GUNSTER

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

August 22, 2024

BY E-FILING

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

Re: **Docket No. 20240099-EI - Petition for rate increase by Florida Public Utilities Company**

Dear Mr. Teitzman:

Attached, for electronic filing, on behalf of Florida Public Utilities Company, please find the Testimony and Exhibit of Michelle Napier.

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

(Document 3 of 18)

Sincerely,

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

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 20240099-EI: Petition for rate increase by Florida Public Utilities Company

Prepared Direct Testimony of Michelle Napier

Filed: August 22, 2024

Q. Please state your name and business address.

A. My name is Michelle D. Napier. My business address is 1635 Meathe Drive, West Palm Beach, Florida 33411.

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

A. I am employed by Chesapeake Utilities Corporation ("CUC") as the Director, Regulatory Affairs.

Q. Can you please provide a brief overview of your educational and employment background?

A. I received a Bachelor of Science degree in Finance from the University of South Florida. I have been employed with Florida Public Utilities Company ("FPUC" or "Company") since 1987. Over the course of my employment at FPUC, I have performed various roles and functions in accounting, including General Accounting Manager, before moving to the regulatory department in 2011. As previously stated, I am currently the Director, Regulatory Affairs and in this role, my responsibilities include directing the regulatory activities for all of CUC's regulated distribution companies. This includes regulatory analysis and filings before the Florida Public Service Commission ("FPSC" or "Commission") for FPUC Natural Gas and Electric, Peninsula Pipeline Company, as well as regulatory analysis and filings before Delaware and Maryland Public Service Commissions for our business units that operate in those states.

Q. Have you ever testified before the FPSC?

A. Yes. I have previously provided written, pre-filed testimony in a variety of the Company's annual proceedings, including the Purchased Gas Adjustment, Docket No. 20170003-GU; the Gas Reliability Infrastructure Program (GRIP) Cost Recovery Factors for FPUC, Docket No. 20120036-GU; and the Swing Service Cost Recovery for FPUC, Docket No. 20170191-GU, the Limited Proceeding for Hurricane Michael, Docket No. 20190156-EI, as well as the FPUC Gas Rate Case, Docket No. 20220067-GU.

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

A. My testimony will support certain costs on projected data presented in the Minimum Filing Requirements ("MFR") listed in my Exhibit MDN-1. Specifically, I will address the costs and adjustments represented within the MFR schedules for interim rate relief, rate base, net operating income ("NOI"), and cost of capital. In addition, I will address other requests in this case related to storm reserves, rate case expense and the technology rider.

Q. Are you sponsoring any exhibits with your testimony?

A. Yes. Exhibit MDN-1 is a list of MFRs that I am sponsoring or co-sponsoring and were prepared under my supervision and direction.

<u>**REVENUE REQUIREMENT**</u>

Q. What is the revenue increase requested by FPUC in this proceeding?

A. FPUC is requesting a permanent increase in the electric rates and charges for its consolidated electric operation in the amount of $12,593,450 in order to cover the deficiencies in revenue for the projected test year ending December 31, 2025. In accordance with Rule 25-6.140, F.A.C., Test Year Notification, we have notified the FPSC that we have selected the twelve-month period ending December 31, 2025 as the projected test year for our petition to increase our rates and charges. FPUC is also requesting an interim increase in the electric rates and charges for its consolidated operations in the amount of $1,812,869 based on deficiency in revenues for the historic year ended December 31, 2023.

Q. How did you derive the projected revenue requirement for the December 31, 2025 test year?

A. The derivation of the revenue requirement and projected revenue deficiency is summarized on MFR Schedule A-1. In summary, the 2025 revenue requirement is determined by multiplying the projected test year rate base by the required rate of return to arrive at the operating income required. This required operating income is then compared to the projected test year ended December 31, 2025 operating income, shown on MFR Schedule C-1, using our existing billing rates and charges multiplied by our projected billing determinants and our operating expenses. Any deficiency in operating income is then expanded using the revenue expansion factor to arrive at the additional revenue required to realize a fair rate of return on rate base. This required increase amounts to an additional $12,593,450 in annual electric rates and charges. The required rate of return is 6.89% as shown on Schedule D-1a. The projected rate base is $150,053,096 and is provided in MFR Schedule B-1.

