16          **Q     Who is we?**

17          A     FCG.

18          **Q     And who did you get the financing from?**

19          A     It was to obtain our financing from FPL.

20          **Q     Right. And I guess my question is, is that**  
21       **you are saying, oh, well, we get a good deal from FPL.**  
22       **Did you shop the financing with any third parties? Did**  
23       **you go to, you know, J.P. Morgan, or any other people**  
24       **that are in the money business and say, hey, what can --**  
25       **what can you do? Would you like to earn, you know, an**

1 ROE of 9.8, what can you do for me? Did you shop that  
2 at all?

3 A I was not part of that, so I am not exactly  
4 sure what they did. But I can tell you that FPL's  
5 credit rating and its access to capital --

6 Q Just if you shopped it or didn't shop it. I  
7 don't need to get into the FPL credit rating piece. It  
8 sounds like you don't know whether you shopped it or  
9 not?

10 A I am trying to just explain the benefits as to  
11 anything that you would get from FPL would be much  
12 cheaper than what FCG would be able to get on its own.

13 Q Even if you went to Chase Manhattan, Citibank,  
14 others who might have money that they want to loan you  
15 on competitive rates, you know that they couldn't beat  
16 FPL's cost of capital?

17 A I would certainly think so. I have not done  
18 that myself, but --

19 Q And what's the basis of that? I mean, have  
20 you done any research? Have you talked to anybody?

21 A I have not, but I do believe that witness  
22 Nelson does have some testimony in there on this.

23 Q In response to a prior question, you, I think,  
24 supported the testimony of Mr. -- Mr. Howard about, you  
25 know, the -- what you are asking the Commission to do

1 and the level of commitment. I mean, you would agree  
2 that you are not suggesting that you be contractually  
3 bound to the Commission with your four-year rate plan,  
4 are you?

5 A No, there is no contractually bound. This is  
6 a commitment, like I said earlier, that FCG is making to  
7 stay out for four years.

8 Q Okay. And you would agree that contracts  
9 typically are more enforceable than a commitment?

10 MR. WRIGHT: Objection, calls for a legal  
11 conclusion.

12 BY MR. MOYLE:

13 Q -- all things being equal.

14 CHAIRMAN FAY: You want to respond, Mr. Moyle?

15 MR. MOYLE: I didn't hear the basis for the  
16 objection.

17 CHAIRMAN FAY: He said it calls for a legal  
18 conclusion.

19 MR. MOYLE: I am asking him not as a lawyer.  
20 I understand he can say what he understands to be  
21 as a witness. I am not asking for a legal  
22 conclusion.

23 CHAIRMAN FAY: If you can answer the question,  
24 Mr. Campbell.

25 THE WITNESS: My personal opinion, a contract

1           would probably be more enforceable.

2       BY MR. MOYLE:

3           **Q       And there is no precedent that you are aware**  
4 **of, is there, for the Commission to enter into some type**  
5 **of an arrangement, whereby they are taking action based**  
6 **on changed circumstances. I mean, isn't the role of the**  
7 **Commission to consider facts as they are presented to**  
8 **them?**

9           A       Yes. I would say, again, our commitment is  
10 that we are going to stay out for four years, unless  
11 there are some extreme extraordinary circumstances that  
12 cause us to come back in.

13          **Q       All right. And the caveat there is something**  
14 **that we just don't -- we don't know. I mean, you are in**  
15 **the forecasting business, you can't -- you can't see**  
16 **beyond the horizon, can you?**

17          A       No, you can't always predict everything. But  
18 I think, you know, just looking at FPL, we've had a long  
19 track record of adhering to our commitments and staying  
20 out over those periods that we have gone in and  
21 committed to.

22          **Q       Yeah. One of the forecasts that we spent a**  
23 **lot of time on in this case was wrong by about five**  
24 **years. That was the LNG operational date, correct?**

25          A       I think there were facts and circumstances --

1           **Q     Yes?**

2           A     Yes, it took longer to get done, but I think  
3 witness Howard did a good job of talking about the facts  
4 and circumstances as to why that took longer. And  
5 things like that happen over time.

6           **Q     The Commission has never been asked to approve  
7 a multiyear rate plan before today, correct?**

8           A     I have no idea. I am not sure.

9           **Q     Are you familiar with a regulatory tenet that  
10 one commission cannot bind a subsequent commission?**

11          A     No, I am not familiar with that.

12          **Q     Are you aware of any legislative authorization  
13 -- legislative authorization for the RSAM approach that  
14 y'all are proposing?**

15          A     I don't.

16               MR. WRIGHT: Chairman, I am going to object.  
17 I mean, this is, again, a legal conclusion.

18               CHAIRMAN FAY: Go ahead, Mr. Moyle.

19               MR. MOYLE: I guess the same response. I  
20 mean, he is testifying about the RSAM. He is one  
21 of the RSAM witnesses. The question is, is there  
22 any legal authorization? If he says yes, I will  
23 ask him what it is. But, you know, lawyers can  
24 argue about it. I am just asking him whether he is  
25 aware of any legislative authorization to support

1           what is being asked for, which is the RSAM, to the  
2           best of his knowledge. I am asking him for his  
3           knowledge. Not a legal opinion.

4           CHAIRMAN FAY: And I might be misunderstanding  
5           your question. Any legislative knowledge, is that  
6           what you are saying?

7           MR. MOYLE: Legislative authorization. So  
8           like, you know, has -- is there something to point  
9           to to say that, yes, the Legislature has considered  
10          this RSAM, and they understand it, and they have  
11          enacted statute 42B, blah, blah, blah, blah, that  
12          says the Commission is empowered to --

13          CHAIRMAN FAY: Yeah, I am going to allow it.  
14          If you know there is something out there,  
15          Mr. Campbell, but to Mr. Wright's point, you don't  
16          have to interpret that.

17          THE WITNESS: Just to make sure I understand,  
18          we are talking about a litigated outcome versus a  
19          settlement?

20          CHAIRMAN FAY: Mr. Moyle, I will let you  
21          clarify your question. Go ahead.

22 BY MR. MOYLE:

23           **Q     Yeah. I am specifically referencing the**  
24           **legislative action, Florida Legislature taking any**  
25           **action or considering the RSAM mechanism in any way,**

1 shape or form, and taking any action that would say, oh,  
2 we think this is a great idea. Go ahead and do these  
3 RSAMs. There is no legislative action that's ever been  
4 taken with respect to the RSAM, direct?

