FILED 1/4/2023
DOCUMENT NO. 00058-2023
FPSC - COMMISSION CLERK

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20220069-GU

Petition for rate increase
by Florida City Gas.
___________________________/

VOLUME 4
PAGES 689 - 880

PROCEEDINGS: HEARING

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

DATE: Monday, December 12, 2022

TIME: Commenced: 1:00 p.m.
Concluded: 5:25 p.m.

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

REPORTED BY: DEBRA R. KRICK
Court Reporter

APPEARANCES: (As heretofore noted.)

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

I N D E X

EXHIBITS

NUMBER:		ID	ADMITTED
40-44	As identified in the CEL		773
113-114	As identified in the CEL		773
186	FCG Annual Report Excerpts 2018 through 2021	837	
187	FCG Annual Report Excerpts 2016 and 2017	837	
188	Response to OPC's 8th Set of Interrogatories, 211 through 214	856	
189	FCG 2018 Settlement Order No. PSC-2018-0190	861	

P R O C E E D I N G S

(Transcript follows in sequence from Volume 3.)

CHAIRMAN FAY: All right. I went back there and rebuilt some servers. We are good to go.

Mr. Wright, you are welcome to call your next witness, who I believe is there. Go ahead.

MR. WRIGHT: Thank you, Chairman. Florida City Gas calls Ned Allis.

Whereupon,

NED W. ALLIS

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

EXAMINATION

BY MR. WRIGHT:

Q Good afternoon. Could you please state your name?

A Yes. My name is Ned W. Allis, A-L-L-I-S.

Q Have you been sworn?

A Yes.

Q And is your business address 207 Senate Avenue, Camp Hill, Pennsylvania, 17011?

A Yes.

Q By whom are you employed and in what capacity?

A I am Vice-President of Gannett Fleming Valuation and Rate Consultants, LLC.

Q And on May 31st, 2022, did you file 32 pages of direct testimony?

A Yes.

Q Do you have any corrections to your direct testimony?

A No, I do not.

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

A Yes.

MR. WRIGHT: Chairman, I would ask that Mr. Allis' direct testimony be inserted into the record as though read.

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

(Whereupon, prefiled direct testimony of Ned W. Allis was inserted.)

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20220069-GU

FLORIDA CITY GAS

DIRECT TESTIMONY OF NED W. ALLIS

Topics: 2022 Depreciation Study

Filed: May 31, 2022

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Ned W. Allis. My business address is 207 Senate Avenue, Camp Hill, PA 17011.

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

A. I am Vice President of Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming"). Gannett Fleming, a subsidiary of infrastructure firm Gannett Fleming, Inc., provides depreciation consulting services to utility companies in the United States and Canada.

Q. Please describe your duties and responsibilities in that position.

A. As Vice President, I am responsible for conducting depreciation, valuation and original cost studies, determining service life and salvage estimates, conducting field reviews, presenting recommended depreciation rates to clients, and supporting such rates before state and federal regulatory agencies.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Science degree in Mathematics from Lafayette College in Easton, PA. I joined Gannett Fleming in October 2006 as an analyst. My responsibilities included assembling data required for depreciation studies, conducting statistical analyses of service life and net salvage data, calculating annual and accrued depreciation, and assisting in preparing reports and testimony setting forth and defending the results of the studies. I also developed and maintained Gannett Fleming's proprietary depreciation software. In March of 2013, I was promoted to the position of Supervisor, Depreciation Studies. In March of 2017, I was promoted to Project Manager, Depreciation and Technical Development. In January 2019, I was promoted to my current position of Vice President.

I am a past president of the Society of Depreciation Professionals (the "Society"). The Society has established national standards for depreciation professionals. The Society administers an examination to become certified in this field. I passed the certification exam in September 2011 and was recertified in March 2017 and January 2022. I am also an instructor for depreciation training sponsored by the Society.

I have submitted testimony on depreciation related topics to the Florida Public Service Commission ("FPSC" or "Commission"), the Federal Energy Regulatory Commission ("FERC"), and before the regulatory commissions of the states of New York, Connecticut, Rhode Island, California, the District of Columbia, New Jersey, Kansas, Massachusetts, California, Maryland, New Hampshire, Washington and Nevada. I have also assisted other witnesses in the preparation of direct and rebuttal testimony in several other states and two Canadian provinces. Exhibit NWA-2 provides a list of depreciation cases in which I have submitted testimony.

Q. Have you received any additional education relating to utility plant depreciation?

A. Yes. I have completed the following courses conducted by the Society: "Depreciation Basics," "Life and Net Salvage Analysis" and "Preparing and Defending a Depreciation Study."

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

A. Yes. I am sponsoring the following exhibits:

- NWA-1 – 2022 Depreciation Study
- NWA-2 – List of Cases in which Ned W. Allis has Submitted Testimony
- NWA-3 – Schedules 1A and 1B
- NWA-4 – Summary of Depreciation Based on Current Service Life and Net Salvage Estimates
- NWA-5 – Summary of Depreciation Based on Proposed Service Life and Current Net Salvage Estimates

I am co-sponsoring a portion of the following exhibit where it incorporates information from my testimony or exhibits:

- LF-5(B) – Proposed Depreciation Company Adjustment for Base vs. Clause for 2023 using the RSAM Adjusted Depreciation Rates, filed with the direct testimony of FCG witness Fuentes.

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

A. No.

Q. What is the purpose of your testimony?

A. I am sponsoring the results of a new depreciation study (the "2022 Depreciation

Study" or "Study"), filed on behalf of Pivotal Utility Holdings, Inc. d/b/a Florida City Gas ("FCG" or the "Company") with the FPSC on May 31, 2022. The 2022 Depreciation Study is reflected as Exhibit NWA-1 to my testimony. The Study covers depreciable gas properties in service as of December 31, 2021, and actual and projected plant and reserve balances through the end of 2022.

Q. Please summarize your testimony.

A. My testimony will explain the methods and procedures of the 2022 Depreciation Study and will set forth the annual depreciation rates that result from the application of this Study, if accepted for use by the Commission. The Study includes comparison schedules showing current and proposed depreciation parameters, including average service lives, net salvage percentages, depreciation rates, depreciation accruals, and a comparison of the forecasted theoretical reserve to the forecasted book reserve as of December 31, 2022. I also provide additional detail on each section of the Study in my testimony.

The overall result of the 2022 Depreciation Study is a net increase in FCG's depreciation rates over the currently approved rates, which increases FCG's total depreciation expense as of December 31, 2022 by approximately $0.9 million. As I detail later in my testimony, this increase is primarily due to plant and reserve activity since the last depreciation study. The service lives recommended in the 2022 Depreciation Study reduce depreciation expense, which is somewhat offset by more negative net salvage estimates.

II. 2022 DEPRECIATION STUDY

Q. Please define the concept of depreciation.

A. The FERC Uniform System of Accounts defines depreciation as:

> *Depreciation,* as applied to depreciable gas plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of gas plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities, and, in the case of natural gas companies, the exhaustion of natural resources.[1]

Q. In preparing the 2022 Depreciation Study, did you follow generally accepted practices in the field of depreciation?

A. Yes. The methods, procedures and techniques used in the Study are accepted practices in the field of depreciation and are detailed in my testimony and the study report provided as Exhibit NWA-1.

Q. Please describe the contents of the 2022 Depreciation Study.

A. The Study is presented in ten parts:

- Part I, Introduction, presents the scope and basis for the 2022 Depreciation Study;
- Part II, Estimation of Survivor Curves, explains the process of

[1] 18 C.F.R. 201 (FERC Uniform System of Accounts), Definition 12B.

estimating survivor curves and the retirement rate method of life analysis;

- Part III, Service Life Considerations, discusses factors and the informed judgment involved with the estimation of service life;
- Part IV, Net Salvage Considerations, discusses factors and the informed judgment involved with the estimation of net salvage;
- Part V, Calculation of Annual and Accrued Depreciation, explains the method, procedure and technique used in the calculation of annual depreciation expense and the theoretical reserve;
- Part VI, Results of Study, sets forth the service life estimates, net salvage estimates, annual depreciation rates and accruals, and theoretical reserves for each depreciable group. This section also includes a description of the detailed tabulations supporting the 2022 Depreciation Study;
- Part VII, Service Life Statistics, sets forth the survivor curve estimates and original life tables for each plant account and subaccount;
- Part VIII, Net Salvage Statistics, sets forth the net salvage analysis for each plant account and subaccount;
- Part IX, Detailed Depreciation Calculations, sets forth the calculation of average remaining life for each property group; and
- Part X, Detail of Service Life and Net Salvage Estimates, provides a description of each depreciable category of plant and provides a

discussion of the considerations that inform the service life and net salvage estimates for each plant account.

Q. Please identify the depreciation method that you used.

A. I used the straight line method of depreciation, remaining life technique, and the average service life (or average service life – broad group) procedure. The annual depreciation accruals presented in my study are based on a method of depreciation accounting that seeks to distribute the unrecovered cost of fixed capital assets over the estimated remaining useful life of each unit, or group of assets, in a systematic and rational manner.

In compliance with the FPSC depreciation rule prescribed in Rule 25-7.045, Florida Administrative Code ("F.A.C."), depreciation rates are also presented using the whole life technique in Exhibit NWA-3. Theoretical reserves, which will be discussed in more detail later in my testimony, were calculated using the prospective method of calculating theoretical reserves and compared with the actual book reserves. This comparison is provided in Table 3 of the depreciation study.

Q. Would you please explain the difference between the whole life technique and the remaining life technique?

A. Yes. When using the whole life technique, the cost of an asset (original cost less net salvage) is allocated over the service life of the asset. For a group of assets, the costs of the assets in the group are allocated over the average service life of the group. However, if the service life or net salvage estimates change, or if activity such as retirements or cost of removal do not occur precisely as forecast, the whole life technique will not recover the full cost of the assets over their service lives without an adjustment to depreciation expense. Note that, mathematically, if the book reserve is equal to the theoretical reserve then the remaining life depreciation rates would equal the whole life depreciation rates.

The remaining life technique accounts for the fact that estimates can (and will) change over time. For this technique, the remaining undepreciated cost (that is, the original cost less net salvage less the book accumulated depreciation) is allocated over the remaining life of the asset. For a group of assets, the remaining undepreciated costs are allocated over the average remaining life. Thus, when using the remaining life technique there is an automatic adjustment, or self-correcting mechanism, that will increase or decrease depreciation expense to account for any imbalances between the book and theoretical reserves.

Q. Is the remaining life technique the predominant depreciation technique used in the utility industry?

A. Yes. Almost all U.S. jurisdictions, including the FERC, use the remaining life technique.

Q. Did you review prior Commission orders on FCG's depreciation accrual rates?

A. Yes. I reviewed the previous depreciation study ("2017 Depreciation Study") for FCG, as well as related testimony, filed in Docket No. 20170179-GU and the depreciation rates and parameters that were approved in that case by Order No. PSC-2018-0190-FOF-GU.