INTERIM RATE RELIEF

Q. Is the Company seeking interim rate relief in this proceeding?

A. Yes, the Company is seeking interim rate relief because, as of the historic test year, FPUC is not earning a sufficient return on its investments to provide the Company the opportunity to earn a fair rate of return. Without appropriate rate relief, this under-earning will hinder the Company's ability to continue to provide efficient, reliable service to the communities and customers it serves. With the length of the rate case process, interim rates will mitigate our negative earnings posture until final rates can be put in place. While the Company has successfully worked to control costs and expenses, as evidenced by the fact that the Company has not filed for a base rate increase in almost a decade. The impact of inflation on the cost of materials and labor since the last base rate proceeding has put negative pressure on the Company's returns. Utilizing the methodology authorized in Section 366.071, Florida Statutes, the Company has calculated the required annual interim rate relief of $1,812,869 based on the historical test year ending December 31, 2023. The Company is below the range of reasonableness on rate of return as calculated in accordance with Section 366.071(5) and without rate relief, is projected to continue to experience declining returns.

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

A. The calculation of the 2023 revenue deficiency is summarized on the minimum filing requirements (MFR) Schedule G-1, Line 8, with an interim rate relief of $1,812,869.

The interim rate relief revenue requirement is determined by multiplying the average December 31, 2023, rate base by the required rate of return as stated in Section 366.071(5)(b)(2) of the Florida Statutes, which provides the operating income required. This required operating income is then compared to the 2023 operating income from the achieved rate of return, as stated in Section 366.071(5)(b)(1) which is the rate of return earned by the utility with appropriate adjustments, to determine the Company's revenue deficiency. The Company's adjustments are detailed on Schedules G-3, G-5 and G-8. The deficiency in operating income is expanded using the revenue expansion factor of 1.3477, see Schedule G-18 for the calculation of the revenue expansion factor, to arrive at the additional revenue required to realize a fair rate of return on rate base. The Company's required rate of return is 4.95% as is shown on Schedule G-19a in the MFR, and the December 31, 2023, rate base is $116,666,956 as provided in Schedule G-2. The Company's interim rate relief requirement is based on its average rate base investment, as allowed in 366.071(5)(a), since this amount represents the actual used and useful plant providing service to customers. In determining the required rate of return for interim rates, the Company followed the parameters prescribed in 366.071(5)(b)(2) including using the minimum range of the last authorized rate of return on equity established in the most recent individual rate proceeding. The impact of interim rate relief, stated in percentage terms as an increase on base rates and charges, is approximately 7.39% as reflected on Schedule G-20.

The Company asks that the Commission allow us to collect appropriate interim rates pending the effective date of the final order in this proceeding. We recognize that, in accordance with Section 366.071, F.S., any approved interim increase will be subject to refund with interest upon the outcome of these proceedings. FPUC therefore requests that the Commission allow the Company to secure the requested amount through corporate undertaking, in lieu of a bond. FPUC, through its parent CUC, has sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund as reflected by our financial statements, which are incorporated in the MFR Schedules F-1 and F-2.

Q. Have any adjustments been made to interim schedule G-8 that aren't included in Schedule C-1 (2023)?

A. Yes. The Company had revenue from a special contract in 2023 that expired in November 2023. Since that revenue does not apply to the period interim rates will be in effect, we have removed that revenue in Schedule G-8.

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

A. On Schedule G-20 the total requested interim rate relief is divided by total revenues by rate class (customer charge and energy charge) in order to calculate a percentage increase for each rate class. That percentage increase is then multiplied by the customer and energy charge for each individual class to derive at the dollar increase per class to be charged during the interim rate period. This dollar increase is divided by annual therm sales to calculate the per therm increase to be charged to each class during the interim rate period.

The proposed interim rates by class are shown in MFR Schedule F-9.

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

A. No, not for the interim period. We are requesting some changes in the final Service Charges, as addressed in the testimony of Witness Grimard.

RATE BASE

Q. What is the amount of rate base included in the projected test year December 31, 2025, as a basis for determination of revenue requirement?

A. As set forth in MFR Schedule B-1, rate base is $150,053,096. The rate base is comprised of two main sections, Net Plant and Working Capital.

Q. What was the basis for projecting the rate base?

A. The Company did a detailed analysis and projection of planned capital projects, retirements, and other components for the projected years ending December 31, 2024, and December 31, 2025, to project Net Plant. The Company utilized in-house experts in the division, including the General Manager, Florida Operationser, William Haffecke, Manager of Electric Operations, Mark Cutshaw and Director of Finance, Stephanie Keithley, as well as input from other key employees to determine the projects, amounts, and timing of items to be included in Net Plant projections. The Company has planned capital projects required for safety, reliability, storm protection plan, infrastructure replacements, customer growth and other key projects; all have been incorporated into these projections and Witness Haffecke describes some of these projects in his testimony. Working Capital was projected using either trend factors or year end balances, as appropriate. Direct projections were utilized for certain balance sheet accounts that do not lend themselves to projections based on trend factors.