5 A I have no idea.

6 Q So you don't know one way or the other?

7 A I don't know.

8 Q Do you know if the legality of the RSAM is  
9 presently an issue on appeal before the Florida Supreme  
10 Court?

11 A I know there is an appeal at the Supreme  
12 Court. I am not sure of all the ins and outs and the  
13 legality, and things of that nature.

14 Q You were in the room when there was, I think  
15 it was a statement in a brief that was referenced and  
16 introduced?

17 A Yeah. And that's what I am talking about. I  
18 know that there is a Supreme Court appeal out there.  
19 That's what's going on.

20 To your point, the legality of the RSAM, I  
21 don't know that I would say yes or no to that. I am not  
22 exactly what that means. But, yes, there is an appeal  
23 at the Supreme Court.

24 Q And just to be clear, the RSAM is part of that  
25 appeal?



1           A     Yes.

2           Q     And you would agree that the decider of the  
3 law in the state of Florida ultimately is the Supreme  
4 Court, that's the highest court in the land of the state  
5 of Florida on the state side of things, correct?

6           A     From my understanding, yes.

7           Q     You are aware that some rate cases are done  
8 using historical data as compared to forecast data, is  
9 that right?

10          A     I have never seen one personally, but, yes, I  
11 have been made aware that that can be the case.

12          Q     Yeah. And you would also agree that  
13 historical data, at least in terms of certainty, has a  
14 higher quality of certainty than forecast data?

15          A     Historical data is known data versus a  
16 forecasted data. But I would say, historical data  
17 doesn't make sense when you have a growing utility like  
18 we have here, where you have to continue to invest and  
19 expand in the system, it makes since you have a prudent  
20 forecasted test year in order to set rates on.

21          Q     What's inflation going to do in the next six  
22 months?

23          A     I don't know. That would be all speculation  
24 on my part. I know what it's done --

25          Q     And part of that is because it's a forecast,

1 right? I mean it's hard to forecast, there is a lot of  
2 factors that go into it?

3 A Yeah. There is a lot of forecast -- a lot of  
4 factors that go into a forecast. And at the time we do  
5 our forecasts, we use the best available information at  
6 that time, and then we manage through whatever happens  
7 after that.

8 Q And Mr. Rehwinkel asked you about what  
9 directions inflation is going now. Did you happen to  
10 catch that it's going gone by 60 basis points according  
11 to the data released today?

12 A That's after -- yeah, so I think we have seen  
13 record inflation this year. I don't think anyone can --

14 Q Right. And my question is, did you know it's  
15 gone down 60 basis points as of information that was  
16 released today?

17 A I was not aware of that today. No.

18 Q Okay. When you were talking about one aspect  
19 of the RSAM, you characterized what it could do as  
20 manage day-to-day fluctuations, right?

21 A Yes.

22 Q And when you meant day-to-day fluctuations, I  
23 assume you were talking in the financial context, right?

24 A Yes, additional expenses, or potentially more  
25 revenues, weather, things like that, yes.

1 Q Right. And you got a couple of degrees from  
2 FSU in financial matters, correct?

3 A Yes.

4 Q Yeah, including a CPA. I am so sorry that I  
5 shorted you on that earlier, but you are a CPA?

6 A A CPA.

7 Q Isn't working capital something that can be  
8 used to manage day-to-day fluctuations in business  
9 matters?

10 A Yes. And I think that's part of our forecast  
11 is working capital. But the way that we were talking  
12 about that is the day-to-day fluctuations and the  
13 expenses and income of the business.

14 Q Right. And then Florida City Gas has a  
15 significant working capital fund that they do use to  
16 manage day-to-day fluctuations, do they not?

17 A I don't quite understand your question. What  
18 do you mean by working -- a significant amount of  
19 working capital?

20 Q In terms of running a business, you have  
21 capital that you can use to manage your daily  
22 fluctuations on accounts receivable and accounts  
23 payable, and other testimony obligations, correct?

24 A Yes. But I think what I am talking about in  
25 the context of managing the everyday fluctuations is

1 more around managing everyday fluctuations of additional  
2 expenses coming in that you weren't aware of, or you  
3 could even potentially have higher revenues coming in if  
4 you have really hot weather, and things of that nature.

5 So it's managing your business from an income  
6 standpoint, while refocusing on identifying cost  
7 savings, and really getting into the business and  
8 improving the business.

9 Q So how is it done today? You have that --  
10 those facts happen today, then Florida City Gas manages  
11 them, right? They got lines of credit, or credit  
12 instruments that can access fund as needed, correct?

13 A Yes, we absolutely manage the working capital  
14 of the business in that way.

15 Q Give me just a couple more seconds if you  
16 would, please.

17 You were shown a number of orders today that  
18 had settlement agreements attached to them. And I am  
19 going to ask you to take -- pick up 194, Exhibit 194.  
20 That's -- it says the description is FPL 2021 Settlement  
21 Order Excerpt.

22 A Okay. I got it.

23 Q And the -- I think this has been established,  
24 but just -- the RSAM has only been done in the context  
25 of settlement agreements, correct?

1           A     As far as I understand, correct.

2           Q     Right.  And Mr. Rehwinkel took you through a  
3     lot of things, but you would agree there is a lot of  
4     give and take in these settlement agreements.  He  
5     pointed you to some things, but FIPUG is part of these  
6     settlement agreements, and there puts and takes in these  
7     settlement agreement documents, correct?

8           A     Yes.  My understanding is there is puts and  
9     takes in any settlement agreement.

10          Q     And if the Commission unilaterally put an RSAM  
11     as being requested, that would be a key provision that  
12     is something that's negotiated, and has been negotiated  
13     for almost 20 years, correct, based on the documents you  
14     have reviewed today?

15          A     It's been negotiated over a long period of  
16     time.  I am not sure if 20 years is exactly correct, but  
17     yes.

18          Q     The Commission, while acting on settlement  
19     agreements -- well, let me ask you just ask you this:  
20     Go to page 32, if you would, of the Exhibit 194.

21                   CHAIRMAN FAY:  What page number, Mr. Moyle?

22     BY MR. MOYLE:

23          Q     I am sorry.  It's page 55, using the -- using  
24     the numbering system of the PSC order, 32 using the --

25          A     55?

1 Q Correct if you go top left.

2 A Okay. I am there.

3 Q You are there.

4 Would you just read the first sentence of  
5 paragraph 30?

6 A The provisions of agreement are contingent on  
7 approval of this agreement in its entirety by the  
8 Commission without modification.

