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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20190155-EI

PETITION FOR ESTABLISHMENT OF REGULATORY ASSETS FOR EXPENSES NOT RECOVERED DURING RESTORATION FOR HURRICANE MICHAEL, BY FLORIDA PUBLIC UTILITIES COMPANY.

DOCKET NO. 20190156-EI

PETITION FOR A LIMITED PROCEEDING TO RECOVER INCREMENTAL STORM RESTORATION COSTS, CAPITAL COSTS, REVENUE REDUCTION FOR PERMANENTLY LOST CUSTOMERS, AND REGULATORY ASSETS RELATED TO HURRICANE MICHAEL, BY FLORIDA PUBLIC UTILITIES COMPANY.

DOCKET NO. 20190174-EI

PETITION FOR APPROVAL OF 2019 DEPRECIATION STUDY BY FLORIDA PUBLIC UTILITIES COMPANY.
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VOLUME 1
PAGES 1 through 181

PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING:
CHAIRMAN GARY F. CLARK
COMMISSIONER ART GRAHAM
COMMISSIONER JULIE I. BROWN
COMMISSIONER DONALD J. POLMANN
COMMISSIONER ANDREW GILES FAY

DATE: Monday, September 21, 2020

TIME: Commenced: 11:00 a.m.
Concluded: 11:18 a.m.

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

REPORTED BY: ANDREA KOMARIDIS WRAY
Court Reporter

PREMIER REPORTING
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APPEARANCES:

J.R. KELLY, PUBLIC COUNSEL; and PATRICIA A. CHRISTENSEN, A. MIREILLE FALL-FRY, ESQUIRES, Office of Public Counsel, c/o The Florida Legislature, 111 W. Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the State of Florida.

BETH KEATING and GREGORY M. MUNSON, ESQUIRES, Gunster, Yoakley & Stewart, P.A., 215 South Monroe Street, Suite 601, Tallahassee, Florida 32301-1839, appearing on behalf of Florida Public Utilities Company.

RACHAEL DZIECHCIARZ, ASHLEY WEISENFELD, and BIANCA LHERISSON, ESQUIRES, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission Staff.

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

I N D E X

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EXHIBITS

NUMBER:	ID	ADMITTED
1 - Comprehensive exhibit list	10	10
2 through 90 (as identified on the comprehensive exhibit list)		10

P R O C E E D I N G S

CHAIRMAN CLARK: Good morning, everyone. It's good to see everybody this morning. The only one I'm missing is Commissioner Fay -- and there he is.

All right. Great to see all of you this morning. Today is September 21st. It is 11:00 a.m., and I will now call this administrative hearing to order.

I'll ask staff, if they would, to please read the notice.

MS. DZIECHCIARZ: Good morning. By notice issued on August 19th, 2020, and subsequently amended on September 3rd, 2020, this time and place has been set for an administrative hearing in Docket Nos. 20190155-EI, 20190156-EI, and 20190174-EI to review the stipulation and settlement agreement submitted on August 31st, 2020, in Docket No. 20190156-EI by Florida Public Utilities Company with FPUC and the Office of Public Counsel, or OPC.

CHAIRMAN CLARK: Thank you, Ms. Dziechciarz.

Let's move on to appearances.

MS. DZIECHCIARZ: Thank you, Chairman. There are three dockets today in this consolidated proceeding. And all parties are appearing in all of the dockets.

After the parties make their appearance, staff will make theirs.

CHAIRMAN CLARK: All right. We'll go ahead and take appearances, now. We'll begin with Florida Public Utilities.

MS. KEATING: Good morning, Mr. Chairman, Commissioners. Beth Keating with the Gunster Law Firm here today on behalf of FPUC.

CHAIRMAN CLARK: Thank you, Ms. Keating.

OPC. Ms. Christensen, are you available?

MS. CHRISTENSEN: Yes, I'm still here. Sorry. It took me a little bit.

Patti Christensen on behalf of the Office of Public Counsel, also putting in a notice J.R. Kelly, the Public Counsel, and A. Mireille Fall-Fry.

CHAIRMAN CLARK: All right. Thank you very much.

Commission staff.

MS. DZIECHCIARZ: Thank you. Rachael Dziechciarz, Ashley Weisenfeld, and Bianca Lherisson for Commission staff.

MS. HELTON: And Mary Anne Helton is here as your advisor. I'd also like to enter an appearance for your general counsel, Keith Hetrick.

CHAIRMAN CLARK: All right. Thank you.

I believe that takes care of everyone who's appearing this morning. So, let's move on to preliminary matters.

MS. DZIECHCIARZ: Thank you, Chairman. There are three preliminary matters to be addressed today; the first dealing with the remote hearing and COVID-19; the second is a status update on the posture of the dockets; and the third is moving the stipulated comprehensive exhibit list and testimony into the record.

To begin, state buildings are currently closed to the public, and other restrictions on gatherings remain in place due to COVID-19. Accordingly, this hearing is being conducted remotely and all parties and witnesses will present argument and testimony by communications media technology.

Members of the public who want to observe or listen to this hearing may do so by accessing the live video broadcast, which is available from the Commission website. Upon completion of the hearing, the archived video will also be available.

Each person participating today needs to keep their phone or device muted when they are not speaking and only unmute when they are called upon to speak. If they do not keep their phone muted or put their phone on hold, they may be disconnected from the proceeding and will need to call back in. Also, telephonic participants should speak directly into the phone and not use their speaker function.

Next, as noted earlier, there is a stipulation and settlement agreement before the Commission today, submitted on August 31st, 2020. The purpose of today's hearing is to address whether it is in the public interest for the Commission to approve the settlement agreement. If approved, this agreement would resolve all issues in the three docket numbers that we are dealing with today.

Counsel for FPUC and OPC are available to answer any questions, as well as FPUC Witnesses Casell and Napier.

In addition, the parties have agreed to waive post-hearing briefs if the Commission is in the position to make a bench decision on the settlement agreement.

Finally, moving on to the record, we have compiled a stipulated comprehensive exhibit list, which includes the prefiled exhibits attached to the witnesses' testimony in this case. The list has been provided to the parties, the Commissioners, and the court reporter. This list is marked as the first hearing exhibit, and the other exhibits should be marked as set forth in the chart.

CHAIRMAN CLARK: All right. Staff, would you like to move the exhibits into the record?

MS. DZIECHCIARZ: Yes, thank you, Chairman. We request that the Comprehensive Exhibit List, marked as Exhibit No. 1, be entered into the record.

CHAIRMAN CLARK: Exhibit No. 1 is entered.

(Whereupon, Exhibit No. 1 was marked for identification and entered into the record.)

MS. DZIECHCIARZ: We also request that Exhibits 2 through 90 be moved into the record as set forth on the comprehensive exhibit list.

CHAIRMAN CLARK: Are there any objections to the entry of any of these exhibits into the record? Seeing none, exhibits are entered.

(Whereupon, Exhibit Nos. 2 through 90 were entered into the record.)

CHAIRMAN CLARK: Now, let's move on to the witness testimony.

MS. DZIECHCIARZ: Thank you. The witnesses who have prefiled testimony have been excused from this proceeding. The parties have stipulated to entering in the direct, rebuttal, and intervenor testimonies submitted in Docket Nos. 20190155-EI, 20190156-EI, and 20190174-EI.

CHAIRMAN CLARK: All right. We will move all of the stipulated witness testimony into the record now.

(Whereupon, Witness Cassel's prefiled direct testimony was inserted into the record as though read.)

<u>Before the Florida Public Service Commission</u>

Docket No. 20190156-EI

In re: Petition for Limited Proceeding to Recover Incremental Storm Restoration Costs, Capital Costs, Revenue Reduction for Permanently Lost Customers, and Regulatory Assets related to Hurricane Michael for Florida Public Utilities Company

Revised Direct Testimony of Michael Cassel

On Behalf of

<u>Florida Public Utilities Company</u>

Q. Please state your name and business address.

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

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

A. I am employed by Chesapeake Utilities Corporation ("CUC") as the Assistant Vice President of Regulatory and Governmental Affairs for CUC's business units in Florida, including Florida Public Utilities Company.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science Degree in Accounting from Delaware State University and a Master of Jurisprudence in Energy Law from the University of Tulsa's College of Law. CUC hired me as a Senior Regulatory Analyst in March 2008. As a Senior Regulatory Analyst, I was primarily involved in the areas of gas cost recovery, rate of return analysis, and budgeting for CUC's Delaware and Maryland natural gas distribution companies. In 2010, I moved to Florida in the role of Senior Tax Accountant for CUC's Florida business units. Since that time, I have held various management roles, including Manager of the Back Office in 2011, Director of Business Management in 2012, Director of Regulatory and Governmental Affairs, and now Assistant Vice President of Regulatory and Governmental Affairs for CUC's Florida business units. In my current role, I am responsible for the development and execution of the strategy supporting the Company's regulatory and compliance initiatives,, as well as leadership of our governmental affairs group for Florida. This includes regulatory analysis and reporting, as well as substantive filings before the Florida Public Service Commission ("FPSC") for Florida Public Utilities Company ("FPUC" or "Company"), FPUC-Indiantown, FPUC-Fort Meade, and Central Florida Gas. Before joining CUC, I was employed by J.P. Morgan Chase & Company, Inc. from 2006 to 2008 as a Financial Manager in their card finance group. My primary responsibility in this position was the development of client-specific financial models and profit-loss statements. I was also employed by Computer Sciences Corporation as a Senior Finance Manager from 1999 to 2006. In this position, I was responsible for the financial operation of the company's chemical, oil, and natural resources business. My work included forecasting, financial close, and reporting responsibility, as well as representing Computer Sciences Corporation's financial interests in contract/service negotiations with existing and potential clients. From 1996 to 1999, I was employed by J.P. Morgan, Inc., where I had various accounting/finance responsibilities for the firm's private banking clientele. Before joining private industry, I served in the United States Air Force in the meteorology field.

Q. **Have you ever testified before the FPSC?**

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

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

A. In addition to providing a background that supports the Company's efforts in response to Hurricane Michael's impacts in our Northwest Division, I will provide an update on the progress of restoration related to Hurricane Michael, as well as background that supports the Company's revised filing in this Docket.

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring Exhibit MC-1 (video), which memorializes the impacts of Hurricane Michael on FPUC's system in Northwest Florida.

Q. What was different about Hurricane Michael compared to previous storms?

A. Hurricane Michael set a new precedent for the Florida Panhandle because it was the first Category 5 hurricane ever to strike the area. Not only was it the strongest storm to ever make landfall in Northwest Florida, but it was also the fourth strongest to make landfall in the continental United States based on wind speed. It brought with it wind speeds of 155 miles per hour that not only caused damage to FPUCs system but also brought with it major structural damage to our customers' and employees' homes and businesses. While FPUC has demonstrated, over three successive hurricane seasons, that its employees, training, and preparation for hurricanes is exemplary, Hurricane Michael tested our ability to respond like no other storm before it.

Q. How many customers does FPUC serve across its electric territory?

A. Before Hurricane Michael, FPUC served approximately 32,000 customers, of which roughly 15,355 were located in the largely rural counties of the north-central panhandle of Florida (Northwest Division.)

Q. Has the Company been able to restore all of the customers in its Northwest Division after Hurricane Michael?

A. No. As a result of the catastrophic impact of the hurricane's eye, 100% of FPUC's customers in the Northwest Division were without power for the better part of a month. While the Company has been able to restore its system such that it can provide service to all customers that are able to receive service, there are still 546 customers that have been permanently lost - almost 4% of the original number of customers in our Northwest Division.

Q. How was the restoration effort different for Hurricane Michael as compared to prior hurricane and storm events for FPUC?

A. All restoration efforts require an "all hands on deck" approach to safely and effectively restore service to customers. However, Hurricane Michael presented new challenges for FPUC's restoration plans. First, many of our employees were trapped in their own homes by downed trees and debris. Once we were able to account for - and establish communications with - our employees, we deployed many of them from the President to customer service representatives to help make sure our customers were safe and that our linemen, as well as those contractors that came to assist, were fed and accommodated. Our efforts also required the assistance of an unprecedented level of outside resources. The second new restoration challenge FPUC experienced came as a result of the amount of debris that was blocking access to our electric facilities. The removal of numerous trees and large amounts of debris was necessary before any actual restoration of power could be undertaken. FPUC's restoration effort was additionally hampered by vehicle fuel supply disruptions, transmission facilities that were down, and decimated telecommunication systems, which made traditional communications impossible. While it was the most physically and emotionally difficult storm restoration effort undertaken by the Company in our history, the extraordinary effort put forth by our employees and contractors permitted FPUC to rebuild enough of our facilities so that 97% of our customers that were otherwise able to take power, were restored by November 1, 2018, just twenty-two days after the storm.

Q. Did FPUC identify anything else particularly noteworthy as a result of Hurricane Michael?

A. Yes. We encountered situations that presented new challenges, such as hotels that were typically used to house work crews during prior storms, were severely damaged by Hurricane Michael and without power. Increased traffic issues associated with returning residents, work crews, disaster relief organizations, news outlets, and, unfortunately, sight-seers, further exacerbated roadway obstructions and lack of functioning traffic signals, which impaired our ability to access our damaged facilities. In addition, FPUC's regular 35 employees were joined by an additional 1,155 contract employees working to clear debris and restore power. The sheer magnitude of coordinating this many personnel in an area with damaged communications networks and largely inaccessible infrastructure and housing presented an unprecedented challenge.

Q. Is this filing similar to the Company's last storm filing in Docket No. 20180061-EI?

A. Only to the extent that we are seeking to recover costs resulting from the impact of a named storm. In that prior docket, the Company requested a surcharge based on the incremental costs for several storms, namely Hurricanes Irma and Matthew. As it relates to Hurricane Michael, requesting relief utilizing a surcharge mechanism for the impacts of Hurricane Michael would have a much more dramatic impact on customers' bills than the prior surcharge, and it would be ill-timed given the ongoing efforts to rebuild in the impacted counties. The Company, therefore, is proposing a different approach that will enable the Company to recoup its losses while still protecting its customers from a dramatic bill increase. Specifically, we are requesting a limited proceeding increase in base rates based on several components, which are detailed in witness Napier's revised testimony and Revised Exhibits MDN-1 to MDN-7.

Q. What changes are being made in this revised filing as compared to the Company's initial filing in August 2019?

A. The Company included the following changes in this revised filing:

1. The amortization period of storm costs and the accumulated depreciation of the regulatory assets has been reduced from 30 years to 10 years.

2. The final costs associated with Hurricane Michael have now been included, as well as updated numbers regarding customers that have returned to the system.

3. The subsequent costs associated with preparations for Hurricane Dorian have been included.

4. This filing corrects a misclassification that was in the original filing between materials and contractor costs included on schedule MDN-4.

5. Subsequent to the initial filing, the Florida Department of Revenue issued a Tax Information Publication notifying companies of a reduction in the state corporate income tax rate, effective January 1, 2019. This revised filing reflects inclusion of the new, correct state corporate income tax rate in the expansion factor.

Q. Given that much of the Company's plant in the Northwest Division is now new, has this resulted in an offsetting reduction to expenses?

A. No, it has not. There are a couple of reasons. First, while some equipment is new, the areas in which the equipment has been placed are still damaged by Hurricane Michael's impact, particularly the trees. Although many trees were trimmed or downed by the storm, the remaining trees are in far worse shape than before and have been severely weakened by the storm. As a result, the Company has already started to see an increase in tree trimming expense rather than a decrease. In addition, we do anticipate a decrease in some costs related to the new poles, wire, transformers, and other equipment replacement. The new equipment, however, only replaced 10-12% of the system; as such, we expect any savings will be offset by increased maintenance costs on the remaining highly stressed equipment that bore the brunt of high winds from the hurricane. For example, FPUC has experienced an increase in expenses associated with leaking transformers resulting from bushings that were loosened during the storm.

Q. Since the initial filing in August 2019, has the Company been granted some rate relief?

A. Yes, by Order No. PSC-2019-0501-PCO-EI, issued November 22, 2019, the Commission approved a Stipulation for Implementation of Rate Increase Subject to Refund ("Storm Interim Stipulation") that had been submitted by the Company and the Office of Public Counsel ("OPC"). This interim rate increase took effect on January 2, 2020.

Q. Had the Company requested interim relief in its initial petition?

A. No.

Q. How did the Storm Interim Stipulation come about?

A. Subsequent to the filing that initiated this docket, the Commission approved a reduction in FPUC's Fuel Cost Recovery factor, by Order No. PSC-2019-0501-PCO-EI, issued in Docket No. 20190001-EI. This reduction in the Company's fuel factor was going to result in a significant reduction in the overall bills for FPUC's customers beginning in January 2020. Given the timing of this proceeding, a concern arose that customers could experience rate confusion or rate shock if they experienced a significant bill reduction in January 2020 as a result of the fuel savings, followed only a few months later by a significant bill increase associated with any increase approved as a result of the Company's request for Hurricane Michael recovery. In order to address this concern, FPUC and OPC were able to agree to an interim relief mechanism that balances the fuel cost reduction with a nearly equivalent interim rate increase for residential customers, which was calculated based upon reducing the requested 30-year amortization period on regulatory assets to a 10-year amortization period. The interim rate increase will not only avoid a wild fluctuation in customers' bills, but has allowed the Company to begin recovery, at the Company's overall cost of capital on plant and cost of removal, requested regulatory assets, and the typical storm expenses, related to Hurricane Michael sooner rather than later, albeit subject to refund. The Commission approved the Storm Interim Stipulation by Order No. PSC-2019-0501-PCO-EI, issued November 22, 2019.

Q. What is the difference between these stipulated interim rates and recovering these amounts as storm expenses?

A. The Stipulated Interim Rates were requested in a manner consistent with the recovery mechanism proposed in the Company's Petition initiating this proceeding, but with a shortened amortization period. In a typical storm situation, the Company would request cost recovery of storm related expenses plus the interest incurred on those expenses by use of a surcharge. Because of the unprecedented level of investment required to recover from Hurricane Michael, the Company has requested base rate recovery of the storm related expenses, as well as the related plant additions and cost of removal incurred, at the Company's Weighted Average Cost of Capital

("WACC"). This approach is as compared to the typical storm cost recovery surcharge, which would seek recovery of incremental expenses and plant, plus the interest, and be recovered over a shorter period of time. While the Company is typically able to sustain recovery of expenses with interest only over a short period of time, the level of damage resulting from Hurricane Michael, made this approach too financially burdensome to FPUC's typical residential customer. Because of this the Company extended the recovery period requested out to 10 years. This enabled FPUC to find a level of interim rate increase that matched the decrease in fuel surcharge to our customers.

Q. Please explain why WACC was used to calculate the return on rate base changes due to the storm.

A. WACC was used for two reasons. First, FPUC's electric division, unlike the larger IOUs in the state, does not obtain debt separately to finance recoveries such as this. Rather FPUC relies on its parent company, CUC. CUC was able to secure short-term debt for the costs associated with Hurricane Michael, but that short-term debt ended in 2019. As a result, FPUC seeks to fund the unamortized portion of these costs through a regulatory asset to be amortized over 10 years at its overall cost of capital. Second, given the financial magnitude of the damages caused by Hurricane Michael, full recovery utilizing the more traditional storm surcharge approach with a shorter recovery period would be extremely financially burdensome for the Company's customers, particularly given the overall economic impact that Hurricane Michael had on the region. Recognizing that the Company's shareholders are statutorily entitled to a fair return, the Company has endeavored to strike an equitable balance by proposing the establishment of a regulatory asset that will be amortized over 10 years at the Company's WACC. The Company believes this approach strikes an appropriate balance between managing bill impacts for our customers and providing an adequate return for our shareholders.

Q. Could you please explain why FPUC changed the amortization period from 30 years to 10 years?

A. The Company used a 30-year amortization period in its initial filing because that provided the most manageable balance for the recovery of expense and monthly impact to FPUC's customers. However, through the discussions that led to the Storm Interim Stipulation, it became clear that reducing the amortization to 10 years would provide a potential increase in base rates that would offset the fuel factor reduction that was approved to start on January 1, 2020. Given that the interim rates that were calculated utilizing a 10-year amortization period resulted in an interim rate increase that is virtually offset by the fuel cost reduction, thus avoiding a potentially confusing change in customers' bills, the Company determined that the reduction in amortization period for its overall request would be a more appropriate, equitable approach. Moreover, a 10-year recovery period would more likely promote recovery of these costs from customers that actually benefitted directly from the recovery efforts. As such, we have revised our request for relief accordingly.

Q. Are the costs associated with Hurricane Michael now final?

A. Yes. All costs associated with the restoration of Hurricane Michael reflected in this revised filing are final, as reflected in the updated schedules included with the revised testimony of witness Napier.

Q. Have any costs other than those associated with Hurricane Michael been included in this revised filing?

A. Yes. As noted previously, the revised schedules included with witness Napier's testimony also reflect the costs incurred as a result of Hurricane Dorian.

Q. Why has the Company included costs associated with Hurricane Dorian in this revised filing?

A. Given the fact that Hurricane Dorian expenses were incurred shortly after the Company's filing that initiated this docket, including the costs associated with that storm event in this revised filing, will promote an administratively efficient means to address the costs for both storms in one proceeding.

Q. Did Hurricane Dorian impact FPUC's service territory?

A. Yes, while FPUC's service territory was spared a direct hit from Hurricane Dorian, it did experience tropical storm force winds, which resulted in outages for approximately 790 customers in the Company's Northeast Division on Amelia Island. Witness Cutshaw discusses the path and timing of Hurricane Dorian, as well as the Company's resource requests and mobilization efforts associated with Hurricane Dorian in his revised testimony.

Q. Since Hurricane Dorian did not make landfall in either of FPUC's electric divisions, what hurricane-related costs is the Company seeking to recover in this revised filing?

A. FPUC is seeking to recover costs it incurred related to preparation for Hurricane Dorian, including the contractors that were engaged, as well as the logistics, and a small amount of payroll costs. Details of FPUC's preparations, mobilization, and demobilization efforts are detailed in witness Cutshaw's revised testimony.

Q. Given that Hurricane Dorian did not make landfall in FPUC's service territory, were these costs prudently incurred?

A. Yes. Due to the forecasted track of Hurricane Dorian, FPUC had to have crews in place and ready to take care of our customers if it became necessary. Once a storm occurs, it becomes far more difficult to locate resources and have them travel to the impact area. Like storms before it, Hurricane Dorian had a vast forecasted impact area and timeframe, which puts constraints on the available contract labor. In this instance, Dorian was originally expected to make landfall on September $1^{st,}$ but it did not actually impact our Northeast Division until September 4. Nonetheless, as a public utility, it was imperative for us to have crews available in anticipation of the storm in order to ensure that we were able to provide appropriate service restoration after the storm. As such, we also needed to house and feed the additional resources we obtained. These costs are appropriate for recovery as they were not otherwise recovered by the Company's base rates.

Q. As it relates to the other revisions you've identified, please explain the misclassification of materials and contractor costs that you have identified as a revision, and how you have addressed that misclassification.

A. The misclassification of costs between materials and contractor costs was due to an error whereby three contractor charges related to plant accounts were inadvertently recorded to materials instead of contractor costs. The correction of this misclassification did not change the overall cost, however it did require a change in allocation between plant, cost of removal, and traditional storm costs. The net effect was a decrease in plant costs of $1,191,423, an increase in the cost of removal of $283,889, and an increase in traditional storm expense of $907,534. The impact of this correction is reflected in the revised Schedule MDN-4 and is included as part of witness Napier's revised testimony.