Q. What is the amount of the Company's capital additions for the historic test year ending December 31, 2023, and capital budget for the two projected test years ending December 31, 2024, and 2025, respectively?

A. The capital additions, including allocations of common plant, for the twelve months ending December 2023 were $9,061,642. The budget amounts for capital additions for the periods ending December 31, 2024, and 2025 are $37,648,477 and $51,605,279, respectively.

Q. Is it appropriate to include the construction work in progress ("CWIP") planned for the projected test year in rate base?

A. Yes, CWIP is a component of FPUC's Net Plant, so the Company should be allowed to earn a fair return on capital projects under construction. Costs associated with these projects are all prudently incurred and necessary, and therefore, should be included in rate base for recovery through base rates. Historically, the Commission has allowed construction work in progress to be included in rate base for the Company. The Company has removed any construction work in progress projects that are accruing "AFUDC" in MFR Schedule B-1, and therefore, the Company will not receive duplicate recovery on these projects while under construction. With this proceeding, we are asking that the Commission allow us to recover costs associated with ongoing construction, because these projects are critical to maintaining and improving safety, system reliability and ensuring our ability to meet our customer's needs.

Q. What are the items that are included in net plant that have been allocated from Florida Common to the Electric operating unit?

A. As in previous rate proceedings, the Company determined that certain Plant Assets were categorized as Florida Common due to their shared utilizations between Florida's multiple regulated and/or non-regulated utilities. The allocation is based on the Modified Distrigas for Florida business units, which allocates to the utility its share of the total for plant, payroll, customers or earnings. These assets are detailed on Schedule B-8 under Florida Common Plant.

Q. What are the items that are included in net plant that have been allocated from CUC to FPUC?

A. The Company also determined that certain Plant Assets of CUC should be allocated to the Company due to their shared utilizations between multiple regulated and/or non-regulated utilities. These assets consist mainly of common area space in office buildings used for corporate personnel, computer and communication equipment, and other general plant accounts. The allocation is also based on a Modified Distrigas method for all CUC business units and allocates to the utility its share of the CUC total for plant, payroll, customers or earnings. These assets are detailed on Schedules B-7 and B-8 under Corporate Common Plant.

Q. Please describe how working capital was projected for the projected test year ending December 31, 2025?

A. In developing working capital projections, the Company reviewed each balance sheet item, and where appropriate, utilized a trend factor, usually based on history. For some accounts, we used the balance that existed at the historic year end, when there were no fluctuations. This basis produced a better projection. And for some accounts that did not lend itself to a pure trend, we directly projected their balances based on history or estimates received from external experts, such as pension and benefits reserve.

Q. Is working capital as projected appropriate for computing the projected test year rate base for the period ending December 31, 2025?

A. Yes, the working capital as projected is appropriate for inclusion in rate base for the period ending December 31, 2025. The Company performed an analysis on working capital accounts, reviewed historical methodology used and reviewed expense items related to these accounts to determine the most appropriate factor to use in projecting working capital.

Q. What is the appropriate adjusted rate base for the projected test year ending December 31, 2025?

A. The appropriate adjusted rate base for the projected test year is $150,053,096, reflecting utility plant (including Florida Common & Corporate Common) after deductions for accumulated depreciation and amortization, and other adjustments as noted for the projected test year (non-utility plant, CWIP accruing AFUDC) plus working capital allowance. This amount is shown on MFR Schedule B-1. Additional information on capital additions for rate base for the projected test year is provided in the testimony of Witness Haffecke.

Q. Please explain all adjustments included in rate base for the projected test year included in the Company's submitted MFRs.

A. We have made the following adjustments:

Removed Non-Utility Assets

The Company has removed plant and its reserve for a portion of the assets used and/or shared with other non-utility operations, consistent with the treatment approved by Order No. PSC-2008-0327-FOF-EI. The adjustment to net plant decreased rate base by $5,730.

Clause Under-Recoveries Set at Zero

Consistent with that same Order, PSC-2008-0327-FOF-EI, fuel and conservation under-recoveries were eliminated and estimated at zero at December 31, 2025. Therefore, no adjustment was made.

Unamortized Rate Case Expense

The Deferred Rate Case account has been reduced by the unamortized rate case balance from working capital, which is consistent with Commission direction in Order PSC-2023-0103-FOF-GU in our gas rate proceeding. The reduction amounted to $1,331,206 as shown for December 31, 2025 in Schedule B-1. However, the Company believes it is more appropriate to remove one half of the unamortized rate case balance from working capital, which had been a long standing policy of the Commission for FPUC, even though the Commission had not taken that approach with other utilities. In the Company's 1993 rate case, Order No. PSC-1994-0170-FOF-EI at pg. 10, for its electric division, the Commission addressed this same issue. In that case, the Commission acknowledged that it had, in several prior cases for other utilities, removed rate case expense from working capital. The Commission nonetheless recognized that:

> We believe that the company should be given the opportunity to recover prudently incurred costs. Not including the unamortized portion of rate case expense in working capital is a partial disallowance. It is analogous to allowing depreciation expense, but not allowing a return on rate base. Rate case expense is a cost of doing business not unlike other administrative costs. Further, PSC rules, such as the MFR rule, influence the level of rate case expense.