Q. Is the 2022 Depreciation Study consistent with prior Commission orders?

A. Yes. The use of the straight line method, average service life procedure and remaining life technique is consistent with FCG's 2017 Depreciation Study and prior Commission orders. The methods used for the estimation of service lives and net salvage are also generally consistent with FCG's 2017 Depreciation Study and prior Commission orders.

Q. What are your recommended annual depreciation accrual rates for FCG?

A. My recommended annual depreciation accrual rates are the remaining life rates set forth in Table 1 of Exhibit NWA-1 beginning on page VI-2. These rates were developed using the same methods used in the Company's 2017 Depreciation Study and follow the FPSC depreciation rule previously discussed.

Q. Were any accounts not included in the 2022 Depreciation Study?

A. Yes. General plant amortizable and other intangible accounts, which are accounts for which amortization (or vintage year) accounting is used, were not included in the study. No changes are proposed to the current amortization periods and rates for these accounts. Additionally, the Liquefied Natural Gas ("LNG") plant expected to be placed in service in March of 2023 was not included in the study. No changes are proposed to the depreciation rates and parameters approved by Order No. PSC-2018-0190-FOF-GU in Docket No. 20170179-GU for the LNG assets.

Q. How did you determine the recommended annual depreciation accrual rates?

A. I did this in two phases. In the first phase, I estimated the service life and net salvage characteristics for each depreciable group - that is, each plant account or subaccount identified as having similar characteristics. In the second phase, I calculated the composite remaining lives and annual depreciation accrual rates based on the service life and net salvage estimates determined in the first phase. The next two sections of my testimony will explain each of these phases of the Study.

III. SERVICE LIVES AND NET SALVAGE

Q. Please describe the first phase of the 2022 Depreciation Study, in which you estimated the service life and net salvage characteristics for each depreciable group.

A. The first phase of the study, which resulted in the estimation of service life and net salvage parameters, consisted of compiling historic data from records related to FCG's plant; analyzing these data to obtain historic trends of survivor and net salvage characteristics; obtaining supplementary information from management and operating personnel concerning accounting and operating practices and plans; and interpreting the above data and the estimates used by other gas utilities to form judgments of average service life and net salvage characteristics.

Q. Did you physically observe any of FCG's plant and equipment in preparation of the 2022 Depreciation Study?

A. Yes. For the 2022 Depreciation Study, I held meetings with operating personnel and made field visits to various FCG properties to observe representative portions of plant. The meetings and field reviews were conducted to become familiar with Company-specific operations and obtain an understanding of the function of the plant and information with respect to the reasons for past retirements and the expected future causes of retirements. This knowledge, as well as information from other discussions with management, was incorporated in the interpretation and extrapolation of the statistical analyses.

Q. What facilities have you observed?

A. In connection with the preparation of the 2022 Depreciation Study, I visited the following facilities and observed operations and maintenance practices at each location:

- Port St. Lucie City Gate Station;
- Vero Beach Regulator Station; and
- Vero North City Gate Station.

I also conducted meetings with FCG personnel during the preparation of the Study.

A. Service Lives

Q. What is the process for the estimation of service lives in the 2022 Depreciation Study?

A. The process for the estimation of service lives was based on informed judgment that incorporated a number of factors, including the statistical analyses of historical data, general knowledge of the property studied, and information obtained from field trips and management meetings. The method of estimation for depreciable groups depended on the type of property studied for each account. "Mass property" refers to assets such as gas mains, services and meters that are continually added and replaced. "Life Span property" refers to assets such as gas storage facilities for which all assets at a facility are expected to retire concurrently. Each of FCG's depreciable groups are mass property groups and the estimation of service lives for these types of assets are described in the following section.

1. Mass Property

Q. What historical data did you analyze for the purpose of estimating service life characteristics for mass property?

A. I analyzed the Company's accounting entries that recorded plant transactions during the period 2005 through 2020. The transactions included additions, retirements, transfers, and the related balances. The Company records also included surviving dollar value by year installed for each plant account as of December 31, 2020.

Q. What methods are generally used to analyze service life data?

A. There are two methods widely used in a typical depreciation study to estimate a survivor curve for a group of plant assets: the simulated plant balance method and the retirement rate method.

The simulated plant balance method is used for property groups for which the retirements of property by age are not known and, therefore, it requires that continuous records of vintage plant additions and year-end plant balances are available. The method suggests probable survivor curves for a property group by successively applying a number of alternative survivor curves to the group's historical additions in order to simulate the group's surviving balance over a selected period of time. The survivor curve that produces simulated balances conforming most closely to the book balance may then be considered to be the survivor curve the subject group has experienced.

The retirement rate method is an actuarial method of deriving survivor curves using the average rates at which property of each age group is retired. It is the preferred method when sufficient data are available. The method relates to property groups for which aged accounting experience is available or for which aged accounting experience is developed by statistically aging unaged amounts. FCG maintains aged accounting data (meaning that the vintage year is recorded for each addition, retirement, or transfer), and thus the data at FCG are kept in a manner that enabled the use of the retirement rate method.

The application of the retirement rate method is illustrated through the use of an example in Part II of the 2022 Depreciation Study. The retirement rate method was used for the mass property accounts in the study (i.e., depreciable distribution and general plant accounts).

Q. Did you use statistical survivor characteristics to estimate average service lives of the property?

A. Yes. I used Iowa-type survivor curves.

Q. What is an "Iowa-type survivor curve," and how did you use such curves to estimate the service life characteristics for each property group?

A. Iowa-type curves are a widely used group of generalized survivor curves that contain the range of survivor characteristics usually experienced by utilities and other industrial companies. The Iowa curves were developed at the Iowa State College Engineering Experiment Station through an extensive process of observing and classifying the ages at which various types of property used by utilities and other industrial companies had been retired.

Iowa-type curves are used to smooth and extrapolate original survivor curves determined by the retirement rate method. Iowa curves were used in the 2022 Depreciation Study to describe the forecasted rates of retirement based on the observed rates of retirement and expectations regarding future retirements.

Iowa-type curves have been accepted by every state commission and the FERC.

The estimated survivor curve designations for each depreciable property group indicate the average service life, the family within the Iowa system to which the property group belongs, and the relative height of the mode. For example, an Iowa 40-R2 designation indicates an average service life of forty years; a right-moded, or R-type curve (the mode occurs after average life for right-moded curves); and a moderate height, two, for the mode (possible modes for R-type curves range from 1 to 5).[2] The Iowa curves are discussed in more detail in Part II of Exhibit NWA-1.

Q. How are Iowa-type survivor curves compared to the historical data for the purpose of forecasting service lives?

A. For each depreciable property group, original life tables are developed from the Company's historical records of aged additions, transfers, and retirements. Original life tables can be developed using the full experience of historical data. Original life tables can also be developed using different ranges of years of activity, such as the most recent 10 years of experience. The range of transaction years used to develop a life table is referred to as an "experience band," and the range of vintages used for the life table is referred to as a "placement band."

Once life tables have been developed using the retirement rate method, specific

[2] There are also half-mode curves (e.g., R1.5) that are the average of the full mode curves.

Iowa curves can be compared both visually and mathematically to the life tables. For visual curve matching, Iowa survivor curves are plotted on the same graph as an original life table, and the points of the curves are visually compared to the life table to assess how closely the Iowa curve matches the historical data. For mathematical curve matching, Iowa curves are compared to an original life table mathematically using an algorithm that compares the differences between an Iowa curve and the original life table.

For both visual and mathematical curve matching, not all of the historical data points should be given the same consideration, as different data points on a life table will have different significance based on both the level of exposures (i.e., the amount of assets that has survived to a given age) and the level of retirements. For example, data points for later ages in an original life table may be based on the experience of a small number of units of property. Due to a smaller sample size, these data points would not provide as meaningful information compared to earlier ages. Additionally, the middle portion of the curve is where the largest portion of retirements occurs. This portion of the curve therefore typically provides the best indications of the survivor characteristics of the property studied.

Q. Can you provide an example of the process of fitting Iowa curves to an original life table?

A. Yes. Accounts 376.10 and 376.20 Mains provide a good example of this process. These accounts were analyzed together and the life table for the overall experience and placement band is shown on Exhibit NWA-1, pages VII-8 and VII-9. The original life table develops the percent of plant that has survived to each age for the experience and placement bands. The representative data points from this life table are depicted graphically on Exhibit NWA-1, page VII-7.

Also shown on page VII-7 is the 65-R4 survivor curve. As can be seen in the chart, this curve is a visually good match of the historical data, as the smooth line depicting the 65-R4 survivor curve is close to the historical data points for most ages. The 65-R4 is a good mathematical fit of the available historical data through age 57.5. The degree of mathematical fit can be measured by the residual measure,[3] which is a normalized sum of squares difference between the original life table and a given Iowa curve. The residual measure for the 65-R4 survivor curve and the representative data points from the original life table is 1.73, which is considered to be a very good fit.[4] Therefore, the statistical analysis for this account, using both visual and mathematical techniques, indicates that the 65-R4 survivor curve provides a good representation of the historical mortality characteristics for the account.

[3] The residual measure is the square root of the total sum of the squares of differences between points on the original and smooth curves divided by the number of points.

[4] The smaller the residual measure, the more closely the Iowa curve mathematically matches the original life table.

Q. Is the statistical analysis of historical data based on the retirement rate method the only consideration in estimating service life?

A. No. The estimation of service life is a forecast of the future experience of property currently in service, and therefore informed judgment that incorporates a number of factors must be used in the process of estimating service life. The statistical analysis can provide a good indication of what has occurred for the Company's assets in the past, but other factors can affect the service lives of the assets going forward. Further, the historical data often does not provide a definitive indication of service life. For these reasons other factors must be considered when estimating future service life characteristics.

Q. Would you provide an example of types of factors considered in the process of estimating service life?

A. Yes. An example is Accounts 376.10 and 376.20 Mains. I have explained previously that the 65-R4 survivor curve is a good fit of the historical data for mains. However, other factors were also considered for this account.

In addition to the statistical analysis, I have had discussions with engineering and operations personnel with knowledge of the assets and Company plans in both this study and previous studies. Through these discussions I have obtained more detail about the Company's mains replacement programs, which includes the Safety, Access and Facility Enhancement ("SAFE") program to relocate mains and associated facilities located in or associated with rear lot easements to the street front. Based on these discussions and observations and my experience in the industry, I concluded that the results from the statistical analysis provide a reasonable indication of the future service life expectations for this account.

Q. Was the process for estimating service lives for other accounts similar to Account 376?

A. Yes. A similar process for estimating service life was used for other mass property accounts. The estimated survivor curves for each account can be found in Part VII of the 2022 Depreciation Study. A narrative description of considerations for each estimate can be found in Part X of the study.