Q. Has the Company considered other approaches to this revised filing?

A. Yes. Very early on, the Company considered the feasibility of utilizing the surcharge approach consistent with the Company's now-expired settlement agreement with OPC and similar to the approach the Commission has entertained in recent years. This would have included a shorter recovery period but would have been limited to the restoration expense plus interest. Witness Napier discusses the impact that this alternative approach would have had in her revised testimony. Due to the significant bill impact that this would have had on our customers, FPUC quickly began to investigate alternative recovery methods that would have less of an immediate and significant bill impact on our customers, which is how we ultimately landed on the approach proposed in this proceeding.

We revisited the surcharge approach in response to concerns presented by Commission Staff and the OPC about earning the weighted average cost of capital on incremental storm costs. However, given the historic level of damage and resulting costs, the Company believes that recovery of the incremental storm expense plus interest-only on such a significant investment for an extended period of time is inconsistent with the Company's actions to secure more permanent higher cost capital that aligns with CUC's target capital structure and which the Company's investors and the financial market seek from the Company. Maintaining a strong capital structure enables CUC to continue to support and facilitate the growth in its service areas at a competitive cost. On the other hand, shortening the recovery period utilizing the surcharge methodology would have a significant and potentially detrimental impact on our customers. The impact of Hurricane Michael on the Company was, again, of historic proportions. Given the total cost impact and the need to recover the costs over a relatively small customer base while still maintaining a balance sheet to support continued growth of the Company and access to new competitively priced capital. FPUC maintains that the approach it has offered in this proceeding, while novel, is the right approach for recovery under the unique circumstances present.

Q. While the Company does not recommend the surcharge approach, does this revised filing include an analysis of such an approach?

A. Yes. We have included an analysis of the surcharge approach in the exhibits to witness Napier's revised testimony. The surcharge approach would alter every aspect of the Company's request. The alternative analysis:

1. Calculates a surcharge based upon storm expenses with interest only included for the period October 2018 to December 2022 (see MDN-4 as provided in witness Napier's revised testimony.)

2. This alternative analysis eliminates the application of the weighted average cost of capital on the plant, accumulated depreciation, and the other regulatory asset changes.

3. In addition, the alternative analysis reduces the amount to be recovered by the amount that would be collected through the interim rates in 2020 for the storm cost regulatory asset and calculates the final surcharge amount based upon a two-year (2021-2022) recovery period.

Q. Could the Company apply the interest-only methodology and still keep the longer recovery period?

A. As noted the Company considered this alternative option, and it could be done. As discussed in witness Napier's revised testimony, recovery was calculated with interest only for four years and two months. This results, however, in a higher bill for our typical residential customers, and would be inconsistent with the Company's actual financing plans and stated capital structure targets. This inconsistency could raise questions and uncertainty regarding future capital needs and therefore, impact the availability, cost and type of capital to be provided to support future growth and expansion of the Company. CUC has a long-standing history regarding its financial discipline and a track record of maintaining a solid balance sheet that supports its future growth.

Q. Would the recovery of incremental storm expense along with associated interest expense over an extended period of time be appropriate?

A. No. It does not align with the Company's permanent financing strategy and would, therefore, be questioned by the financial markets.. The Company's shareholders and the investment community, anticipate that investments, especially at this level, have an appropriate return to both the debt and equity used to finance the restoration. It is this market anticipation that allows the Company to attract the capital investment it needs to continue operations. In other words, investors in utilities expect that investments will generate reliable allowed returns as approved by the Florida Public Service Commission.

FPUC's capital structure, cost of capital, and allowed returns are generally based on an equal 50% of debt and equity ratio. The cost of debt is a partial carrying cost of investment included in the rate structure. The cost of equity is based on the allowed return on the equity portion permitted and should be included in customer rates for the restoration investment..

Should customer rates not reflect our total cost of debt and equity capital, investors would not continue to invest in FPUC - nor expect FPUC would retain earnings to reinvest in its infrastructure. Essentially, carrying this level of cost for a longer period of time could send inappropriate signals to the financial markets regarding

FPUC's intentions as it relates to investing in its infrastructure and raise realistic concerns regarding the ongoing viability of all of the utility's operations. Heightened concerns in the financial markets can weaken the Company's ability to obtain capital at reasonable rates, and could further impair the Company's ability to repair and upgrade existing facilities, and extend service for new customers, which is a detriment not only to the utility but also to our customers.

Q. Would a full rate proceeding have provided a better mechanism for relief?

A. No. The Company did consider that approach; however, timing and cost presented challenges that could be avoided through the process and mechanism we have requested. Our greatest concerns were that pursuing a full rate proceeding would add significant costs on top of the storm-related costs for which the Company seeks recovery. A full proceeding would also utilize more company resources that could otherwise be deployed in our continued efforts to support recovery efforts in our Northwest Division, as well as the several other active proceedings in which we are involved. We also considered that a full rate case would likely take more time and delay recovery for the Company, which, given our current earnings posture, would present an added financial challenge for the Company. While the proposal we are putting forth is unique, we do think it is appropriate given the situation. Should the Commission move forward and approve the Company's request, we anticipate that FPUC will be better positioned to provide the Commission with a more accurate, well-defined perspective on the Company and its longer-term financial situation when it does file its next full rate case.

Q. Do the interim rates in effect as a result of the Commission's approval of the stipulation over-compensate the Company for its losses associated with Hurricane Michael?

A. No. The stipulated interim rates do provide partial reimbursement of the large cash investment that had to be made during Hurricane Michael and would provide a return on the investment made. But, full reimbursement of the cash expended would necessitate that the final rates remain effect for at least ten years to recover the $42 million of incremental storm investment and even longer for the additional $27 million for the plant investment. The majority of the increase would be used for interest expense, depreciation and taxes on the additional plant investment, and amortization of the cost of removal and storm costs.

Q. Does this conclude your testimony?

A. Yes.

(Whereupon, Witness Cassel's prefiled rebuttal testimony was inserted into the record as though read.)

Before the Florida Public Service Commission

Docket No. 20190156-EI: Petition for Limited Proceeding to Recover Incremental Storm Restoration Costs, Capital Costs, Revenue Reduction for Permanently Lost Customers, and Regulatory Assets related to Hurricane Michael for Florida Public Utilities Company

Prepared Rebuttal Testimony of Michael Cassel

Filed: July 27, 2020

Q. Please state your name and business address.

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

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

A. I am employed by Chesapeake Utilities Corporation ("CUC") as the Assistant Vice President of Regulatory and Governmental Affairs for CUC's business units in Florida, including Florida Public Utilities Company ("FPUC").

Q. Have you previously filed testimony in this proceeding?

A. Yes. I filed direct testimony with our petition initiating this proceeding on August 7, 2019. I filed revised direct testimony when FPUC made its revised filing on March 11, 2020.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the Office of Public Counsel's ("OPC") witness Helmuth Schultz's testimony regarding the procedural and policy aspects of FPUC's request for relief, namely his assertions regarding the applicability of Rule 25-6.0143, Florida Administrative Code, and his mischaracterization of this limited proceeding as a "single-issue" rate case.[1] In that context, I will also respond to his proposed adjustment to the Company's request for recovery of payroll costs to remove costs associated with the Company's employee supplemental compensation paid under our Inclement Weather Policy. In addition, I will address his objections to FPUC's application of the Weighted Average Cost of Capital ("WACC"), and his recommendation to reduce the overall amortization of the Company's recovery request to five years.

Q. Do you agree with any of Witness Schultz's recommendations?

A. Yes. While I disagree with most of Witness Schultz's recommendations, I agree with his recommendation to formalize the tracking documents for contractor costs. As a matter of fact, the Company, as a result of the discovery process in this docket, has incorporated those documents into its hurricane procedures going forward.

Q. Can you summarize your concerns with the other aspects of Mr. Schultz's recommendations?

A. Yes. Witness Schultz's recommendations ignore the real-world difficulty faced by FPUC in the context of this particular storm. His recommendations underestimate and undervalue the nature and degree of the catastrophic

[1] Direct Testimony of Helmuth Schultz III, at page 11.

impacts incurred by FPUC as a result of Hurricane Michael. This was not a typical hurricane nor was the damage, in order of magnitude, faced by FPUC typical. Mr. Schultz seems determined, nonetheless, to make a square peg fit in the round hole.

I. Limited Proceeding

Q. Is Witness Schultz correct in equating FPUC's request to be a "single-issue rate case?"

A. He is – to an extent. He is correct to the extent that his analysis of the procedure contemplated by the Company's filing is correct. However, Witness Schultz appears to either be unfamiliar with, or otherwise ignoring the Florida Public Service Commission's ("Commission") limited proceeding rule, Rule 25-6.0431, Florida Administrative Code, which is the rule pursuant to which FPUC's request for recovery was filed.

Q. What is the purpose of a "limited proceeding" as set forth in that rule?

A. As I understand it, the Rule implements Section 366.076, Florida Statutes, which provides that the Commission:

> "may conduct a limited proceeding to consider and act upon any matter within its jurisdiction, including any matter the resolution of which requires a public utility to adjust its rates to consist with the provisions of this chapter."

Q. Is the Company's request filed consistent with the requirements of Rule 25-6.0431, Florida Administrative Code?

A. Yes, it is.

II. Storm Reserve Rule

Q. Do you agree with Witness Schultz's analysis and adjustments to FPUC's request that are based upon his application of Rule 25-6.0143, Florida Administrative Code?[2]

A. No, I do not. His application of that rule, and the Incremental Cost and Capitalization Approach methodology ("ICCA") administered therein, does not apply to FPUC's requests that have initiated this consolidated proceeding. As I explained in my direct testimony, we considered and rejected the approach of seeking recovery through the Storm Reserve pursuant to Rule 25-6.0143, Florida Administrative Code, for several reasons, key among them being that at least 75% of FPUC's Northwest Division's facilities required either replacement or repair and the investment FPUC had to make to restore service to its customers was four times the existing net investment in the Northwest Division. Impacts of this magnitude and the recovery of the associated costs in the traditional manner would have created the following two problematic situations for FPUC.

1. It would necessitate that the Company wait on the recovery of plant and accumulated depreciation until a full rate case could be compiled. This would significantly increase the lag time between incurring the costs and recovery, which the Company concluded would be detrimental to both its ratepayers and investors. Resolution in this traditional manner would also entail the Company including additional costs and additions incurred since

[2] Direct Testimony of Helmuth Schultz III at pgs. 6-7, and 20 – 33.

our 2014 rate case, which would potentially increase the rate impact to our customers at a time when they can least afford it.[3]

2. Recovery of the storm costs over a more traditional two year period would have necessitated an astronomical surcharge that would have created a substantial hardship for our customers that are still trying to recover from the impacts of the hurricane. Frankly, it seemed neither fair nor to make good economic sense.

Q. Has Witness Schultz explained why he believes Rule 25-6.0143, Florida Administrative Code, is applicable?

A. No, he has not. He says only that "recovery of these expenses is governed" by the Rule, and that "FPUC is seeking unusual treatment." [4]

Q. Is FPUC's request unusual?

A. When viewed only within the context of storm cost recovery proceedings for Florida utilities over the past few years, it is different. However, Hurricane Michael and its impact upon FPUC and its customers was on a scale that is not comparable to anything FPUC has ever experienced, and historically, could best be compared with only Florida Power & Light's experience in 1992 with Hurricane Andrew and Gulf Power's experience with Hurricane Ivan in terms of relative scale of damage and cost. Notably, both of those companies are quite a bit larger than FPUC, and both had substantially more

[3] Docket No. 20140025-EI: Application for rate increase by Florida Public Utilities Company.
[4] Direct Testimony of Helmuth Schultz III at pgs. 6-7.

insurance coverage and funded storm reserve accounts at the time that they were impacted by these storms.[5]

<u>III. Appropriate Recovery Mechanism</u>

Q. Witness Schultz argues that FPUC's request to establish a regulatory asset for expenses not recovered through base rates is prohibited as retroactive rate-making. Do you agree?[6]

A. I do not. First, he improperly characterizes the requested recovery as lost revenue and refuses to acknowledge that the Company did incur normal expenses during the period in question. Moreover, he ignores the fact that this same recovery has been afforded another Florida utility in a prior case. In Docket No. 20041291-EI, *In re: Petition for authority to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance, by Florida Power & Light Company*, the Commission considered, among other things, FPL's request to recover normal O&M expenses and agree that these expenses had not been recovered through base rates and should, therefore, be recoverable.[7] Given that the Commission has not considered such treatment to amount to retroactive rate making in the past, there is no basis to reverse course now as it applies to FPUC.

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[5] <u>See</u>, <u>Order Approving Stipulation and Settlement</u>, issued March 4, 2005, in Docket No. 20050093-EI (stipulated amount in Gulf's reserve account - $27.8 million); and <u>Order Authorizing Self-Insurance and Re-establishing Annual Funding of Storm Damage Reserve,</u> Order No. PSC-1993-0918-FOF-EI, issued June 17, 1993 (FPL T&D Insurance coverage <u>prior</u> to Hurricane Andrew - $350 million per occurrence.)

[6] Direct Testimony of Helmuth Schultz III at pg. 25.

[7] Order No. PSC-05-0937-FOF-E1, p. 16

Q. Witness Schultz raises a similar argument as it relates to the Company's request to recover for the 556 lost customers.[8] Do you agree?

A. No, but for a different reason. Witness Schultz overlooks the fact that, in the context of a rate case, depending upon the test year approved, FPUC's billing determinants would be adjusted to reflect that there are fewer customer accounts across which its cost of service can be allocated. Thus, rates would be designed and assigned across the rate classes assuming each customer is responsible for a higher percentage of the cost of service, which would create upward pressure on the rates. The Company's proposed regulatory asset for lost customers, in effect, adjusts for the same loss of billing determinants during a defined period.

The Company's request is reasonable, consistent with accepted rate-making principles, and cannot simply be dismissed as retroactive rate-making.

Q. Do you agree with Witness Schultz's recommended adjustments to the payroll components of FPUC's request for recovery?[9]

A. No, I do not. Witness Schultz's recommendation to exclude compensation paid under the Company's Inclement Weather Exempt Employee Compensation Policy ("IWP"), as well as IPP bonus, based upon his application of Rule 25-6.0143, Florida Administrative Code, is just wrong for the reasons I have discussed already. FPUC is not seeking recovery through the storm reserve pursuant to that rule. Furthermore, even if the

[8] Id. at pg. 20-22.
[9] Direct Testimony of Helmuth Schultz III at pgs. 29- 31.

Company were seeking recovery pursuant to that rule, the Commission expressly found in Docket No. 20180061-EI that recovery of IWP compensation payments is allowable under the rule.[10]

Q. Were you a participant in Docket No. 20180061-EI?

A. Yes, I appeared as a witness on behalf of FPUC.

Q. Does Witness Schultz acknowledge that the Commission has allowed recovery of IWP payments for FPUC under Rule 25-6.0143, Florida Administrative Code?

A. He does, but he states that the Commission "erred" in that decision.[11]

Q. Did OPC seek reconsideration of the Commission's decision in Order No. PSC-2019-0114-FOF-EI to allow FPUC to recoup compensation payments made pursuant to its IWP?

A. Yes. However, the Commission considered and denied that request by Order No. PSC-2019-0207-FOF-EI, issued May 31, 2019.

Q. Is Docket No. 20180061-EI still open such that it remains subject to appeal?

A. No, to the best of my knowledge, it is not.

[10] Order No. PSC-2019-0114-FOF-EI, issued March 26, 2019, in Docket No. 20180061-EI, at p. 4.
[11] Direct Testimony of Helmuth Schultz III at pg. 30.

IV. WACC

Q. Do you agree with Witness Schultz's assessment that FPUC's application of the Weighted Average Cost of Capital ("WACC") to storm restoration costs is inappropriate?

A. No, I disagree with all aspects of his recommendation on this topic.

Q. Please explain your disagreement with Witness Schultz regarding application of the WACC.

A. Certainly. I disagree for two main reasons. First, as discussed earlier in my testimony, the cost to restore service far exceeded the investment in the Company's Northwest Division. Second, FPUC proposes to extend its recovery over a 10-year period, instead of trying to recover over the more traditional 2-year period, as a means to reduce the monthly financial impact on our customers. Given the longer recovery period, our request to apply the WACC to the storm regulatory asset provides an equitable means to balance the cost of recovery between our customers and our investors.

Q. Why is it important to strike that balance?

A. Our parent company, CUC, and FPUC target a capital structure ratio of at least 50% equity to the total of equity and debt. CPK (and inherently, FPUC) have achieved this target over the long-term. Maintaining this balance provides the Company with access to capital for growth and stable solvency to meet financial requirements. When an investment is made, whether it is for new growth or replacement of existing assets, the financial markets anticipate that the Company will maintain this balance given its stated target and financial history. Financing the recovery of a storm of this magnitude with all debt would contradict the Company's long standing financial discipline, approach to financing and stated equity targets, as adopted by the Board of Directors. Not following our stated targets could be viewed negatively by the financial community and therefore, impact the pricing of capital. This could include potential higher borrowing costs, increased debt covenants and restrictions, and overall reduced borrowing capacity. A 10-year recovery at interest only would hurt our financial position. The solution proposed by FPUC in this docket strikes a balance in terms of a manageable monthly bill increase for customers, while enabling the Company to continue sending the appropriate signals to the financial markets in regards to continuation and adherence to its capital structure targets.

Q. Is Witness Schultz's implication that FPUC's shareholders are seeking to "benefit financially from a storm event" through the application of the WACC accurate?[12]

A. No, of course not. Moreover, it is not realistic to expect the Company's shareholders to forgo entirely the <u>opportunity</u> to earn a fair return when a fair solution exists.

Q. Is the application of the WACC to new capital additions, and the proposed regulatory assets appropriate?

A. In the context of a limited proceeding, as it would be in a full rate case, it is. The benefit of a limited proceeding is that it allows a company to seek base

[12] <u>Id.</u> At p. 11.

rate recovery for limited rate base components and expenses that would otherwise be delayed in the development and processing of a full rate case. A limited proceeding also typically is less costly and time consuming, which tends to reduce the amount of processing costs or "rate case expense" than might otherwise be incurred and included in the calculation of the final rate adjustment. The Commission may recall that in 2017, the Company filed a limited proceeding seeking recovery of certain reliability and modernization projects. While that proceeding was ultimately resolved through a settlement agreement, the request the Company made in that proceeding is, procedurally, very similar to FPUC's request in this case.[13] As in that 2017 filing, FPUC has in this proceeding requested that the changes to plant, accumulated depreciation, and the two regulatory assets be treated the same way they would if the Company were to file a rate case now. In a rate case, a return on these components based on WACC would be included when developing the Company's revenue requirement.

Q. Do you agree with Witness Schultz's recommendation to reduce the amortization period for the storm cost recovery regulatory asset to five years?[14]

A. No. Witness Schultz's recommendation to amortize the asset over five years assumes that all of his recommendations are accepted by the Commission. A five year amortization would result in a much higher than typical bill unless

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[13] *See* Docket No. 20170150-EI -Petition for limited proceeding to include reliability and modernization projects in rate base, by Florida Public Utilities Company, resolved by Order No. PSC-2017-0488-PAA-EI.
[14] Id. At p. 28.

you assume that every one of Witness Schultz's recommendations are accepted, which we urge the Commission not to do.

V. Timing

Q. One last thing. Witness Schultz indicates that FPUC's request is not appropriate, because "it has been years since FPUC filed a base rate case."[15] Do you agree?

A. His statement is accurate but also misleading. The implication from Witness Schultz's testimony is that FPUC has avoided a rate case in order to avoid a full review by the Commission of its revenues and expenses. To the contrary, the Company's last rate case, which was filed in 2014, was resolved by the Commission's approval of a Stipulation and Settlement between OPC and the Company.[16] That approved Stipulation and Settlement included a so-called "stay out" provision, pursuant to which FPUC was not allowed to file another base rate proceeding until after December 2016. In 2017, the Company filed a Petition for Limited Proceeding to Include Reliability and Modernization Projects in its base rates, Docket No. 20170150-EI. That proceeding was also resolved by Commission approval of a Stipulation and Settlement, which included another "stay out" provision that prohibited FPUC from seeking a change in its base rates, whether through interim or final rates, that would become effective prior to January 1, 2020.[17] Thus, while FPUC has not filed a rate case in six years, it has not

[15] Id. At p. 7.
[16] Order No. PSC-2014-0517-S-EI, issued September 29, 2014, in Docket No. 20140025-EI.
[17] Order No. PSC-2017-0488-PAA-EI, issued December 26, 2017, in Docket No. 20170150-EI.

done so pursuant to the express terms of Commission-approved settlement agreements between the Company and OPC.

VI. Conclusion

Q. Do you have any concluding remarks?

A. Yes. The magnitude of the impact of Hurricane Michael challenged FPUC to find a way to rebuild its Northwest Division and then to recover the costs of doing so in a way that would minimize the impact on our customers. Given the amounts at issue, that, in and of itself, was a difficult task. Compounding the challenge, the Company's path to recovery also needed to ensure that the Company's financial posture did not deteriorate and that our shareholders continued to have at least the opportunity to earn a fair return on their investment. Through the filings and requested relief we have submitted in this proceeding, we have endeavored to strike that balance and find the most equitable solution. Simply because FPUC's proposal is not the traditional approach does not mean it is the wrong approach. FPUC's request for recovery provides the right approach to address the impacts of an extraordinary storm. As such, we urge the Commission to reject Witness Schultz's arguments and proposed adjustments.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

(Whereupon, Witness Napier's prefiled direct testimony was inserted into the record as though read.)

Before the Florida Public Service Commission

Docket No. 20190156-EI

In re: Petition for Limited Proceeding to Recover Incremental Storm Restoration Costs, Capital Costs, Revenue Reduction for Permanently Lost Customers, and Regulatory Assets related to Hurricane Michael for Florida Public Utilities Company

Revised Direct Testimony of Michelle Napier

On Behalf of

Florida Public Utilities Company

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 Florida Public Utilities Company ("FPUC" or "Company") as Manager of 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 in 1986. I have been employed with FPUC since 1987. During 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. I am currently the Manager of Regulatory Affairs. In this role, my responsibilities include directing the regulatory activities for FPUC. This includes regulatory analysis and filings before the Florida Public Service Commission (FPSC) for FPUC, FPUC-Indiantown, FPUC-Fort Meade, Florida Division of Chesapeake Utilities (CFG) and Peninsula Pipeline Company.

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, Gas Reliability Infrastructure Program (GRIP) Cost Recovery Factors for FPUC and our sister company, CFG, Docket No. 20120036-GU and the Swing Service Cost Recovery for FPUC and CFG, Docket No. 20170191-GU.

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

A. As revised, my testimony outlines the changes made to the original filing in this docket and supports the revised costs included in the calculations of the Company's requested increase in base rates due to the losses incurred because of Hurricane Michael.

Q. Are you sponsoring any exhibits in this case?

A. Yes, I am sponsoring Revised Exhibits MDN-1 through MDN-7 as well as Revised Attachments A through H to the Petition, which summarizes the revised costs of the storm and the revised calculation of the requested rate increase. Additionally, I am sponsoring Exhibit MDN-8, which summarizes the costs incurred for Hurricane Dorian, Exhibit MDN-9, which is an alternative methodology for comparison to what the Company has requested in this filing, and MDN-10, which is a typical bill comparison for a residential customer.

Q. Were these schedules completed by you, or under your direct supervision?

A. Yes, these schedules were completed under my direct supervision and review.

Q. To be clear, is the Company's request for recovery as presented in this case consistent with storm cost recovery requests it has made in the past?

A. No. For the most recent storm recovery requests, the Company requested a surcharge based on the incremental costs for several storms, namely Hurricanes Irma and Matthew. However, as Witness Cassel explains in greater detail, the profound financial and physical impact caused by Hurricane Michael necessitated that we investigate alternative approaches. The Company, therefore, has proposed a different approach involving a base rate increase that would recover the significant costs over a longer period of time based on the amortization of several regulatory components.