The Commission therefore concluded:

> . . . if it is determined that rate case expense is prudent and reasonable, the company should be allowed to earn a return on the unamortized balance. Rate case expense is a necessary expense of doing business in the regulated arena.

Also, in the Commission's final order in the 2007 FPUC Electric rate case, Order No. PSC-2008-0327-FOF-EI, page 33, issued in combined Dockets Nos. 20070300-EI and 20070304-EI, states:

> Our practice in prior rate cases, including FPUC's is to allow one-half of the rate case expense in Working Capital. Based on the above, we find that the appropriate balance of deferred debit rate case expense to be included in Working Capital is $303,400.

That decision is also consistent with Commission Order No. PSC-2004-0369-AS-EI, issued in the 2003 FPUC Electric rate case, Docket No. 20030438-EI.

We acknowledge that the Commission reached a different conclusion in our recent rate case consolidating our natural gas divisions in Docket No. 20220067-GU;

however, we still believe this approach is appropriate for our electric division, which is substantially smaller than our natural gas sister companies.

In addition, FPUC is not staffed at a level to allow for preparation of rate proceedings, MFR's, or the additional rate case related workload required after the MFRs are filed nor does the Company have the expertise in all areas required to facilitate the preparation of a rate case. As a result, FPUC hires the expertise and extra assistance as necessary to complete this process. The Company believes this is a more cost-effective approach than increasing staff to completely handle the rate case internally and benefits our customers by having lower operation and maintenance expenses on a recurring basis. Therefore, the Company deems it appropriate to include one half of the unamortized rate case balance in working capital and earn a return.

If allowed to include one half the unamortized rate case in working capital, this would increase rate base by $665,603 and the revenue requirement by $45,860.

<u>Removal of SPP-Related Expense in Rate Base</u>

In 2019, the Florida Legislature passed Section 366.96, F.S. that requires public electric utilities to file a Storm Protection Plan ("SPP") with the Commission and allows them to petition for cost recovery annually through a Storm Protection Plan Cost Recovery Clause ("SPPCRC"). The SPP is handled in a separate docket, SPPCRC, outside of the base rate proceeding and is reviewed and approved within that docket.

The plant investment related to the SPP accrues interest and since no interest earning costs are supposed to be in rate base, the projected test year included adjustments for net plant related to the Company's SPP. FPUC has decreased rate base by $31,297,633 for the projected test year ending December 31, 2025.

Removal of CWIP

According to FPSC Rule 25-6.0141 F.A.C., FPUC has removed CWIP accruing AFUDC. This investment pertains to the implementation of the new corporate-wide SAP Customer Billing System, which is expected to be in service third quarter of 2024. As noted above, no interest earning/bearing costs should be in rate base and therefore, FPUC has removed $731,263 in December 31, 2025.

Removal of Storm Restoration Costs

Lastly, FPUC was approved to recover and amortize storm restoration costs, including interest, related to Hurricane Michael in 2019, Docket No. 20190156 by Order No. PSC-2020-0347-AS-EI. This resulted in a reduction in rate base of $3,769,633 for December 31, 2025.

No other adjustments were made to rate base and all of the above adjustments are reflected on MFR Schedule B-2.

Q. Are there any adjustments made to the projected test year rate base outside of those made for the historic test year?

A. Yes, the Company made the same adjustments to the projected test year as were made to the historic test year but included additional rate base of $4,803,241 to reflect the substation purchases and renovations in 2025 being in-service for a full year. The details regarding these substations will be discussed in more detail in the testimony of Witness Haffecke.

NET OPERATING INCOME and OPERATING EXPENSES

Q. Please describe how the historic year net operating income was calculated.

A. The Net Operating Income (NOI) was based on the historic test year for the 12 months ending December 31, 2023 on the Company's books. This calculation is shown on MFR Schedule C-1. Certain adjustments to NOI are reflected on MFR Schedule C-2. As shown on MFR Schedule C-1, the Company Adjusted Net Operating Income for the historic test year is $4,468,646.

Q. Does the historic test year accurately reflect net operating income?

A. Yes, the Company has included all adjustments to remove items that did not belong in the historic year. Accordingly, the MFR Schedule C-1 for the period ending December 31, 2023, reflects the appropriate historic year net operating income. Other adjustments were required to the historic year to remove items that do not belong to the electric division or were otherwise made consistent with Commission decisions in past rate proceedings.