9 Q What does that mean to you?

10 A It's contingent on the Commission's approving  
11 it without modification. Exactly what it says.

12 Q Another way of characterizing that is a take  
13 it or leave it option for the Commission?

14 A That's what it sounds like here. Yes.

15 MR. MOYLE: All right. Mr. Chairman, those  
16 are all the questions I have. Thank you.

17 CHAIRMAN FAY: Okay. Mr. Wright? I always  
18 skip -- I apologize, Mr. Jones. You are  
19 recognized.

20 EXAMINATION

21 BY MR. JONES:

22 Q Good evening, Mr. Campbell. For my first set  
23 of questions, we are going to stick with the RSAM topic.

24 Is it true that the reserve that is being  
25 referred to in this docket with the RSAM is the

1     **depreciation reserve?**

2           A     Yes, it's created from the RSAM depreciation  
3 parameters.

4           Q     I would like to now direct you to your direct  
5 testimony, page 27.

6                     On page 27, line 16 of your direct testimony,  
7 is it correct that you state the RSAM results only in  
8 noncash earnings?

9           A     Yes.

10          Q     Is a depreciation expense a noncash charge?

11          A     Yes.

12          Q     Does depreciation expense affect earnings?

13          A     Yes.

14          Q     Do debits and credits to the RSAM affect  
15 earnings?

16          A     Yes.

17          Q     Would you agree that when a company generates  
18 a profit and accumulates retained earnings, those  
19 earnings can either be reinvested in the business or  
20 paid out to shareholders as dividends?

21          A     Yes, but if a -- if a company were to only  
22 incur noncash earnings, they would have no cash to  
23 distribute.

24          Q     Would you agree that all of City Gas' revenues  
25 come from its customers?

1           A     Yes, I believe that's the case.

2           **Q     Where do the surpluses come from that make up**  
3 **the RSAM?**

4           A     The surplus comes from the RSAM depreciation  
5 parameters that we are utilizing in this case, and it's  
6 from the PGS parameters that we alluded to earlier.

7           **Q     Would you agree that the surpluses come from**  
8 **expenses that were included in rates that were higher**  
9 **than necessary given the new depreciation parameters**  
10 **requested by the company?**

11          A     Yes. It's basically being created by the fact  
12 that you now have longer lives, and those assets have  
13 been depreciating earlier at a higher rate, which  
14 creates the reserve imbalance.

15          **Q     Do you agree that the surpluses funding the**  
16 **RSAM were paid for by the customers?**

17          A     No, I don't particularly agree with that in  
18 that context. Depreciation studies and depreciation  
19 parameters are set every five years, because they are an  
20 estimate of what we think is going to happen way out  
21 into the future, 50 60, 70 years from now as to how long  
22 the assets are going to live, right? How long are they  
23 going to be useful for?

24                    So under that scenario, at the time that we  
25 last did the depreciation study and set our depreciation



1 parameters, those were the most reasonable estimate as  
2 to what the parameters would be at that time. So you  
3 fast forward now and you do another study, and we come  
4 up with new depreciation parameters.

5 So it's just kind of a point in time as to  
6 which you put those depreciation parameters in, and you  
7 can create those reserve imbalances or deficits.

8 **Q Cool. Thank you.**

9 **Is it true the company can earn at the bottom**  
10 **of the range, and even with no efficiencies or**  
11 **innovation, the RSAM allows the company to increase its**  
12 **earnings to the top of its allowed range?**

13 A Yes. I mean, if we were earning at the bottom  
14 of the range and we decided to use the RSAM to earn at  
15 the top of the range, that would be a short-lived  
16 solution if we are not identifying cost savings, as we  
17 would not be allowed to do that with the cost savings.

18 As I demonstrated in Exhibit MC-7, the RSAM of  
19 \$25 million is only enough to get us to the midpoint up  
20 against the backdrop of record inflation and interest  
21 rates that are not currently embedded in there.

22 **Q Is it true that the amount of earnings that**  
23 **were necessary to achieve the top of the earnings range**  
24 **becomes retained earnings?**

25 A Earnings do become retained earnings.

1           Q     Is it true that the amount of earnings that  
2     were necessary to achieve the top of the earnings range  
3     which reduced the RSAM could then be paid out to  
4     shareholders as dividends?

5           A     I am sorry, I don't understand the question.  
6     Can you repeat it again?

7           Q     Is it true that the amount of earnings that  
8     were necessary to achieve the top of the earnings range  
9     which reduce the RSAM could then be paid out to  
10    shareholders as dividends?

11          A     Again, I think if you have noncash earnings,  
12    there is no cash to pay out to shareholders.

13          Q     Any earnings, cash or otherwise, that were not  
14    paid out as dividends, increase retained earnings, is  
15    that correct?

16          A     Yes.

17          Q     All other things being equal, do increased  
18    retained earnings increase the value of the firm and,  
19    therefore, accrues to shareholders?

20          A     Yes, it increases the value. But again, these  
21    are based on a set of depreciation parameters in which  
22    we are flowing back to customers.

23                   And again, as we demonstrated earlier, these  
24    RSAM parameters are really reasonable when we look at  
25    those two charts. And in my mind, the next depreciation

1 study, it's, you know, just as likely that these RSAM  
2 parameters would be in our next -- in our next  
3 depreciation study could be our next estimate of what  
4 our parameters are. In that case, we are just getting  
5 ourselves back in line and getting reset and we are  
6 depreciating the assets at the right value.

7 **Q If the Commission approves the RSAM in the**  
8 **four-year plan, is there anything that would prohibit**  
9 **the company from claiming in the future that due to the**  
10 **RSAM depreciation rates, the company is now in is a**  
11 **depreciation reserve deficiency and needs a rate**  
12 **increase, at least in part, to cover such depreciation**  
13 **reserve deficiency?**

14 A There is nothing specifically related to that.  
15 But as I just stated earlier, our parameters that we are  
16 asking for in our useful lives that we went through are  
17 extremely reasonable, and are not outrageously outside  
18 of the realm of what's reasonable.