Q. Describe the schedules included.

A. As mentioned previously, my Revised Exhibits MDN-1 through MDN-7 summarize the costs and calculation of the requested base rate increase, which are based on several components. These components are:

1. Recovery of a return on changes in rate base related to capital additions made as a result of Hurricane Michael (Revised Exhibit MDN-1, Revised Schedule B-1).
2. Recovery of depreciation and property taxes related to these capital improvements. (Revised Exhibit MDN-1, Revised Schedule B-1 and C-1)
3. Recognition of a decrease in billing determinates approved in our last rate case due to permanently lost customers, that has been updated to reflect those customers that have subsequently re-established service. (Revised Exhibit MDN-1, Revised Schedule C-1) This decrease was calculated as part of the overall calculation of the regulatory asset for the period November 2018 to December 2019 requested in the separate, contemporaneous filing to establish regulatory assets for the storm costs. The calculation of the yearly effect is shown on Revised Exhibit MDN-5. As discussed in the separate request to establish regulatory assets petition, the Northwest Division has experienced minimal growth for many years, consistent with the stagnant economy of the rural counties in that division; therefore, we expect this trend in customers to continue and have included the decrease in the 2020 projections in Revised Exhibit MDN-1, Revised Schedule C-1.
4. Establishment of a regulatory asset for the incremental costs of Hurricane Michael that would normally be charged to the storm reserve to be included in working capital and amortized over 10 years. (Revised Exhibit MDN-4)

5. Establishment of a regulatory asset for the changes to accumulated depreciation for the unrecovered accumulated depreciation and the cost of removal net of salvage related to the storm, which would also be included in working capital and amortized over 10 years. (Revised Exhibit MDN-7)
6. Recovery through working capital and amortization expense related to the regulatory asset being requested in a separate petition for the billing determinants lost from November 2018 to December 2019 due to permanently lost customer accounts, which impacted the Company's ability to cover operating costs. This regulatory asset also covers the storm reserve shortfall caused by the fact that the Company will not be able to recover the full amount approved for recovery in Docket No. 20180061-EI due to these lost customer accounts (Revised Exhibit MDN-5). This regulatory asset is separate and apart from the reduction in billing determinants discussed in item 3 above.
7. Recovery through working capital and amortization expense related to a regulatory asset being requested in a separate petition for the expenses not recovered in base rates due to customers being without power in the month of October 2018 and for lighting customers in October and November 2018 which impacted the Company's ability to cover operating costs. (Revised Exhibit MDN-6).
8. Distribution of the requested revenue requirement and comparison of current and proposed rates (Revised Exhibits MDN-2 and MDN-3).

Q. How did you calculate the return on the storm costs?

A. The midpoint of the projected 2020 weighted average cost of capital rate ("WACC") was used to calculate the return.

Q. What type of costs were included in the proposed regulatory asset for the storm costs typically charged to the storm reserve?

A. Costs included in this proposed regulatory asset include payroll and payroll-related costs, employee expenses, contractor costs, logistics costs, fuel, equipment rental, materials, call center overtime costs, uncollectible accounts expense related to revenues prior to the storm that could not be collected due to the lost customers, and interest on the balance thru December 2019 or prior to the implementation of new rates. The costs are summarized on Revised MDN-4.

Q. What type of costs were included in the regulatory asset for the changes to accumulated depreciation?

A. As shown on Revised MDN-7, the cost of removal was substantial due to having to use contractors for much of the work. The net book value of retired assets, along with the cost of removal net of salvage was included in this proposed regulatory asset, which is being more specifically addressed by the separate petition in Docket No. 20190155-EI. Through the request in this docket, the Company is asking for recovery of the proposed regulatory asset through working capital and that the costs be amortized over 10 years.

Q. Please describe the recovery of the regulatory asset you are requesting for lost customers.

A. The establishment of this regulatory asset is also being addressed in the separate petition I referenced previously. If the Commission approves establishment of that regulatory asset, the Company is requesting, in this proceeding, that it be allowed to recover that proposed regulatory asset in working capital and to amortize the expense over five years. Revised Exhibit MDN-5 includes the calculation for this proposed asset and the related expense.

Q. Please describe the recovery of the regulatory asset you are requesting for expenses not recovered in base rates?

A. The establishment of this regulatory asset is also being requested in the referenced separate petition. In this Docket, the Company is seeking recovery of the proposed regulatory asset in working capital, along with amortization expense, over five years. My Revised Exhibit MDN-6 provides the calculation of this proposed regulatory asset and the associated expense.

Q. Is establishment of a regulatory asset an appropriate mechanism for the types of costs you've identified will be included in the three regulatory assets?

A. Yes. According to the Code of Federal Regulations ("CFR"), regulatory assets, if authorized by this Commission, can be created for unrecovered costs of plant facilities that have been prematurely retired (account 182.2) and for charges that would have been included in net income, or accumulated comprehensive income, (account 182.3). In the past, this Commission has approved the request for creation and amortization of regulatory assets (Docket 20120227-EI, and 20080029-PU) so that amounts that would have been charged to income run concurrently with the recovery of the amounts in rates. Therefore, the Company believes it is appropriate to set up regulatory assets in this case.

Q. Is the amortization of the identified proposed regulatory assets consistent with Generally Accepted Accounting Principles ("GAAP")?

A. Yes. Per GAAP (Accounting Standards Codification ("ASC") 980-340-25, regulatory assets are initially measured as the amount of costs incurred and are typically amortized over future periods that are consistent with the recovery period through rates.

Q. Has the Company made changes to its initial request filed in August 2019?

A. Yes.

Q. What are the key revisions you will address in this testimony?

A. I will address the change in amortization period, true-up of the actual costs for Michael, including new storm-related costs, the correction of costs misclassified in the original filing as well as reflect the reduction in the Florida state income tax.

I. Amortization

Q. What is the revised amortization period for regulatory asset for storm and accumulated depreciation?

A. 10 years.

Q. Why did the Company change the amortization period from 30 years to 10 years?

A. The Company received approval for interim rates in November 2019, which used an amortization of 10 years that corresponded with an anticipated reduction in fuel rates to manage the bill impact for customers. Therefore, to be consistent with the approved interim rates, the Company has revised its original filing using a 10 year amortization. This change is explained fully in witness Cassel's revised testimony.

Q. Is the Company proposing any changes to the amortization of the other two regulatory assets identified?

A. No.

II. True-Up for Michael and New Costs

Q. What adjustments have been made to the original costs included in the initial filing?

A. The original filing contained actual costs through June 2019. The Company has updated the filing for actual costs incurred during the remainder of 2019 (July 2019 through December 2019) and reflected on Revised Exhibit MDN-4.

Q. Does the requested limited rate increase as revised contain any costs other than those incurred for Hurricane Michael?

A. Yes, the schedules have been revised to reflect costs of appromimately $1,1,175,646, and interest of $17,081, related to Hurricane Dorian in September 2019, which was forecasted to hit the east coast of Florida in the Company's service territory of Amelia Island. Although Hurricane Dorian did not directly impact our service area, the Company expended funds in preparation for the storm and now seeks recovery. See Exhibit MDN-8 for the costs related to Dorian only. However, these costs were incorporated into Revised Exhibit MDN-4.

Q. Is it appropriate for the Company to include the costs related to Hurricane Dorian?

A. Yes. According to Rule 25-6.0143 Use of Accumulateed Provision Accounts 228.1, 228.2 and 228.4, incremental costs related to storm preparation and restoration efforts may be charged to Account 228.1. Therefore, these costs are appropriate for inclusion in this docket. Also, since the expenses for Hurricane Dorian occurred prior to hearing or a final decision, the Company believes that including these costs in this limited proceeding docket is administratively efficient and the appropriate action for our customers as well as our shareholders.

Q. Are the Hurricane Dorian costs included in this revised filing considered "final" by the Company?

A. Yes. Costs have been updated in the revised filing for actual invoices received and the Company has reasonably estimated and included any projected additional costs that will be incurred.

Q. Other than the additional costs mentioned above, are there other types of costs included that were not in the original filing?

A. No.

III. Correction of costs misclassified

Q. Please explain the correction of misclassified costs made in this revised filing.

A. Costs of about $1.8M were inadvertently classified in the category of 'Materials' instead of 'Contractor' on Exhibit MDN-4. The Company has reclassed these storm costs to the appropriate category. Because of the misclassification, the contractor invoices were not allocated consistently with the other contractor costs. This reclassification reduced capital costs on both Revised Exhibit MDN-1 and Revised Schedule B-3 by $1,191,423 and increased cost of removal on Revised Exhibit MDN-7 by $283,889 and storm costs on Revised Exhibit MDN-4 by $907,534.

IV. State Income Tax Reduction

Q. Please explain the state income tax reduction.

A. On September 12, 2019, the Florida Department of Revenue issued a Tax Information Publication announcing the reduction of the Florida Corporate Income Tax rate effective for the years January 1, 2019 through December 31, 2021. The rate was reduced from 5.5% to 4.458%. Beginning January 1, 2022, the state income tax rate will return to its prior rate of 5.5%.

Q. Please explain the impact of the state income tax reduction on this filing.

A. This change impacts the income tax expense reflected in net operating income as well as the Net Opering Income Multiplier, which is used to compute the Company's requested Revenue Requirement, on Revised Exhibit MDN-1. A decrease in the tax rate causes a reduction in tax expense and the Company's Revenue Requirement.

Q. Have you included additional information in your revised testimony?

A. Yes. As further explained by Witness Cassel, we have included Exhibit MDN-9, for comparative purposes only, an analysis of recovery of the incremental storm costs and investments made for these storms utilizing what would be considered a more traditional approach involving the implementation of a storm surcharge with an interest only return.

Q. What are the parameters of this additional analysis?

A. For ease of reference and comparative purposes only, I'll refer to this as the Company's "alternative scenario," although FPUC does not suggest that this scenario is an appropriate alternative. The alternative scenario includes all of the adjustments addressed in this revised filing as it relates to the Company's proposed limited proceeding rate increase but with a few additional changes. First, the alternative scenario converts the recovery methodology from a limited base rate increase to recover specific regulatory assets to a combination of a storm recovery surcharge and a full base rate proceeding. Consequently, the change in recovery methodology necessitated a change to the computation of the earned return to reflect interest only on the Revised Exhibit MDN-4 costs for the period of October 2018 through December 2022. as well as a reduction in the amortization period from 10 years used in our revised filing. .

The alternative scenario, originally prepared using the traditional method of a storm surcharge over two years (2020 and 2021), projected an increase in the "typical" residential bill by approximately $45 a month per 1,000 kilowatthours of usage excluding the fuel reduction. This compares to approximately $21 a month using the method in the Company's revised filing. However, after implementation of the interim rates, it was determined that the portion of the interim rates related to the traditional storm costs, were not sufficient to recover the Revised Exhibit MDN-4 costs over the two year period of 2020 and 2021. Therefore, the alternative scenario presented in this filing reduced the storm costs for the amounts expected to be received through interim rates and computed a surcharge on the remaining costs over the two years 2021 and 2022. This essentially extends recovery of costs by another year. This methodology reflects an interest only return approach on the incremental storm costs for the period October 2018 through December 2022. This alternative scenario with the extended year reduces the residential typical bill increase over 2019 but still reflects an increase when compared to the Company's revised filing. We believe this increase is still too high for our customers to bear. See attached Exhibit MDN-9.

Q. What was the impact of the alternativ scenario on a typical residential bill?

A. As previously mentioned, the alternative scenario projected an increase in the "typical" residential bill by approximately $45 a month per 1,000 kilowatthours of usage excluding the fuel reduction. This compares to approximately $21 a month using the method in the Company's revised filing., After taking into consideration the reduction for interim recovery, a residential typical bill would increase approximately $39.50 more than the Company's 2019 bill and $18.57over the revised filing in this docket before the fuel reduction. A comparison is shown in the attached Exhibit MDN-10.

Q. Does this conclude your testimony?

A. Yes.

(Whereupon, Witness Napier's prefiled rebuttal testimony was inserted into the record as though read.)

Before the Florida Public Service Commission

Docket No. 20190156-EI: Petition for Limited Proceeding to Recover Incremental Storm Restoration Costs, Capital Costs, Revenue Reduction for Permanently Lost Customers, and Regulatory Assets related to Hurricane Michael for Florida Public Utilities Company

Prepared Rebuttal Testimony of Michelle D. Napier

Filed: July 27, 2020

I. POSITION, QUALIFICATIONS, AND PURPOSE

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 Florida Public Utilities Company ("FPUC" or "Company") as Manager of Regulatory Affairs.

Q. Have you previously filed testimony in this proceeding?

A. Yes. I filed direct testimony with our petition initiating this proceeding on August 7, 2019. I filed revised direct testimony when FPUC made its revised filing on March 11, 2020.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address the concerns the Office of Public Counsel ("OPC") Witness Schultz has raised with regard to the Company's calculations of various aspects of its requests for recovery in this proceeding, particularly issues that he has identified as arising from my exhibits on direct testimony. I will also respond to a number of other financial and accounting arguments he has raised, including: his issues with the Company's request to establish regulatory assets for unrecovered operations and maintenance ("O & M") costs and for lost customers; his representation of the Company's earnings posture; and his assertions that the Company's calculations include double recovery. I will also briefly touch on his adjustments to payroll expense. I will defer to FPUC Witness Patricia Lee as it relates to Witness Schultz's assertions regarding the Company's proposed regulatory asset related to the negative component of the accumulated depreciation reserve caused by assets retired prematurely in the wake of Hurricane Michael. Likewise, FPUC Witness Mark Cutshaw will address Witness Schultz's arguments as they relate to the outside contractor costs incurred. I will, however, address Witness Schultz's assertions that some of those costs lacked documentary support.

Q. Are you sponsoring any exhibits with your rebuttal Testimony?

A. Yes. I am sponsoring Exhibits MDN-11, MDN-12, and MDN-13. Exhibit MDN-11 shows an adjustment we propose to our filing and MDN-12 shows the revisions necessary to our filing as a result of this adjustment and another adjustment sponsored by Witness Patricia Lee in Exhibit PSL-5. Exhibit MDN-13 is our September 2019 Surveillance Report.

Q. Would granting FPUC's request result in a "double recovery" on the retired plant that is already being recovered in base rates?[1]

A. After consideration of Witness Schultz's arguments on this point, we revisited the Company's filing to ensure all potential double recoveries had been eliminated. As a result, we determined that Witness Schultz had identified an issue as to one aspect of our filing. The adjustment to plant for the retirements and the adjustment to accumulated depreciation for the retirements result in an offset. Although this was done to comply with the FERC chart of accounts, we have determined that the net book value of the retired assets, on which we earn a return through base rates, were not actually eliminated in our filing. Exhibit MDN-11 provides the calculation of the amount determined. Also, we have identified $274,873 relating to cost of removal in the Regulatory Asset for Accumulated Depreciation that is already being recovered through depreciation in base rates. FPUC Witness Lee will discuss this in her testimony. The regulatory asset calculation is revised on Exhibit MDN-12 page 6. Exhibit MDN-12 provides the revisions to my original Exhibit MDN-1 necessary to compute the revenue requirement calculation. These changes result in a reduction of the revenue requirement by $146,671 or 1.2% of the final filing.

Q. On Exhibit HWS-2, Schedule C, Witness Schultz reduced FPUC's interest on MDN-4 from $1,591,279 to $1,363,432. Do you agree with this adjustment?

[1] Direct Testimony of Helmuth Schultz III at pgs. 16-17.

A. No, I do not for several reasons. First, as stated on MDN-4, the interest computed on MDN-4 was only for the 15-month period from October 2018 to December 2019 since FPUC assumed that when recovery began in January 2020, the requested return would be based on Weighted Average Cost Capital ("WACC"). We assume that since recovery began in January 2020, Witness Schultz is amortizing the storm costs from January 2020 thru December 2024. Calculation of interest on only the storm costs on MDN-4 at the 3.6% weighted cost of debt rate, used by Witness Schultz on Exhibit HWS-2, Schedule A, through December 2024 results in interest of $5,144,624. This same calculation, with all of Witness Schultz adjustments to MDN-4, amounts to $4,626,170. This is substantially higher than the $1,363,432 on Schedule C of his Exhibit HWS-2. It appears that Witness Schultz only based this interest on FPUC's calculation, which was calculated through December 2019 after his adjustments. It does not appear that he calculated any interest for the five years that he is proposing as the amortization period. Since the Company is requesting recovery over 10 years beginning in January 2020, if we had filed for interest only for the entire period from October 2018 thru December 2029, the interest included on MDN-4 would have been significantly higher than $5 million.

Q. Are there concerns with Witness Schultz's interest calculations?

A. Yes. The concerns with Witness Schultz's interest calculations are as follows:

1. There is no calculation to support his interest amount provided.

2. Witness Schultz said he was going to amortize the costs over 5 years but did not indicate in his testimony whether he started calculating interest using October 2018 or January 2020 when interim rates went into effect. I understand, however, that in his subsequent deposition, he indicated that he used only the October 2018 through December 2019 amount on MDN-4, and then applied his adjustments to reduce that amount.[2] We are otherwise unable to confirm whether his calculation includes interest back to October 2018.

3. He does not provide his calculation without his adjustments.

4. The interest he proposes is significantly understated.

5. Approval of the Limited Proceeding portion of FPUC's request along with changing to a 5-year amortization for "traditional" storm costs will significantly increase customers' rates. In the Company's revised filing, I provided Exhibit MDN-9 which calculated a storm surcharge using the traditional storm methodology with a 2-year recovery period. My Exhibit MDN-10 then compared the residential typical bill from our filing to the alternate scenario. This exhibit showed an increase in the typical bill of $18.83 per month or 14.15%. We believe granting relief consistent with our request is in the best interest of the Company's customers and balances the interests of the both our customers and shareholders, as discussed further in Witness Cassel's rebuttal testimony.

[2] Deposition of Witness Helmuth Schultz, Transcript pg. (page number pending receipt of transcript).

II. Plant Capitalized and Retirements

Q. Do you agree with his assertion that inclusion of new plant in FPUC's request for recovery is not appropriate?

A. I do not. Witness Schultz claims that plant should not be allowed because if FPUC filed a full rate case, increased plant would be offset with lower operation and maintenance costs that have not been considered. First, I note in particular his example regarding tree trimming expense.[3] However, as explained by FPUC's Witness Cutshaw in his rebuttal testimony, the tree damage caused by Hurricane Michael did not reduce tree trimming expense, nor is it expected to reduce those expenses going forward given the number of severely damaged trees that remain standing, which I understand renders them more susceptible to disease. In addition, transmission and distribution expenses for the electric division increased in 2019 over 2018 and as of May 2020, these costs are higher than in 2019. This is also true for total operating expense. Therefore, we continue to see an increase in expenses, not a decrease as Witness Schultz assumes.

Q. Witness Schultz identified a concern with regard to replaced plant and the amount of retired plant that you reflected on your direct Exhibit MDN-9.[4] Is he correct the amount of retired plant on your exhibit is understated?

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[3] Id. at pg. 13.
[4] Id. at pg. 18.

A. No. Witness Schultz calculates an estimate of $4 million of retirements by taking the gross value of plant multiplied by the estimated 10% of plant replaced. This does not provide an accurate number. First, the cost of the assets have varied over time with additions in later years costing more. Many of these later additions can be expected to have been storm hardened or to meet higher wind loading criteria, and as result, would also be expected to experience fewer storm-related failures. Additions in later years may have been storm hardened and replacement not needed. In addition, Witness Schultz balance for plant of $46,282,784 includes "Other Northwest Division Plant" such as the building, vehicles, and office equipment. Since none of these items were retired, they distort his calculation of an average retirement amount. The Company's retirement amount was based on the quantities and original cost of the plant retired. The booked amounts were reviewed in detail by an outside consultant who reviewed every entry at my direction and under my supervision. Witness Schultz makes this estimate without any detail review of the actual data.

III. Lost Customer Regulatory Asset

Q. What issues do you have Witness Schultz's arguments regarding the Company's request to establish and recover a regulatory asset for lost customers?

A. I have a few. First, based upon the revised amount of lost customers from our initial filing to our revised filing, he suggests that the number of lost customers could continue to decrease.[5] On this issue, it seems he has overlooked the fact that the Company's request pertains to a time certain with a definitive end point. The Company's revision of the number of lost customers from its August 2019 filing, which reflected an estimate of 779 customers, to its revised filing of March 2020, which reflects 556 customers at November 2019, is indicative of the Company's initial projections and final determinations following the end of 2019. The response to Citizen's Production of Documents ("POD") No. 33 supports this response with the status by customer. The Company's request for a regulatory asset to recover for lost customers was specific to the period October 2018 through December 2019. While the Company expects the customer numbers to eventually rebound, given FPUC's size, the number of lost customers for this defined period following Hurricane Michael represents a relevant percentage of the Company's overall customer base, which altered whether the Company's base rates could actually recover the Company's cost to serve.

Q. Witness Schultz states that FPUC did not provide a log of lost customers, do you agree?

A. As explained in our response to the OPC's Interrogatory 44, the original number of customers was determined by our Customer Care department based on statements from the customers that they were permanently disconnected due to the storm. As provided in the response to OPC's POD No. 33, the revised filing was prepared using actual customer data

[5] Id. At pg. 20.

through October 2019 with estimates for September to December 2019 based on operations reports of customers being brought back on service. The Company's response to this request did contain a list of disconnected customer accounts with notes on whether service was expected to be reinstated.

V. Unrecovered O&M Expense Asset

Q. Do you agree with Witness Schultz's argument that FPUC's earnings surveillance report for December 2018 indicates that FPUC fully recovered its O&M expenses for the period October – November 2018?[6]

A. No. After billing cancellations were done, FPUC had an operating loss for the October through December 2018 period. In addition, use of the December 2018 surveillance report is not reasonable. This return includes nine months of data that occurred before the storm. As shown on Exhibit MDN-13, the September 2019 report, which reports the 12-month period after the storm, shows a return on common equity of 1.61% out of an allowed range of 9.25% to 11.25%. This return is based on amounts without the inclusion of the amounts on MDN-4. If the average balance at that time was included, FPUC would have been earning a .21% return on equity.

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[6] Id. at pg. 24.

VI. Payroll Expense

Q. Is FPUC's inclusion of payroll expense in its request consistent with the Commission's decisions in Docket No. 20180061-EI?

A. Yes, as discussed more fully in the Rebuttal Testimony of Witness Cassel.

Q. Were the bonus payments of $24,703 that Witness Schultz refers to and adjusts storm costs for on Exhibit HWS-2 included in the net storm costs on MDN-4?

A. No, the bonus payments were removed in the reduction made for capitalized costs since they were charged as part of the plant overhead and included in the plant addition work orders. None of this amount was included in the $41,337,757 of costs on MDN-4. While the Company is ultimately pursuing relief through this limited proceeding, in accordance with Rule 25-6.0431, F.A.C., our calculation of storm costs as set forth on MDN-4 was made consistent with the requirements of Rule 25-6.0143, F.A.C. Therefore, the bonus payment costs are included in the limited proceeding request, rather than in the storm costs regulatory asset.

VII. Contractor Costs

Q. Do you agree with Witness Schultz's statement that FPUC's "capitalization of costs is somewhat misleading"?[7]

A. No. On MDN-4, FPUC appropriately used the word capitalized costs to refer to capital work orders that were debited to balance sheet accounts for plant in service and accumulated depreciation for cost of removal and

[7] Id. at pg. 34.

thus removed from the "traditional" storm recovery costs reported in accordance with Rule 25-6.0143, F.A.C.