Q. Please explain the items and basis for any adjustments made to the operating income for the historic year included in MFR Schedules C-2 and C-3.

A. Eliminate Fuel and Conservation:

Consistent with prior rate proceedings, the fuel and conservation revenues and expenses, as well as their respective net under recoveries, have been eliminated from both the historic and projected test years. These items are handled in separate dockets outside of the base rate proceeding and are appropriate for review and approval within those separate proceedings.

Eliminate Franchise and Gross Receipts Tax:

Franchise and Gross Receipts tax revenue and expenses have also been eliminated from the historic and projected test years. Although they are not handled in separate dockets, it is appropriate to remove them. They are a direct pass-through for revenues and expenses and they are excluded from setting base rates.

Economic Development Costs:

Expenses have been reduced for the lower of 5 percent of the economic development costs in compliance with 25-6.0426 F.A.C. . This amount was under the maximum adjustment of .225% of the gross revenue.

Storm Recovery:

As previously discussed, FPUC was approved to recover and amortize storm restoration costs, including interest, related to Hurricane Michael in 2019, Docket No. 20190156, by Order No. PSC-2020-0347-AS-EI. Therefore, the Company has removed the revenues and expenses associated with interest earning storm recovery to avoid duplicate recovery.

Remove Storm Protection Plan Cost Recovery:

The revenues and expenses related to the SPPCRC have been eliminated from NOI. The SPPCRC is handled in a separate docket outside of the base rate proceeding and are reviewed and approved within that docket. In this case, we are requesting an adjustment in addition to the adjustment to remove the SPPCRC costs in the filing. In the most recent 2025 Projection filing, $975,504 was removed from projected tree trimming and inspection costs because they were included in base rates within the 2015 rate case. The Company is now proposing that all tree trimming and inspection costs be removed from base rates and included in their entirety in the SPP filing. If approved, the true-up calculation filing for the SPPCRC with the PSC would be adjusted to remove the deduction for base rate costs. If not approved, our rate request would need to be increased to cover the additional $975,504 that would remain in base rates.

<u>EEI Dues:</u>

FPUC is a member of Edison Electric Institute ("EEI"), an association that represents all U.S. electric utilities. A portion of the dues paid to EEI represent lobbying and are not recoverable. Therefore, FPUC has reduced expenses for these lobbying expenses of $7,500.

<u>Depreciation Expense:</u>

The Company has removed the appropriate depreciation expense related to plant adjustments mentioned above and has been appropriately reflected in the MFR Schedules.

<u>PSC Assessment:</u>

Taxes Other Than Income ("TOTI") for the PSC Assessment was calculated on the related adjustments described above and has been appropriately reflected in the schedules.

<u>Income Tax Impact:</u>

The effective income tax rate on the adjustments described above has been appropriately calculated and included as an additional adjustment to expense in the historic year and projected test years.

For reference, MFR Schedules C-2 and C-3 include a summary of the above adjustments and amounts.

Q. Have you calculated the appropriate adjustment in income taxes to reflect the synchronized interest expense related to the adjusted rate base?

A. Yes. The NOI has been adjusted to reflect the tax effect of synchronizing interest expense to rate base and the related income tax synchronization. Consistent with prior Commission practice, the synchronized or calculated interest expense is computed by multiplying the jurisdictional adjusted rate base by the weighted cost of debt included in the cost of capital. This adjustment, which amounts to $5,950, ensures that the calculated revenue requirement reflects the appropriate tax deduction for the interest component of the revenue requirement calculation.

Q. How did you project Operating and Maintenance (O&M) expenses for the projected test year ending December 31, 2025?

A. O&M expenses were projected using the historic year as the starting point, making all necessary adjustments as reflected in this rate proceeding for the historic year and either trending those forward with an appropriate trend factor, or directly projecting the expense using the expertise of internal managers or known items impacting certain expenses as a basis for the projection.

Final projected O&M amounts were reviewed by internal managers and analysts and were determined to be a good estimate for expected recurring prudent costs during the projected test year.

Q. Please explain in more detail the basis for projecting the O&M expenses included in the MFR filing.

A. The O&M expenses for the historic test year ending December 31, 2023, provide the basis for most of the expense items in the projected test year ending December 31,

2025. Each FERC account's details were separated into payroll and non-payroll components for the historic year. All historic adjustments were made to the payroll and non-payroll components to exclude out-of-period items, if any, or other items as reflected in the historic year adjustments described in this testimony and shown on MFR Schedule C-2.