19 **Q Could you give me a yes or no answer to that**  
20 **question, please?**

21 A Yes.

22 **Q Thank you. I am going to repeat the question**  
23 **for you.**

24 **If the Commission approves the RSAM in the**  
25 **four-year plan, is there anything that would prohibit**

1 the company from claiming in the future that, due to the  
2 RSAM depreciation rates, the company is now in a  
3 depreciation reserve deficiency and needs a rate  
4 increase, at least in part, to cover such depreciation  
5 reserve deficiency?

6 A I am sorry, yes, I am glad you repeated it.  
7 No.

8 Q All right. Thank you.

9 I will be switching topics now to the 2024 and  
10 2025 revenue forecasts. So in your rebuttal testimony,  
11 on page four.

12 A Okay.

13 Q In your rebuttal testimony on page four, lines  
14 four through six, you state: Without the RSAM, FCG is  
15 projected to fall below its proposed authorized ROE  
16 range and would need to file a rate case in 2024 to  
17 support a base rate increase in 2025; is that correct?

18 A Yes. That's correct.

19 Q So please refer to the staff Exhibit 105, this  
20 will be MC-9, for the following questions.

21 A What page?

22 Q It's going to be page one of 13.

23 A Okay.

24 Q Referring to page one of 13 of this exhibit,  
25 if the Commission were to approve FCG's base rate

1 **increase without the RSAM, how far below the proposed**  
2 **authorized ROE range do you project the company will**  
3 **fall in 2024 and 2025?**

4 A In this response, in Exhibit MC-7, we  
5 demonstrate that in 2024, it would be \$3.7 million;  
6 2025, \$7.7 million.

7 Q **Are the incremental revenue requirements**  
8 **amount based on achieving the proposed authorized ROE**  
9 **midpoint or the proposed ROE range?**

10 A This would be the three point -- the 3.7 and  
11 the 7.7 are based on achieving the midpoint ROE. Again,  
12 not including any inflation or interest rates based on  
13 our forecast in 2021.

14 Q **For determining earnings estimates, as you**  
15 **calculated the projected incremental revenue in 2024 and**  
16 **2025, did you also consider projected changes in**  
17 **incremental revenues for those years such as those**  
18 **associated with customer growth and increase in them**  
19 **sales?**

20 A Yes. I mean, there were -- it's a very  
21 immaterial amount in the increase in revenues that we  
22 see there. It wouldn't change our answer in any way.  
23 It might make the 3.7, 3.6 or 3.5 and then the 7.7,  
24 something like 7.6 or 7.5.

25 Again, up against the fact that we didn't

1 include any inflation, we didn't include any interest.  
2 And again, we haven't run any updated economic analysis  
3 as to what we think our load forecast might be given the  
4 economic downturn and the potential for recession that  
5 we are seeing. I would expect that to be extremely  
6 minimal, and it was not something that we include in  
7 this analysis.

8 **Q At the time of your deposition, is it correct**  
9 **that you could not recall any places in the record that**  
10 **substantiated the company's projected revenues for 2024**  
11 **and 2025?**

12 A Yes.

13 **Q Have you had time since then to go back and**  
14 **identify projected revenues for those years?**

15 A Yes. I think I just talked about that. It  
16 was roughly in that range.

17 **Q Can you please identify the location in the**  
18 **record of these projected revenues?**

19 A I don't think I have anything in the record  
20 for '24 and '25 revenues.

21 **Q For my next set of questions, please refer to**  
22 **Exhibit 149, which is staff's first set of PODs, No. 1.**

23 A I don't have discovery responses in front of  
24 me.

25 CHAIRMAN FAY: Mr. Jones, can you get him a

1 copy of that?

2 MR. JONES: Yes, sir. We are going to get  
3 those.

4 CHAIRMAN FAY: Okay.

5 MR. WRIGHT: I am sorry, I am going to need  
6 you to repeat it for me, which one are you looking  
7 at?

8 MR. JONES: Exhibit 149.

9 MR. WRIGHT: What discovery response is it?

10 MR. JONES: Staff's first set of PODs, No. 1.

11 THE WITNESS: Okay.

12 BY MR. JONES:

13 **Q Is it correct that this document depicts the**  
14 **company's annual forecast of customers in therms through**  
15 **2029, as provided in this proceeding?**

16 A I am sorry. There is no attachment. It's  
17 just got the response. It says, please see responsive  
18 documents attached, and I don't see the documents.

19 **Q It's in the production of documents No. 1,**  
20 **Excel attachment titled the Staff's First POD 1 Final,**  
21 **underscore, FCG forecast. We can provide that**  
22 **electronically since that's an Excel document.**

23 A I think he might have it. Hang on. Can you  
24 repeat again what the Excel spreadsheet says?

25 **Q The attachment should be titled, Staff's First**

1    **POD 1 Final, underscore, FCG Forecast 2021 through 2023**  
2    **-- 2031, excuse me.**

3           A     Okay.

4           Q     And this will be under the summary tab.

5           A     Okay.

6           Q     Is it correct that this document depicts the  
7    **company's annual forecast of customers in terms through**  
8    **2029, as provided in this proceeding?**

9           A     Yes.  Yes.

10          Q     Do you agree, subject to check, that this  
11    **document shows that FCG expects their average annual**  
12    **customer count to grow by 1,032 from the year 2023 to**  
13    **2024, or 0.9 percent?**

14          A     Subject to check, yes.

15          Q     Similarly, subject to check, do you agree that  
16    **this document shows that FCG expects their average**  
17    **annual customer count to grow by 1,019 from the year**  
18    **2024 to 2025, or by 0.9 percent?**

19          A     Yes, subject to check.

20          Q     Have you calculated how much additional  
21    **revenue would result from FCG's forecasted increase in**  
22    **customers in 2024 and 2025?  If so, what is the amount?**

23          A     I have not forecasted that.  Again, I have  
24    **estimated it to be approximately two -- around \$200,000**  
25    **a year.**



1           Q     Continuing on to the same exhibit and page, I  
2 would like to ask you a few questions regarding the  
3 relative accuracy of FCG's customers and therm  
4 forecasts.

5                     So based on your knowledge about --

6           A     I am sorry, where are you at?

7           Q     It's the same document. Same exhibit.

8           A     Okay.

9           Q     Based on your knowledge about forecasting, do  
10 you agree that generally speaking, customer and therm  
11 forecasts typically become progressively less reliable  
12 the further they are projected into the future?

13          A     I think that could be true for many forecasts,  
14 they could become less reliable. But what we've used is  
15 the best information available at this time, at the time  
16 we did our forecasts, and they were based on unbiased  
17 and well-established and models that are used throughout  
18 the industry, and have historically been used to present  
19 customers and therms forecasts.