Q. Did FPUC provide incomplete information or documentation in response to OPC's discovery requests in this docket regarding contractor costs?[8]

A. No. To the contrary, FPUC provided numerous invoices and analysis in its responses. Witness Schultz implies that FPUC prepared the summaries of contractor costs included in the response to Citizen's POD No. 4, which was due to a data request response as opposed to a prior review of the costs. This is not accurate. The type of data shown on Exhibit HWS-6 page 4 was not prepared specifically for OPC's discovery request. However, since POD 4 requested only invoices over $25,000, the Excel summaries shown on Exhibit HWS-6 pages 1 to 3, and 5 to 15 were edited in order to reconcile to the detail that OPC did request. FPUC provided a contractor summary which was done before the discovery process in response to Citizen's POD No. 14. This summary included all invoices for each contractor at that time, including those under $25,000. In addition, FPUC provided a detailed schedule of all contractor costs in the general ledger in response to Citizen's Interrogatory No. 2. This schedule was later updated for the revised filing in March, 2020, and provided as revised responses to OPC's discovery requests. Lastly, at the request of the OPC, FPUC re-input data from every contractor invoice into

[8] Id. at pg. 44.

a format provided by OPC which detailed each contractor employee's time by day and each piece of equipment along with any other costs. The Public Service Commission audit staff also did a separate audit of all filing differences between the original and the revised filing with no resulting findings.

Q. Witness Schultz indicates a concern regarding his inability to review line clearing contractor invoices below $25,000.[9] Did OPC request invoices from FPUC below that threshold through discovery?

A. No, they did not. The Citizen's POD 4 and 6 requested detail for contractor costs over $25,000 so only invoices over $25,000 were provided. However, as previously mentioned, we did provide general ledger detail for invoices under $25,000 and the Excel spreadsheets requested by OPC for each contractor in detail by day by contractor employee and piece of equipment which did include the invoices under $25,000.

Q. Did FPUC verify invoices for line clearing contractors that were below the $25,000 threshold?

A. Yes, all invoices were reviewed by operations personnel and by a financial analyst. In addition, the PSC financial audit requested several invoices below $25,000. The two PSC audit reports did not have any findings disagreeing with our costs.

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[9] Id. at pg. 49.

Q. Did Witness Schultz request supporting documentation for the $166,469 Gunster projected costs?

A. No, he did not. However, the Public Service Commission auditors did request support for this item and it was provided in the response to Document Request 4.1 along with projected accounting consulting and temporary labor to prepare documents for the Office of Public Counsel. There were no findings in their report that the backup was insufficient.

VIII. Logistics

Q. Witness Schultz discussed generators being charged to logistics costs that should have been capitalized. Were generators purchased and charged to logistics?

A. No. There were costs for rental of two large generators used to provide power to a hotel and campground so that we could house the contractors during restoration. These generators were large and would have been extremely expensive to purchase. These costs should not have been capitalized.

Q. Is Witness Schultz correct that FPUC did not provide supporting documentation for the increase in logistics costs?

A. No, he is not. First, the response to the OPC's Interrogatory No. 276 summarized the changes between the original and the revised filing. Most of the difference in logistics related to Hurricane Dorian. A small amount related to corrections of accruals and late invoices. The detail of all costs including Hurricane Dorian was provided in the updated response to

Citizen's Interrogatory No. 2. Again, the PSC financial auditors reviewed these costs in their second audit in this docket and no findings were included in the report to dispute the charges.

IX. Capitalization

Q. Do you agree with Witness Schultz's recommendations regarding memorialization of capitalization policy?[10]

A. Yes. As it so happens, the Company was already in the process of establishing new plant procedures as part of a new software/fixed assets project and is incorporating additional procedures related to storm plant additions in that project as well as updating FPUC's hurricane procedures.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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[10] Id. at pgs.52-53 .

(Whereupon, Witness P. Mark Cutshaw's prefiled direct testimony was inserted into the record as though read.)

<u>Before the Florida Public Service Commission</u>

Docket No. 20190156-EI

In re: Petition for Limited Proceeding to Recover Incremental Storm Restoration Costs, Capital Costs, Revenue Reduction for Permanently Lost Customers, and Regulatory Assets related to Hurricane Michael for Florida Public Utilities Company

Revised Direct Testimony of P. Mark Cutshaw

On Behalf of

<u>Florida Public Utilities Company</u>

I. Background

Q. Please state your name and business address.

A. My name is P. Mark Cutshaw. My business address is 208 Wildlight Avenue, Yulee, Florida 32097.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company ("FPUC" or "Company").

Q. Could you give a brief description of your background and business experience?

A. I graduated from Auburn University in 1982 with a B.S. in Electrical Engineering. My electrical engineering career began with Mississippi Power Company in June 1982. I spent nine years with Mississippi Power Company and held positions of increasing responsibility that involved budgeting, as well as operations and maintenance activities at various locations. I joined FPUC in 1991 as Division Manager in our Northwest Florida

Division and have since worked extensively in both the Northwest Florida and Northeast Florida divisions. Since joining FPUC, my responsibilities have included all aspects of budgeting, customer service, operations and maintenance. My responsibilities also included involvement with Cost of Service Studies and Rate Design in other rate proceedings before the Commission as well as other regulatory issues. During January 2020, I moved into my current role as Director, Generation and Pipeline Development.

Q. Have you previously testified before the Commission?

A. Yes, I've provided testimony in a variety of Commission proceedings, including the Company's 2014 rate case, addressed in Docket No. 20140025-EI. Most recently, I provided rebuttal testimony in Docket No. 20180061-EI, in the storm docket for Hurricanes Matthew and Irma.

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

A. The purpose of my testimony is to provide information related to the FPUC restoration response that was necessary due to the impact of Hurricane Michael on the Northwest Florida Division. This restoration effort was completed in a safe, efficient and effective manner which allowed FPUC to restore power to customers capable of receiving power by October, 31, 2018. In this revised testimony, I will also address our response to Hurricane Dorian.

Q. Are you sponsoring any exhibits in this proceeding?

A. No.

II. Impact of Hurricane Michael

Q. Were you on the ground in the NW Division following Hurricane Michael?

A. Yes. I arrived in Marianna on October 9, 2018, which was the day before Hurricane Michael made landfall on the Gulf Coast.

Q. Can you describe what impact Hurricane Michael had on the FPUC electrical system serving the Northwest Florida Division?

A. After landfall, Hurricane Michael continued north and impacted the FPUC service territory with 160 MPH winds. The eye of the storm cut directly along the center of the FPUC service territory causing catastrophic damage to the electrical distribution system. The impact resulted in a complete loss of power throughout the FPUC system. The storm also resulted in damage to the Southern Company transmission lines which provide service to each of the FPUC delivery points.

Outages to all customers began on October 10, 2018 and continued until October 18, 2018 when sections of the Southern Company transmission system were restored and we began customer restoration. The restoration activities continued with all customers able to receive service being restored by November 1, 2018.

The 160 mph winds from Hurricane Michael had a significant impact on the distribution system. Most significantly, the trees damaged during the storm resulted in many poles and spans of wire being damaged when the trees fell. These trees were located both on the road rights of way and on private property. In excess of 2,000 distribution poles, 1,200 transformers, and miles of conductor were damaged and required replacement.

A forensics analysis was completed on eighty eight (88) damaged distribution poles which showed that storm hardening activities were effective during the storm. The results indicated that eighty six (86) of the damaged poles were not storm hardened while two (2) of the damaged poles were storm hardened. Additionally, underground systems performed well during the storm but were subjected to some damage during clean-up activities.

The impact of Hurricane Michael devastated the NW Florida Division service territory and the communities we serve there. Millions of pine trees were snapped in two and littered road ways with impassable debris. This not only presented challenges to restoration and relief, but resulted in thousands of acres of pine tree forest being rendered unusable product, which has taken a tremendous economic toll on the area. Some estimates are that as many as 500 million trees were damaged in the Florida Panhandle.

Likewise, FPUC customers in Jackson, Calhoun and Liberty Counties endured the storm only to find many homes and businesses damaged or destroyed. The roadways in downtown Marianna were full of debris from damaged and collapsed buildings, which impacted traffic along the main thoroughfare through town, Highway 90, and resulted in most other roadways being either totally or partially blocked by pole, wire and tree debris. This too added to the challenges for relief efforts, including power restoration.

Q. What was the primary goal for FPUC during the restoration process for Hurricane Michael?

A. The most critical concern was to restore power as safely and quickly as possible, while avoiding loss of life and minimizing further property damage.

Q. What were some of the challenges that FPUC faced during the restoration process?

A. The first problem FPUC encountered was that the Company's transmission connection was downed resulting in our inability to receive power for any of the NW Division substations. The addition of 1,155 additional contract employees to the Northwest Division's staff of 35 employees also presented logistics difficulties related to locating new staging areas. Because all area hotels were damaged and closed, we also faced challenges with providing accommodations, dining, comfort, and laundry facilities. Due to the unexpected level of damage caused by the storm, FPUC warehouse staff were challenged to ramp up inventory levels quickly in order to provide additional materials for restoration activities.

Access to electrical distribution facilities was also a major challenge. Wind levels resulted in thousands of trees blocking most roads which decreased the ability to move around the service territory while other facilities were inaccessible due to flooding which required special equipment and boats. Traffic and the lack of traffic lights added to our access challenges.

III. Storm Preparation and Resource Reservation

Q. Please discuss the steps taken by FPUC to prepare for this devastating storm.

A. Each year FPUC updates its Emergency Plan. The update incorporates lessons learned from previous storms and ensures accurate contact information for our partners that will assist during the storm so that we are even better prepared for, and responsive to, the next storm. Contact with local Emergency Operation Center (EOC) officials occurs to ensure we are up to date with procedures used by various city, county and state agencies. Prior to Michael, we conducted internal drills and training with employees to ensure expectations and storm duties are clearly understood and that employees have a personal plan in place to prepare themselves and their families for what could be a long restoration effort. FPUC conducted our 2018 emergency training drill on June 13, 2018.

Q. Can you describe the important considerations involved when obtaining storm restoration resources, particularly in the context of the period leading up to Hurricane Michael?

A. Perhaps the most critical factor is to ensure that we have sufficient restoration resources appropriately staged in our service area so that we can respond promptly, in spite of any travel restrictions that might apply or damage caused by the storm. In order to ensure we have adequate resources appropriately staged, we must ensure that those resources are mobilized and staged in advance of the storm and positioned in a strategic, but safe, location. We also have to be flexible with regard to resource staging given that the strength and track of a storm can change rapidly. This challenge is exacerbated when a storm is projected to impact an area served by multiple utilities. The impacted utilities draw from the same pool of storm restoration contractors, so pre-storm contractor assignments take on a heightened importance. As Hurricane Michael developed in the Gulf of Mexico, FPUC was among several utilities challenged with preparing for a storm that evolved quickly. This caused an overwhelming need by all the potentially impacted utilities to get resources ready to address damage that could be caused by the hurricane.

Fortunately, the mutual assistance process administered by the Southeastern Electric Exchange (SEE), of which FPUC is a member, can be initiated quickly and is strictly focused on obtaining and allocating available resources in a fair and equitable manner among its member utilities. The member companies (Investor-Owned Utilities) involved are generally located in or near the Southeastern United States. When emergencies arise, the SEE convenes a Mutual Assistance Committee (MAC) call whereby impacted utilities communicate the number of line and tree crew resources they anticipate needing to achieve an acceptable Estimated Time of Restoration (ETR) based on current storm event information. Available utility and contractor resources that can respond in accordance with utility requirements are then identified by the MAC. Utilities that project a need for additional resources then meet via conference call and allocate these line and tree resources based on a number of factors such as utility/contractor, location, travel times, crew sizes, self-contained ability, security, etc. When the allocation process concludes, each requesting utility contacts the utility or contractor capable of providing additional assistance to work out the arrangements.

In most situations, resources from the SEE members alone are not sufficient to cover the entire initial request of all the requesting utilities, so it is critical that these resources be assigned, and re-assigned, as the projected need for resources changes with the storm's strength and path. Utilities must modify their resource needs during the storm event as they receive information about the impact and redirect previously mobilized resources to a higher priority destination in more significant need, which may include assignment to a different utility. Again, at this point, the resource and the utility to which it is assigned discuss safety, travel, contracting, staging, security, etc. The utility has the ability at that point to accept the resource based on the terms and requirements established in those discussions, or reject and redirect the resource. Practically speaking, however, storm recovery resources are profoundly limited and there is rarely an alternative resource available in the event a utility would prefer a different resource than the one assigned. Consequently, if a utility rejects the resource, it is likely that the utility will simply have to make do with fewer resources than needed to achieve an acceptable ETR.

Q. How does the SEE assist with the staging, logistical requirement and contracting of resources provided?

A. The SEE mutual assistance process does not consider or provide for staging, logistical requirements or contracting with participating resources. The company to which the resources are allocated is responsible for accepting or rejecting the resource with considerations for the required staging, logistical requirements and contract costs.

During this part of the process, the utility and the responding resource discuss staging requirements, safety requirements, travel requirements, contracting requirements (which includes rates), etc. Based on these discussions (or possibly a change in the storm path or intensity), the utility can request the resource to mobilize and begin moving to the staging location or reject and redirect that resource to another utility that may be in need of additional resources.

As may be evident from the process description above, a storm similar to Hurricane Michael can result in a number of preparation and resource allocation changes due to the rapid development and significant increases in intensity which greatly influences the number and location of the resources required.

Q. What steps did FPUC take to find contractors to assist with repairs for Hurricane Michael?

A. As previously stated, the SEE mutual assistance process is an industry standard process that we have found provides for the most efficient method of identifying and allocating resources to the electric utility industry during times of system emergencies. The system has been proven time after time with excellent results. Also, as previously mentioned, the number of resources typically required by larger utilities sometimes necessitates bringing in additional resources from the western United States and Canada, that may not be a good match for a small system similar to FPUC. However, FPUC has had excellent results for many years utilizing the SEE process to acquire resources for emergency system restoration that suit its needs and has worked well in allocating resources with the other utilities represented in the SEE. For our company, obtaining resources through the SEE has proven to be the best approach.

Q. Did FPUC have difficulty finding contractors to assist with Hurricane Michael repairs?

A. Obtaining contractor resources was particularly challenging with this storm given its rapid development and significant increases in intensity, which resulted in dramatic changes in the number of resources that we determined would be necessary to achieve an acceptable Estimated Time of Restoration (ETR). With less than three days to prepare, ETR estimates had to be developed and then the necessary resources had to be contacted as landfall loomed just a few days away and the intensity of the storm was increasing. Our internal resources were stretched thin in our effort to quickly build up a resource pool that was larger than we had originally anticipated needing.

While the resources acquired through the SEE were a significant part of the overall restoration team, even that fell short as we began damage assessment and set an aggressive ETR. The management team then went to work identifying other possible resources and were able to deliver additional resources on days 5 through 10 which allowed achievement of the ETR.

Q. How did FPUC manage outside contractors who were assisting with repairs for Hurricane Michael?

A. As resources were identified and moved to the area, the first priority was to communicate the importance of safety to everyone who works for FPUC. Resources are "on-boarded" by FPUC safety personnel who communicate safety requirements and expectations, system information and logistics overview prior to beginning work. As the resources were on-boarded and released to begin work, one or more FPUC personnel was assigned to work with the crews to provide information for them and also monitor activities and progress. The FPUC employees are charged with ensuring that safety briefings occur, work is done is accordance with standard operating procedures, acceptable restoration progress is occurring, community interactions are professional, work hours occur as planned and meals/materials are available.

During the restoration process, all thirty five (35) of the employees within our NW Florida Division along with approximately fifty (50) additional employees from other parts of the company assisted with many of the operational and logistical duties required to manage the restoration effort. This effort included providing for all logistical needs, ensuring work was conducted in a safe and efficient manner, documenting materials and workhours that were occurring and final approval of all invoices for services provided.

While this storm presented a challenge of historic proportions, the extraordinary efforts of our FPUC employees, and the cooperation of other utility partners and outside contractors, ensured that the resources on our system were able to work safely and productively while ultimately achieving the ETR that was set for Hurricane Michael.

Q. How did FPUC keep track of time spent by all the additional contract employees that worked on Hurricane Michael?

A. During the restoration process, an FPUC employee was assigned to work closely with a specific contractor. That employee functioned as a type of "Contract Coordinator" in order to ensure that work was performed safely, efficiently and in accordance with good utility practice. Also, while functioning in that capacity, the employee was able to verify work hours were in accordance with the FPUC requirements.

Q. Please explain the process used to review the bills from the contractors to determine that the cost were based on actual time work?

A. The employees assigned to specific contractors were used to verify that work hours invoiced by the contractor were accurate. Financial Analysts were then used to closely review the actual invoices to ensure that all charges were correct based on the actual time worked and any other miscellaneous expenses that were included on the invoice.

IV. Hurricane Dorian

Q. Has FPUC found it necessary to prepare for another hurricane since Hurricane Michael?

A. Yes. FPUC prepared for a potential hit from Hurricane Dorian in late August and early September of 2019. Hurricane Dorian developed from a tropical wave on August 24, 2019, over the Central Atlantic. Our concerns escalated when Dorian rapidly intensified over the following days to reach its peak as a Category 5 hurricane with one-minute sustained winds of 185 mph by September 1.

That day, Hurricane Dorian made its most devastating landfall in the Bahamas, just east of Abaco Island, and again on Grand Bahama several hours later, where it remained nearly stationary for the next day or so. Its landfall in the northern Bahamas was the strongest Atlantic hurricane to make a landfall. Damage in the Bahamas was catastrophic making Dorian, according to numerous reports, the costliest disaster in Bahamian history.

When it became apparent that Dorian would near the Florida coastline, a tropical storm watch was issued for the Florida east coast from Deerfield Beach to Sebastian Inlet on August 31. It was upgraded to a tropical storm warning just a few hours later. A hurricane watch was issued for the area north of Deerfield Beach on September 1, and it was upgraded to a hurricane warning later that day. Based on the storm's projected trajectory, a mandatory evacuation of some areas of Nassau County, Florida including Amelia Island, was announced by the Nassau Emergency Operations Center at 5:00 p.m., Sunday, September 1, 2019.

Dorian subsequently weakened to a Category 2 storm on September 3, before beginning to move northwestward parallel to the east coast of Florida, with Dorian's wind field expanding during this time. While moving northwestward, however, Dorian gradually reorganized. Fortunately for Florida, the hurricane remained just off the coast and FPUC's service territory experienced only tropical storm-force winds with minimal damage. Dorian eventually made landfall in mainland U.S. at Cape Hatteras, North Caroline on September 6, 2019, as a Category 1 hurricane.

Q. What type of preparations did the Company have to make for Hurricane Dorian?

A. Due to the changing storm projections and dramatic fluctuations in the storm, the Company had to prepare as if the storm would have a significant impact on our service territory. As such, we began our typical hurricane preparations in order to be prepared for a hurricane impact on our service territory. Preparation began by checking all facilities and materials to ensure everything was ready for restoration activities to be initiated. It was also necessary to begin acquiring additional restoration resources that included line crews, vegetation management crews and damage assessment personnel while finalizing schedules for employees who will assist during the restoration. Also, in order to support the restoration effort, logistics efforts began in order to provide lodging, food, fuel, backup generation, restroom/laundry facilities, etc. for all the restoration resources.

Q. Did the Company find it necessary to bring additional resources onto the system in preparation for Hurricane Dorian?

A. Yes. Since the projections for the hurricane track and wind speed were uncertain, on August 29, 2019 the decision was made to add outside resources in order to be prepared for the impact of Hurricane Dorian. The outside resources acquired included sixty (60) distribution linemen from MDR Construction Services and ten (10) tree trimmers from Davey Tree who arrived in the area on September 2, 2019. Additionally, twenty four (24) damage assessors from Enercon Services were acquired and staged in various locations waiting on the hurricane to pass before traveling to Nassau County.

Q. Did the Company obtain the additional resources through the Southeastern Electric Exchange in preparation for Hurricane Dorian?

A. No. Resources were obtained directly with the contractors.

Q. When were these additional resources released?

A. MDR Construction Services and Davey Tree personnel participated on the restoration activities through September 4, 2019 and were released on September 5, 2019. Due to the limited damage that occurred as a result of Hurricane Dorian, the Enercon Services personnel who were prepared to travel to Nassau County were released on September 4, 2019 before they had to travel to FPUC's service territory.

Q. What other additional storm-related costs did the Company incur in order to prepare for Hurricane Dorian?

A. In preparation for the storm, logistical resources such as food, water, drinks and miscellaneous supplies were acquired for personnel working during the restoration activities. Expenses related to lodging, catering resources, restroom/laundry trailers and emergency generators also were incurred.

Q. Why was it necessary to incur these costs since the storm ultimately had a minimal impact on the Company's service territory?

A. Due to the uncertainty surrounding the track of the hurricane, it was imperative that FPUC be prepared to respond immediately should any damage occur. In order to respond to the impending impact of the Hurricane, there are a number of items that must be put into place prior to any damage occurring. This included mobilizing additional Line and Vegetation personnel which allowed restoration of power to occur on the same day that the impact was occurred. In order to support the additional resources it was necessary to provide for the lodging and food requirements to ensure they remained capable of restoring power for our customers in a safe and efficient manner. Restroom/Laundry trailers were provided at the staging site due to the increased number of restoration personnel and additional emergency generators were installed at lodging locations to ensure electrical service was not interrupted to those that were housing the restoration personnel.

Q. Did the Company sustain any damage as a result of the Hurricane?

A. Yes. Due to the impact of Hurricane Dorian, a total of seven hundred and ninety (790) customers lost power during the day on September 4, 2019. The majority of this damage was as a result of falling trees and tree limbs.

Q. While the damage was minimal, did the Company nonetheless incur incremental storm-related costs?

A. Yes. As was previously discussed, a relatively minor shift in the track of the storm could have resulted in a "Hurricane Michael like" impact on Amelia Island. Although this shift did not occur, the additional resources acquired allowed restoration to be completed safely and efficiently.

Q. Was it consistent with prudent utility practice to make the preparations, and incur the costs, that the FPUC did in advance of Hurricane Dorian?

A. Yes. It is necessary and prudent utility practice to prepare for what could occur as a result of a hurricane that could impact your service territory.

Q. Have the invoices associated with Hurricane Dorian preparations been reviewed for accuracy?

A. Yes. All invoices from Hurricane Dorian preparation and response have been reviewed for accuracy and approved for payment.

Q. Do any invoices associated with Hurricane Dorian preparations remain outstanding?

A. No. All invoices have been processed.

Q. Does this conclude your testimony?

A. Yes, it does.

(Whereupon, Witness P. Mark Cutshaw's prefiled rebuttal testimony was inserted into the record as though read.)

Before the Florida Public Service Commission

Docket No. 20190156-EI: Petition for Limited Proceeding to Recover Incremental Storm Restoration Costs, Capital Costs, Revenue Reduction for Permanently Lost Customers, and Regulatory Assets related to Hurricane Michael for Florida Public Utilities Company

Prepared Rebuttal Testimony of Mark Cutshaw

Filed: July 27, 2020

I. POSITION, QUALIFICATIONS, AND PURPOSE

Q. Please state your name and business address.

A. My name is P. Mark Cutshaw. My business address is 208 Wildlight Avenue, Yulee, Florida 32097.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company ("FPUC" or "Company") as Director, Generation and Pipeline Development.

Q. Have you previously filed testimony in this proceeding?

A. Yes. I filed direct testimony with our petition initiating this proceeding on August 7, 2019. I filed revised direct testimony when FPUC made its revised filing on March 11, 2020.