Some historic year amounts were then adjusted to normalize the expenses for the purpose of trending historic year accounts to the projected years. Normalization adjustments totaling $82,877 were made to exclude depreciation expense that had been charged to FERC operation and maintenance accounts for vehicles because all depreciation is recorded in this filing as depreciation expense. These adjustments only impact the projected year's amounts and were not included for purposes of establishing the historic year expenses included in the NOI for the period ending December 31, 2023. The adjusted historic test year expenses, plus or minus any "normalization" amounts, were then projected by multiplying the normalized 2023 costs by one of several trend factors that were the most reflective of each account and consistent with prior rate proceedings.

Some historic year items that were trended did not reflect the annual amount expected; estimates have been adjusted for specific cost estimates or increases and decreases above and beyond the trended amounts (Over and Under Adjustments), as shown on MFR Schedule C-7. Certain expenses were not trended and were projected based on direct cost estimates provided by our internal management. Examples of direct cost estimates include: pension, property insurance, injuries and damages, and rate case expense.

The application of trend factors, including over and under items plus the direct projections, produced reasonable and expected results in O&M amounts for the projected test year.

Q. Please explain the basis of the trend factors used to project O&M expenses for the projected test year.

A. The trend factors used were: (a) inflation, (b) customer growth, (c) payroll growth, (d) revenues, (e) inflation and customer growth and (f) payroll and customer growth -- and were based on whether the costs were payroll or non-payroll. Trend factors have been applied that are appropriate for each account and consistent with prior rate proceedings. A list of projection factors used is located on MFR Schedule C-7. In addition, known expenses that are an increase or decrease to the trended expenses were incorporated and detailed on MFR Schedule C-7 as well. Among the most commonly used trend factors for payroll-related expenses is Payroll and Payroll x Customer Growth, while one of the most commonly used trend factors for non-payroll related expenses is Inflation and Inflation x Customer Growth. We have applied trend factors that are most appropriate for the accounts in question, and we have made sure that the applications of these factors have produced reasonable results. The inflation trend factor is based on the average Consumer Price Index ("CPI"). The payroll trend factor is based on historical data and the experience of the Company's Human Resources Assistant Vice President, Witness Rudloff, and her projections of expected payroll increases for both 2024 and 2025. The factors for customer growth, unit (kWh) growth and revenues are based on a detailed analysis and the results from revenue related projections used within this rate proceeding. The methodology used to determine the billing determinants and revenue factors for these projections have been provided by, and explained in greater detail in, the testimony of Witness Taylor from Atrium Economics, LLC.

Trend factors used were consistent with those used for expense projections in prior rate proceedings.

Q. How did the Company determine the appropriate trend factor for each expense projection?

A. As previously mentioned, all expenses were divided into two components, payroll (if applicable) and non-payroll. The payroll expenses for each account used either the Payroll or Payroll and Customer Growth trend factors. The payroll factor was used on payroll accounts, like 560-Supervision and Engineering. All other payroll components used the Payroll and Customer growth factor. This is because the Company expects payroll to increase by not only the expected rate of pay, but also the expected overall number of personnel, as more customers are added. Although it is not a direct correlation, personnel will fluctuate overall by the number of customers the Company serves. The non-payroll component was based on the type of expense and most appropriate trend factor for the account. This is consistent with historically approved trend factors used in prior rate proceedings, and resulted in expected levels of expenses.

Q. Can you explain the basis for the projected expenses outside of those based on historical data trended to the projected test year?

A. The O&M over and under adjustments, as well as direct projections, were made to certain accounts outside of trending historical data when management determined that a trend would not adequately reflect expected results. A detailed listing of the over and under adjustments, including direct projections, have been included in the filing under MFR Schedule C-7 page 7 and 8. The over and under adjustments are each assigned to a specific witness and will be discussed in their testimony.

Q. Can you summarize the adjustments assigned to you?

A. Because fuel and conservation are eliminated from net operating income for the purposes of setting base rates, when projecting costs for these clauses, the Company assumes that revenues equal expenses. Since the Company did not have a 2025 fuel or conservation filing at the time the MFRs were prepared, the 2024 rates were used to calculate 2025 revenue and the expenses were adjusted to equal the revenues. Since all fuel and conservation costs and revenues are removed in Schedule C-1 for 2025, there is no effect of any of the fuel or conservation adjustments made in C-7 page 7 and 8 in 2025.