20          Q     Based on what's presented on this page, do you  
21 expect your 2026 annual total therm forecast will be  
22 more or less accurate than your 2023 annual total therm  
23 forecast?

24          A     I don't have an expectation either way.

25          Q     Do you expect your 2025 annual total therm

1 **forecast to be more or less accurate than your 2023**  
2 **annual total therm forecast?**

3 A I expect all my forecasts to be accurate based  
4 on the information we used. Whenever you get to  
5 actuals, especially as it relates to customers and  
6 therms, and things of that nature, there are many things  
7 that happen in the economy, and weather, and all of  
8 those types of situations that could be different year  
9 to year. So to say that I think '24 is going to be more  
10 accurate than '25, I can't sit here today and say that  
11 one is going to be more accurate than the other one.

12 What I can tell you is we've, again, used well  
13 established forecasting procedures in order to put  
14 together our customers and therm forecasts, based on  
15 industry experts from IHS, and all of the inputs that  
16 went into these.

17 **Q Will the company be reforecasting their 2026**  
18 **therm forecast in 2023, 2024 and/or 2025?**

19 A We do reforecast every single year, yes.

20 **Q For what reason?**

21 A It's just part of our annual planning process.  
22 It's also used in various clause dockets, and things of  
23 that nature as well.

24 **Q Do you think those are going to be more or**  
25 **less accurate?**

1           A     Again, I think it's the same answer I gave  
2 before, is I don't have an expectation more or less  
3 accurate. One thing I do know, again, we forecasted  
4 these with the best information we had available at that  
5 time.

6           MR. JONES: Staff has no further questions.

7           CHAIRMAN FAY: Okay. Commissioner La Rosa?

8           COMMISSIONER LA ROSA: Thank you, Chairman.

9           I am struggling to find an area we haven't  
10 touched on today. So I will be relatively quick,  
11 and may have been something we already kind of  
12 discussed, but it's been referenced a few times,  
13 referencing interest rates and borrowing from the  
14 parent company. Can you quantify what that savings  
15 would look like, or what that savings does look  
16 like when borrowing in comparison to going out to  
17 the public market?

18          THE WITNESS: I don't have that information  
19 available. No.

20          COMMISSIONER LA ROSA: Okay. All right. Then  
21 kind of shifting a little bit. You mentioned  
22 inflation and interest rates have not been embedded  
23 into the forecast. Looking at '23 and '24, what  
24 type of impact do you expect that to have once  
25 those costs or those elements are realized?

1           THE WITNESS: I think it's going to impact  
2           this in any investments that we make in our  
3           capital, it's -- we see it in the supply chain as  
4           well, it's just higher cost in doing this. So  
5           investing in our system is going to cost us more.

6           You know, retaining headcount, I think witness  
7           Slattery was talking about that earlier, is, you  
8           know, we are -- we are under market right now, and  
9           there is a good possibility that we are going to  
10          have to bump that up to get to the market in order  
11          to retain our workforce and to attract talent in  
12          order to run the utility effectively and  
13          efficiently and safely. We are going to have cost  
14          increases across the board just to operate the  
15          business.

16          The interest rates continue to increase.  
17          That's going to continue to put a strain on the  
18          interest expense that is included that we have not  
19          included in this forecast.

20          COMMISSIONER LA ROSA: Would that alter  
21          revenue requirements?

22          THE WITNESS: It would, but we are going to  
23          manage through that over the four-year period, with  
24          the RSAM is how we are proposing to do that today.

25          COMMISSIONER LA ROSA: All right. Thank you.

1 CHAIRMAN FAY: Okay. Great. Thank you.

2 Commissioners and staff, just real quick, Mr.  
3 Wright, I am going to go to you for redirect. I am  
4 always excited to go to you for redirect, so we  
5 will shift over to you in a second, but I want to  
6 make sure, from a timing perspective, I have 5:50,  
7 I believe that we should be able to take up  
8 redirect, enter exhibits, and then set us up  
9 procedurally for post-hearing briefs in a timeline.  
10 And so with that, I will move forward with us to  
11 finish sometime probably a little bit after 6:00,  
12 it will depend on redirect, but, Mr. Wright, does  
13 that sound appropriate?

14 MR. WRIGHT: Yes.

15 CHAIRMAN FAY: Okay. With that, you are  
16 recognized.

17 MR. WRIGHT: All right. Thank you. And I  
18 will try to be brief here, just a little bit of  
19 clean up.

20 FURTHER EXAMINATION

21 BY MR. WRIGHT:

22 Q Mr. Campbell, you were asked about some  
23 citations on page 16 of your rebuttal testimony to RSAM  
24 type of mechanisms. The purpose of citing to these, was  
25 it to show that they are precedential, or just that they

1 are similar types of RSAM mechanisms that were approved  
2 by the Commission?

3 A It's the latter. It's to show that there are  
4 similar types of RSAM mechanisms that have been approved  
5 by the Commission.

6 Q Okay. And are you citing these RSAM type  
7 mechanisms to show how the RSAM was created in those  
8 agreed settlements, or just that the Commission has  
9 approved similar types of mechanisms?

10 A Just that the Commission has approved similar  
11 type of mechanisms.

12 Q Okay. And do you know whether OPC agreed to  
13 RSAM mechanisms in FPL's 2016 rate case?

14 A Yes, I believe they did.

15 Q And do you know whether OPC agreed to the  
16 Peoples mechanism in the 2020 rate case?

17 A Yes, they did.

18 Q And do you know whether OPC agreed to the RSAM  
19 mechanism in the FPL 2021 rate case?

20 A Yes, they did.

21 Q Do you know whether FPL's as-filed case  
22 included an RSAM in the 2021 rate case?

23 A Yes, it did.

24 Q Okay. You were asked about the ratio of RSAM  
25 and rate base and equity ratio compared to FPL and

1 **Peoples. Do you recall those line of questions?**

2 A Yes, I do.

3 Q Is the RSAM -- is the amount of RSAM and rate  
4 base and equity ratio, are they symmetrical?

5 A No, they are not.

6 Q Is the amount of RSAM needed by one utility,  
7 is it proportional or the same as what is needed by  
8 another utility?

