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September 20, 2022

BY E-FILING

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

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

Dear Mr. Teitzman:

Attached, for electronic filing, please find the **Rebuttal Testimony of Michael Galtman**, submitted on behalf of Florida Public Utilities Company and the Florida Division of Chesapeake Utilities Corporation.

Sincerely,

/s/*Beth Keating*
Beth Keating
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cc.(Certificate of Service)

<u>BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION</u>

REBUTTAL TESTIMONY OF MICHAEL D. GALTMAN

ON BEHALF OF FLORIDA PUBLIC UTILITIES COMPANY AND THE FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

DOCKET NO. 20220067-GU

September 20, 2022

SECTION I. INTRODUCTION

Q. Please state your name and business address.

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

Q. Have you previously filed direct testimony in this docket?

A. Yes, I filed direct testimony on behalf of Florida Public Utilities Company (all divisions) and the Florida Division of Chesapeake Utilities Corporation, which I refer to herein jointly as either “the Companies” or “FPUC.”

Q. Has your employment status and job responsibilities remained the same since discussed in your previous testimony?

A. Yes.

Q. Are you providing any exhibits with your rebuttal testimony?

A. No.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut various incorrect conclusions contained in the direct testimony of OPC's Witness Ralph Smith, as well as his misinterpretations of our request and expenses.

Q. Do you agree with Witness Smith's recommendation to reduce the level of incentive compensation included in FPUC's projected 2023 test year cost of service? If not, why not?

A. No, I do not agree with this recommendation. First, as noted in the direct testimony of Company Witness Rudloff, our compensation philosophy recognizes that our employees perform the most critical role in ensuring that our business units are providing safe, reliable, and efficient service to our customers, including FPUC. It should not come as a surprise to Witness Smith that the safety, of our employees and customers, is our number one priority. Consistent with this philosophy, the plan has been designed to reward employees by providing pay and benefits that are competitive in comparison to the utility industry, as well as the general non-utility employers. Even in being competitive, the Company takes a conservative approach relative to its peers and other companies with whom we compete for talent. The compensation package, as a whole, including incentive compensation, represents a cost that is prudent and reasonable to attract, retain and motivate employees who are qualified to perform the functions necessary for the benefit of our customers. As part of the governance processes regarding compensation, the Company utilizes independent, third-party compensation specialists, such as Willis, Towers & Watson and F.W. Cook, to review compensation across various levels of the Company. These specialists evaluate our compensatory components and overall design relative to benchmarking data when assessing the appropriateness of our total compensation relative to the market and industry trends. As stated earlier, not only are we within the appropriate utility benchmarks, but we are also actually more conservative in our approach. As a result, the incentive compensation levels established by the Company should be considered a prudent and necessary component of our employees' total compensation and therefore, associated costs should be recovered.

Q. Do you agree with Witness Smith's rationale for removing 50% of incentive compensation expense?

A. No, I do not agree with his rationale. First, as noted above, incentive compensation is an important part of the total compensation package offered by the Company to attract, retain, and motivate qualified employees. This is a highly competitive workforce market. We also want the best from our employees in terms of providing excellent service to our natural gas customers and being able to continuously adapt to changing regulatory requirements and market conditions. The Company therefore seeks to achieve an appropriate balance of "at risk" pay that is only recognized if the Company goals of safety, prudent cost management, and the provision of safe and reliable natural gas service, are met. If we did not offer incentive compensation - or if the Commission disallows associated costs - we would need to consider increasing base salaries to remain competitive with other companies also trying to attract and retain qualified employees. This would serve to increase overall costs to the customers regardless of the performance of the Company.

Second, Witness Smith's rationale for removing fifty percent of incentive compensation is based on the assumption that there is a distinction between how incentive compensation benefits customers and shareholders. He is mistaken. The strong financial performance of the Company is ultimately good for both and is in the best interests of our customers. A strong, financially sound utility is better able to ensure safe and reliable service to its customers and meet the ever-changing customer service expectations of its customer base. Such a utility is also better able to grow and expand service to meet the needs of a growing population, which means not only the expansion to serve customers that previously did not have natural gas service, but also the addition of more customers, which allows the Company to allocate costs over a wider customer base resulting in lower, per-customer rates. In addition, a financially sound utility has greater access to capital at lower cost which also improves rates. Thus, the notion that improving shareholder value is separate from the benefit received by ratepayers, as Witness Smith seems to indicate, is just wrong and short-sighted.

Chesapeake's performance components are designed to provide value to all stakeholders, including shareholders and customers. In fact, the majority of businesses that are operated by Chesapeake are regulated utilities. As such, Chesapeake fully understands the importance of managing both investments and returns. We recognize that when we make profitable investments that generate desired returns, our utility ratepayers benefit from better service, as well as expanded service, and our utilities are able to avoid - or at least defer - the need to increase rates. Such is the case for the Company, as it has not filed a rate case for approximately 10 to 13 years, depending on the specific company.