B. Net Salvage

Q. Would you please explain the concept of "net salvage"?

A. Net salvage is the salvage value received for the asset upon retirement less the cost to retire the asset. When the cost to retire exceeds the salvage value, the result is negative net salvage. Net salvage is a component of the service value of capital assets that is recovered through depreciation rates. The service value of an asset is its original cost less its net salvage. Thus, net salvage is considered to be a component of the cost of an asset that is recovered through depreciation.

Inasmuch as depreciation expense is the loss in service value of an asset during a defined period (e.g., one year), it must include a ratable portion of both the original cost and the net salvage. That is, the net salvage related to an asset should be incorporated in the cost of service during the same period as its original cost, so that customers receiving service from the asset pay rates that include a portion of both elements of the asset's service value, the original cost and the net salvage value.

For example, the full recovery of the service value of a $1,000 regulator may include not only the $1,000 of original cost, but also, on average, $300 to remove the regulator at the end of its life less $150 in salvage value. In this example, the net salvage component is negative $150 ($150 - $300), and the net salvage percentage is negative 15% (($150 - $300)/$1,000).

Q. Please describe the process you used to estimate net salvage percentages.

A. The net salvage estimate for each plant account is based on informed judgment that incorporates the analysis of historical net salvage data. I reviewed net salvage data from 2004 through 2020. Cost of removal and salvage were expressed as a percent of the original cost of the plant retired, both on an annual basis and a three-year moving average basis. The most recent five-year average was also calculated.

Q. Were there other considerations used in developing your final estimates for net salvage?

A. Yes. In addition to the statistical analyses of historical data, I considered the information provided to me by the Company's operating personnel, general knowledge and experience of the industry practices, and trends in the industry in general.

Q. How do the net salvage estimates in the 2022 Depreciation Study compare to the 2017 Depreciation Study?

A. For many accounts, the estimates are similar to FCG's 2017 Depreciation Study, although the negative net salvage estimates for mains and services accounts are higher in the 2022 Depreciation Study. These estimates reflect a general trend to higher cost of removal for certain accounts, a trend that is reflected in the Company's historical net salvage data.

Q. In addition to a trend to higher cost of removal being reflected in the historical data, what are the reasons for this trend?

A. Costs have increased for a number of reasons, including permitting costs, work requirements, environmental regulations, safety requirements, traffic control and labor and contractor costs. Discussions with management and observations in the field confirm that there are significant costs to retire assets and that these costs have been increasing.

Q. Is the trend to higher cost of removal consistent with the experience of other utilities in the industry?

A. Yes. My firm conducts depreciation studies for utilities across the country. The trend towards increasing cost of removal is consistent with the experience of many others in the industry. The reasons that FCG's costs have increased are also experienced by other utilities. The net salvage estimates for FCG are also generally in line with those of Peoples Gas System in Docket No. 20200051-GU.

IV. REMAINING LIVES AND DEPRECIATION RATES

Q. Please describe the second phase of the 2022 Depreciation Study, in which you calculated composite remaining lives and annual depreciation accrual rates.

A. After I estimated the service life and determined net salvage characteristics to use for each depreciable property group, I calculated the annual depreciation accrual rates for each group based on the straight line remaining life method, using remaining lives weighted consistent with the average life procedure. The study used actual plant and reserve balances as of December 31, 2021 and estimated activity through 2022 to develop depreciation rates based on plant and reserve balances as of December 31, 2022.

Q. Please describe the straight line remaining life method of depreciation.

A. The straight line remaining life method (also referred to as the straight line method and remaining life technique) of depreciation allocates the original cost of the property, less accumulated depreciation, less future net salvage, in equal amounts to each year of remaining service life.

Q. Please describe the average service life procedure for calculating remaining life accrual rates.

A. The average service life procedure defines the group for which the remaining life annual accrual is determined. When using this procedure, the annual accrual rate is determined for the entire group or account based on its average remaining life, and this rate is applied to the surviving balance of the group's cost. The average remaining life for the group is determined by first calculating the average remaining life for each vintage of plant within the group. The average remaining life for each vintage is derived from the area under the survivor curve between the attained age of the vintage and the maximum age. Then, the average remaining life for the group is determined by calculating the dollar-weighted average of the calculated remaining lives for each vintage. The annual depreciation accruals for the group are calculated by dividing the remaining depreciation accruals (original cost less accumulated depreciation less net salvage) by the average remaining life for the group.

Q. Have you used the same method to calculate the average remaining life as used in the Company's 2017 Depreciation Study?

A. Yes. The same method of calculating average remaining lives is used in the 2022 Depreciation Study as was used in the 2017 Depreciation Study and the Company's current approved depreciation rates.

Q. Please use an example to illustrate the development of the annual depreciation accrual rate for a particular group of property in the 2022 Depreciation Study.

A. For purposes of illustrating this process I will use Account 376.2, Mains - Plastic. The survivor curve estimate for this account is the 65-R4, and the net salvage estimate is for negative 60 percent net salvage. A discussion of these estimates can be found on Exhibit NWA-1, pages X-3 and X-4.

The calculation of the annual depreciation related to the original cost of

Account 376.2, Mains - Plastic, as of December 31, 2022, is presented on Exhibit NWA-1, page VI-5. The calculation is based on the 65-R4 survivor curve, negative 60 percent net salvage, the attained age, and the book reserve. The calculated annual depreciation accrual and rate are based on the estimated 65-R4 survivor curve and negative 60 percent net salvage, the original cost, book reserve, future accruals, and composite remaining life for the account. The calculation of the composite remaining life as of December 31, 2022 is provided in the tabulations presented on Exhibit NWA-1, pages IX-5 and IX-6. The tabulation sets forth the installation year, the original cost, the average service life, the whole life annual depreciation rate and accruals, the remaining life and theoretical future accruals factor and amounts. The average service life weighted composite remaining life of 54.39 years is equal to the total theoretical future accruals divided by the total whole life depreciation accruals.

Q. Did you use this same methodology for the general plant accounts?

A. Yes. This methodology was used for the general plant accounts that are depreciated. However, most of the general plant accounts are amortized in accordance with the current amortization periods that have been approved by the FPSC.

Q. What are the overall results of the 2022 Depreciation Study?

A. The Study results in an increase in service lives for several accounts when compared to the current estimates. This is partially offset by more negative net salvage estimates for certain accounts. The Study results in an increase in depreciation expense of approximately $0.9 million as of December 31, 2022.

The factors resulting in this change in depreciation expense are discussed in more detail in the next section.

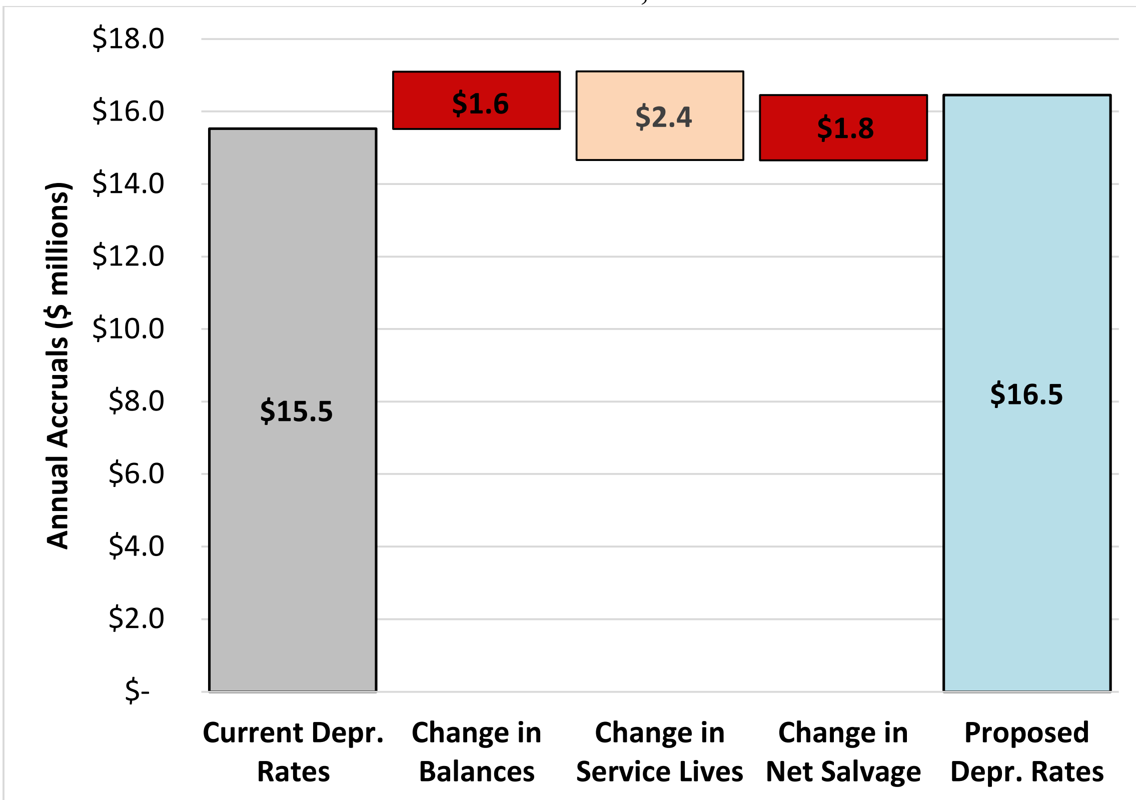
V. FACTORS AFFECTING DEPRECIATION EXPENSE

Q. What are the major factors that affect the depreciation expense resulting from application of the 2022 Depreciation Study?

A. The changes in annual depreciation rates and expense are shown in Table 2 of the 2022 Depreciation Study and result in a moderate increase in depreciation expense of approximately $0.9 million as of December 31, 2022. The overall increase is primarily the result of changes in plant and reserve balances since the 2017 Depreciation Study. Overall, the recommended service lives and net salvage result in a net decrease in depreciation expense, with the longer service life estimates partially offset by higher negative net salvage estimates for certain accounts. Figure 1 below provides an illustration of the main factors that result in the increase in expense of $0.9 million.[5]

[5] The calculations supporting Figure 1 have been provided in Exhibits NWA-4 and NWA-5.

Figure 1: Factors Resulting in Changes to Depreciation Expense as of December 31, 2022



Changes in Balances: Updating the depreciation calculations to December 31, 2022 using FCG's current service life and net salvage estimates results in a net increase in depreciation expense of approximately $1.6 million. That is, if no changes to estimates were made and the calculations were updated to the most current balances, then the result would be an increase in depreciation expense. This is the result of changes in plant and reserve activity since the 2017 Depreciation Study.

Changes in Service Lives: The recommended service lives in the 2022 Depreciation Study produce a net decrease in depreciation expense of approximately $2.4 million.