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

A. The purpose of my rebuttal testimony is to respond to Office of Public Counsel ("OPC") Witness Schultz's assertions regarding reduced

Operations and Maintenance ("O&M") costs, as well as issues he has raised with regard to the bill formats and level of itemization provided by the Company's outside contractors and amounts billed by certain of those contractors.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I am sponsoring Confidential Exhibit PMC-1, which provides information regarding one of our contractor's rates, and Exhibit PMC-2, which is a composite exhibit of pictures showing damage to existing trees in the Company's Northwest Division.

Q. Do you agree with Witness Schultz's assertion that FPUC has failed to take into account offsetting O&M cost reductions in its filing as it relates to the inclusion of new plant?[1]

A. No, I do not. Witness Schultz seems to assume that that all new plant facilities were installed and old plant retired.[2] However, the majority of the existing plant facilities were not replaced during restoration activities. These facilities were, however, exposed to the extreme weather conditions which will, in the long term, impact the integrity and reliability of those facilities. During restoration activities, repairs undertaken are for facilities that are unsafe or cannot be energized with the main purpose being that power is restored to customers as quickly and safely as possible. As such, the Company has not retired every piece of equipment

[1] Direct Testimony of Helmuth Schultz III at pg. 13.
[2] Id. at p. 13.

impacted by the storm. It is very possible that conditions exists where expected O&M cost will actually increase based on the need to make repairs to plant facilities that were not replaced during the restoration process but eventually fail while in-service due to the impact of Hurricane Michael's extreme weather.

Q. Do you agree with Witness Schultz's assertion that FPUC should show a reduction in expenses for future tree trimming activities?

A. No, I do not. I do agree that the impact that Hurricane Michael was devastating and broke or damaged a tremendous number of trees, however, it did not take down all the trees within the service territory. There are still a significant number of trees along the rights of way where our lines are located. It has also been reported that the trees that did not fall during the storm were badly damaged and have begun to slowly die as a result of the bending and twisting movement of the entire tree during Hurricane Michael. As those trees continue to die, it is possible that near term tree trimming expense could increase as we address those situations in order to ensure safe and reliable service to our customers. I am including, as Exhibit PMC-2, pictures that demonstrate the condition of many of the remaining trees in the aftermath of Hurricane Michael in FPUC's Northwest Division.

Q. OPC Witness Schultz has indicated that FPUC allowed some vendors to bill a "bulk rate" for equipment and employees.[3] Consequently, he

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[3] Id. at pg. 27

questions FPUC's ability to ensure these vendors are billing correctly. Do you agree with Witness Schultz's concern?

A. No. First, I think to say FPUC "allowed" vendors to bill a bulk rate is a bit misleading. Contractors invoice customers based on the billing standard for that contractor. While FPU uses those invoices for billing, FPUC also carefully examines billing records in detail based on field observations for that contractor during restoration activities. Second, FPUC is able to verify and confirm billings by outside contractors that bill using this method by having personnel with the contractors on a consistent basis in order to ensure that the resources and equipment provided by the contractor were on site, working, and worked the number of hours prescribed while performing restoration activities. The employees were able to monitor what occurred and report back to management regarding those contractors. I note that the vendors that used a bulk rate fell into the average cost assumption provided by Witness Schultz.

Q. Witness Schultz identifies a similar concern with contractor invoices as it relates to mobilization and demobilization ("mob/demob") billed but not itemized on invoices.[4] Do you agree with Witness Schultz's concern regarding FPUC's ability to review "mob/demob" time charged to the Company?

A. No. It seems important to differentiate "mob/demob" from travel time as this seems to be confusing when reviewing some of these invoices. Travel time would be the amount of time required for bucket trucks and

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[4] Id. at pg. 41.

derrick trucks to travel from one location to another with a large number of trucks, navigating travel obstructions, stopping at certain weigh stations, addressing vehicle issues, making fueling stops, eating meals while all traveling together. This is very different than your average travel experience.

The "mob/demob" does include travel time but also includes time for the employees to prepare to travel, equip all the vehicles for travel/restoration work and ensure safety materials are on each vehicle. Additionally, due to the fact that some of the crews are larger crews, it may be necessary to have crews travel from different locations or have the crews travel to the common departure location in order to meet with the remainder of the crews that will be traveling together. It is common place for contractors to bring crews from multiple locations to make up the storm team when responding to restoration activities.

Many of the same impacts are encountered during the demobilization period as crews must prepare to depart, travel to their ultimate location and then transition from storm response to normal construction work.

Based on the many facets of putting together a storm team, it is difficult to put together a detailed invoice regarding the "mob/demob" process but in working with each contractor on an individual basis we are able to understand the process, keep up with the time involved and determine if the "mob/demob" charges are reasonable.

Q. Witness Schultz highlights a concern he has with an invoice from Chain Electric, namely that the time sheet does not include time for

demobilization and the timesheet does not include the mileage for demobilization.[5] Witness Schultz therefore questions whether FPUC has verified the costs in the invoice. Do you agree with Witness Schultz's stated concern?

A. No. As stated above, the "mob/demob" involves more than just your typical mileage or travel time which is referenced in Witness Schultz's testimony in several cases. All of the items mentioned above can drastically impact the number of hours involved in both the "mob/demob" activities which is why the labor hours, rather than mileage, are used.

During mobilization, the crews traveled from the central location in Hattiesburg, Mississippi to Marianna on October 11, 2018. This included packing/preparing the crews for travel, stopping for fuel/meals, navigating along hazardous road conditions in Northwest Florida (many of which were or had been closed), arrived in Marianna, checked in with FPUC, completed the on-boarding/safety training, prepared to begin work the following day and checked into the lodging facilities.

Similarly, the demobilization included travel from Marianna to various locations in Mississippi. This included confirmation from FPUC that they were being released, removing unused materials from the vehicles, travel back to and checking out of the lodging facilities, preparing vehicles to travel (much of which would be along congested roadways), stops for fuel/meals and arriving at the destination for final check in and demobilization.

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[5] Id. at Pg. 41.

As described, "mob/demob" is much more involved than described by Witness Schultz and can only be accounted for accurately using labor hours.

Q. Do you agree with Witness Schultz's assessment that invoices and time sheets used by outside contractors to bill FPUC for "mob/demob" were outside the norm?[6]

A. No I do not. Assuming you are paying for only travel time along the typical route, it would be fairly simple to establish the "norm" and compare this to the mileage traveled. However, as I discussed above there are many other factors that come into play when "mob/demob" cost are determined and cannot be determined by simply calculating the mileage.

Q. Is FPUC able to verify mob/demob time charged to it by outside contractors?

A. FPU is able to review applicable charges for the "mob/demob" for contractors, review the situations related to that particular contractor and establish if the charges are reasonable. Since contractors are obtained from locations well outside the service territory, it is both impractical and impossible to inspect the details of the mobilization and demobilization process but is possible to review the information and determine the reasonableness of the charges.

[6] Id. at pg. 42.

Q. What type of information or documentation does FPUC use to determine whether the Company has been appropriately billed for "mob/demob" time?

A. In the normal review of contractor invoices, all aspects of the billing are reviewed in the greatest degree of detail possible. The charges for "mob/demob" do present the greatest challenge based on the number of factors involved in mobilizing crews. As mentioned above there are a number of factors involved, all of which are considered as we determine the reasonableness based on the discussions with the contractors.

Q. Is Witness Schultz's concern that FPUC does not have sufficient documentation to effectively review "mob/demob" time valid?[7]

A. No it is not. It appears that his concern is that there is not sufficient detail that provides FPUC the ability to verify all the time worked during "mob/demob" and the number of miles traveled. As discussed there are a number of other factors involved in the process and that makes detailed analysis very difficult, however, FPUC did review all charges based on the circumstances surrounding each contractor to ensure a standard of reasonableness was ensured.

Q. Witness Schultz takes issue specifically with an ARC American invoice, which listed the crew travel mileage as 663 miles.[8] Witness Schultz raises a concern with the mileage and travel time on this

[7] Id. at 43-44.
[8] Id. at pg. 44.

invoice based upon his research using MapQuest. Do you agree with the concerns raised by Witness Schultz on this invoice?

A. No, I do not. Again as previously mentioned, there are a number of factors involved in the "mob/demob" over and above strictly the travel time and miles. Attempting to determine total cost strictly based on mileage for travel time does not adequately describe the entire "mob/demob" process. In fact, the ARC crews came from various locations. A portion of the ARC crews traveled from south Florida and ended up spending the night in Jacksonville prior to traveling on to Marianna on October 12th. Again, getting a large crew ready for travel, traveling through congested highways, stopping for fuel/meals/overnight lodging, final travel to Marianna, checking in with FPUC, on-boarding/safety training and obtaining materials/ instruction to get ready to work does require more labor hours than just travel.

Q. Witness Schultz also takes issue with travel time and mileage for travel by Chain Electric crews from Mississippi.[9] Are Witness Schultz's concerns valid?

A. No. Witness Schultz relies on MapQuest to determine that it takes 4 hours and 21 minutes to travel the 275 miles from Hattiesburg, Mississippi to Marianna, Florida. Based on this, he argues that Chain overbilled FPUC for 46 hours of excessive travel time. His analysis fails to consider that during mobilization the crews traveled from the central location in Hattiesburg, Mississippi to Marianna on October 11, 2018. This

[9] Id. at pg. 45.

included packing/preparing the crews for travel, stopping for fuel/meals, navigating along hazardous road conditions in Northwest Florida. Immediately after Hurricane Michael impact, Interstate 10 was completely closed to traffic for several days and many of the other major roadways such as Highway 90, Highway 231, Highway 71 and Highway 20 which are important transportation routes in the area were blocked by debris in many locations which drastically hindered the ability to move around in the area. Additionally, the auxiliary roads in the area were also blocked by debris which blocked traffic for many days until the debris could be removed. After finally arriving in Marianna, the crews checked in with FPUC, completed the on-boarding/safety training, prepared to begin work the following day and checked into the lodging facilities. Once again the mobilization is much more than simply mileage and associated travel time.

Q. Does Witness Schultz make a recommended adjustment to reduce costs for travel time and mob/demob?[10]

A. Yes, he does, but it does not appear to be specific adjustments based on specific invoices. Instead, it appears that he came up with a percentage range that he thought was overbilled, then adjusted it to account for fueling time and resting which does not include other factors involved in the "mob/demob" process.

Q. Is Witness Schultz's recommended adjustment for travel time and mob/demob time justified?[11]

[10] Id. at pg. 47-48.

. No, for the reasons I've outlined above, it is not. Moreover, the method by which he came up with the amount of his recommended adjustment does not consider all factors involved in the "mob/demob" process.

Q. Does Witness Schultz recommend any other adjustments based upon a similar analysis?

A. Yes. Applying the same percentage utilized to calculate his reduction to the Company's line contractor costs for mob/demob, he recommends a reduction to FPUC's mob/demob costs charged by line clearing contractors.[12]

Q. Does he provide a basis for his recommended adjustment?

A. No. He suggests his review was limited because the invoices were below a threshold of $25,000. It's not clear to me why this limited his review. It is my understanding that the OPC did not request invoices below $25,000. FPUC does maintain all invoices and line clearing contractor invoices were available for review. In addition, Witness Schultz ties his recommendation to an assumed amount of unjustified mob/demob time, which is simply incorrect for the reasons I've outline above pertaining to the same category of charges by line contractors. He fails to consider preparation time, the obstacles and related challenges associated with travel to and from a storm zone, he does not take into account that the contractors sent crews that were already positioned at locations other than

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[11] Id. at pg. 47.
[12] Id. at pg. 49.

the contractor headquarters, and that travel for crews with bucket trucks is much different than travel by one time by one sedan. Additionally, when the crews arrive at the final location, efficiency dictates that any on-boarding/safety training and obtaining materials be done as soon as possible so that work can be initiated quickly on the following day.

Q. Witness Schultz also makes and adjustment to effectively reduce the hourly rate charged by one of FPUC's outside contractors.[13] Do you agree with Witness Schultz that this adjustment is appropriate?

A. Absolutely not and for a couple of reasons. First, Witness Schultz's inclusion of labor, benefits, vehicle costs and overheads to conflate FPL's hourly rate from the actual [redacted] to [redacted] is just wrong. Witness Schultz failed to [redacted] in outside services/logistics service cost which would (based on current accounting) reduce the hourly cost to [redacted]/hour. FPL was the only contractor to [redacted] so it seems appropriate to remove this amount in order to compare hourly cost.

Also, if you remove the Administrative and General Cost (A&G) and Materials, an additional [redacted] would be removed further reducing the hourly cost to [redacted]/hour. Both of these hourly amounts seem reasonable considering the role they played in the restoration. Other contractors did not provide the extensive management resources or materials provided by FPL, the cost of which must be removed to compare the FPL cost to other contractors. With my rebuttal testimony, I am

[13] Id. pg. 37-38.

providing Confidential Exhibit PMC-1, which is consistent with documentation the Company originally provided to the OPC in response to Citizen's Request for Production of Documents No. 4. This exhibit provides greater detail regarding the costs included, as further explained below.

Second, FPL's rate is reasonable given that they played a vital role in allowing FPU to achieve the state mandated restoration time of October 31, 2018. The FPL resources made up a substantial portion of the total restoration force, provided [redacted] provided all management personnel, provided materials, provided field engineering/supervision and responded quickly without which FPU would have failed to meet the state-mandated restoration times.

The actual amount of [redacted] hour seems to be an acceptable amount given FPL's role in the restoration effort and compared to other contractors. As such, his calculation of an "excess billing" by this contractor, as well as his recommended adjustment using 50% of the "excess" amount is totally unjustified.[14]

Q. On Confidential Exhibit PMC-1, there is an amount of [redacted] shown as "Payroll and Payroll Related Costs". What does this amount represent?

A. This amount includes [redacted] employees and the logistics services billed by their contractor.

[14] Id. at pg. 38.

Q. What [redacted] did [redacted] provide during the restoration associated Hurricane Michael and how much was billed for this service?

A. [redacted]. Locations were set up in Marianna and Altha to provide a command center, communications equipment, sleeping trailers, showers, dining facilities, restrooms, showers, water trailer, generators, laundry, fueling and parking. As you can imagine, and have probably seen, these logistics staging sites are difficult to establish but are very efficient in assisting in the restoration activities.

Since Marianna did not have sufficient lodging, dining and other logistics facilities, it was necessary that [redacted] provide this resource. The total amount billed to FPUC by [redacted]. It seems appropriate to remove this [redacted] amount from the total when calculating the average hourly cost comparison since this was paid for by [redacted] and then in turn passed through to FPUC.

Q. Did FPUC review all logistics related charges?

A. Yes. All logistics-related bills were provided and were reviewed by FPUC for accuracy and approved.

Q. Why didn't FPUC use the [redacted] resources in Marianna to take care of the [redacted] employees similar to other contractors?

A. As mentioned above, there were no additional hotel rooms available in and around Marianna to take care of the additional contractors. In fact, due to the extensive damage to the FPUC electrical facilities, it was necessary to rent generators in order to provide power to two hotels for contractors to have rooms. It was also necessary for some contractors to be housed at a local church and FEMA trailers just to have lodging for non-FPL contractors. Without the [redacted] capabilities from FPL and it contractor, it would have been necessary to transport crews to neighboring cities for lodging and food.

Q. Witness Schultz argues that FPUC did not have to pay the rate charged by the contractor in question, because the contractor is a neighboring utility and therefore not subject to the SEE cost recovery protocol. Do you agree?

A. No. This contractor billed in accordance with the terms of the SEE agreement which states that actual cost will be passed along to the utility receiving the assistance. This methodology of passing actual cost along to neighboring utilities within Florida (and any utilities within the SEE) has occurred on a number of occasions in the past, has been accepted by this Commission in previous matters and should continue in the future as we support Florida utilities in response to future hurricanes.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

(Whereupon, Witness Lee's prefiled direct testimony was inserted into the record as though read.)

Before the Florida Public Service Commission

Docket No. 20190156-EI: Petition for Limited Proceeding to Recover Incremental Storm Restoration Costs, Capital Costs, Revenue Reduction for Permanently Lost Customers, and Regulatory Assets related to Hurricane Michael for Florida Public Utilities Company

Docket No. 20190174-EI: Petition for approval of 2019 depreciation study by Florida Public Utilities Company

Prepared Direct Testimony of Patricia Lee (Corrected)

Date of Filing: April 23, 2020 (May 8, 2020)

I. POSITION, QUALIFICATIONS, AND PURPOSE

Q. Please state your name and business address.

A. My name is Patricia Lee. My address is 116 SE Villas Court, Unit C, Tallahassee, Florida 32303.

Q. On whose behalf are you submitting this testimony?

A. I am submitting this testimony on behalf of Florida Public Utilities Company ("FPUC" or "Company").

Q. Please state your prior work experience and responsibilities.

A. I was employed as a high school mathematics teacher from 1971-1974, when I began working in the area of statistical analysis for the State of Florida. I joined the Public Service Commission staff in 1978. While my position changed over the years, my areas of primary focus were depreciation and capital recovery. I also reviewed and analyzed cost studies for the purpose of determining unbundled network element prices and universal service cost levels, as well as for the purpose of determining the appropriate nuclear decommissioning and fossil dismantlement annual accrual levels. In that regard, I was responsible for depreciation issues and other issues such as determining the appropriate cost model inputs. I retired in 2011 after 30 years of service. I began working for BCRI Inc., d/b/a BCRI Valuation Services[1] where I represented consumer advocate groups and Industrial Power Users in hydro and electric company depreciation filings. Lastly, I prepared FPUC's 2015 electric depreciation study as well as the 2019 consolidated gas company depreciation study.

Q. What is your educational background?

A. I have a BS in mathematics from Appalachian State University in Boone, North Carolina.

Q. Please describe your other professional activities.

A. I am a member of the Society of Depreciation Professionals (SDP), an organization that has established national standards for depreciation professionals. I previously served as President of the SDP and was an instructor at several annual meetings concerning depreciation accounting. On behalf of the Florida Public Service Commission, I participated as a faculty member of the National Association of Regulatory Utility Commissioners (NARUC) Annual Regulatory Studies Program and also

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[1] BCRI is a consulting and research company founded in 1998 by Stephen Barreca. The company specializes in assessing technological change and appraising utility property.

for the Society of Depreciation Professionals in the area of depreciation accounting. I was also a member of the NARUC Staff Subcommittee on Depreciation and Technology. In this regard, I co-authored the NARUC 1996 Public Utility Depreciation Practices manual and three NARUC papers that addressed the impact of depreciation on infrastructure development, economic depreciation, and stranded investment. Two of these papers were published in the 1996-1997 and 1998 SDP Journals.

Q. Have you previously testified before any state and/or international regulatory commissions?

A. Yes, I have proffered testimony in proceedings before the Alberta Utilities Commission, the Public Utilities Board of Manitoba, the Newfoundland Labrador Board of Commissioners, and the Florida Public Service Commission. My Curriculum Vitae as well as a list of proceedings I was either assigned or in which I presented testimony is found in Exhibit PSL-2, pp. 1-20.

Q. What was your responsibility and participation in the conduct of the 2019 Depreciation Rate Study (the "Study") for Florida Public Utilities Company?

A. I was responsible for and participated in all aspects of the work performed resulting in the recommendations contained in the depreciation study narrative and workbook in Exhibit PSL-1.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to discuss and support the 2019 Study conducted for FPUC's electric transmission, distribution, and general depreciable plant assets based on plant and reserve balances estimated as of January 1, 2020.

Q. Are you sponsoring any exhibits?

A. Yes. Attached to my testimony are Exhibits PSL-1, PSL-2 and PSL-3. Exhibit PSL-1 consists of the Study narrative followed by the workbook. Exhibit PSL-2 consists of my Curriculum Vitae. Exhibit PSL-3 is a life table example. To the best of my knowledge, the information contained in these exhibits is true and correct.

II. TESTIMONY STRUCTURE, DEPRECIATION DEFINITION, STUDY PURPOSE, AND STUDY CONCLUSIONS

Q. How is your direct testimony structured?

A. My direct testimony is structured as follows:

In Section III, I explain how the depreciation Study conforms to the depreciation study requirements of Rule 25-6.0436, Florida Administrative Code (F.A.C.), and provide context for the 2019 FPUC Depreciation Study.

Section IV addresses the determination of depreciation rates, including identifying the formula used in the remaining life rate design. This section also explains and fully discusses each component of the depreciation rate design that is supported by the Study.

Section V discusses the change in annual depreciation expenses based on my recommended resultant depreciation rates and amortizations.

Q. What is the basic purpose of depreciation?

A. The purpose of depreciation is to systematically spread the recovery of prudently invested capital over the period the plant items represented by that capital are providing service to the public. Depreciation is an expense of doing business. Ideally, the timing of the expenses matches the timing of the active period of service.

Depreciation rates are prescribed on the basis of estimates of the equipment's expected rate of loss in value due to known causes, including wear and tear, obsolescence, and changes in demand. Depreciation expense is part of a company's revenue requirement and the accumulated depreciation (depreciation reserve) is a deduction from rate base,

Q. Please generally describe the purpose of the Study.

A. The basic purpose of the depreciation Study is to attain the proper depreciation expenses and accumulated reserve level. The prime concerns in developing depreciation rates are remaining life, net salvage, and reserve level.

Rule 25-6.0436(4)(a), Florida Administrative Code, requires regulated electric companies to file comprehensive depreciation studies at least once every four years from the last submitted study unless otherwise directed by the Commission. Plant and reserve activity for FPUC since the last depreciation study indicate a need to revise life and salvage values and resultant remaining life depreciation rates. This Study also affords the opportunity to review the recovery position (depreciation reserve) for any imbalances and corrections through reserve allocations or amortization that may be needed.

In the case of FPUC's Study, damages from Hurricane Michael resulted in the premature retirement of some of FPUC's distribution plant. The net unrecovered costs consisting of the negative reserve component associated with the unrecovered cost of the retired investments and the removal costs net of gross salvage associated with the retired plant represent non-existent plant. These costs reflect a negative component in FPUC's reserve that will remain until corrected. They are a misstatement of rate base that should be recovered over a period shorter than the remaining life of the affected accounts. In Docket Nos. 20190155-EI and 2010156, FPUC is requesting to establish a regulatory asset (Depreciation Regulatory Asset) for the recovery of these costs. Therefore, they have not been included in my determination of future lives and net salvage values in the Company's Depreciation Study. Additionally, the estimated January 1, 2020 reserve for each affected account is reflective of moving the unrecovered costs to the Depreciation Regulatory Asset. If the

Depreciation Regulatory Asset request is not approved by the FPSC, these non-life related costs should be recovered over a short period of time. I note however, that in that scenario, FPUC would not receive capital recovery.

Q. Based on the Study, what conclusions do you reach?

A. I conclude that:

- FPUC's current approved life and salvage parameters should be revised as set forth in the workbook on Exhibit PSL-1, Sch. 1 which is sponsored by me.
- The net unrecovered investments associated with investments that retired as a direct result of Hurricane Michael were updated to reflect activity incurred in 2018 but not recorded until 2019.
- The reserve balances used in calculating the revised deprecation rates should be adjusted to reflect the transfer of the net unrecovered investments associated with Hurricane Michael to the requested Depreciation Regulatory Asset.
- The corrective reserve allocations and amortization shown in the workbook on Exhibit PSL-1, Sch. 4, should be made.
- The recommended rates with reserve allocations and amortizations applied to estimated plant balances and depreciation reserve balances as of January 1, 2020 result in a decrease in an annual depreciation expenses of approximately $380,000 shown in the workbook on Exhibit PSL-1, Sch. 3.