9 A No, it's not.

10 Q You were asked whether FCG agreed to any sort  
11 of reduction or concessions in the revenue requirement  
12 in conjunction with its request for RSAM. Does the RSAM  
13 result in a reduction in the requested revenue  
14 requirement?

15 A No, it doesn't. There is -- there is two  
16 cases. If you -- I am sorry, let me rephrase that.

17 There is the case without RSAM that does  
18 require \$2.7 million of additional revenue requirements  
19 without the RSAM parameters. With the RSAM, it is a  
20 \$2.7 million reduction in the revenue requirement.

21 Q Thank you.

22 And you stated many times that there are  
23 savings to customers over the four-year plan with RSAM.  
24 Those are all laid out on page 11 of your rebuttal  
25 testimony, correct?

1           A     Correct.

2           Q     All right. I am not going to have you repeat  
3 them, but am I correct that the total net cumulative  
4 savings over the four-year plan is 27 million compared  
5 to a single-year rate increase?

6           A     Yes, \$27 million of cash savings for  
7 customers.

8           Q     Okay. You were asked about the one-way  
9 mechanism approved for Peoples, and the two-way that you  
10 are proposing for FCG. Can you explain why you believe  
11 it's appropriate that FCG has proposed a two-way  
12 mechanism?

13          A     Yes. As part of this rate plan, and like I  
14 have alluded to earlier, the two are -- I am sorry, the  
15 two-way mechanism helps us to not only manage when our  
16 income is down, but it also helps us manage the  
17 fluctuations in the business. It's not just bringing us  
18 up from below. It's also keeping us within a reasonable  
19 range, and keeping us within the range.

20                   As we've alluded to, many things can happen  
21 after a forecast is set, and you could end up having  
22 higher revenues than what you thought based on various  
23 factors, so --

24          Q     Thank you.

25                   You were asked about the legality of -- you



1 were asked by Mr. Moyle about the legality of FPL's  
2 RSAM, and whether you knew it was currently on appeal.  
3 And I believe you stated you were aware that RSAM was an  
4 issue, correct?

5 A Yes.

6 Q Okay. To your knowledge, did OPC, FIPUG and  
7 FEA all sign the FPL 2021 settlement that included that  
8 RSAM?

9 A Yes.

10 Q And was that settlement approved by the  
11 Commission?

12 A Yes.

13 Q All right. You were asked by Mr. Moyle  
14 whether you were aware that it had been recently  
15 reported that inflation is down. Are the interest -- I  
16 am sorry, are inflation and interest rates still higher  
17 than when FCG filed its case?

18 A Yes. It's still much higher.

19 Q All right. You were asked by Mr. Moyle  
20 whether the Commission has ever been asked to approve a  
21 multiyear plan. To your knowledge, did FPL, in its  
22 as-filed case, ask for a multiyear plan --

23 A Yes.

24 Q -- in the 2021 rate case? Sorry.

25 A Yes. Yes.

1 Q On page 37 of your direct testimony, you  
2 reference other settlements that included tax adjustment  
3 mechanisms. Do you recall that?

4 A Yes.

5 Q And you are not citing those settlements as  
6 precedent, correct?

7 A Correct.

8 Q You are just citing that other similar  
9 mechanisms have been approved by the Commission,  
10 correct?

11 A Correct.

12 Q And to your knowledge, did OPC agree with  
13 those settlements?

14 A Yes.

15 Q And were they approved by the Commission?

16 A Yes.

17 Q You have been asked questions by various -- on  
18 various cross here about financing from FPL, and I  
19 believe you responded that there is a  
20 Commission-approved financing order, correct?

21 A Correct.

22 Q And to your knowledge, are those annual  
23 financing -- are those financing orders filed annually  
24 and approved annually?

25 A Yes, I believe they were, and I think our

1 first one was in 2019.

2 Q And to your knowledge, do each of those  
3 require FPL to provide 100 percent financing to FCG?

4 A Yes.

5 Q And you stated that there is a benefit of FCG  
6 receiving its financing from FPL, but could you explain,  
7 or kind of better explain what that benefit is to FCG  
8 and its customers?

9 A Yes. I think FPL, on its own, has a much  
10 higher credit rating and much more credit worthy, and  
11 much more access into the capital markets than FCG would  
12 ever be able to obtain on its own, so any debt, given  
13 FCG's size and its business, would be at a much higher  
14 cost at a much lower credit rating than what FPL can  
15 provide them.

16 Additionally, I think they don't have to  
17 access the markets, and they don't have to pay  
18 commitment fees, and things of that nature. They just  
19 get the weighted arrange of what FPL's high credit  
20 worthy rating is from a cost of debt standpoint.

21 Q Just make sure you are finished. Sorry for  
22 cutting you off.

23 MR. WRIGHT: No further questions. Thank you,  
24 Chair.

25 CHAIRMAN FAY: Okay, Mr. Wright.

1           We will next move into exhibits. Go ahead.

2           MR. WRIGHT: FCG would request that exhibits  
3 identified as 11 through 16 and 103 through 106 be  
4 admitted into the record.

5           CHAIRMAN FAY: Okay. Without objection, show  
6 11 through 16 and 103 to 106 on the comprehensive  
7 exhibit list entered into the record.

8           (Whereupon, Exhibit Nos. 11-16 & 103-106 were  
9 received into evidence.)

10          CHAIRMAN FAY: We have -- Mr. Rehwinkel, I  
11 have 194 to 205, but I believe Mr. Wright had  
12 objection to 201 and 202. So, Mr. Wright, seeing  
13 no objections to the other exhibits --

14          MR. WRIGHT: No.

15          CHAIRMAN FAY: -- okay, we will show those  
16 entered into the record.

17          (Whereupon, Exhibit Nos. 194-200 & 203-204  
18 were received into evidence.)

19          CHAIRMAN FAY: And then I just want to get  
20 your position on 201 and 202, and I will allow you  
21 to respond, Mr. Rehwinkel. So go ahead.

22          MR. WRIGHT: Mr. Chairman, I am sorry, it's  
23 201, 202 and 205, I think we discussed, and I have  
24 got an objection to 206, I apologize, so it's 201,  
25 202, 205 and 206.

1           CHAIRMAN FAY: Okay. And I believe 201 and  
2           202 was the same type of objection, you want to  
3           take those together?