Changes in Net Salvage: The recommended net salvage estimates result in a net increase in depreciation expense of approximately $1.8 million. As discussed previously, the net salvage estimates are supported by the historical net salvage data and reflect a trend of increasing cost of removal for certain accounts.

VI. THEORETICAL RESERVE IMBALANCE

Q. What is the book reserve?

A. The book reserve, also referred to as the "book accumulated depreciation" or the "accumulated provision for depreciation," is a running total of historical depreciation activity. It is equal to the historical depreciation accruals, less retirements and cost of removal, plus historical gross salvage. The book reserve also represents a reduction to the original cost of plant when calculating rate base.

Q. What is the theoretical reserve?

A. The theoretical reserve is an estimate of the accumulated depreciation based on the current plant balances and depreciation parameters (service life and net salvage estimates) at a specific point in time. It is equal to the portion of the depreciable cost of plant that will not be allocated to expense through future whole life depreciation accruals based on the current forecasts of service life and net salvage. The theoretical reserve is also referred to as the "Calculated Accrued Depreciation" or "CAD."

Q. What is a theoretical reserve imbalance?

A. A theoretical reserve imbalance ("TRI" or "imbalance") is calculated as the difference between a company's book accumulated depreciation, or book reserve, and the calculated accrued depreciation, or theoretical reserve. I should note that in prior proceedings in both Florida and other jurisdictions, different terms have been used for the theoretical reserve imbalance, including "theoretical reserve variance," "reserve excess," "reserve surplus" or "reserve deficit" and "theoretical excess depreciation reserve." For this testimony I will use the term "theoretical reserve imbalance," which is consistent with the terminology used in the National Association of Regulatory Utility Commissioners' ("NARUC") publication, *Public Utility Depreciation Practices*.

Q. Is the theoretical reserve the "correct" reserve?

A. No. The terms "correct" or "incorrect" and the precision or exactness that they imply have no application in this context; rather, the theoretical reserve is an estimate at a given point in time based on the current plant balances and current life and net salvage estimates. It can provide a benchmark of a company's reserve position, but it should not be thought of as the "correct" reserve amount.

In Wolf and Fitch's *Depreciation Systems*, this point is explained as follows on page 86:

> The CAD is not a precise measurement. It is based on a model that only approximates the complex chain of events that occur in an actual property group and depends upon

> forecasts of future life and salvage. ***Thus, it serves as a guide to, not a prescription for, adjustments to the accumulated provision for depreciation***. (emphasis added.)

Q. How is the TRI addressed in the 2022 Depreciation Study?

A. The 2022 Depreciation Study uses the remaining life technique. When using remaining life technique, there is an automatic adjustment, or self-correcting mechanism, that will increase or decrease depreciation expense to account for any imbalances between the book and theoretical reserves. This is the most common approach to addressing theoretical reserve imbalances.

Q. What is the theoretical reserve imbalance, based on the estimates from the 2022 Depreciation Study and plant and reserve balances as of December 31, 2022?

A. The 2022 Depreciation Study estimates a negative theoretical reserve imbalance of approximately $3.2 million. That is, the book reserve is approximately $3.2 million less than the estimated theoretical reserve. The $3.2 million amount represents less than 2% of the calculated theoretical reserve of approximately $201 million as of December 31, 2022. Given that the 2022 Depreciation Study is the forecast of events that will occur over many decades, a difference of less than 2% between the book and theoretical reserves should be considered a minor difference.

Q. In addition to the calculations performed for the 2022 Depreciation Study, have you performed any additional depreciation calculations for FCG?

A. Yes. At the request of FCG, I calculated the depreciation expense and theoretical reserves for FCG plant, with the exception of the LNG Facility, based on the parameters from the Peoples Gas System's most recent base rate case settlement approved by the Commission in Order No. PSC-2020-0485-FOF-GU, Docket Nos. 20200051-GU, 20200178-GU, and 20200166-GU. The results of these calculations are provided on pages 3 and 4 of Exhibit LF-5(B) attached to FCG witness Fuentes's testimony.

Q. Does this conclude your direct testimony?

A. Yes.

BY MR. WRIGHT:

Q Mr. Allis, do you have Exhibits NWA-1 through NWA-5 that were attached to your direct testimony?

A Yes.

MR. WRIGHT: Chairman, I would note that those have been identified as Exhibits 40 through 44 on the comprehensive exhibit list.

CHAIRMAN FAY: Okay.

BY MR. WRIGHT:

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

A Yes.

Q Are you also co-sponsoring Exhibit LF-5B attached to the direct testimony of FCG witness Fuentes?

A Yes.

MR. WRIGHT: Chairman, I would note that this has been identified as Exhibit 22 on the comprehensive exhibit list and will be moved not record following Ms. Fuentes' testimony.

CHAIRMAN FAY: Okay.

BY MR. WRIGHT:

Q Mr. Allis, do you have any corrections to any of your exhibits?

A No.

Q Mr. Allis, would you please provide a summary

of the purpose of your direct testimony?

A Sure.

The purpose of my direct testimony is to sponsor the '22 depreciation study filed on behalf of Florida City Gas on May 31st, 2022, which is reflected as Exhibit NWA-1 to my testimony. The study covers depreciable gas properties and service as of December 31, 2021, and actual project -- the actual and projected plant and reserve balances at the end of 2022.

Q And on October 3rd, 2022, did you file 24 pages of rebuttal testimony in this proceeding?

A Yes.

Q Do you have any corrections?

A I do not.

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

A Yes.

MR. WRIGHT: Chairman, I would ask that Mr. Allis' rebuttal testimony be inserted into the record as though read.

CHAIRMAN FAY: Okay. Show it entered.

(Whereupon, prefiled rebuttal testimony of Ned W. Allis was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20220069-GU

FLORIDA CITY GAS

REBUTTAL TESTIMONY OF

NED W. ALLIS

Topics: Service Life Estimates, Account Specific Discussion

Filed: October 3, 2022

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Ned W. Allis. My business address is 207 Senate Avenue, Camp Hill, PA 17011.

Q. Did you previously submit direct testimony?

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

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony responds to the depreciation-related testimony of Office of Public Counsel ("OPC") witness David J. Garrett. Specifically, I discuss the seven plant accounts and subaccounts for which OPC witness Garrett proposes longer service lives than my recommendations in FCG's 2022 Depreciation Study submitted with my direct testimony as Exhibit NWA-1.[1] OPC witness Garrett does not recommend changes to the net salvage estimates or any other aspects of the depreciation study. Accordingly, my rebuttal testimony will focus on explaining why the service lives recommended in the 2022 Depreciation Study are more reasonable than those recommended by OPC witness Garrett.

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

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

---

[1] Three sets of these accounts and subaccounts were studied together, so OPC witness Garrett and I only differ in our analysis for four distinct service life estimates.

- Exhibit NWA-6 – Excerpts from FCG's 2018 Depreciation Study in Docket No. 20170179-GU; and
- Exhibit NWA-7 – Excerpts from Mr. Garrett's testimony provided as Exhibit TURN-18 in California Application A.21-06-021.

II. SERVICE LIFE ESTIMATES

Q. Please explain the changes from the 2022 Depreciation Study recommended by OPC.

A. OPC witness Garrett recommends changes to seven depreciable groups, which are summarized in the Table 1 below. Table 1 provides the estimates proposed by FCG and OPC, as well as the current estimate for each account. Several of these subaccounts were studied together and both OPC witness Garrett and I have made the same estimates for subaccounts studied together.[2] As a result, there are four distinct service life estimates for which OPC's proposal differs from the Company's.

[2] Specifically, Accounts 376.1 and 376.2 were studied together, Accounts 378 and 379 were studied together, and Accounts 380.1 and 380.2 were studied together. While OPC witness Garrett's estimates for these accounts differ from mine, he has used the combined analysis for these pairings of accounts and he has recommended the same survivor curves for, as an example, Accounts 376.1 and 376.2. I have done the same.

Table 1: Comparison of FCG and OPC Service Life Estimates

Account	Current Approved Estimates	FCG Proposed Estimates	OPC Proposed Estimates
376.1, Mains - Steel	55-S3	65-R4	70-R3
376.2, Mains – Plastic	55-S3	65-R4	70-R3
378, M&R Sta. Eq. – General	30-S3	35-S3	45-S3
379, M&R Sta. Eq. – City Gate	35-S4	35-S3	45-S3
380.1, Services – Steel	45-S6	50-R2.5	55-R2.5
380.2, Services – Plastic	54-R2.5	50-R2.5	55-R2.5
383, House Regulators	30-S3	40-R2.5	47-R2

As the table shows, the recommendations in the 2022 Depreciation Study for these accounts are, in most instances, longer than the current estimates adopted in FCG's previous depreciation study (the "2018 Depreciation Study") included with FCG's last base rate case in Docket No. 20170179-GU. For the largest of these accounts (gas mains and gas services) as well as house regulators, my recommendations are for significantly longer lives than those adopted in the depreciation study that preceded the 2018 Depreciation Study (*i.e.*, the "2014 Depreciation Study" included in Docket No. 20140051-GU). For each of these accounts, OPC witness Garrett proposes to increase the service lives even further than what I have recommended. However, he does so with little support.

Q. What support does OPC witness Garrett provide to support increasing the service lives for these accounts?

A. OPC witness Garrett's support for each account is based on his interpretations of the Company's historical data. He does not provide any other factors that would support his longer lives over those I have recommended in the 2022 Depreciation Study.[3]

Q. In your judgment, is FCG's historical service life data sufficient to support OPC witness Garrett's estimates over yours?

A. No. While the Company has sufficient data to provide some degree of service life indications, the overall data set is available only for a relatively short period of time and does not provide definitive service life indications for many accounts. For any depreciation study, considerations other than the historical data should inform the service life recommendations, because depreciation involves forecasting the future (*e.g.*, the future service life experience and timing of future retirements) over many decades. Relying only on historical data implies that the future will be substantially similar to the past, which is not always a reasonable assumption. This is true even if there is extensive historical data available that provides fairly definitive indications of how long assets have survived in the past. If, however, the historical data set is more limited, which is the case for FCG, then it is even more important to properly consider other relevant factors.

[3] As I will discuss later in this testimony, OPC witness Garrett does provide a few general arguments and discussions. However, these have no bearing on FCG's service life estimates, do not provide any basis to support his proposals, and are in many instances incorrect.

Q. Can you further elaborate?

A. Yes. Service life estimates should incorporate factors such as general knowledge of the property studied, information obtained from site visits and meetings with Company subject matter experts, and an understanding of estimates used for similar property for other utilities. However, the degree to which these inform the ultimate service life estimates depend on the availability of the historical data and the quality of the results of the analyses of these data, as well as the extent to which other factors are expected to result in the future being different from the past. For example, if no historical data is available, then one would have to rely solely on other factors, such as estimates for similar property for other utilities and information obtained from site visits and discussions with company personnel familiar with the property. If, instead, there were extensive historical data that encompassed the full life cycle of the property studied and the future were expected to be substantially similar to the past, then one could rely significantly on the statistical analysis of the historical data to develop reasonable service life estimates. Real-world applications are typically somewhere in between, with the determination of how much to rely on the historical data a function, at least in part, of the quality and quantity of available historical data.