The projected increase in the storm reserve accrual of $446,979 per year was made to ensure coverage due to the Company's exposure and risk of storm damage because the conditions related to storm activity has changed significantly from our last rate proceeding in that Florida has encountered and is projected to experience an increased number of minor and named storms in the coming years. To project the storm reserve and expense, the Company included the amount approved in its previous rate proceedings of $121,620 annually for a total storm reserve of $2.9 million, which was previously approved in Commission Order No. PSC-2008-0327-FOF-EI. Then, FPUC projected estimated costs, $619,454, related to expected minor and named storms, by calculating a five-year average of actual costs from 2020 through 2023 and projected 2024. This resulted in a deficit in the reserve balance of $734,894 for the projected test year ending December 31, 2025.

On February 28, 2018, FPUC filed a petition for a limited proceeding to recover incremental storm restoration costs due to minor and named storms. Because these storms had depleted FPUC's reserves, FPUC also proposed to restore its storm reserve to $1.5 million as originally approved by Order No. PSC-2017-0488-PAA-EI, which was again approved in this petition by Order No. PSC-2019-0114-FOF-EI. As previously mentioned, the conditions related to storm activity have changed significantly from our last rate proceeding in that Florida has encountered and is projected to experience an increased number of minor and named storms in the coming years. The Company's exposure to the risk of storm damage, suggests a need to increase the reserve at this time. This risk also contributes to the fact that this account is currently projected to be underfunded by December 31, 2025, which also implies an increase is in order for the reserve. Therefore, FPUC projected an increase in the reserve and expense to replenish its storm reserve to $1.5 million from its deficit of $734,894. In order to lessen the impact to its customers, especially in light of this proceeding, FPUC requests to collect $2,234,894 over five years, which amounts to $446,979 annually.

The projected regulatory commission expense amortization of $382,727 was based on rate case expenses outlined in Schedule C-10. Schedule C-10 shows estimated costs pertaining to all aspects of filing a rate proceeding. These costs include, but are not limited to, preparation, review, filing, responses to data requests and specific forecasts from consultants and attorneys, which includes internal review of, as well as the in-house review of, appropriate and anticipated costs. These forecasts assume that this case would not be fully litigated since the Company is filing as a proposed agency action as authorized in Section 366.06(4) F.S. The Company estimates the incremental expenses related to this rate case to be $1,530,907 and is requesting to recover these expenses at a rate of $382,727 per year over a four-year period, which is consistent with the Commission's decisions on this issue in a previous FPUC rate case. NOI has been adjusted by $382,727 for the projected test year -- provided this proceeding does not require a full hearing. If this proceeding goes to hearing, the Company respectively requests that those additional costs be included in expense for recovery.

The Company has projected rate case expense based on specific forecasts including the cost to use consultants to assist in preparation and support of a rate case and the cost for representation and consultation by attorneys and consultants. The Company is not staffed at a level to allow for preparation of a rate proceeding, MFRs or the additional rate case related workload required after the MFRs are filed. We do not retain expertise in all areas to help facilitate the preparation of a rate case given that we avoid regular rate case filings through cost controls. Instead, we hire the necessary expertise and extra assistance necessary to help us complete the process when we do find a rate proceeding necessary. Therefore, we are utilizing various external consultants to assist us in the areas of preparation of the cost of capital, cost of service, rate design, billing determinants, and tariffs. The Company is also utilizing full-time temporary internal staff to assist with the rate case and extra rate case work beyond the normal workload of the regulatory and accounting departments.

The Company included a four-year amortization period for the Company's rate case expense of $382,727. The Commission has authorized the Company to use a four-year amortization in the past for rate case expense, specifically, in Order No. PSC-2008-0327-FOF-EI, issued in Docket No. 20070304-EI on May 19, 2008. Therein, the Commission recognized that it is appropriate to amortize rate case expense over the period of time between rate case proceedings and then concluded that the four-year period was appropriate for FPUC.

Q. How were depreciation and amortization expense projected?

The detailed projected plant balances were multiplied by the applicable depreciation rates approved during the Company's last depreciation study per Order PSC-2023-0384-PAA-EI. Amortization expense includes the remaining amortization of regulatory assets and liabilities previously approved by the Commission. The amortization is detailed on MFR Schedule C-19.

Technology Investment – Regulatory Asset and Cost Recovery Rider ("TCRR")

Q. What is the Company doing to stay current with technology?

A. The Company has made, and is continuing to make, significant investments in technology to modernize our current platform and to lay the foundation for future technology upgrades. The new customer information project is an example of one of those upgrades and will be in service in the test year. The testimony of Witness Kim Estrada, discusses the Company's decision to upgrade its outdated technology in the ERP project. The Company's current technology (SAP), which is over 20 years old and is at end-of-life, is currently being installed. The Company is currently working on the implementation of an enterprise wide Enterprise Resource Planning ("ERP") project, which will integrate with the new customer information system. Company Witness Vikrant Gadgil expands upon the technological enhancements CUC has implemented and discusses future investments in his testimony. To save customers the additional costs of a subsequent rate case, the Company is requesting approval of a rider mechanism to recover these costs, including a return on the investment and additional operating costs, as reflected in the TCRR Rider provision as set forth in our tariff and presented in Schedule E-14.