4           MR. WRIGHT: Yeah, I can handle those together  
5           quickly here.

6           CHAIRMAN FAY: Okay.

7           MR. WRIGHT: These were not prepared, reviewed  
8           by the witness. He was asked a lot of questions  
9           about what the numbers are shown, but they are --  
10          they are for Peoples, and there is no foundation or  
11          why the -- how Peoples' earnings or their RSAM are  
12          relevant to FCG and how it proposes to use its  
13          RSAM. We have no basis to confirm the accuracy.  
14          We did not prepare these, and there has been no --  
15          nothing has been put forth today through the  
16          cross-examination to show that these are somehow  
17          relevant to what FCG is proposing in this case.

18          CHAIRMAN FAY: Okay. Mr. Rehwinkel?

19          MR. REHWINKEL: Yes, Mr. Chairman. I would  
20          like to ask that you turn to Mr. Campbell's  
21          rebuttal testimony, at page -- on page 17, starting  
22          with line three, and I would like to read this.

23          CHAIRMAN FAY: Okay.

24          MR. REHWINKEL: It says: The PGS mechanism  
25          approved in Docket No. 20200051-GU, and agreed to

1 by OPC, allows PGS to reverse \$34 million in  
2 noncash accumulated depreciation through 2023, of  
3 which \$10 million has been reversed through June of  
4 2022. While not identical to the RSAM proposed in  
5 this case, the PGS mechanism represents a very  
6 similar reversal of noncash accumulated  
7 depreciation over a specified time period.

8 Mr. -- as to relevance, Mr. Campbell directly  
9 put the PGS mechanism, the way it's operated and  
10 the way it's been used into evidence in his  
11 rebuttal testimony, the Emera document showed that  
12 that \$10 million is now \$14 million. The -- that's  
13 as to Exhibit 201.

14 202 is the depreciation -- the surveillance  
15 report, that for one was the subject to check on  
16 the size and of the Peoples Gas Company relative to  
17 FCG. FCG may disagree with the relevance of the  
18 size, but we put that at issue. The questions were  
19 not objected to, and this just confirmed for one  
20 thing the size difference between the two companies  
21 for purposes of evaluating the appropriateness of  
22 the \$25 million that the company has put at issue.

23 And finally, as to the earnings of the  
24 company, these documents show how the PGS mechanism  
25 has been used, which again, was put at issue by the

1 company at page 17.

2 CHAIRMAN FAY: Okay. And I am going to allow  
3 -- I am going to allow 202 in. I think once PGS,  
4 the mechanism got into debate, I think it's  
5 appropriate. I don't believe I have played my Mary  
6 Anne card today, so I might utilize this on 201.  
7 Mr. Rehwinkel is presenting essentially that that  
8 number was then adjusted, and it's within this  
9 document of the MD&A. I think it's probably  
10 appropriate to allow it. I don't find anything  
11 prejudicial to it, but I just want to make sure  
12 it's within the scope of what's been presented.

13 So do you have anything to add, Mary Anne?

14 MS. HELTON: Mr. Chairman, I would suggest  
15 that you allow Exhibit 201 to be admitted into the  
16 record, and then we can give it the weight that  
17 it's due.

18 CHAIRMAN FAY: Okay. So we will show 201 and  
19 202 entered into the record.

20 (Whereupon, Exhibit Nos. 201-202 were received  
21 into evidence.)

22 CHAIRMAN FAY: Mr. Wright, I November you had  
23 206 also, so let's take that up now before we --

24 MR. REHWINKEL: Mr. Chairman, just one last  
25 thing on 201. I will --

1           CHAIRMAN FAY: Mr. Rehwinkel, we just admitted  
2 those. Are you sure you want to speak?

3           MR. REHWINKEL: Yeah, it's actually to the  
4 company's benefit. I will commit to you, the only  
5 thing in that document that I want the Commission  
6 to know is that \$14 million number. There is  
7 nothing else in there that I am going to cite to in  
8 a brief that goes through, it's just that one  
9 number.

10          CHAIRMAN FAY: Okay. Thank you.

11          Okay, Mr. Wright, on that --

12          MR. WRIGHT: 205.

13          CHAIRMAN FAY: Oh, 205.

14          MR. WRIGHT: And we objected to the line of  
15 cross related to this document. This is the  
16 prehearing order excerpt for Gulf. You sustained  
17 the objection. So for the same reasons, we would  
18 object to this coming in. There was no  
19 foundation --

20          MS. HELTON: Mr. Chairman, can I address that  
21 one?

22          CHAIRMAN FAY: Sure. Go ahead, Mary Anne.

23          MS. HELTON: This is an order of the  
24 Commission. I believe that no one needs to bring  
25 as an exhibit, and it be marked as an exhibit, any



1 order issued by the Commission.

2 Now, I understand Mr. Rehwinkel likes to do  
3 that for convenience sake, and so I have kept my  
4 mouth shut, but anywhere at the Commission anybody  
5 could rely on for any reason that you could allow  
6 on any order.

7 So I understand that Mr. Wright has an issue  
8 with the line of questions that Mr. Rehwinkel  
9 asked, so that's all noted on the record, but I  
10 don't -- I think the order is what the order is,  
11 and the order says what the order says. And  
12 whether admitted or not, anybody can use that order  
13 in preparing their brief. And if it's appropriate  
14 for the Commission to rely on the order in issuing  
15 or deciding its final decision, then that's fine  
16 too.

17 CHAIRMAN FAY: Okay. And to be fair, I  
18 believe that's sort of what Mr. Rehwinkel is  
19 presenting into the record.

20 So I am going to admit 205 also into the  
21 record, with recognition that Mary Anne believes  
22 that these don't necessarily need to be entered  
23 into the record because they are sufficiently  
24 public information and can be applied to the record  
25 as appropriate.

1           (Whereupon, Exhibit No. 205 was received into  
2 evidence.)

3           CHAIRMAN FAY: So, I apologize, Mr. Wright,  
4 were those the three that you --

5           MR. WRIGHT: 206.

6           CHAIRMAN FAY: 206 also?

7           MR. WRIGHT: Very short. There was no  
8 foundation established for this. The witness had  
9 not seen it before. There is just no basis or  
10 relevance put forth in the record of why this  
11 should come in. There is just simply no foundation  
12 of the point of this, or at least through witness  
13 Campbell.

14          CHAIRMAN FAY: Okay. And I believe the issue  
15 of the initial classification of the property, and  
16 then the position of it, this does appear to not  
17 address essentially the ownership -- or the  
18 transfer now -- oh, let's see, 2019, okay.