Q. To what extent was the historical data relied on in the previous depreciation study (*i.e.*, the 2018 Depreciation Study)?

A. For several accounts (including the largest plant accounts), the actuarial life analysis was not relied on in the 2018 Depreciation Study due to the length of time for which data were available and the lack of definitive statistical indications.[4] Further, for several accounts, the service lives were increased in the 2018 Depreciation Study, at times by 10 years or more. These were fairly significant increases in service lives.

Q. Given these considerations, what is, in your judgment, the most reasonable approach to the current study?

A. The current study has four more years of data than were available for the 2018 Depreciation Study. While this allows for a longer period to be available, the available data still only encompasses a relatively short 16-year period (2005 through 2020) and, for many of the accounts at issue, provides relatively limited indications of service life. As a comparison, I have performed depreciation studies for FCG's parent company, Florida Power & Light Company ("FPL"). For the most recent study for FPL, data were available from 1941 through 2019 – a 79-year period – which is much more extensive when compared to the 16-year period available for FCG. FPL is also a larger utility than FCG, which means that there is more data available due to a higher level of annual activity and a larger asset base. As a result, more reliance could be placed on FPL's data for its depreciation studies than would be the case for FCG. While judgment should still be exercised when estimating service lives for FPL, it is more critical for a company such as FCG.

For these reasons, while I considered the statistical indications resulting from the actuarial life analysis of FCG's data, the extent of available data necessitates giving

[4] *See*, for example, pp. 32, 34, 36, 38, and 40 of Exhibit DAW-2 in Docket No. 20170179-GU, which is provided as Exhibit NWA-6.

other factors, such as those discussed above, more consideration than would be the case with a utility that had more data. An additional factor is the estimates made and approved by the Florida Public Service Commission ("Commission") in prior depreciation studies for FCG. Given the limited historical data, and the uncertainty about FCG's service lives that result, it is also reasonable to incorporate the concept of gradualism, in which changes in estimates occur gradually rather than all at once. This is an accepted and understood regulatory and forecasting principle and, indeed, OPC witness Garrett has recently incorporated the concept of gradualism for estimates he has made elsewhere.[5]

Gradualism should consider estimates in previous studies and the extent to which service lives have increased. As I discuss later in this rebuttal testimony, particularly for the larger plant accounts, the service life estimates I recommend already represent increases when compared to the estimates used prior to the 2018 Depreciation Study. The further increases proposed by OPC are less gradual and represent significant changes in the time period between the 2014 Depreciation Study and current study.

Q. Should gradualism only apply to service life estimates?

A. No. If gradualism is applied inconsistently, then depreciation could be either too high or too low. Thus, the application of gradualism should also consider the net salvage estimates and be applied consistently because service life and net salvage estimates often have opposite impacts on depreciation (*e.g.*, longer service lives reduce

[5] *See*, for example, page 59 of Mr. Garrett's testimony provided as Exhibit TURN-18 in California Application A.21-06-021, which is provided as Exhibit NWA-7.

depreciation while more negative net salvage increases depreciation). For FCG, the historical net salvage data could support higher negative net salvage estimates than I have recommended in the 2022 Depreciation Study. I have applied a degree of gradualism to the net salvage estimates and have considered changes to service lives in a similar context.

Further, as shown in Figure 1 on page 28 of my direct testimony,[6] the service lives I have recommended produce a significant reduction in depreciation expense of approximately \$2.4 million. While the data supports potentially greater changes for net salvage (and, in turn, a greater increase in depreciation) than I have recommended, my net salvage recommendations produce a smaller increase of \$1.8 million. Indeed, my total recommendations for both service lives and net salvage produce a decrease in depreciation expense of approximately \$600 thousand. While this is more than offset by the impact of updating the depreciation study to use current plant and accumulated depreciation balances (*i.e.*, something beyond the control of the depreciation study), the fact remains that the overall service life and net salvage recommendations result in a net decrease in depreciation expense.

If we were to reconsider the estimates I have made and increase service lives further as proposed by OPC witness Garrett, I think the fact that the changes in net salvage also incorporated gradualism needs to be considered. If we are to incorporate less gradualism than used for my recommendations, then perhaps both longer lives and

[6] See direct testimony of FCG witness Allis, p. 28.

more negative net salvage would be appropriate. In the overall context of gradualism and previous depreciation studies, as well as the other factors discussed above, I believe my recommendations are more reasonable than those proposed by OPC witness Garrett. This is particularly true once we recognize that the service life estimates have already increased significantly over the past eight years.

Q. How do the recommendations in this case compare to prior depreciation studies?

A. Table 2 below provides, for the accounts contested by OPC witness Garrett, a comparison of the service life estimates approved by the Commission in each of the previous two depreciation studies (the 2014 Depreciation study and 2018 Depreciation Study), as well as those FCG proposed in the 2018 Depreciation Study, to the estimates I have made and those recommended by OPC witness Garrett in this docket.

Table 2: Comparison of Service Life Estimates

Account	2014 Study Approved	2018 Study Proposed	2018 Study Approved	2022 FCG Proposed	2022 OPC Proposed
376.1/376.2, Mains	42/40	55	55	65	70
378/379, M&R	30	30/35	30/35	35	45
380.1/380.2, Services	35/34	45	45/54	50	55
383, House Regulators	25	30	30	40	47

Q. What conclusions do you draw from the analysis shown in Table 2?

A. As Table 2 demonstrates, the recommendations I have made in the 2022 Depreciation study are, for several of these accounts, for significantly longer lives than those approved in the 2014 Depreciation Study. For example, my recommendations for gas mains are for an average service life that is close to 25-years longer than those approved in the 2014 Depreciation Study. For gas services, the average service lives I have recommended are about 15 years longer than those approved in the 2014 Depreciation Study. These are the largest plant accounts, and for both types of assets the increases in service lives are fairly large given that it has only been eight years between the 2014 Depreciation Study and 2022 Depreciation Study. Keep in mind there has been a relatively limited amount of historical data available and, as such, there is a relatively limited statistical basis for increasing these lives.

Q. What support does OPC witness Garrett provide for his recommendations?

A. While OPC witness Garrett provides discussion of legal standards and provides a few general criticisms of the Company, the only Company-specific information he discusses is the statistical results. I will respond to his more general arguments and criticisms and, in particular, will explain that his positions on estimating service lives is inconsistent with depreciation textbooks and best practices. Further, as discussed above, because the historical data is relatively limited, it is even more important to consider additional factors – factors which OPC witness Garrett does not even discuss in his testimony.

Q. Do any of the general discussions in OPC witness Garrett's testimony have any bearing on the specific issue of FCG's proposed depreciation rates?

A. No. As I have discussed previously and shown in Figure 1 on page 28 of my direct testimony, there can be no argument that FCG's proposed depreciation rates are excessive. The recommended service lives and net salvage actually reduce depreciation expense from the estimates currently approved by the Commission and, as a result, should not be considered excessive (since, presumably, the Commission did not approve excessive depreciation rates in the 2018 Depreciation Study).

Further, Mr. Garrett's discussion is largely identical to the general discussion he includes in almost every depreciation-related testimony he has submitted over the past five years in proceedings in which I or my firm have participated. Indeed, as evidence that his arguments have no specific relevance to FCG, his discussion erroneously refers to the Company as "Piedmont," to me as "Mr. Watson," and cites to the wrong case and someone else's testimony to support his unfounded and incorrect allegation that the basis for my recommendations are that "[Company] employees have simply told the Company's independent depreciation expert how long they think the Company's assets will survive…"[7] Clearly, the general discussions OPC witness Garrett has provided are not based on anything specific to FCG and should have no bearing on the appropriate service life estimates for the Company.

Further, OPC witness Garrett's general discussions and criticisms are both incorrect and irrelevant to the issue of selecting the most reasonable service lives. A review of his testimony makes it clear that OPC witness Garrett has given little, if any, consideration to any Company-specific information or other factors that impact the Company's service lives, with the exception of the statistical analysis of sixteen years of data. For example, OPC witness Garrett makes the following statement:

> Generally, for the accounts in which I propose a longer service life, that proposal is based on the objective approach of choosing an Iowa curve that provides a better mathematical fit to the observed historical retirement pattern derived from the Company's plant data.[8]

[7] See direct testimony of OPC witness Garrett filed on August 26, 2022, pp. 89-90.

[8] See direct testimony of OPC witness Garrett, p. 88, lines 15-18.

There are several issues with this. First, OPC witness Garrett's statement is not actually true with respect to FCG. For the largest account (gas mains), OPC witness Garrett's estimate is not a better mathematical fit than my recommendation and so a consistent use of the "objective" approach espoused by OPC witness Garrett would result in my estimate rather than his.[9] Second, given the extent of the available historical data, additional support is needed and additional information should be considered – particularly given that my recommendations already represent significantly longer lives than were used only eight years ago. Finally, his overall approach is incorrect. Estimating service lives is not, and cannot be, a purely "objective" process.

Consider, as an example, the following statement from OPC witness Garrett's testimony in which he describes his approach. He is asked if he always selects the "mathematically best-fitting curve." While OPC witness Garrett claims that he does not always do so, he states the following:

> Mathematical fitting is an important part of the curve-fitting process because it promotes objective, unbiased results. While mathematical curve-fitting is important, however, it may not always yield the optimum result. For example, if there is insufficient historical data in a particular account and the OLT curve derived from that data is relatively short and flat, the mathematically "best" curve may be one with a very long average life. However, when there is sufficient data available, mathematical curve fitting can be used as part of an objective service life analysis.

OPC witness Garrett's testimony gives the impression that mathematical results should generally be accepted and instances in which the proper service life estimate is not a

[9] For example, for the full range of data points in the original life table, the residual measure for the Company's proposed 65-R4 curve is 1.73, as compared to a residual measure of 2.04 for OPC witness Garrett's proposed 70-R3.

best "mathematical fit" would be a relatively unusual exception (such as if there is insufficient data). His reasoning for reliance on mathematical results is that doing so promotes "objectivity." While I recognize the intuitive appeal of objective results, presumably to remove uncertainty and make the job of estimating service lives easier, the objectivity sought by OPC witness Garrett is neither realistic nor desirable in the development of a reasonable forecast of the future. It will, and does, produce unrealistic and unreasonable results, particularly in situations where the available historic data is limited, which is the case for FCG as explained above.

Q. Do authoritative sources such as the National Association of Regulatory Utility Commissioners ("NARUC") explain the importance of a subjective component to estimating service lives?