III. FPUC'S DEPRECIATION STUDY

Q. What does the Commission's Rule 25-6.0436, Florida Administrative Code, require a depreciation study include?

A. The Commission's depreciation rule requires the following information be included in a depreciation study:

- A comparison of the current and proposed depreciation components for each account. The components include average service life, age, curve shape, net salvage, and average remaining life.
- A comparison of current and proposed depreciation rates and expenses identifying the proposed date for implementing the proposed rates. Additionally, plant balances, reserve balances, remaining lives, and net salvage percents are required in this comparison.
- Each recovery and amortization schedule.
- A comparison of the book reserve to the calculated theoretical reserve based on proposed rates and components for each account.
- A general narrative describing the service environment of the company and the factors necessitating a revision in depreciation rates.
- An explanation and justification for each account under study defining the specific factors that justify the proposed life and salvage components and rates. A discussion of any proposed reserve transfers to correct reserve imbalances. Any statistical or mathematical methods of analysis or calculation used in the depreciation rate design should be included.

- All calculations, analysis, and numerical basic data used in the depreciation rate design for each account. This should include plant activity and reserve activity for each year since the last submitted study. Where available, retirement data should be aged.
- The mortality and salvage data used in developing proposed depreciation rates for each account must agree with the booked activity. Unusual transactions not included in life or salvage studies should be specifically enumerated and explained.
- Calculations of the proposed depreciation rates should be made using both the whole life and remaining life techniques.

Q. Does the 2019 depreciation Study contain the information and data required by the Commission's depreciation rule?

A. Yes, it does. The narrative and workbook contain all the information and data required.

Q. Did the Company provide any specific information for conducting the Study?

A. Yes, the Company provided the following information:

- Aged retirements for each year since the last depreciation study;
- Plant and reserve summaries for each year since the last depreciation study;
- 2019 projected additions and retirements;
- Net salvage for 2015 through projected 2019;
- 2019 projected monthly depreciation expenses;

- 2018 and projected 2019 aged motor vehicle listing; and
- 2018 and projected 2019 average age calculations.

Q. Does the depreciation Study in the workbook on Exhibit PSL-1 reflect any corrections to the Study originally submitted on September 3, 2019?

A. Yes. In the October 25, 2019 response to the Commission Staff's First Data Request, the following revisions have been made to the workbook.

- The Hurricane Michael related net unrecovered costs have been revised to reflect activity incurred in 2018 and not recorded until 2019 due to the extreme conditions of the unusual restoration process.
- Sch. F 2019 and Sch. F Notes have been revised to show the Hurricane Michael retirements as recorded in the General Ledger and to show the adjustment of the net unrecovered costs moved to the Depreciation Regulatory Asset.
- Sch. 1 through Sch. 5 have been revised to reflect revisions in Sch. F 2019.

Q. What date of implementation are you recommending for your revised depreciation rates?

A. A January 1, 2020 implementation date is recommended for the revised depreciation rates and amortization schedules set forth in the Study. All data have been estimated[2] to reflect this date as required by Rule 25-6.0436, Florida Administrative Code. The 2020 booked depreciation

[2] Estimated plant balances include actual plant balances as of June 2019 and Company planning estimates through the end of the year. Any updates made at this time to actual plant balances are likely to result in no material impact on the proposed depreciation rates.

expenses using currently approved rates will be trued-up to reflect the Commission-approved depreciation rates applied to the actual average monthly plant balances beginning January 1, 2020.

Q. Does the Study provide a general narrative describing FPUC's service environment and factors necessitating the need to revise current approved depreciation rates?

A. Yes, Exhibit PSL-1, pages 1-2, contain a general narrative discussing the need to revise depreciation rates.

Q. Does the Study provide an explanation and justification for any and all proposed changes in life or salvage and any proposed reserve allocations?

A. Yes, Exhibit PSL-1, pages 3-15, contain an account by account explanation and justification for recommended life and salvage factors and pages provide an explanation and justification for recommended reserve allocations.

Q. What property is included in the depreciation Study?

A. There are three functional groups of depreciable property that are analyzed in the study: (1) Transmission Plant, (2) Distribution Plant, and (3) General Plant. Transmission plant primarily consists of lines and associated facilities used to move power from outside the Company's service areas into the distribution system. Distribution plant primarily consists of lines and associated facilities used to distribute electricity to

FPUC customers. General Plant property is plant (such as office buildings) used to support the overall Company operations.

Q. Please describe your depreciation study approach.

A. The components required in the remaining life rate design are average service life, age, curve shape, average remaining life, net salvage, and reserve. The depreciation study approach I used in determining these components is similar to that used in each FPUC electric depreciation study for the last 20+ years. The aged retirement data and the average age distributions of the surviving investments along with lives of other Florida electric companies were used to determine if a revision to the average service life underlying the currently approved average remaining life for each account is needed.

For many FPUC accounts, the retirement rate[3] since the last depreciation study (2015-2019) has averaged less than one percent. This level of activity makes the results of any statistical analysis meaningless for developing life expectations. For this reason, reliance on industry averages is necessary. I have used the range of average service lives underlying the currently prescribed average remaining lives for Florida companies in determining an appropriate average service life for FPUC. Florida companies have more similar operating and regulatory environments among them than they do with electric companies in other

[3] Retirement rate = retirements/exposures = [retirements during the year/(end of year plant balance + retirements)] x 100.

states, thus making comparisons with other Florida companies more appropriate to use for reasonableness purposes.

For accounts to which a change in average service life is recommended, I incorporated the concept of gradualism and moderation. For example, start with an account with a 30-year average service life underlying its currently prescribed average remaining life and a miniscule average retirement rate since the last depreciation study. Other electric companies in the State have average service lives for the account ranging from 35 years to 55 years, averaging 45 years. For this account example, I would recommend a five-year increase in the average service life to 35 years. Such an increase is a gradual and more moderate move closer to the average, albeit at the low end of the range of other companies rather than a larger more aggressive move to the average. If, at the next depreciation study, this situation continues, a further increase may be appropriate.

Q. How was the average age of the surviving investment for each account determined?

A. The calculation of the average age of the surviving investments as of January 1, 2020 is shown in the workbook on Exhibit PSL-1, Schs. K, L, and M.

Sch. M shows computation of the average age as of January 1, 2019 for each account except motor vehicles. The source for the age and cost basis of each vintage is FPUC's Continuing Property Record System.

Sch. K identifies each motor vehicle in service as of December 31, 2018, the placement year, the original cost, and the age of the vehicle to which the average age is calculated.

The age of each vehicle on Sch. K and each vintage of Sch. M is determined by subtracting the placement vintage from the as-of-date minus a half year. The as-of-date for these schedules is 2019. The reduction by a half year is called the half-year convention and is based on the assumption that the additions were made throughout the year so that, on average, they came into service about mid-year.[4] For example, the age of investments surviving from 2014 would have an age of 4.5 years as of January 1, 2018.

The average age for each account is the direct weighting of the vintage age with the original vintage cost. The average age as of January 1, 2019 is then used with the 2019 estimated additions and retirements to arrive at the January 1, 2020 average age shown on Sch. L.

Q. What is a survivor curve?

A. A survivor or mortality curve is a graphical picture of the amount of property surviving at each age through the life of the property group. The graph plots the percent surviving on the y-axis and the age on the x-axis. The survivor curve depicts the expected retirement pattern of plant in an

[4] The half-year convention is a common accounting convention adopted to obtain consistent statistics. Frank K. Wolf and W. Chester Fitch, *Depreciation Systems*, Iowa State University Press, 1992, p. 22.

account over time. Iowa Curves are types of survivor curves developed to describe the life characteristics of utility property. They are the descriptive and accepted representation of retirements of utility property and consist of 34 retirement distributions. Survivor curves were not generated by statistical analysis for any account in the Study. Rather, the Iowa Curve underlying the currently prescribed average remaining life was reviewed to determine if it is still appropriate based on the average age and average retirement rate.

In this Study, the "Proposed" curve shapes shown in the workbook on Exhibit PSL-1, Sch. 1, are primarily based on those underlying the current FPSC approved average remaining lives and have basically remained unchanged since 2006. The curve shape for each account was reviewed and any modifications proposed are based on actual retirement experience since the previous depreciation study and the current average age. If the proportion surviving at the current age implies more or less retirements than those experienced since the last review, a change in curve shape is not necessarily proposed if the curve is considered indicative of future expectations. Instead, the situation is usually monitored and if a pattern continues into the next depreciation study, it may warrant investigation and new analysis. The majority of FPUC's accounts are status quo; the Company has no planned near-term retirements that could affect the curve shape or life expectancy.

Q. How is a survivor curve used in this Study?

A. The average service life, Iowa Curve, and average age are used to develop the average remaining life of the account.

IV. DETERMINATION OF THE DEPRECIATION RATES

Q. How were your recommended depreciation rates determined?

A. The depreciation rates are calculated using the remaining life technique in Rule 25-6.0436(1)(e), Florida Administrative Code.

$$\text{Remaining Life Rate} = \frac{100\% - \text{Reserve\%} - \text{Average Future Net Salvage\%}}{\text{Average Remaining Life (in Years)}}$$

The numerator of the formula represents the amount remaining to be recovered (plant investment less reserve less any net salvage) and the denominator represents the current estimate of the number of years left in which to recover (average remaining life).

Q. What portion of the formula used to derive depreciation rates is supported by the Depreciation Rate Study?

A. I describe in more depth below how the Study determines each component of the formula, as well as the Study results for each component, but the formula components supported by the Study are:

Reserve: The depreciation reserve was provided by FPUC. The estimated plant balances and the reserve balances are as of December

31, 2019. The reserve percent is derived by the reserve balance divided by the plant balance for each account.

Net Salvage: The Study supports the overall net salvage percent for each account excluding the effects of Hurricane Michael. Net salvage is the realized gross salvage less the costs to remove the retired asset. The percentages are calculated by dividing the gross salvage, as supported by the Study, by the original cost of the retired asset.

Remaining Life: The Study supports the remaining life calculation by determining the appropriate average service life, curve shape, and average age for each account.

Resulting Depreciation Rates and Expenses: The Study calculates the depreciation rates; the annual expenses are calculated by multiplying the depreciation rate times the plant balances as of December 31, 2019.

A. THEORETICAL RESERVE

Q. What purpose does the theoretical reserve serve in a depreciation study?

A. The theoretical reserve is a calculated reserve representing the theoretically correct reserve level if current life and salvage expectations had always been in effect. Rule 25-6.0436(5)(d) requires a depreciation study to include a comparison of the book reserve to the theoretical reserve based on proposed rates and components for each account. This comparison is shown in the workbook on Exhibit PSL-1, Sch. 4 and serves to quantify any reserve imbalances.

Q. How does the Study determine the theoretical reserve?

A. The formula is:

Theoretical Reserve = Book Investment – Future Accruals – Future Net Salvage

Future accruals are determined from the estimated remaining life, average service life, and the estimated net salvage. The difference between the theoretically correct reserve and the book reserve is an imbalance, either a deficit or a surplus.

Q. Is it desirable for the depreciation reserve to conform to the theoretical reserve?

A. Yes. The remaining life rate design is self-correcting. By this I mean that the relative adequacy of the reserve causes this remaining life formula to self-adjust for over-or under-recovery, as well as for changes in projected life or salvage parameters. A reserve deficit will result in a higher remaining life depreciation rate because there is more that needs to be recovered over the remaining life. Conversely, a reserve surplus will cause the remaining life depreciation rate to be less because there is less in the future that needs to be recovered. Major imbalances however may require correction through reserve allocations or amortization.

Q. What were the results of the comparison of the book reserve with the calculated theoretical reserve?

A. My analysis of the book reserve and the calculated theoretical reserve, based on my recommended depreciation components, indicates reserve imbalances in several accounts. These imbalances have generally been brought about by such things as changes in life and salvage projections, account activity not matching that provided in the depreciation rate design, and accounting changes.

Q. What are your recommendations for the reserve imbalances you have identified?

A, I recommend correcting the reserve imbalances existing in the transmission function through reserve allocations and correcting the significant surplus associated with motor vehicles in general plant through amortization. These recommendations are shown in the workbook on Exhibit PSL-1, Sch. 5.

Reserve allocations between accounts are typically made within the same function (transmission, distribution, or general plant) to avoid any cross-subsidization issues. In the transmission function, I recommend reserve allocations of the surpluses in Account 352, Structures and Improvements; Account 354, Towers and Fixtures; and Account 355.1 to help correct the reserve deficiency existing in Account 355, Poles and Fixtures.

For the general plant function, there is a significant reserve surplus existing in three of the motor vehicle accounts, due in part to these vehicles experiencing longer lives and realizing more salvage than provided in the depreciation rates. I recommend that the net surplus existing in these accounts be amortized over four years, the time period between depreciation studies.

I did not address the reserve imbalances in distribution plant because many of these accounts are associated with FPUC's proposed Depreciation Regulatory Asset.

B. NET SALVAGE

Q. What is net salvage as determined for the FPUC's plant assets?

A. Net salvage is the difference between realized salvage (gross salvage) and the cost to remove and dispose of the given asset. If the cost of removal is greater than the gross salvage realized, net salvage is negative. Conversely, if gross salvage is greater than the cost to remove the asset, net salvage is positive.

For most of the transmission and distribution accounts, net salvage is negative in that it costs more to remove the retired plant than the Company receives from selling the retired items. Salvage and cost of removal percentages are calculated by dividing the gross salvage or cost of removal by the original installed cost of the assets retired.

Q. How did you determine the net salvage percentages for each asset group in Transmission, Distribution, and General plant?

A. I first looked at the net salvage booked in each year since the last depreciation study without the effects of Hurricane Michael since those associated costs are being requested for recovery through a regulatory asset. The average net salvage for the four years since the last depreciation study is calculated with the intent to remove timing differences between retirement and salvage and cost of removal. To the extent that retirements have been insignificant, reliance on Florida industry averages and judgment were necessary.

Q. Please describe the changes in the net salvage percentages for the various accounts.

A. Recommended net salvage values decreased for three accounts, becoming more negative, while the remaining accounts are unchanged. Also, for accounts with miniscule retirements, historical activity is of little value. In such cases, as with changes in life estimates, I used the concept of moderation and gradualism in the net salvage recommendations and relied on net salvage values currently prescribed for other electric companies in Florida.

- Transmission Account 355, Poles & Fixtures, decreased from negative 40 percent to negative 50 percent.
- Distribution Account 364, Poles, Towers, and Fixtures decreased from negative 45 percent to negative 50 percent.
- Distribution Account 370, Services, decreased from negative 35 percent to negative 40 percent.

- Distribution Account 371, Installation on Customers' Premises, decreased from 10 percent to 5 percent.

Explanations for these changes are addressed in Exhibit PSL-1, pp 2-14.

C. <u>REMAINING LIFE ANALYSIS</u>

Q. How were the recommended average remaining lives determined for each account?

A. Remaining life expectancies for each account were determined using the same approach used by the FPSC for FPUC over the past 20+ years. The recommended average service life (projection life) and January 1, 2020 calculated average age for each account were used with selected Iowa curve life table to determine the average remaining life. The Life Tables I used in the remaining life expectancy determinations were obtained from GTE-INC.[5] These are standard Iowa Curve life tables that can also be replicated from other sources.[6]

For example, an account with a life of 30 years following an S3 retirement dispersion (survivor or mortality curve) would, at age 9.5 years, have an average remaining life of 20.52 years, rounded to 21 years. The life table used is attached as Exhibit PSL-<u>3</u>. For accounts where the average age

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[5] The life tables obtained from GTE-INC are comprised of two volumes, each consisting of 646 pages, too voluminous to copy and attach to this testimony.

[6] Frank K. Wolf and W. Chester Fitch, *Depreciation Systems*, Iowa State University Press, 1992, p. 40 and Appendix 1, pp. 305-338; Robley Winfrey, *Bulletin 125: Statistical Analyses of Industrial Property Retirements*, 1935 as revised 1967, Iowa State University Engineering Publications and Communications Services, pp. 102-106; Robley Winfrey, *Bulletin 155: Depreciation of Group Properties*, 1942, Iowa State University Engineering Publications and Communications Services, pp. 124-127.

is not found in the life table, the remaining life is determined by extrapolation. For example, using the same service life and curve shape as above, at age 9.7 years, the average remaining life is 20.3 years, rounded to 20 years.

Projection Life 30	
Age	Remaining Life
9.5	20.52
9.7	*X*
10.5	19.54

(9.7-9.5)/ (10.5-9.5) = (X-20.52)/(19.54-20.52)

.2/1 = (X-20.52)/-0.982

X-20.52 = -0.1964

X = 20.52 - 0.1964

X = 20.324 rounded to 20 years

Q. How did you determine the average service lives?

A. First, I compiled data from FPUC's Annual Status Reports since the last depreciation study, as well as its General Ledger, Fixed Asset System, and 5-Year Plan. I then reviewed and compared this data for accuracy and followed-up on all discrepancies with Company personnel having knowledge of the property being studied and/or Company practices.

I reviewed each account's average retirement rate over the period since the last depreciation study and curve shape underlying the currently prescribed average remaining life. This data, along with the January 1, 2020 calculated average age of the account's surviving investments, indicated the need for little to no modification to the expected curve shape underlying the currently approved average remaining life. Retirement activity averaging less than one percent since the Company's 2015 Depreciation Study provides insufficient data to perform any meaningful statistical analyses for life characteristics, therefore it was necessary to rely on life characteristics for similar plant of other Florida electric companies to make a complete analysis. The use of Florida industry averages has been a common practice of the FPSC for many years. The current average service life underlying the approved average remaining life for each account was compared to the range of average lives used by Florida companies. The assumption is that the same type of plant, located in the same environment is likely to follow similar life patterns unless otherwise warranted by specific company planning. Average retirement rates since the last depreciation study were calculated for each account and compared to those implied retirements at the January 1, 2020 average age of the underlying current curve shapes to determine if any modifications are warranted. In accounts where an increase in average service life is recommended, the concept of gradualism and moderation were incorporated.

Q. Please describe some of the changes in the average service lives for the various Transmission, Distribution, and General Plant accounts.

A. For the Transmission, Distribution, and General plant accounts, there are 13 accounts with increasing average service lives and 13 accounts where there is no change. Of the 13 accounts with increased average service lives, six are transmission, four are distribution, and three are general plant.

Increased average service lives are generally recommended in accounts where there have been scant retirements and the recommendations generally represent a move closer in the range of other Florida companies. Nine accounts have increased average service lives of five years; one increased three years; one increased four years; and two increased two years.

V. CHANGE IN DEPRECIATION EXPENSE AS A RESULT OF THE PROPOSED DEPRECIATION RATES

Q. What is the purpose of this section of your direct testimony?

A. This section of my direct testimony discusses the change in depreciation expenses resulting from the proposed depreciation rates and components. I specifically detail the major changes in depreciation expense.

Q. Please summarize the depreciation Study results with respect to changes in depreciation expense?

A. The depreciation rates based on the recommended life, salvage, and reserve levels, reflect a decrease in annual depreciation expenses of about $380,000, including amortization of the motor vehicle perceived reserve surplus. These expenses are based on January 1, 2020 estimated investments.

As shown in the workbook on Exhibit PSL-1, Sch. 3, the major changes in expenses are found in the distribution and general plant accounts, and in the amortization of the motor vehicle accounts reserve surplus. About 74% of the total decrease in expenses is distribution plant, specifically four accounts: Account 364, Poles, Towers, and Fixtures; Account 365, Overhead Conductors & Devices; Account 369, Services; and Account 371, Installation on Customers' Premises. Account 364 has more negative net salvage; Account 365 has an increase in life; Account 369 has a slight increase in life and more negative net salvage; Account 371 has an increase in life and a decrease in net salvage. Changes in parameters affect the reserve position, which is evident in these accounts.

The general plant account reduction in expenses is due to the increases in life for the motor vehicle accounts and also for the amortization of the associated reserve surplus.

Q. Does this conclude your direct testimony?

A. Yes, it does.

(Whereupon, Witness Lee's prefiled rebuttal testimony in the storm docket was inserted into the record as though read.)

Before the Florida Public Service Commission

Docket No. 20190156-EI: Petition for Limited Proceeding to Recover Incremental Storm Restoration Costs, Capital Costs, Revenue Reduction for Permanently Lost Customers, and Regulatory Assets related to Hurricane Michael for Florida Public Utilities Company

Docket No. 20190174-EI: Petition for approval of 2019 depreciation study by Florida Public Utilities Company

Prepared Rebuttal Testimony of Patricia Lee

Filed: June 26, 2020

I. POSITION, QUALIFICATIONS, AND PURPOSE

Q. Please state your name and business address.

A. My name is Patricia Lee. My address is 116 SE Villas Court, Unit C, Tallahassee, Florida 32303.

Q. Have you previously filed testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to certain assertions of the Office of Public Counsel's ("OPC") Witness David Garrett. Specifically, I will discuss:

- The average service life for various plant accounts proposed by Mr. Garrett that differ from those in the Revised Depreciation Study I sponsored as Exhibit PSL-1 filed on April 23, 2020 in my direct testimony.[1]
- The average service lives of the Florida peer group.

Q. Are you sponsoring any rebuttal exhibits?

A. Yes, I am sponsoring two rebuttal exhibits. Exhibit PSL-4 was prepared under my supervision, and to the best of my knowledge the information contained therein is true and correct. Schedule 1 of Exhibit PSL-4 is a comparison between Florida Public Utilities Company ("FPUC's") current average service life, age as of January 1, 2020, mortality dispersion (Iowa curve), net salvage, and remaining life factors for each account, those OPC recommends based on Mr. Garrett's testimony and exhibits, and those FPUC has recommended in its depreciation study. Schedule 2 of Exhibit PSL-4 is a comparison between FPUC's currently prescribed remaining life depreciation rates, the resulting depreciation rates from Mr. Garrett's recommendations in his testimony, and FPUC's recommended remaining life depreciation rates to be effective January 1, 2020. Schedule 3 of Exhibit PSL-4 is a comparison of the annual depreciation expenses between currently approved depreciation rates, OPC, and FPUC recommendations. The Schedules of PSL-4 include a minor correction to Exhibit PSL-1 submitted April 23, 2020 attached to my direct testimony that was described in the Company's response to Staff's Fourth Set of Interrogatories, No. 31. Specifically, the asterisk referencing and

[1] Amended and refiled on May 8, 2020.

related footnotes have been revised to mirror those in the October 25, 2019 submission. I am also providing Exhibit PSL-5, which is OPC Witness Garrett's response to Interrogatory 15 from FPUC.

II. SPECIFIC AREAS OF DISPUTE

A. <u>Inconsistencies in Witness Garrett's Recommendations</u>

Q. Do you agree with any of Witness Garrett's stated critiques FPUC's depreciation study?

A. No, I do not. I have highlighted all areas of disagreement between Mr. Garrett and FPUC on Exhibit PSL-4, as further discussed herein.

Q. Has Witness Garrett presented his position and analysis on all areas with which he apparently disagrees?

A. No, he has not. Here, I note that Witness Garrett states at the conclusion of his testimony that his failure to raise any particular issue should not be construed as implied agreement with FPUC's position on an issue.[2] The reason I raise this is that Mr. Garrett's testimony is silent on my recommended correction of the reserve imbalance associated with the motor vehicle subaccounts and my recommended average service life for Account 355.1, Poles & Fixtures - Concrete.

At first blush, it would appear that there is agreement with my recommended reserve correction for the motor vehicle subaccounts given that Witness Garrett's Exhibit DJG-5 indicates that both OPC's and

[2] Direct Testimony of David J. Garrett, page 47.