19          MR. MOYLE: Mr. Chairman.

20          CHAIRMAN FAY: Mr. Moyle, go ahead.

21          MR. MOYLE: It does tie into an exhibit that,  
22 I think it's 185 was the -- it's the Miami-Dade  
23 folio number that was -- that's 206 that I am  
24 going, but there is also an exhibit that was  
25 already entered that has this formal consistency

1 determination, 185. This was a letter from the  
2 Miami-Dade County Department of Regulatory and  
3 Economic Resources, that was dated August 17th,  
4 2018. It's already in the record.

5 CHAIRMAN FAY: That included the  
6 recommendation from the council, is that what you  
7 are --

8 MR. MOYLE: It has the folio number. It's the  
9 same folio number that's the folio number in  
10 Exhibit 206. And it -- one of the points made with  
11 this document already in, 185, is that they didn't  
12 really go and check their zoning determinations for  
13 the exhibit that we are offering, 206, on the third  
14 page -- actually, it's the fourth page, there is a  
15 section that says, landuse and restrictions. And  
16 it says, urban development, outside urban  
17 development boundary, zoning agricultural  
18 residential, five acres growth.

19 So with respect to the comment that it's not  
20 relevant, we would argue that it's highly relevant,  
21 because anybody can go to the property appraiser's  
22 website and go on a website and you type in the  
23 folio number, and you can say, wait a minute, this  
24 76 acres, it doesn't look like it will work for an  
25 LNG facility. So it's -- you know, if the

1 objection is foundational, you know --

2 CHAIRMAN FAY: Well, yeah, and I agree it did  
3 relate to the testimony. My only question, Mary  
4 Anne, is just it's essentially printed off of a  
5 website. The validity of it, I don't know  
6 necessarily how we find that sufficient. I don't  
7 know if typically property deeds are required for  
8 evidentiary purposes, but I presume this is  
9 accurate. I just have no way of knowing since it  
10 was printed off a website.

11 MS. HELTON: And my understanding of the  
12 testimony and the cross-examination by Mr. Moyle  
13 and the witness, I am not sure the witness could  
14 authenticate this document.

15 CHAIRMAN FAY: Okay.

16 MR. MOYLE: And we let a lot of things in at  
17 this commission in a lot of different ways, and if  
18 we are going to -- if we are going to start  
19 objecting on grounds of authentication, then that  
20 may be a road that I would suggest could be a  
21 little bumpy, so --

22 CHAIRMAN FAY: Okay. Mr. Moyle, one second.

23 MR. MOYLE: FPL may want to reconsider their  
24 objection.

25 MS. HELTON: My boss just reminded me, Mr.

1 Chairman, that the objection was relevance. So if  
2 you find that this exhibit was relevant and  
3 appropriately used for cross-examination purposes  
4 for the witness, with the witness, then you can let  
5 it in and we can give it the weight that it's due.

6 CHAIRMAN FAY: Yeah, I am going to go ahead  
7 and allow it and give it that weight. I recognize  
8 that, from a Commission perspective, there might be  
9 more valid document types of documents that could  
10 be presented for this type of information, but I do  
11 think it's relevant to the testimony.

12 So for 206, I am going to allow it in. I am  
13 going to refer to it as FIPUG's exhibit, even  
14 though OPC is the one who presented it originally,  
15 unless there is an objection to that, Mr.  
16 Rehwinkel?

17 MR. REHWINKEL: No.

18 CHAIRMAN FAY: Okay. All right. With that,  
19 so then we have 206.

20 (Whereupon, Exhibit No. 206 was received into  
21 evidence.)

22 CHAIRMAN FAY: Any other exhibits that we  
23 haven't addressed at this time?

24 MR. WRIGHT: Chairman, did we move in the MFRs  
25 Exhibit 2 through 9? I am not sure. I was waiting

1           until we got through all the witnesses. I am not  
2           sure if we did that at the beginning, but if not, I  
3           would respectfully request that we put in Exhibits  
4           2 through 9, which are the MFRs.

5           MS. HELTON: I am very glad Mr. Wright asked  
6           that question, because I have been wondering the  
7           same thing sitting here for the last two days. So  
8           even if we did, if we could admit them again in an  
9           abundance of caution, that would be, I think,  
10          appreciated by all.

11          CHAIRMAN FAY: Yeah, I think especially you  
12          are right, Mary Anne. I think, under Section V, we  
13          had brought them in, but for clarity purposes, Mr.  
14          Wright, you want to go ahead and clarify the motion  
15          to enter those in and then I will grant?

16          MR. WRIGHT: Yeah, thank you, Chairman. The  
17          MFRs are sponsored by multiple FPL witnesses -- or  
18          FCG witnesses, and they've all testified at this  
19          point, all of their testimony has been admitted  
20          into the record. I would respectfully ask that  
21          Exhibits 2 through 9 be moved into the record.

22          CHAIRMAN FAY: Okay. Without objection, show  
23          Exhibits 2 through 9 entered into the record.

24                 (Whereupon, Exhibit Nos. 2-9 were received  
25          into evidence.)

1           CHAIRMAN FAY: I appreciate you catching that,  
2           Mr. Wright. I think that's something our staff had  
3           concerns with too.

4           So, okay, with that, then, with the parties,  
5           any other issues?

6           Okay. Staff, anything else before we move  
7           into post-hearing posture?

8           MR. JONES: No, Commissioner.

9           CHAIRMAN FAY: Okay. Okay. Mr. Jones, you  
10          want to just provide us the timeline, and then the  
11          parameters that we set out in the prehearing?

12          MR. JONES: We note that briefs are due on  
13          January 9th, 2023, and shall not exceed 100 pages.

14          CHAIRMAN FAY: Okay. Any objections to that  
15          at this time? No.

16          All right. Commissioners, staff and counsel  
17          for the parties and witnesses, I appreciate  
18          everyone hanging with us. I know we ran a little  
19          bits over 6:00, which tend not to want to do, but I  
20          think for efficiency and cost purposes, you  
21          probably served your clients well to complete  
22          something in that five days scheduled from the  
23          Commission perspective.

24          So with that, Commissioners, any other  
25          matters? Seeing none, this hearing is adjourned.

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Thank you.  
(Proceedings concluded.)



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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 3rd day of January, 2023.

  
DEBRA R. KRICK  
NOTARY PUBLIC  
COMMISSION #HH31926  
EXPIRES AUGUST 13, 2024