A. Yes. NARUC explains that there must be a subjective component to estimating service lives. Chapter XIII of NARUC's publication *Public Utility Depreciation Practices*, entitled "Actuarial Life Analysis" discusses and emphasizes the subjective nature of the process of estimating service lives. NARUC starts this chapter by explaining that the analysis of historical data is only one part of the process of estimating service lives:

> Actuarial analysis objectively measures how the company has retired its investment. The analyst must then judge whether this historical view depicts the future life of the property in service. The analyst takes into consideration various factors, such as changes in technology, services provided, or capital budgets.[10]

NARUC also explains that the process of estimating service lives must go beyond any objective measurement of the past. In describing the determination of a survivor curve estimate (referred to as the "projection life" in this passage), NARUC states:

[10] NARUC, *Public Utility Depreciation Practices*, (1996), p. 111.

> The projection life is a projection, or forecast, of the future of the property. Historical indications may be useful in estimating a projection life curve. Certainly, the observations based on the property's history are a starting point. Trends in life or retirement dispersion can often be expected to continue. Likewise, unless there is some reason to expect otherwise, stability in life or retirement dispersion can be expected to continue, at least in the near term.
>
> Depreciation analysts should avoid becoming ensnared in the mechanics of the historical life study and relying solely on mathematical solutions. The reason for making an historical life analysis is to develop a sufficient understanding of history in order to evaluate whether it is a reasonable predictor of the future. The importance of being aware of circumstances having direct bearing on the reason for making an historical life analysis cannot be understated. These circumstances, when factored into the analysis, determine the application and limitations of an historical life analysis.[11]

Thus, NARUC strongly advises against the approach used by OPC witness Garrett, stating clearly that "relying solely on mathematical solutions" should be avoided. NARUC further elaborates on the need for a subjective component to forecasting service lives:

> A depreciation study is commonly described as having three periods of analysis: the past, present, and future. The past and present can usually be analyzed with great accuracy using many currently available analytical tools. The future still must be predicted and must largely include some subjective analysis. Informed judgment is a term used to define the subjective portion of the depreciation study process. It is based on a combination of general experience, knowledge of the properties and a physical inspection, information gathered throughout the industry, and other factors which assist the analyst in making a knowledgeable estimate.
>
> The use of informed judgment can be a major factor in forecasting. A logical process of examining and prioritizing the usefulness of information must be employed, since there are many sources of data that must be considered and weighed by importance. For example, the following forces of retirement need to be considered: Do the past and current service life dispersions represent the future? Will scrap prices rise or fall? What will be the impact of future technological

[11] NARUC, *Public Utility Depreciation Practices*, (1996), p. 126 (emphasis added).

> obsolescence? Will the company be in existence in the future? The analyst must rank the factors and decide the relative weight to apply to each. The final estimate might not resemble any one of the specific factors; however, the result would be a decision based upon a combination of the components.[12]

NARUC also explains:

> The use of informed judgment sometimes becomes a point of controversy in the regulatory setting because some of the analyst's opinions cannot be quantified or easily supported. It is sometimes impossible to pinpoint the reasons for making a decision that diverges from a company's historical data or standard reference material. For instance, limited retirement data show that a new transformer design appears to have significantly shorter service life; this would result in a significantly higher depreciation rate. Since this is a new design, there is no field experience to apply to the estimate, other than the scant data. Should the rate be based solely on the data? In the other extreme, should this preliminary data be given little weight and should the rate be based upon other types of transformers as reasonable indicators of the life of this new design? It is the analyst's responsibility to apply any additional known factors that would produce the best estimate of service life. The analyst's judgment, comprised of a combination of experience and knowledge, will determine the most reasonable estimate.
>
> In summary, several factors should be considered in estimating property life. Some of these factors are:
>
> 1) Observable trends reflected in historical data;
> 2) Potential changes in the type of property installed;
> 3) Changes in the physical environment;
> 4) Changes in management requirements;
> 5) Changes in government requirements; and
> 6) Obsolescence due to the introduction of new technologies.[13]

Q. Have you incorporated the various factors discussed by NARUC into your estimates?

A. Yes. I conducted a site visit earlier this year and had discussions with Company subject matter experts to familiarize myself with the Company's assets. The

[12] NARUC, *Public Utility Depreciation Practices*, (1996), p. 128.

[13] NARUC, *Public Utility Depreciation Practices*, (1996), p. 129.

information and notes I obtained were included in my workpapers produced in FCG's response to OPC's First Request for Production of Documents, Request No. 7, and a discussion on each account is included in Part X of my 2022 Depreciation Study. In addition, throughout my career, I have participated in over a hundred depreciation studies for utilities throughout the country. The information obtained from this experience has also been incorporated into my recommendations.

Q. Has OPC incorporated these factors into their recommendations?

A. No. Not only does OPC witness Garrett not discuss these factors in his testimony related to his service life estimates, his proposal to increase the lives for gas distribution assets beyond the Company's recommendation makes clear these factors have not been given due consideration.

Further, OPC witness Garrett describes his differences from my proposals as follows:

> Generally, for the accounts in which I propose a longer service life, that proposal is based on the objective approach of choosing an Iowa curve that provides a better mathematical fit to the observed historical retirement pattern derived from the Company's plant data.[14]

Again, estimating service lives is not and should not be a purely mathematical exercise and must incorporate some degree of subjectivity. OPC witness Garrett's process for estimating service lives, as described in his testimony, does not follow the proper approach of incorporating informed judgment. It is particularly important for FCG's current case, due to the extent of the available data.

[14] See direct testimony of OPC witness Garrett, p. 88, lines 15-18.

Q. How does one determine which data points should be excluded or given less emphasis in the analysis?

A. Informed judgment is required to make such a determination, but several factors should be considered. One factor is the dollar level of exposures for later ages. As OPC witness Garrett points out in his testimony, later ages are normally given less weight in the analysis when there are far fewer exposures available than for earlier parts of the curve.[15] Often, once exposures hit 1% or less of the exposures at age 0, the data becomes less reliable than data from earlier ages. However, the 1% cutoff is a general guideline that can be explored and analyzed by the analyst when deciding where to make a T-Cut of the Original Life Table ("OLT") curve. There are often instances when this guideline is not as reasonable, such as when it eliminates data points that provide important information about the survivor characteristics for the account.

Another factor to consider is the ages where the percent surviving ranges from 80% to 20%. These data points are considered to provide the most significant retirement activity and the most representative of the survivor characteristics for a life table. This is because the middle portion of the curve is where the majority of retirements occur. There are relatively few retirements at the "head" of the curve, and relatively few retirements at the "tail". In the development of survivor curves for Bulletin 125 of the Iowa Engineering Experiment Station, Robley Winfrey (who developed the Iowa Survivor curves) provides analysis showing that when performing curve fitting, the

[15] See direct testimony of OPC witness Garrett, p. 87, lines 20-21.

emphasis should be placed not on the first 20% of the curve or the last 20%, but rather on the information in the middle years. Mr. Winfrey's analysis is based on the probable error involved in fitting a smooth survivor curve to an observed life table with varying percentages surviving. He concludes:

> When survivor curves are to be classified according to the 18 types and the probable average life to be determined, it is recommended that more weight be given to the middle portion of the survivor curve, say that between 80 and 20 percent surviving, then to the forepart or extreme lower end of the curve. The inner section is the result of greater numbers of retirements and also it covers the period most likely the normal operation of the property.[16]

In summary, there are a number of factors to be considered and these should be reviewed based on the specifics of each account. Additionally, visual curve matching can allow one to give more or less consideration to some ranges of data points, even if these points are not excluded from the analysis. I will discuss these considerations for each account at issue in the next section.

Q. How do these factors inform the analysis for FCG?

A. In many instances, the original life tables resulting from FCG's data either only decline slightly below 80% surviving (*e.g.*, to around 70% surviving) or do not decline below 80% surviving at all. As a result, there is limited data for the middle portion of the curve (*i.e.*, between 80% and 20% surviving). This means both that the statistical analysis provides limited indications of service life and that excluding later data points (*e.g.*, those beyond the 1% threshold) may effectively eliminate the middle portion of the curve. These factors provide further reason that additional factors and judgment must be incorporated into the service life estimates.

[16] Bulletin 125, Iowa Engineering Experience, Winfrey, Robley, 1935, page 91.

III. ACCOUNT-SPECIFIC DISCUSSION

Q. Please discuss Accounts 376.1, Mains – Steel and 376.2, Mains – Plastic.

A. These two subaccounts were studied together and both OPC witness Garrett and I recommend that both subaccounts use the same service life estimate. My recommendation is the 65-R4 survivor curve, which is an increase in average service life of 10 years when compared to the current estimate and an increase of 23 years for steel mains and 25 years for plastic mains when compared to the estimates adopted in FCG's 2014 Depreciation Study. OPC witness Garrett's proposal to use the 70-R3 and increase the life further appears to only be based on his review of the statistical results. However, my recommended 65-R4 survivor curve for this account is a better mathematical fit than his recommendation.[17] Thus, OPC witness Garrett has provided no basis to support the conclusion that his estimate is more appropriate than mine.

OPC witness Garrett is also incorrect to emphasize the "upper and middle portions of the OLT curve"[18] and his discussions on this point are inconsistent with accepted depreciation practices. First, he has not actually emphasized the middle portion of the curve, which, as discussed above, is generally understood to be the portion in more of the 80% to 20% surviving range. Contrary to this understanding, the portion of the curve OPC witness Garrett emphasizes does not decline below 80% surviving. Indeed, there is barely any middle portion of the curve at all, as few data points decline below

---

[17] The residual measure of the Company's proposed 65-R4 curve is 1.73, as compared to a residual measure of 2.04 for OPC witness Garrett's proposed 70-R3 against the overall curve. At the 1% threshold, the residual measure of the Company's curve is 1.65, as compared to OPC witness Garrett's 1.90 curve.

[18] *See* direct testimony of OPC witness Garrett, p. 91, lines 7-10.

80% surviving.[19] Second, by focusing more on the points before age 50, OPC witness Garrett gives little consideration to the only points that do fall within the 80% to 20% range. Finally, the fact that so few data points decline into this range means that we need to consider the information provided by the handful of points that do decline to this range. These data points show a sharper decline in the survivor curve than incorporated into OPC witness Garrett's estimate.

In summary, all of this information supports my recommended 65-R4 survivor curve over OPC witness Garrett's proposed 70-R3 survivor curve estimate. Again, the 65-R4 survivor curve is the better mathematical fit of the data and is more reasonable because OPC witness Garrett's proposal would represent a 30-year increase in average service life from the estimates adopted in the 2014 Depreciation Study.

Q. Please discuss Account 378, Measuring and Regulating Station Equipment – General and Account 379, Measuring and Regulating Station Equipment – City Gate.