Q. Please describe the TCRR.

A. The proposed TCRR is a mechanism that allow us to avoid the cost and expense of single-issue rate cases or limited proceedings, which will avoid regulatory lag, provide certainty regarding the recovery of this significant investment, and ultimately reduce costs for our customers. The tariff proposed presents a formula to calculate a fixed monthly charge to recover the revenue requirement and costs related to the new advancement. The TCRR format in the tariff would be used to calculate a fixed monthly charge per customer for the purpose of recovering the cost associated with the Company's newly implemented and updated technology costs. The formula calculates a return on the investment and includes any new costs associated with the project implementation. It also removes any costs already in the base rate calculation. The TCRR would be applicable to all residential and commercial rate schedules unless otherwise stated in the tariff. The Company will record both actual expenses and revenues associated with the purchase and implementation of the Company's technology implementation plan. The TCRR cost recovery mechanism will be based on a projected twelve (12) month recovery period of January 1 to December 31. The Company will file the first TCRR rates with the Commission at least sixty (60) days before the rate effective date and refile on an annual basis at least sixty (60) days prior to the January 1 effective date. This would give the Commission time to review and approve the rider.

Q. Does this conclude your testimony?

A. Yes.

Witness Michelle Napier's Sponsored MFRs

SCHEDULE	TITLE	WITNESS
A-4	Interim Revenue Requirements Increase Requested	Napier
A-5	Interim Revenue Requirements Bill Comparison - Typical Monthly Bills	Napier
B-1	Adjusted Rate Base	Haffecke, Galtman, Napier
B-2	Rate Base Adjustments	Napier
B-3	13 Month Average Balance Sheet - Electric Division	Galtman, Haffecke
B-3a	14 Month Average Balance Sheet - Florida Common	Galtman, Napier
B-5	Detail of Changes In Rate Base	Haffecke, Napier
B-6	Jurisdictional Separation Factors-Rate Base	Haffecke, Galtman, Napier
B-9	Depreciation Reserve Balances By Account and Sub-Account	Galtman, Napier
B-10	Monthly Reserve Balances Test Year-13 Months	Galtman, Napier
B-17	Working Capital-13 Month Average	Napier
B-19	Miscellaneous Deferred Debits	Galtman, Napier
B-20	Other Deferred Credits	Galtman, Napier
B-21	Accumulated Provision Accounts-228.1, 228.2 and 228.4	Galtman, Napier
C-1	Adjusted Jurisdictional Net Operating Income	Napier
C-2	Net Operating Income Adjustments	Napier, Haffecke
C-3	Jurisdictional Net Operating Income Adjustments	Napier, Galtman, Haffecke
C-7	Operation and Maintenance Expenses-Test Year	Galtman, Haffecke, Napier
C-8	Detail of Changes in Expenses	Galtman, Haffecke, Napier
C-9	Five Year Analysis-Change in Cost	Galtman, Haffecke, Napier
C-37	O & M Benchmark Comparison By Function	Napier
C-38	O & M Adjustments By Function	Napier
C-39	Benchmark Year Recoverable O & M Expenses By Function	Napier
C-40	O & M Compound Multiplier Calculation	Napier
F-5	Forecasting Models	Taylor, Haffecke, Napier
F-8	Assumptions	Napier
F-9	Public Notice	Napier
G-1	Interim Revenue Requirements Increase Requested	Napier
G-2	Interim Adjusted Rate Base	Napier
G-3	Interim Rate Base Adjustments	Napier
G-5	Interim Working Capital - 13 Month Average	Napier
G-7	Interim Adjusted Jurisdictional Net Operating Income	Napier
G-8	Interim Net Operating Income Adjustments	Napier
G-9	Interim Jurisdictional Net Operating Income Adjustments	Napier
G-18	Interim Revenue Expansion Factor	Napier
G-21	Interim - Revenues From Service Charges (Account 451)	Napier
G-22	Interim - Base Revenue By Rate Schedule Calculations	Napier
G-23	Interim - Revenue By Lighting Schedule Calculation	Napier

Docket No. 20240099-EI
Florida Public Utilities

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing filing has been served by Electronic Mail this 22nd day of August, 2024, upon the following:

Walter Trierweiler, Public Counsel
Office of the Public Counsel
c/o The Florida Legislature
111 West Madison St., Rm 812
Tallahassee, FL 32399-1400
Trierweiler. walt@leg.state.fl.us

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