FPUC's proposed depreciation rates for these general plant accounts are in agreement, with the exception of some minor rounding differences. However, also in Exhibit DJG-5, at page 2 of 2, Witness Garrett indicates disagreement with FPUC's proposed amortization of the reserve surplus associated with Accounts 392.1, 392.2, and 392.3, which are the various vehicle sub-accounts. In order to accurately show Mr. Garrett's position, the reserve for each of those subaccounts must reflect the book reserve rather than FPUC's corrected reserve as I have shown on my Exhibit PSL-4. This being the case, Mr. Garrett's proposed depreciation rates for the motor vehicle subaccounts as shown in Exhibit DJG-5 are incorrect.

Exhibit PSL-4 shows the corrected motor vehicle subaccount depreciation rates for Mr. Garrett's Exhibit DJG-6 and results in a decrease in annual depreciation expenses of $1,152,237 as compared to Exhibit DJG-5 of a $814,243 decrease. Of more import is that without the reserve correction, an abnormal depreciation rate for Account 392.1 of negative 10.6% results. This is because the reserve at January 1, 2020 is over 100%. Applying a negative depreciation rate to vehicles currently in service does not make sense and even more troublesome is that this depreciation rate will be applied to any new cars placed in service so new additions will carry the burden of an over accrued reserve.

Here, I note that the Florida Public Service Commission ("FPSC") was among the first state or federal regulatory bodies to recognize and separately handle reserve imbalances with amortization.[3] In the case of FPUC's General Plant accounts, there are not enough account deficits to offset the surpluses in the motor vehicle accounts. The surplus is an indication that the depreciation expenses of the past were misstated that should be corrected now to reduce the spread of misstatement into the future.[4]

With regard to FPUC's proposed average service life for Account 355 .1, Poles & Fixtures – Concrete, Witness Garrett also does not identify or address any disagreement with FPUC. However, his Exhibit DJG-5, at page 1 of 2, reflects a proposed remaining life rate of 2.25% as opposed to the FPUC's proposed remaining life rate of 2.90%. Witness Garrett's Exhibit DJG-6 further indicates he is proposing an average service life of 56 years as compared to FPUC's recommended average service life of 45 years for this account. Thus, it would appear that Witness Garrett disagrees with FPUC's positions as it relates to Account 355.1. Given that he did not explain his reasoning, I am unable to respond as it relates to this apparent disagreement.

Q. Did FPUC pursue discovery regarding areas and accounts with which OPC disagreed?

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[3] Order Approving Depreciation Rates," Order No. 12290, issued July 22, 1983, in Docket No. 820449-TP, <u>In re: Petition of Southern Bell Telephone and Telegraph Company for a represcription of depreciation rates</u>.
[4] Although not a matter for the depreciation study, I note that it appears the rate base is also misstated and should be corrected in an appropriate rate proceeding.

A. Yes. FPUC issued discovery requests to OPC in April requesting that OPC identify each account for which it disagreed with FPUC, any issues it had with the reserve for any account shown on Schedule 1, and any additional issues and disagreements with FPUC's Study, other than those addressed in other interrogatory responses. In its May 13, 2020 responses, OPC stated that ". . . the requested information will be provided in the testimony and exhibits of OPC witness David Garrett, to be filed on May 15, 2020." Witness Garrett's testimony, filed just two days later, did not, however, address all of the portions of FPUC's depreciation study with which OPC apparently disagrees.

When what appears to be OPC's position is correctly applied, as reflected on PSL-4, Schedule 3, this results in a decrease in annual depreciation expenses by about $1,152,237, an additional decrease of $337,994 from that shown in Mr. Garrett's testimony on his Exhibit DJG-2. FPUC's proposed rates and amortization result in a decrease in annual depreciation expenses by about $379,707. The difference alone in the parties' positions is $772,530, over twice what FPUC is recommending.

B. Service Lives and Peer Groups

Q. Which positions regarding service lives and peer groups will you address in this section of your rebuttal testimony?

A. In this section of my rebuttal testimony, I will address:

- Witness Garrett's assertion that reliance on service lives of other Florida electric companies has created an echo-chamber effect.

- The average service lives proposed by Witness Garrett.

Q. What accounts are being challenged by Witness Garrett?

A. In his testimony, Witness Garrett disputes FPUC's recommended average service life for eight accounts, two in transmission and six in distribution.[5] However, as mentioned previously, his Exhibit DJG-5 indicates he challenges an additional transmission account, Account 355.1, Poles & Fixtures – Concrete. Table 1, shown below, is a summary of the plant accounts in disagreement: Existing, FPUC Proposed, and OPC Proposed average service life parameters.

Table 1
Summary of Proposed Life Parameters by Account

Plant Account		Current Approved ASL (yrs.)	FPUC Proposed ASL (yrs.)	OPC Proposed ASL (yrs.)
Transmission				
353	Station Equipment	40	45	53
355	Poles & Fixtures	40	40	50
355.1	Poles & Fixtures - Concrete	45	45	56
Distribution				
362	Station Equipment	45	50	55
364	Poles, Towers, & Fixtures	38	38	44
366	Undgd. Conduit	60	60	64
367	Undg. Conductors	35	35	47
368	Line Transformers	30	30	36
369	Services	37	40	48

ASL=Average Service Life

[5] Direct Testimony of David J. Garrett, pages 23, 26, 30, 33, 37, 40, 43, and 46.

While Witness Garrett's testimony addresses only 8 out of FPUC's 26 accounts, the two transmission accounts for which he disagrees with FPUC's average service life recommendations comprise 48% of the transmission plant investment and the 6 distribution accounts comprise 74% of the distribution account investment.

Q. Were there differences in Witness Garrett's approach to this analysis and your approach?

A. Yes. Witness Garrett contends that FPUC has provided insufficient evidence supporting its life proposals by relying on the range of Commission-prescribed lives of other Florida companies. Yet, he also relies on peer groups for his life proposals.[6] The difference is that Witness Garrett considered two other peer groups in addition to the Florida Peer Group upon which FPUC relied: a Coastal Peer Group and a Midwest Peer Group. Also, FPUC considered the ranges of lives within its preferred peer group and where changes to existing service lives were proposed, service lives were moved closer to the average. On the other hand, Mr. Garrett's proposals are all based on his weighted average of all three peer groups.

Q. Do you agree with Mr. Garrett's assessment of the Florida Peer Group?

A. No, I do not. Mr. Garrett criticizes the Florida peer group on an assumption that the average service lives of these utilities were not based on company-specific actuarial data but rather based on averages of

[6] Direct Testimony David J. Garrett, page 8.

averages, which he characterizes as an "echo-chamber". I strongly disagree.

First, I believe his characterization as an "echo chamber" is inaccurate. One popular definition of echo-chamber is "an environment where a person only encounters information or opinions that reflect and reinforce their own."[7] Such is not the case as it pertains to the depreciation studies and service lives of the Florida IOU peer group. To the contrary, as discussed in more detail later in this testimony, I reviewed the depreciation studies of the Florida peer group utilities and found these were each based on company-specific data and the lives were either the result of aged data in which actuarial analysis was performed or unaged data in which Simulated Plant Record ("SPR") was performed. Whether approved following a hearing or as a result of a settlement, the existing lives for each utility were fully vetted and the resulting average remaining lives were approved by the Commission as being appropriate. Moreover, in response to FPUC's Second Set of Interrogatories, No. 15, which I have provided as Exhibit PSL-5, Mr. Garrett conceded that he does not know whether or to what extent the service lives of the Florida utilities have not been based on company-specific actuarial or semi-actuarial data. Simply put, Mr. Garrett concludes that the Florida peer group lives must be the result of an echo-chamber because they are shorter than the lives of his peer group utilities.

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[7] Wikipedia.com. <u>See also</u>, Dictionary.cambridge.org "a situation in which people only hear opinions of one type, or opinions that are similar to their own."

The companies in the Florida peer group represent all IOUs in Florida: Duke Energy Florida (DEF), Florida Power and Light Company (FP&L), Gulf Power Company (Gulf), and Tampa Electric Company (TECO). Contrary to Witness Garrett's allegations, my review of the current, Commission-approved depreciation rates for these companies indicates the Companies submitted substantial amounts of historical information, which would be consistent with what Witness Garrett indicates he reviewed in the context of other studies in which he has participated.

In some instances, the outcome of the proceedings for the Florida IOUs was a Commission-approved settlement between the IOU and OPC, which did not necessarily result in a full analysis of the depreciation data in the final order, but it is reasonable to assume that any information made available in the underlying proceeding was also available for any settlement discussions undertaken and the review of any settlement agreement filed.[8] With that said, Witness Garrett does not explain why he believes the other IOUs' current rates are based on an "echo chamber" when it is clear from a review of the respective proceedings that voluminous, actuarial data was provided. He simply indicates that it is his understanding that the service lives of other Florida IOUs "were also based on a similar peer group comparison."[9] My review indicates that Witness Garrett is just wrong on this point. Whether ultimately resolved by

[8] Direct Testimony of David J Garrett, pages 5, 11, 24-25, 26. See also Docket No. 160170-EI; Docket No. 160062-EI, Exhibit A-1; Docket No. 090079-EI, Exhibit EMR-2, Vol. 1A of 2, Vol. 1B of 2, and Vol. 2 of 2; and Docket No. 20110131-EI, TECO response to Staff's First Data Request, Nos. 37 and 63, bates-stamped pages 45-137 and 199-217.

[9] Direct Testimony of David Garrett, p. 6, lines 1-3.

hearing or by settlement, the underlying average service lives of the currently approved depreciation rates for the Florida electric companies are not based upon, nor do they constitute, an "echo-chamber. In sum, Witness Garrett's arguments against FPUC's use of the Florida peer group should be rejected.

Q. Witness Garrett also criticizes FPUC for not providing company-specific data.[10] Do you agree?

A. No, for two reasons. First, FPUC's depreciation study represents an update of its last filed study in 2015. The study provides average age determinations of January 1, 2020 surviving investments for each depreciable plant account based on company-specific data. The Company also includes the determination of the average age of retirements for each account occurring each year since the last study. To the extent additional historical data is needed for a party's analysis, FPUC has routinely filed annual reports and depreciation related annual status reports that contain annual plant and reserve activity. These reports are in the public domain and easily accessible.

Second, the FPSC has long recognized that FPUC, being the smallest of all Florida IOUs, should not be subjected to the expense of conducting full statistical analyses for its life determinations. In fact, the depreciation rule does not require statistical analysis but if it is utilized, that analysis should

[10] Direct Testimony of David J. Garrett, pages 5, 6, and 7.

be provided.[11] Historically, FPUC has filed what amounts to a "staff-assisted" depreciation study, whereby the Company provided only aged retirement data and the average age distributions of the surviving investments for each account. Working with the FPSC Staff, life and salvage factors were developed from FPUC's submitted plant data. Most of FPUC's accounts have experienced scant retirements (less than 1%) making results of a purely statistical analyses meaningless. As such, reliance on the range of lives prescribed for other Florida investor-owned utilities (IOUs) is not only helpful, it is necessary. Consequently, the range of lives for the other IOUs in the State has often been used as a "zone for reasonableness" for the development of FPUC's proposals, as well the FPSC's analysis of those proposals. For instance, Order No. PSC-2015-0575-PAA-EI, issued December 21, 2015, addressing the Company's last depreciation study. Therein, the FPSC used the range of lives for other Florida IOUs to analyze the proposed lives for several of FPUC's depreciation accounts.

Q. On page 6 of Mr. Garrett's testimony, he alleges that the lives of the Florida IOUs other than FPUC have not been determined based on company-specific data, but you have indicated that your review suggests otherwise. What did you find in your review of the depreciation filings for the other Florida IOUs?

A. As I noted above, I reviewed the most recent FPSC depreciation case filings for each of the Florida companies and found that the transmission,

[11] Rule 25-6.0436, Florida Administrative Code.

distribution, and general plant account lives proposed for all the companies were determined based on company-specific data either using actuarial or semi-actuarial analysis.

Some companies have aged data for which actuarial analysis can be performed for life determination. For other companies that do not maintain aged data, the SPR method is often used to provide a life indication.[12] While Mr. Garrett recognizes simulated analysis as an acceptable method to determine life expectancies, he focuses only on the use of actuarial data that he considers typically used for service life analysis.[13] Indeed, he implies that one of his objections to relying on the range of lives of the Florida peer group for FPUC is because the lives of the Florida companies may not have been based on actuarial data.[14] He fails to consider, however, that an SPR analyses is also an acceptable method to determine life estimates and often used in studying mass property[15] like transmission and distribution assets.

Q. You mentioned that Witness Garrett also utilized a peer group analysis. How did his differ from FPUC's?

A. Witness Garrett utilized two additional peer groups, a Midwest Peer Group and a Coastal Peer Group, with the Florida Peer Group that FPUC used.

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[12] Frank K. Wolf and W. Chester Fitch, Depreciation Systems, Iowa State University Press/Ames, 1994, page 217; Public Utility Depreciation Practices, Compiled and edited by Staff Subcommittee of Depreciation of The Finance and Technology Committee Depreciation, of the National Association of Regulatory Utility Commissioners, pages 92, 314, 325.
[13] Direct Testimony of David J. Garrett, pages 5, 7, 9, 14-16.
[14] Ibid., page 7.
[15] Mass property refers to assets such as poles, wires, and transformers that are continually added and replaced.

In utilizing these three separate peer groups, Witness Garrett indicated he applied an analytical weighting to each of his peer group averages: Midwest - 20%, Coastal – 35%, and Florida – 45%.

Q. Do you agree with this weighting of these peer groups?

A. I do not have sufficient information to either agree or disagree with Witness Garrett's weighting as he does not explain how the specific percentages were developed. As I read his testimony, he used his personal judgment of the relative, high-level, similarities of the various peer group utilities as compared to FPUC and assigned a weighting that he thought appropriate. In other words, he "eyeballed" it. This is one of my chief concerns, because his use and weighting of the other peer groups is not based on a sound regulatory analysis. It appears as if the main reason he included an analysis of these additional peer groups is that the service lives for the utilities in the additional peer groups are longer than the lives proposed by FPUC

Moreover, his basis for using additional peer groups at all is flawed because his underlying rationale for analyzing additional groups is based on an erroneous assumption that the average service lives of the Florida Peer Group utilities were not based on company-specific actuarial data but rather based on averages of averages; i.e. his echo chamber.

The Florida Peer Group is the best comparative for FPUC because this group includes all of the electric IOUs in Florida. In direct contrast, Witness Garrett's peer groups include just a few select companies from the same general region with no real explanation as to how those companies were selected for inclusion in each peer group. Witness Garrett indicates only that the Coastal Group companies were selected based on similar environmental conditions and proximity, while the Midwest group was selected because the service lives for these companies are, according to Witness Garrett, "based on an extensive analysis of actuarial data."[16]

To his credit, in spite of his objections to the Florida Peer Group, Witness Garrett does weight Florida-only service lives most heavily, stating that it is his understanding that the FPSC "has consistently relied on an average of the Florida peer group" which he assumes includes some approved service lives that are based on an actuarial analyses of "adequate historical data."[17] Nonetheless, how he arrived at the weighting and the composition of his peer groups remains unclear.

Q. Do you have any more comments concerning Witness Garrett's weighting?

A. Yes. As I noted, Witness Garrett provides no clear basis for his selection of the particular utilities included in the "Coastal" and "Midwest" peer groups other than the coastal peer group utilities have "similar" environmental conditions, and the Midwest peer group utilities have

[16] Direct Testimony of David J. Garrett, page 7, lines 16-19, and page 9, lines 7-8.
[17] Direct Testimony David J. Garrett page 9, lines 1-6.

extensive actuarial data and other environmental challenges.[18] It does not appear that Mr. Garrett has undertaken any substantive analysis of conditions that might support: (a) why he chose the particular utilities he did for each of his peer groups; and (b) why it is appropriate to utilize these peer groups to establish service lives for a Florida utility. Witness Garrett offers no analysis regarding comparative weather, environmental, or geological conditions.

There is, however, information available that suggests that Witness Garrett's Coastal Peer Group, for instance, is not as comparable to Florida utilities as it might at first seem. To the contrary, a relatively recent article on Accuweather.com[19] indicated that, according to data from the National Hurricane Center ("NHC"), about 36 hurricanes have hit the U.S. from 1995 to 2017, 13 of which have been considered major hurricanes. Referencing information from the National Hurricane Center, the author also noted that, of those 36 hurricanes, 11 hit Florida directly, making Florida the state with the most direct hits from hurricanes in the United States. According to the referenced article, North Carolina follows Florida as the state with the second most direct hits, but accounts for a much lower percentage of overall damage costs. As noted in the article, given that Florida is a peninsula, it is generally in the path of most hurricanes, while the Outer Banks region of North Carolina is usually the only portion

[18] Direct Testimony of David J Garrett, pages 7 and 9.
[19] Of note, the article predates Hurricane Michael.

of the Carolinas that receives notable hurricane impacts as hurricanes "sideswipe" the state.[20]

Comparative regulatory environments can also factor into the determination of service lives. For example, storm hardening rules and pole inspections may vary from state to state which could then impact maintenance and retirements. Expensing/capitalization practices could also differ from state to state making it more appropriate to compare companies with similar procedures. These unique conditions make companies within Florida more appropriate to use for comparative purposes than companies in other states.

Q. You mentioned earlier that you have reviewed the depreciation studies of the Florida utilities and found that the average service lives were based on company-specific statistical analysis. What level of detail did you find in Gulf Power's last depreciation filing?

A. Gulf Power Company ("Gulf") filed its last depreciation study on July 14, 2016 in Docket No. 20160170. Gulf also filed a rate case in Docket No. 20160186 on August 12, 2016. On November 9, 2016, the two dockets were consolidated.[21] By Order PSC-17-0178-S-EI, issued May 16, 2017,

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[20] "In-depth analysis of US hurricanes: Which states are hit most frequently by devastating storms?" (Navarro)(Accuweather.com, 2018). https://www.accuweather.com/en/weather-news/in-depth-analysis-of-us-hurricanes-which-states-are-hit-most-frequently-by-devastating-storms/347725

[21] Order No. PSC-15-0511-PCO-EI, issued on November 9, 2016, in Docket No. 160186-EI, In re: Petition for rate increase by Gulf Power Company; and Docket No. 160170-EI, In re: Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plat Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company.

revised depreciation rates were approved for Gulf effective January 1, 2018.

OPC was an intervenor in the Gulf 2016 consolidated case and submitted testimony regarding the depreciation study. Gulf witness Dane Watson, who prepared the study, explained that the transmission, distribution, and general plant accounts were studied using either actuarial analysis or semi-actuarial analysis to determine the life characteristics for each account. [22] Gulf's depreciation study contained 217 pages of narrative and statistical analysis results. I note that it appears OPC did not challenge the use of semi-actuarial analysis as an appropriate method to determine life in that proceeding.

Q. What about Florida Power and Light Company ("FPL")?

A. FPL's last depreciation study was submitted on March 15, 2016 in Docket No. 160062-EI. On May 4, 2016, this docket was consolidated with three other dockets.[23] By Order No. 16-0560-AS-EI (Stipulation and Settlement), issued December 15, 2017, FPL's depreciation rates were revised effective January 1, 2017. Per that Commission-approved

[22] Document No. 04963-16, Docket No. 160170-EI, Petition for approval of 2016 depreciation and dismantlement studies, approval of proposed depreciation rates and annual dismantlement accruals and Plant Smith Units 1 and 2 regulatory asset amortization, by Gulf Power Company, pages 17-20.

[23] Docket No 160021-EI, In re: Petition for rate increase by Florida Power & Light Company; Docket No. 160061-EI, In re: Petition for approval of 2016-2018 storm hardening plant by Florida Power & Light Company; and Docket No. 160088-EI, In re: Petition for limited proceeding to modify and continue incentive mechanism, by Florida Power & Light Company.

Stipulation and Settlement, FPL is not subject to filing its next depreciation study until it files for a general base rate proceeding.[24]

OPC was one of several intervenors in the 2016 depreciation study. FPL witness Allis who prepared the study explained that the transmission, distribution, and general plant accounts are generally studied using either actuarial analysis or semi-actuarial analysis to determine the life characteristics for each account. In that case, FPL maintained aged data and actuarial analysis was performed for life determinations. FPL's depreciation study contained 763 pages of narrative and statistical analysis results for production, transmission, distribution, and general plant accounts.[25]

Q. What about Duke Energy Florida ("DEF")?

A. The current depreciation rates for DEF were prescribed effective January 1, 2010 by Order No. PSC-10-01310-FOF-EI.[26] The transmission, distribution, and general plant accounts were studied by actuarial analysis. The study consisted of over 1,000 pages of narrative and statistical analysis for production, transmission, distribution, and general plant accounts. On August 1, 2013, DEF filed a Petition for Limited Proceeding

[24] Order No. 16-0560-AS-EI (Order and Stipulation), issued December 15, 2017, paragraph 14.
[25] Docket 16062-EI, 2016 Depreciation and Dismantlement Study by Florida Power & Light Company.
[26] Docket No. 090079-EI, In re: Petition for Increase in Rates by Progress Energy Florida, Inc.; Docket No. 090144-EI, In re: Petition for Limited Proceeding to Include Bartow Repowering Project in Base Rates, by Progress Energy Florida, Inc.; and Docket 090145-EI, In re: Petition for Expedited Approval of the Deferral of Pension Expenses, Authorization to Charge Storm Hardening Expenses to the Storm Damage Reserve, and Variance From or Waiver of Rule 25-6.0143(1)(c), (d), and (f), F.A.C., by Progress Energy Florida, Inc.

to Approve Revised and Restated Stipulation and Settlement Agreement (Revised and Restated Agreement) in Docket No. 130208-EI. As part of that agreement, DEF's next depreciation study would be filed on or before March 31, 2019, or with its next rate case, whichever was sooner. The Revised and Restated Agreement was approved by Order No. PSC-13-0598-FOF-EI, issued November 12, 2013. By Order No. PSC-2017-0451-AS-EU, issued November 20, 2017, the Commission approved a 2017 Second Revised and Restated Settlement Agreement that DEF filed on August 29, 2017.[27] Among other things, the 2017 Agreement revised the date of DEF's next depreciation study until no later than March 31, 2022.[28] Thus, while DEF's current rates are based on data from 2009, DEF's rates are based on company-specific actuarial data, which has not been updated due to express terms in Commission-approved settlement agreements.

Q. What did your review of the last depreciation study for Tampa Electric Company (TECO) reveal?

A. TECO's last depreciation study was filed on April 27, 2011. OPC was an intervenor in that case. TECO's 2011 Depreciation Study contained over 1,000 pages of narrative and company-specific statistical analysis, of

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[27] Docket No. 20170183-EI, In re: Application for limited proceeding to approve 2017 second revised and restated settlement agreement, including certain rate adjustments, by Duke Energy Florida, LLC.; Docket No. 20100437-EI, In re: Examination of the outage and replacement fuel/power costs associated with the CR3 steam generator replacement project, by Progress Energy Florida, Inc.; Docket No. 20150171, In re: Petition for issuance of nuclear asset-recovery financing order, by Duke Energy Florida, Inc. d/b/a Duke Energy; Docket 20170001-EI, In re: Fuel and purchased power cost recovery clause with generating performance incentive factor; Docket No. 20170002-EG, In re: Energy conservation cost recovery clause; and Docket No. 20170009-EI, In re: Nuclear cost recovery clause.
[28] Paragraph 32, 2017 Agreement.

which most pertained to production plant. TECO used semi-actuarial analysis in studying transmission, distribution, and general plant accounts.[29] By Order PSC-12-0175-PAA-EI, revised depreciation rates were approved effective January 1, 2012.