A. For these accounts, there have been few recorded retirements over the period of historical data available. The statistical life analysis provides limited information as a result. Absent more definitive data, I think it is more reasonable to not make very significant changes to the service lives. The current estimates are within the range of other utilities in the gas industry. Further, given the location, climate, and configuration of FCG's assets in these accounts, in my judgment we should expect the service lives

[19] I note that this is not uncommon for gas companies, and particularly newer gas companies. Plastic mains as a technology are only about fifty years old – less than the average service life typically estimated for most gas utilities. As a result, there is little, if any, historical experience plastic mains that decline into the 80% to 20% surviving portion of the curve.

for these accounts to be closer to the lower end of the industry range. In particular, FCG's measuring and regulating stations are typically outdoors, above ground, and exposed to the fairly harsh operating conditions in Florida (particularly in terms of precipitation and proximity to the ocean). In my experience, other above-ground assets for Florida utilities have typically experienced lives closer to the shorter end of the typical industry range. I think this provides a more reasonable basis for FCG's estimates until more extensive data is available. Accordingly, OPC witness Garrett's proposal to increase the average service lives an additional ten years is not appropriate at this time.

Q. Please discuss Account 380.1, Services – Steel and Account 380.2 – Services – Plastic.

A. As with the previous two accounts, the historical data does not provide definitive indications of service life. The data does not decline below 70% surviving and most of the significant data points in terms of exposures remain above 80% surviving. My estimate is a five-year increase over the recommendation in the 2018 Depreciation Study. It is also a 15-year increase in average service life for steel services and a 16-year increase for plastic services when compared to the estimates adopted in the 2014 Depreciation Study. In my judgment, it is unreasonable to increase the service life further, and a more gradual approach is most reasonable until more data is available.

Q. Please discuss Account 383, House Regulators.

A. For this account, I recommend the 40-R2.5 survivor curve, which is an increase in the average service life of ten years when compared to the current estimate and an increase of 15-years when compared with the estimate adopted in the 2014 Depreciation Study.

I believe these are already fairly significant increases in service life over a relatively short period of time. Further, house regulators and other property at customer locations are often replaced when a meter is replaced (although this does not always occur every time a meter is replaced). House regulators are also often replaced when services are replaced. The 40-R2.5 survivor curve I have recommended has twice the average service life as gas meters and an average service that is ten years less than gas services. This is, in my judgment, an overall reasonable approach. In contrast, OPC witness Garrett's proposal is considerably more than twice the average service life for meters. It is also longer than his estimate for Account 384, House Regulator Installations, an account for which I would expect a similar service life to house regulators. For these reasons, I do not believe his recommendations are as reasonable as mine.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BY MR. WRIGHT:

Q Mr. Allis, do you have Exhibits NWA-6 through NWA-7 that were attached to your rebuttal testimony?

A Yes.

MR. WRIGHT: Chairman, these have been identified as Exhibits 113 and 114 on the comprehensive exhibit list.

BY MR. WRIGHT:

Q Were these exhibits prepared by you or under your direct supervision?

A Yes.

Q Do you have any corrections to these exhibits?

A No.

Q Mr. Allis, would you please provide -- or would you please summarize the purpose of your rebuttal testimony?

A Yes.

The purpose of my rebuttal testimony is to respond to the depreciation related testimony of OPC witness Garrett, who proposes longer service lives for seven plant accounts and subaccounts than those I recommend in FCG's 2022 depreciation study.

My rebuttal testimony explains why the service lives recommended in FCG's 2022 depreciation study are, in my view, more reasonable than those recommended by

OPC witness Garrett.

Q Thank you.

MR. WRIGHT: Chairman, we tender the witness for cross.

CHAIRMAN FAY: Okay. Thank you.

All right. Ms. Wessling, you are recognized when you are ready.

MS. WESSLING: Thank you, Mr. Chair.

EXAMINATION

BY MS. WESSLING:

Q And good afternoon, Mr. Allis.

A Good afternoon.

Q All right. So we've gone through this, it's pretty clear already, but just to fill out the record. You were hired by Florida City Gas to conduct and prepare a depreciation study in this case, correct?

A Yes.

Q And you have testified about depreciation related topics in at least a dozen different utility case jurisdictions across the United States and Canada, correct?

A Yes.

Q And you also actually teach a course in depreciation for the Society of Depreciation Professionals, right?

A Yes. And more precisely, I teach parts of several courses for the Society of Depreciation Professionals.

Q How long have you been doing that?

A I don't recall exactly. I think at least a decade.

Q At least a decade.

All right. And one of the fundamentals of depreciation that you teach in one or more of those courses is that imbalances are to be eliminated, correct?

A No.

Q As far -- what -- what do you teach as far as theoretical reserves are concerned?

A Theoretical reserves, to the extent I have taught about theoretical reserves, it's typically an explanation of how they are calculated, kind of what they represent, and, you know, different techniques that are used to address theoretical reserves and theoretical reserve imbalances.

Q Typically, it's different ways of resolving imbalances, correct?

A Well, no. I don't know that I agree with that characterization. I mean, there are different ways to address theoretical reserve imbalances, you know, the remaining life technique being one of them. But I am certain with the word eliminate in some of the connotations that I think that might provide.

Q Well, let me ask a different question. You don't teach depreciation professionals to create imbalances, do you?

A No, but I don't know how a depreciation professional would create an imbalance. It's kind of a summary of everything that's happened in current estimates.

Q All right. And you are unaware of any treatises similarly that would promote the creation of imbalances by depreciation professionals, correct?

A Again, I am struggling a bit with the characterization there. Depreciation textbooks do discuss theoretical reserve imbalances, and similar stuff to what I explained I teach what they are, how they're -- how you calculate a theoretical reserve and different approaches to address theoretical reserve imbalances.

Q Isn't it true that outside of Florida, no state has authorized the creation of an imbalance solely for the purpose of managing earnings?

A I -- there is a lot to that question. I don't know.

Q I will ask -- so to your knowledge, then, outside of Florida, are you aware of any other state that's authorized the creation of an imbalance solely for the purpose of managing earnings?

A I don't know that I am aware of anywhere, including Florida, where exactly what you characterize has happened. There have been examples of theoretical reserve imbalances being addressed with amortizations in other jurisdictions, if that's what the question is getting at.

Q All right. And no client of yours, other than Florida City Gas, or its parent company, Florida Power & Light, have asked you to propose parameters and rates for the specific purpose of creating a reserve surplus, correct?

A Can you rephrase that again? I am struggling with these questions.

Q Sure.

So you have never had another client outside of either Florida City Gas or Florida City Gas' parent company, Florida Power & Light, ask you to propose parameters and rates for the specific purpose of creating a reserve surplus, correct?

A So the question you asked I think the answer is yes, that is correct. But I think you are characterizing something that's -- or either you are accusing FPL or FCG of doing that I don't think I completely agree with either.

Q All right. That's fine.

You testified in the 2021 Florida Power & Light rate case, where the reserve surplus amortization was proposed in the electric case, correct?

A Correct, that I testified in the 20 -- FPL's 2021 rate case.

Q All right. And in that 2021 FPL rate case, you offered your expert opinion based on a consistent set of depreciation principles that supported the depreciation study parameters in rates that you supported in your testimony, right?

A Yes, that sounds correct.

Q All right. And that's similarly here, you have -- you have provided assistance to Florida Power & Light to provide alternative depreciation parameters and rates designed to intentionally create a theoretical depreciation reserve imbalance, correct?

A No, I wouldn't agree with that characterization.

Q All right.

MS. HELTON: Mr. Chairman, I am having a hard time hearing the witness, so maybe if he could bring the microphone a little bit more close in line to his mouth, that might help.

CHAIRMAN FAY: Okay. Sure.

THE WITNESS: Is that -- is that better?

MS. HELTON: Yes. Thank you.

THE WITNESS: Thanks.

CHAIRMAN FAY: And, court reporter, were --

COURT REPORTER: I was fine.

CHAIRMAN FAY: You are okay? Great. Thank you. No problem.

BY MS. WESSLING:

Q All right. If you could look at page five of your direct testimony for me. All right. So looking at pages -- or excuse me, lines 15 through 19, that's where you mention co-sponsoring a portion of an exhibit that incorporates RSAM information that's going to be talked about by witness Fuentes, correct?

A Yes.

Q So your test -- you are co-sponsoring essentially the mechanical calculations within those rates, but you are not necessarily endorsing that testimony, correct?

A Yes. I think that -- that sounds accurate. And maybe I could just elaborate a little bit more.

I did perform the calculations of the result of using the parameters that are included in Exhibit LF-5B. They -- some of the service lives and net salvage differ from those that I have recommended that I believe are most reasonable based on my judgment that are those that are included in Exhibit NWA-1. And from what I understand, exhibit -- those shown in Exhibit LF-5B are kind of an alternative view of, you know, kind of a different outlook for the assets than the ones I have recommended.

Q So you are only endorsing the calculations themselves, correct?

A I have -- maybe I don't understand the question. I performed the calculations.

Q One moment.

All right. Okay. If you have your rebuttal testimony, would you please turn to page 11 for me? And do you see Table 2 there?

A Yes.

Q All right. That table shows a comparison of service life estimates that both you and Mr. Garrett calculated, correct?

A Not exactly, particularly because of the word calculated.

Two of the columns here are the service -- average service lives recommended by myself, which are those under 2022 FCG proposed column, as well as those recommended by Mr. Garrett, which are those under the 2022 OPC proposed column. And then there is also three other columns showing what had been recommended and approved in prior depreciation studies for FCG.

Q Okay. Well, with regard to the columns that represent both your and Mr. Garrett's recommendations, I would like to ask you some questions about those, but if you have a copy of Mr. Garrett's testimony, I believe it might be easier to look at this in a graphical format. So if you have Mr. Garrett's testimony, could you pleasing to page 95? Are you there?

A Yes.

Q Okay. So do you see Figure 19 on page 95 of Mr. Garrett's testimony?

A Yes.

Q And would you agree with me that this graph -- I mean, subject to check -- that this graph represents basically a graphical way of looking at what was in the third row of Table 2 in your rebuttal testimony that we just referred to?

A Partially yes, in the sense that the average service lives that were in Table 2 are encompassed in the dashed and solid lines that are on this Figure 19, those are just for everyone's reference. If you are not up on all depreciation things, those are graphs of survivor curves, although, they don't extend the whole way down to zero percent surviving.

I have a graph on page 63 of Exhibit NWA-1 that actually shows the, kind of the complete survivor curve I recommended, as well as the historical data, with is analogous to the triangles shown in Mr. Garrett's graph.

Q Okay. I will try to stick to questions that we don't need to have the full graph for. I will try to stick to questions that Figure 19 can address.

I understand that both you and Mr. Garrett have a difference of opinions regarding service life estimates for this account, but in your rebuttal testimony, you did not dispute the accuracy of the curves drawn in this graph, correct?

A Are you asking about the specific data points shown for each of the things in this graph?

Q Yes. I am asking whether or not, in your rebuttal testimony, you disputed the accuracy of the information that's contained in Figure 19?