Q. Are there problems with Witness Smith's recommendation to reduce incentive compensation by fifty percent?

A. Yes. Witness Smith states that his decision to reduce incentive compensation by fifty percent is based on removing the factors that he deems to be attributable to shareholders. Specifically, he points to earnings per share (EPS) and return on equity (ROE), which are two performance metrics utilized by the plan to calculate incentive compensation. I believe this to be a misguided approach for a couple of reasons.

First, Corporate EPS is an accumulation of earnings of each of Chesapeake's businesses, including the FPUC natural gas operations. We believe our approach of having a unified enterprise-wide goal, allows employees from all business units to strive for more efficiencies, which in turn serves to manage costs more effectively when managing the various requirements of our operations. This in turn serves to collectively benefit both our customers and our shareholders.

Secondly, Witness Smith's recommendation is based on the weighting of Corporate EPS and Consolidated ROE for employees that have a bonus target of fifteen percent. This bonus target relates to Director level employees only. What Witness Smith's argument fails to recognize is that only 6.4% of the employees who participate in the Company's incentive compensation plan have Corporate EPS and Consolidated ROE targets which collectively meet or exceed 50% of the overall payout. The incentive plan is designed so that the majority of employees have their at-risk pay tied to their individual performance goals and non-financial metrics such as safety. For example, employees with a target bonus opportunity of 6.0% percent have 70% of their bonus calculation based on individual performance and non-financial performance. If the Commission were to adopt Witness Smith's proposal to reduce the incentive compensation amount, it would not be appropriate to reduce cost by 50%, as the majority of the participants in the plan have target bonus opportunities which consider a lower weighting of Corporate EPS and Consolidated ROE.

Target Bonus Opportunity %	**Individual Performance**	**Corporate EPS**	**Consolidated ROE**	**Non-Financials (i.e., Safety)**
20%	25%	30%	25%	20%
15%	30%	**25%**	**25%**	20%
12%	30%	20%	30%	20%
10%	40%	10%	30%	20%
7.50% - 8.50%	50%	10%	20%	20%
6%	50%	10%	20%	20%
Source: 2021 Incentive Performance Plan				

Furthermore, although a portion of the IPP is based on achieving financial targets, this still directly benefits the customers in our natural gas operations, which the Commission has recognized in prior cases. I believe the IPP helps ensure that we remain focused on the Company's strategic and critical objectives, such as safety, customer service, keeping costs low, attracting new customers and being as efficient as possible, all of which benefits our customers.

Q. Do you agree with Witness Smith's recommendation to adjust payroll tax expense in conjunction with a reduction of incentive compensation expense?

A. No. As discussed above, incentive compensation expenses are part of the overall compensation package that the Company offers to ensure it can retain, attract, and motivate employees which in turn allows for safe and efficient operations for the

Company's customers. Incentive compensation recognized by the Company is either directly recorded or allocated based on services performed. For these reasons, I believe this expense should be included within operating expenses in the projected test year.

Q. Do you agree with Witness Smith's recommendation to remove stock-based compensation from FPUC's projected 2023 test year cost of service?

A. No. As noted above in my testimony regarding incentive compensation, stock-based compensation is an important part of the total compensation package offered by the Company to attract, retain, and motivate key employees who are managing operations of all of Chesapeake Utilities' business units including the FPUC natural gas operations. The Company seeks to achieve an appropriate balance of "at risk" pay that is only recognized if the Company goals, as described earlier, are achieved. The shareholder return measurement included in the stock-based compensation plan would not be achieved if the Company was not managing to grow the business effectively. To the extent stock-based compensation was not offered by the Company or if the Commission disallows associated expenses, we will need to consider increasing base compensation to remain competitive when attracting and retaining a qualified leadership team and board of directors. This would increase the overall cost to the customers regardless of the performance of the Company.

Q. Do you agree with Witness Smith's recommendation to adjust payroll tax expense in conjunction with a reduction of stock-based compensation expense?

A. No. As discussed above, stock-based compensation expense is part of the overall compensation package that the Company offers to ensure it can retain, attract, and motivate employees which in turn allows for safe and efficient operations for the Company's customers. For these reasons, I believe this expense should be included within operating expenses in the projected test year. Furthermore, stock-compensation awarded to the Chesapeake Utilities' board of directors does not include payroll taxes. This compensation is reported on a Form 1099 annually, as the directors are not considered employees. As a result, $12,937 of the $188,619 payroll tax adjustment proposed by Witness Smith on stock-based compensation for the board of directors would not be appropriate.

Q. Do you agree with Witness Smith's recommendation to remove the Supplemental Employee Retirement Plan ("SERP") expense?

A. No. I do not agree with his recommendation. The Company's compensation and benefits offering, is designed to attract, retain, and motivate employees servicing FPUC's natural gas customers. The employees with the appropriate combination of technical and leadership skillsets are critical in ensuring safe and reliable service. The Company's current and future commitment to honor these benefits should be considered as part of the overall compensation offering and therefore would represent a prudent business expense. For this reason, I do not agree with Witness Smith's recommendation to remove these costs from projected operating expenses.

Q. Does this conclude your rebuttal testimony?

A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Rebuttal Testimony has been served by Electronic Mail this 20th day of September, 2022, upon the following:

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