Thereafter, by Order No. PSC-13-0443-FOF-EI, in Docket No. 130040-EI, issued September 30, 2013, a Stipulation and Settlement Agreement Among Tampa Electric Company, Office of Public Counsel, Florida Industrial Power Users Group, Florida Retail Federation, Federal Executive Agencies, and WCF Hospital Utility Alliance was approved that resolved all issues in TECO's 2013 base rate case proceeding. As part of that Stipulation and Settlement, TECO was excused from the four-year depreciation filing requirement through December 31, 2017. By Order PSC-2017-0456-S-EI, a 2017 Amended and Restated Stipulation and Settlement Agreement was approved extending the 2013 Agreement through 2021. The 2017 Agreement relieved TECO from filing the four-year depreciation study requirement until "no more than one year nor less than 90 days before the filing of its next general rate proceeding."[30]

Thus, while TECO's current rates are based on data from 2011, TECO's rates are based on company-specific actuarial data, which has not been updated due to express terms in Commission-approved settlement agreements.

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[29] Docket No. 11013-EI, TECO response to Staff's First Data Request, Nos. 37 and 63, bates-stamped pages 45-137 and 199-217.
[30] 2017 Agreement, paragraph 8.

Q. What conclusion do you draw from your review of the depreciation rates and studies of the identified Florida IOUs?

A. Based on my review, I conclude there is no basis for Witness Garrett's assessment that the Florida IOUs' service lives and depreciation rates are the result of an "echo chamber" analysis.

C. Establishing Average Service Lives

Q. On page 11 of Witness Garrett's testimony, he criticizes FPUC for not providing the data required for statistical analyses in life determinations. Do you agree with his criticism?

A. No. As discussed in my direct testimony, many of the FPUC accounts addressed in the study have experienced few retirements making statistical analysis of no real value. Also, in normal circumstances, repeated statistical analysis year after year is not productive for life indications. A review of retirement rates, as I did, will show if there is some change in the pattern that warrants investigation as to cause, and possibly new analysis. Statistical analysis, at best, only tells how the past lived. Only if the past is a mirror of the future is statistical analysis of value. Once that analysis is made, repetition of it serves no purpose. Finally, the FPSC has long recognized that FPUC, being the smallest of all Florida IOUs, should not be subjected to the expense of conducting full statistical analyses for its life determinations.

Q. As mentioned previously, Witness Garrett has relied on three peer groups of utilities for concluding that FPUC's proposed average service lives are unreasonable. Do you agree?

A. No. Witness Garrett asserts that the average service lives of his selected peer group of utilities outside of Florida are notably longer than FPUC's proposals. He contends that the difference between FPUC's proposal and the approved lives of his utility peer groups is too large to ignore. However, as I noted previously, Florida plant is subject to external conditions, as well as regulations, not encountered by utilities in other States. These differences warrant shorter lives for Florida plant as evidenced by the prescribed lives of the Florida companies that are based on company-specific data and statistical analysis.

Under Witness Garrett's analysis, none of the lives for the Florida utilities would be considered appropriate as they are lower than those in the Midwest and Coastal peer groups. Mr. Garrett has, however, apparently failed to consider the unique environmental, geographical, and regulatory conditions that come to bear on Florida utilities and their facilities. Given that the entire state of Florida, as noted herein, is subject to tropical storm and hurricane impacts, the facilities of Florida utilities are subject to not only the direct damaging effects of the storms themselves, but also the accelerated aging effects that water, especially saltwater, has on most metal-based equipment.[31] Saltwater corrodes utility facilities,

[31] *See,* Coastal Construction Manual, Volume II, Chapter 12, Section 12.2.2, ("Mechanical equipment can also be damaged or destroyed when inundated by floodwaters, especially saltwater. Although a short period of inundation may not destroy some types of mechanical

compounding the damage one might expect from hurricane-force winds which can bring down trees, transmission towers, distribution poles, and cooling towers. Even underground utility lines can be taken out by uprooted trees.[32] Witness Garrett's use of additional peer groups comprised of utilities not subject to the same conditions as Florida utilities inappropriately discounts the true impact on plant lives of conditions unique to Florida.

Q. On page 11 of Witness Garrett's testimony, he asserts that it is better to establish average service lives that are too long than too short. Do you agree?

A. No. In a perfect world, the average service life of a given group of assets would be "accurate;" i.e., the actual service life of that asset. However, given that service lives are based on estimates using the best information available at the time, there is little chance to be completely accurate until the end of life of an asset when there are firm retirement plans.

The historic tendency for regulators and companies has been to generally overstate life potential. While underestimating the service life places more burden on current ratepayers through higher depreciation expenses as Mr. Garrett states, in the long run, the reduction in rate base is beneficial to the average of all ratepayers. An overstated life decreases the burden on

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equipment, any inundation of electric equipment causes, at a minimum, significant damage to wiring and other elements."), Fourth Edition (FEMA P-55).

[32] "Hardening and Resiliency: U.S. Energy Industry Response to Recent Hurricane Seasons," Report of the Office of Electricity Delivery and Energy Reliability of the U.S. Department of Energy (2010). https://www.oe.netl.doe.gov/docs/HR-Report-final-081710.pdf

current ratepayers as it increases the burden for future ratepayers. Since the assets will have retired before recovery is achieved, the resultant negative reserve will become rate base, allowing the company to earn on non-existent plant. Witness Garrett contends that this action does not financially harm the Company as a regulatory asset can be used to recover the unrecovered net investments. For these reasons, he concludes that it is better to overstate estimated lives.[33] From the standpoint of the shareholders, however, their investment is no longer supported by physical assets.

Q. On page 11 of Witness Garrett's testimony, he asserts that shorter average lives encourage economic inefficiency by incentivizing the utility to "unnecessarily replace the asset in order to increase its rate base." Do you agree?

A. No. Witness Garrett's assertion does not hold merit. In every rate case proceeding, a company's rate base is scrutinized for prudency. If it is determined that certain costs were imprudent, the recovery of those investments would be disallowed for rate making purposes.

In contrast, unreasonably long service lives burden future customers by making them pay more in the long-run. It is no different than comparing the merits of a long-term loan and a short-term loan. With a long-term loan, you may pay less on a monthly basis, but you will ultimately pay more because you will also be paying interest over a longer period of time.

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[33] Direct Testimony of David J. Garrett, page 11.

The overall impact to customers could be dramatic over the entire life cycle of an asset.

Q. What is the first account where Witness Garrett proposes a different life than FPUC and what is his stated reason for disagreement?

A. Account 353, Station Equipment. The average service life underlying the currently approved average remaining life is 40 years. My recommendation is a 5-year increase to 45 years. Witness Garrett's recommendation is an increase to 53 years based on the weighted average of the Florida peer group (45%) and Mr. Garrett's additional Midwest (20%) and Coastal (35%) peer groups.

Witness Garrett contends that FPUC's reliance on the range of lives of the Florida peer group is insufficient support for its life proposal, "especially considering the approved service lives of utilities outside the peer group are notably longer."[34] As with the other accounts where the average service lives are in dispute, Witness Garrett asserts that the difference between FPUC's proposal and the average lives of the Midwest and Coastal peer groups is so large that "it is likely not reasonable to simply dismiss the discrepancy as a function of climate differences."[35] Witness Garrett claims that the climate of the Coastal utility peer group is relatively similar to Florida's climate and the climate of the Midwest peer group has its own unique environmental challenges.

[34] Direct Testimony of David J. Garrett, page 20.
[35] Ibid.

Q. Do you agree with Witness Garrett's basis for proposing a 53-year average service life?

A. No. As previously noted, Witness Garrett's decision to utilize additional peer groups is based upon an incorrect assumption that the average service lives underlying the currently prescribed average remaining lives for the Florida utilities are not based on company-specific actuarial data. First, the utilities in the Florida group are all Florida IOUs rather than just a select few. Second, a review of the depreciation studies of each Florida utility as well as docket filings of intervenors from which the currently prescribed depreciation rates were developed clearly indicate actuarial or semi-actuarial data was used in the development of average services lives for each account. Third, Mr. Garrett has not provided any evidence supporting his assertion that the companies in his peer groups are similar in operating and regulatory environment to the Florida utilities.

The range of service lives for Florida utilities for Account 353, Station Equipment, is 42 years to 47 years, averaging 44 years. The range of service lives for Mr. Garrett's Midwest peer group consisting of three companies is 60 years to 73 years and the range for the Coastal peer group also consisting of three companies is 52 years to 64 years. Clearly, FPUC's proposed 45-year average service life is within the range of all peer groups.[36]

[36] Exhibit DJG-4, page 1 of 2.

Q. What is the next account where Witness Garrett proposes a different life than FPUC and what is his stated reason for disagreement?

A. Account 355, Transmission Poles and Fixtures. The average service life underlying the currently approved average remaining life is 40 years. My recommendation is to retain the existing service life. Witness Garrett's recommendation is an increase to 50 years based on the weighted average of the Florida peer group (45%) and Mr. Garrett's additional Midwest (20%) and Coast (35%) peer groups.

As with other accounts, Witness Garrett's disagreement focuses on FPUC's reliance on the range of lives of the Florida peer group is insufficient support for its life proposal, "especially considering the approved service lives of utilities outside the peer group are notably longer."[37] Additionally, he appears to imply that deference should be given to the lives of the Midwest and Coastal peer groups because they were based on "voluminous amounts of historical data."[38] Again, he fails to consider the unique meteorological, geographical, and regulatory circumstances that are at play in Florida.

Q. Do you agree with Witness Garrett's basis for proposing a 50-year average service life for Account 355?

A. No. Witness Garrett's conclusion is based on the incorrect presumption that the average service lives underlying the currently prescribed average

[37] Direct Testimony of David J. Garrett, page 24.
[38] Ibid.

remaining lives for the Florida utilities are not based on company-specific actuarial data. To the contrary, the currently prescribed depreciation rates and underlying average service lives were clearly developed using company-specific actuarial or semi-actuarial data. Moreover, Witness Garrett's mere assertion that the Coastal Peer group is a reasonable comparison due to similar location and that the Midwest Peer Group companies also are subject to comparable environmental stressors, albeit not hurricanes, fails to fully appreciate and account for the unique conditions that come to bear on Florida.[39]

The range of lives in the Florida peer group is 38 years to 55 years, averaging 43 years. The range of lives for the Midwest peer group is 46 years to 65 years; the range for the Coastal peer group is 50 years to 65 years. Clearly, FPUC's proposed 45-year average service life is within the range of the combined peer groups.[40]

Q. What is the next account where Witness Garrett proposes a different life than FPUC and what is his stated reason for disagreement?

A. Account 362, Distribution Station Equipment. The average service life underlying the currently approved average remaining life is 45 years. My recommendation is a slight increase to 50 years. Mr. Garrett's recommendation is an increase to 55 years based on the weighted

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[39] Direct Testimony of David J. Garrett, page 7.
[40] Exhibit DJG-4, page 1 of 2.

average of the Florida peer group (45%) and Mr. Garrett's additional Midwest (20%) and Coast (35%) peer groups.

Q. Do you agree with Witness Garrett's basis for proposing a 55-year average service life for Account 362?

A. No. The average service life underlying FPUC's currently prescribed average remaining life is 45 years. The range of average service lives of the Florida peer group are 38 years to 60 years, averaging 49 years. The range of average service lives of Mr. Garrett's Coastal peer group is 42 years to 65 years, averaging 56 years.[41] The range of average service lives of the Midwest peer group is 55 years to 75 years, averaging 66 years. FPUC's recommendation is clearly within the range of the Florida and Coastal peer groups. The concept of gradualism and moderation calls for a gradual increase in average service life as opposed to a large increase of 15 years.

Q. What is the next account where Witness Garrett proposes a different life than FPUC and what is his stated reason?

A. Account 364, Distribution Poles, Towers, and Fixtures. The average service life underlying the currently approved average remaining life is 38 years. My recommendation is to retain this life as it is in the range of reasonableness. Witness Garrett's recommendation is an increase to 44 years based on the weighted average of the Florida peer group (45%) and Mr. Garrett's additional Midwest (20%) and Coast (35%) peer groups.

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[41] Direct Testimony of David J. Garrett, page 18.

Q. Do you agree with Witness Garrett's basis for proposing a 44-year average service life for Account 364?

A. No. As discussed previously, Florida plant is exposed to conditions and regulations not experienced in other States. He does not appear to have undertaken an analyses of any underlying basis for making an "apples-to-apples" comparison between the companies in his peer groups with Florida companies. Again, Florida companies are subject to harsher operating and environmental conditions of heat, humidity, hurricane incidence, saltwater intrusion than companies in other states. Expensing/capitalization practices may also differ from state to state making it more appropriate to compare companies with similar procedures. These differences warrant shorter lives for Florida plant as evident with the prescribed lives of the Florida companies that have been based on company-specific statistical actuarial and semi-actuarial analysis.

Q. What is the next account where Witness Garrett proposes a different life than FPUC and what is his stated reason for the proposed change?

A. He disagrees with Account 366, Distribution Underground Conduit. The average service life underlying the currently approved average remaining life is 60 years. My recommendation is to retain the existing life as there is no need to change. Witness Garrett's recommendation is an increase to 64 years based on the weighted average of the Florida peer group (45%) and Mr. Garrett's additional Midwest (20%) and Coast (35%) peer groups.

His reasons for dispute are the same as those addressed in other accounts.

Q. Do you agree with Witness Garrett's basis for proposing a 64-year average service life?

A. No, I disagree for the same reasons that I disagree with his analysis on the other accounts addressed thus far.

Q. Are there other accounts with which Witness Garrett's takes issue with FPUC's proposed service lives?

A. Yes. He takes exception to my recommendations for Account 367, Distribution Underground Conductors; Account 368, Distribution Line Transformers, and Account 369, Distribution Services.

Q. Do you agree with Witness Garrett's bases for proposing longer average service lives for these accounts?

A. No, I do not agree. Witness Garrett's analysis of these accounts is the same as the aforementioned accounts. I disagree with his assessment of the appropriate lives for these accounts for the same reasons I have noted herein for each of the other accounts addressed.

III. CONCLUSION

Q. Do you have any concluding remarks?

A. Yes, the FPUC-proposed lives, salvage, reserve components, and resulting depreciation rates provided in my rebuttal testimony as Exhibit PSL-4, Schedule 2 and Schedule 3, should be applied to the Company's plant in service. These rates and reserve corrections provide fair and reasonable recovery to both FPUC and its customers and should be adopted by the Commission.

Q. What recommendations are you making in your rebuttal testimony?

A. I recommend that the FPSC approve FPUC's proposed life, salvage, reserve, and resulting depreciation rates with the proposed reserve allocations and amortization of the reserve surplus associated with the motor vehicle accounts as presented in Exhibit PSL-4 attached to this testimony. These schedules correspond to the revised Exhibit PSL-1, Schedules 1-4, to the Depreciation Study (Study) submitted on May 8, 2020, with corrected footnotes from the October 25, 2019 submission in this proceeding.

(Whereupon, Witness Lee's prefiled rebuttal testimony in the depreciation docket was inserted into the record as though read.)

<u>Before the Florida Public Service Commission</u>

Docket No. 20190156-EI: <u>Petition for Limited Proceeding to Recover Incremental Storm Restoration Costs, Capital Costs, Revenue Reduction for Permanently Lost Customers, and Regulatory Assets related to Hurricane Michael for Florida Public Utilities Company</u>

Prepared Rebuttal Testimony of Patricia Lee

<u>Filed: July 27, 2020</u>

I. <u>POSITION, QUALIFICATIONS, AND PURPOSE</u>

Q. Please state your name and business address.

A. My name is Patricia Lee. My address is 116 SE Villas Court, Unit C, Tallahassee, Florida 32303.

Q. Have you previously filed testimony in this proceeding?

A. I have filed Direct and Rebuttal Testimony in this proceeding as it pertains to Florida Public Utilities Company's ("FPUC") Depreciation Study being addressed in the consolidated Docket No. 20190174-EI. I have not previously filed testimony in Dockets Nos. 20190155-EI and 201900156-EI pertaining to FPUC's requests to establish regulatory assets or its petition for a limited proceeding to recover storm costs, respectively.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to certain assertions of the Office of Public Counsel's ("OPC") Witness Helmuth Schultz III.

Specifically, I will discuss Witness Schultz's assertions regarding the Company's proposed regulatory asset related to the negative component of the accumulated depreciation reserve caused by assets retired prematurely and the associated removal costs in the wake of Hurricane Michael.

Q. Are you sponsoring any rebuttal exhibits?

A. Yes. I am sponsoring Exhibit PSL-6 that shows an adjustment necessary so that only incremental net salvage costs associated with the Hurricane Michael retirements are included in the Regulatory Asset for Accumulated Depreciation.

II. SPECIFIC AREAS OF DISPUTE

Q. Witness Schultz argues that FPUC's request for a regulatory asset on retired plant would result in "double recovery." Is he correct?[1]

A. He is partially correct. We have determined that the accumulated depreciation regulatory asset should also be reduced by the depreciation expenses associated with the net salvage component of the currently approved depreciation rates. This would be the "normal" net salvage in the absence of a storm. We have identified $274,873 in "normal" net salvage that is currently being recovered through base rates. By making this adjustment, the net salvage costs included in the regulatory asset are only incremental.

[1] Direct Testimony of Helmuth Schultz III at pg. 14-16.

As shown on FPUC's response to Staff's Fourth Set of Interrogatories, Attachment 30a, FPUC adjusted accumulated depreciation for each account affected by the Hurricane Michael net unrecovered retired investments and net salvage costs (costs of removal less gross salvage) to reflect the transfer to the requested regulatory asset.

Q. How was the "normal" net salvage adjustment determined?

A. The calculation for the adjustment to the Regulatory Asset for Accumulated Depreciation of $274,873 is shown on my Exhibit PSL-6. This amount was determined by multiplying the negative net salvage component of the current Commission approved depreciation rates by the retiring investment for each affected account. With this adjustment, only the incremental net salvage costs are included in the Regulatory Asset. By making this adjustment, there is no double recovery and only the incremental costs are included in the regulatory asset.

Q. Do you agree with Witness Schultz's removal of the $8,251,471 Regulatory Asset related to Accumulated Depreciation because of the issue of double recovery?

A. Only to the extent of the $274,873, which has been corrected in Exhibit MDN-12, page 6, of Witness Napier's testimony.

Q. Can you explain why FPUC is not recovering its costs if establishment of a regulatory asset for this is not approved?

A. There are two components to the request, so I will address each separately.

The first relates to the cost of removal. In accordance with FERC, these costs were charged to Accumulated Depreciation. This debit to Accumulated Depreciation results in an increase to rate base. A return on this increase to rate base would be earned the next time base rates are set. However, because of the extensive damage, these costs were large and created a significant imbalance in accumulated depreciation. If the imbalance is not addressed, it will remain in rate base and continue to earn a return. However, FERC accounting instructions provide special treatment for extraordinary property losses such as these by allowing for the establishment of a regulatory asset for the costs associated with the loss. In following this procedure, rate base will gradually decrease as the regulatory asset is amortized and recovered through the revenue requirement associated with the regulatory asset requested in this filing. Because of the financial impact of the costs of the storm, FPUC is requesting recovery of these costs now instead of at its next rate case.

The second part of the regulatory asset relates to unrecovered depreciation on the assets retired. FERC accounting instructions require a credit to plant and a debit to accumulated depreciation for the book cost of the assets retired. Under group depreciation, when assets retire, the book cost of those assets are debited to accumulated depreciation and credited to plant. In other words, the assets are assumed to be fully depreciated whether or not they have lived, i.e. actually been in service, the average life of the group. The theory is that there are assets within the group or account that will have shorter "lives" than, as well as assets that will have longer "lives" , the average life of the group. Nonetheless, on average, the group will experience the average life. In contrast, when the retirement is caused by an extraordinary event, the undepreciated amount associated with the retirement entry also creates a negative component in the reserve. This unrecovered cost represents plant no longer providing service and equates to positive rate base upon which the company will earn a return. Since FPUC will no longer recover these costs through depreciation, it will not recover these costs conceivably until the affected accounts cease to exist unless some corrective treatment is made. Accordingly, the same treatment as the cost of removal should be made.

Imbalances in accumulated depreciation are usually addressed and amortized in depreciation studies. In these cases, amortization expenses are incurred without commensurate increased in revenues until the next rate case. However, the extraordinary storm loss in this instance and significant net unrecovered costs of over $8 million, the financial impact is such that FPUC is requesting revenue recovery of these costs now rather than waiting until its next rate case.

Q. Why should these costs be approved as a Regulatory Asset in the Limited Proceeding rather than addressed in FPUC's current depreciation study?[2]

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[2] Id. at pg. 16.

A. Approval of the Regulatory Asset in the Limited Proceeding will provide the revenues for the additional expenses associated with the Regulatory Asset amortization. Certainly, whether this course or through the depreciation study, these costs should be recovered. If recovered through a depreciation study, the costs would typically be amortized as fast as economically practicable as these costs do not represent plant serving the public. The difference is that the amortization in a depreciation study will only provide the depreciation expenses. There will be no recovery on the debit balance in accumulated depreciation or the additional depreciation expense unless there are commensurate revenues awarded either in a subsequent rate case or otherwise addressed in this proceeding.

Q. Witness Schultz recommends that the cost of removal/unrecovered retired plant regulatory asset should be excluded from this proceeding, resulting in a reduction to rate base and a reduction to depreciation expense and amortization expense. Do you agree with Witness Schultz's conclusion?[3]

A. No, I do not. The net unrecovered costs resulting from the premature retirement of assets due to Hurricane Michael relate to plant no longer providing service. This unrecovered or negative component in the reserve equates to positive rate base upon which the company will earn a return until corrected. If these unrecovered costs remain in the individual accounts, the negative reserve components will remain until the accounts

[3] Id. at pg. 19.

themselves expire, which could conceivably not be until the company itself no longer exists. Future rate payers should not have to continue paying for plant for which they are not receiving service. Therefore, it is necessary to remove this amount from accumulated depreciation and move it to a regulatory asset and amortize it so that it will be removed completely from rate base when the amortization is completed. In this manner, rate base is corrected as fast as economically practicable.

Q. As it relates to the change to depreciation expense, does Witness Schultz make any recommendations as to how that should be addressed in the context of FPUC's Depreciation Study, which is also before the Commission in this proceeding?

A. No, he does not.

Q. If the Commission accepts Witness Schultz's recommendation, will it necessitate changes to FPUC's Depreciation Study?

A. Yes, it will.

Q. Do you have any recommendations as to how that might best be handled?

A. If the Commission accepts Witness Schultz's recommendation (which I urge it not to do), the reserve position for the affected accounts will need to be restated in the depreciation study to reflect the inclusion of the unrecovered net costs previously transferred to the regulatory asset. In this case, the remaining life depreciation rates would also need to be recalculated reflecting the restated reserve positions. While the reserve deficiencies caused by the extraordinary removal costs would be recovered in the future over the remaining life of each affected account, as long as these accounts remain viable, the remaining lives will continue to change. Alternatively, the net unrecovered costs could be amortized over a similar time period as was originally recommended for the regulatory asset, 10 years. Regardless, without commensurate revenues awarded in a rate case or in this proceeding, there will be no recovery of the additional depreciation expenses.

III. CONCLUSION

Q. Do you have any concluding remarks?

A. Yes, the Commission should approve FPUC's requested regulatory asset for the net unrecovered costs associated with Hurricane Michael (premature retirements plus net salvage costs) adjusted by the "normal" salvage expense in accumulated depreciation.

Q. Does this conclude your testimony?

A. Yes, it does.

(Transcript continues in sequence in Volume 2.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, ANDREA KOMARIDIS WRAY, 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 30th day of September, 2020.

ANDREA KOMARIDIS WRAY
NOTARY PUBLIC
COMMISSION #GG365545
EXPIRES February 9, 2021