A I don't know if I -- I don't think that I did do that in my rebuttal testimony. Although, I did not fully test all of Mr. Garrett's numbers because I tend to rely on the ones that I have calculated.

Q All right. For the curve that is displayed in little black triangles, that's the OLT curve, correct?

A Yes. And OLT stands for original life table or observed life table.

Q That was my next question, so thank you.

Does that curve represent FCG's actual retirement data?

A Yes, in the sense that it represents original life tables constructed from recorded retirement data for the given set of experience and placement bands.

Q All right. And in this graph, there is, as you pointed out, two other different Iowa curves recommended by both you and Mr. Garrett, correct?

A Yes. Although, I would, again, clarify that the entirety of the curves is not shown in the graph. They stopped, it looks like somewhere around age 57 or so.

Q Fair enough.

And you recommended the R2.5-50 Iowa curve shown in the curve made out of the dashes I believe, as you already pointed out, is that right?

A Yes.

Q All right. And Mr. Garrett represented, or excuse me, recommends the R2.5-50 Iowa curve that's in the solid line in the graph, right?

A Yes. I think you said 50. His is a 55 R two-and-a-half. So it has a 55-year average service life.

Q Yes. You are correct. Thank you.

And in your rebuttal testimony, you do not dispute that Mr. Garrett's Iowa curve resulted in a closer fit to the OLT curve for this particular account, correct?

A I don't -- I don't know that I disputed his specific calculation, but I wouldn't necessarily agree that his is a better fit for all of the curve that -- curve fitting, there is a bit of an art to selecting data points and things like that. And so for example, you can see that my estimate fits the data better through about age 30. Maybe his does for the next 10 years or so, and then the data is above both of our estimates, which would indicate potentially even a longer life for the points thereafter.

Q Would you agree that it's generally true that one of the aspects of Iowa curve fitting involves using past information in order to predict what will occur in the future?

A Yes, I would agree that that is one aspect. But I would like to emphasize that there is an important thing in your question, which is that it is about predicting the future, in that any estimates in depreciation study are necessarily a forecast of the future.

Q All right. And looking at this particular graph, again Figure 19, and it may be a little hard to see, but would you agree with me that at an age of 50 years on the X axis, that there are more than 70 percent of the assets surviving in this account?

A Yes.

Q And your Iowa curve suggests that, at an age of 50 years, there are a little more than 50 percent of the assets surviving in this particular account, correct?

A Yes, I would agree with that. And if I could just elaborate on that slightly more.

If you look at the actual original life table, which is on pages 64 and 65 of Exhibit NWA-1, you can see that the level of exposures, which are basically the balances which are there for a given age, declines pretty significantly after age 50, and so that would be one reason why, in my judgment, those data points should be given less consideration than the preceding ones.

MS. WESSLING: Nothing further.

CHAIRMAN FAY: Okay. FEA?

CAPTAIN DUFFY: No questions.

CHAIRMAN FAY: No cross, okay.
Mr. Moyle, you are recognized when you are ready.
MR. MOYLE: Thank you.

EXAMINATION

BY MR. MOYLE:
Q Both you and OPC's witness put forward longer service lives, is that right, on your chart?
A I am sorry, do you mean for this specific account?
Q Right. I am looking at the chart that's found on page five of your testimony. Just tell me what that -- what that depicts, Table 1, comparison of FCG and OPC's service life estimates.
A So to your first question, actually it's a little bit of a mix, because this -- this -- steel and plastic services were studied together by both myself and Mr. Garrett. So actually I recommend an increase for one and a decrease for the other. So to some degree, on average, they are kind of staying the same, and Mr. Garrett recommends an increase for both, to a 55-year average service life.
Q So for the 376.1 main steel, what's your recommendation?
A Oh, I am sorry. I was looking at account 380,

gas services, just to clarify, because that was the account we were looking at before. And for gas mains, you are correct, both Mr. Garrett and myself recommend increases in the average service life.

Q And really -- really, your difference is a matter of degree between you and the OPC witness?

A I would say yes to that in part. That would, I think, be one -- one difference as a matter of degree. I talk about gradualism and some of those things in my rebuttal testimony.

Q And you would agree, I mean, ultimately these service lives come down to a matter of judgment, do they not?

A Yes, I would agree with that.

Q And you don't have any qualms or qualification about OPC's witness in terms of his expertise, his background?

A No. Although, I would say that Mr. Garrett and I come across each other from time to time, and I tend to disagree with him. He tends to think things will last longer than I do on average.

Q What -- you rely on historical data. That's an important characteristic in your analysis, correct?

A Yes, that would be one important consideration. Although, as I talk about in my rebuttal testimony, that's often a function of the overall time period and sample size and degree of data available.

Q Let me, as a general proposition, do you -- do you really have to look at whether it's steel in the ground, or plastic in the ground, or can you draw conclusions just based on the materials that are used, you know, steel versus plastic?

A Maybe I am not -- maybe I am not following the question when you say -- are you asking if, like, you have to excavate and look at the mains in the ground get a good since of their life characteristics?

Q Yeah. I am just trying to understand, you know, how you would qualitively weigh and balance information that if steel maker X said this steel that we are producing now, it's going to get you a service life of Y, you know, because we are using X, Y and Z and some improvements, that piece of information and data as compared to going in and looking at steel in the ground that's been there for umpteen years?

A I see. Yeah. I mean, that's a good question. And, you know, you -- this is where kind of judgment comes in that you are weighing lots and lots of different considerations. So I mean, nicely, you often have historical data for the specific utility you are studying, so that's one factor. But again, that's a function of how much data is available.

So I am often looking at perhaps if there is information from manufacturers that's useful, depending on the situation. But I also will consider what I have seen for other utilities. I try to go out into the field and see property for each company that I study. But it's useful for not just that particular utility, but other ones I have studied as well. And so you are kind of pulling all of that information together. And if there is, say, changes in materials or technologies, you need to consider those different aspects.

But, you know, overall, with the information available here, I think that what I have recommended is well within an overall range of reasonableness, and so that's probably true of any -- any of the -- anything here.

Q All right. So you are recommendation, as you just said, I mean, it's within a range. You are not saying, oh, this is it exactly. It's within a range reasonableness, correct? If you could go yes, no and then explain if you need to.

A Yes. I mean, I think, again, you know, we're -- if you look at the average service lives in this Table 1 we are looking at, there is as long as, you know, 70 years. And that's an average, right? So that means that some are going to last longer than that. So this is why I say, again, by necessity, a depreciation study is trying to forecast the future, and it's trying to forecast 70 plus years into the future here.

So I don't think anyone can expect 100 percent accuracy. There is always going to be a degree of judgment and trying to be as reasonable as you can. And so that has to be done based on the information we have today, and our best expectations about the future.

Q Right. The Chair made a good point when he was introducing how things work at the Commission that I should have picked on, which is, you know, when you are answering questions, a yes/no, and you did a nice job of answering the question to say, yes, it's within a range. Then he said if clarification is needed, you can clarify, and I didn't need clarification. I should have left that to your lawyer to ask for the further information, but I appreciate that.

The last question, or line of questions, is tell me what you did, if anything, when making your judgment considering the climate of south Florida, some near the ocean, as to how that would affect the service lives, if you considered that at all?

A Yes, that was a consideration.

You know, I -- from what I have seen, I

haven't -- I see that it's probably maybe a little bit more on the things that are above ground. I talk about that a little bit in my rebuttal testimony about some of the measuring and regulating station equipment, and that at least for comparable above ground facilities, I think the harsher climate in Florida could have an impact on lives.

However, you kind of have to weigh that with how different things are constructed. Like a lot of, say, for example, northeastern cities, a lot of that equipment is in vaults underground, you know. So there, there is kind of different forces and you will have, say, runoff from, you know, salt from snow removal and things like that that end up in those pits, and they can have different operational challenges.

So I guess, in summary, yes, I did try to consider that information, as well as all the other stuff we talked about.

Q And a saltier environment results in shorter service lives than an environment that's not high in salt?

A All else equal, that might be a yes. It depends on the material type, and things like that as well. So for corrosive -- stuff that corrodes, all else equal, I would expect that is possibly true.

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

CHAIRMAN FAY: Okay. Staff?

MR. TRIERWEILER: No cross.

CHAIRMAN FAY: Okay. Commissioners?

Mr. Wright, you are recognized for redirect.

MR. WRIGHT: Just a brief moment. Thank you, Chairman. Just one line of questioning here.

FURTHER EXAMINATION

BY MR. WRIGHT:

Q Mr. Allis, you were asked by OPC about Exhibit LF-B -- I am sorry, LF-5B and the RSAM adjusted depreciation parameters, and you were asked whether you are endorsing that. My question is: Are the RSAM adjusted depreciation parameters, in your opinion, significantly different than the depreciation lives you recommend in your 2022 depreciation study?

A No, not -- not at least in terms of being well outside of the overall range of reasonableness of what I would see in studies I have done. I mean, we do gas depreciation studies for lots of utilities, and the service lives and net salvage estimates that were used in that exhibit, which are based on those used by Peoples Gas, are within that overall range that I see. So it wasn't anything that was way outside of the bounds or anything like that.

You know, in my judgment, based on the information we have today, I think what I have recommended is what I would consider most reasonable, but I recognize that there are -- can be other interpretations, and things like that, and that happens a lot in these types of cases.

MR. WRIGHT: Thank you. No further questions.

CHAIRMAN FAY: Okay.

MS. WESSLING: Chairman, may I just briefly recross on that one issue?

CHAIRMAN FAY: Yeah. Go ahead, Ms. Wessling.

MS. WESSLING: Thank you.

FURTHER EXAMINATION

BY MS. WESSLING:

Q Mr. Allis, with regard to the last question, or line of questioning Mr. Wright was asking you, Ms. Fuentes' testimony is the one primary supporting the adjusted depreciation rates based off of your 2022 depreciation studies, correct?

A Yes. And I guess also, to some degree, it flows into Mr. Campbell's testimony as well, with the overall kind of policy stuff.

Q But your testimony is just focused on the 2022 depreciation study, correct?

A Yes.

Q And Ms. Fuentes' and Mr. Campbell's RSAM testimony and discussion is essentially using your calculations to present an alternative set of parameters to the Commission, correct?

A Yes, that would be consistent with my understanding.

MS. WESSLING: All right. Thank you.

CHAIRMAN FAY: Okay. Mr. Wright, you want to enter your exhibits?

MR. WRIGHT: Yes, Chairman. We would move in exhibits identified 40 through 44, 113 and 114.

CHAIRMAN FAY: Okay. 40 through 44, 113 and 114, seeing no objections, show those entered into the record.

MR. WRIGHT: Thank you.

(Whereupon, Exhibit Nos. 40-44 & 113-114 were received into evidence.)

MR. WRIGHT: We would ask that Mr. Allis be excused.

CHAIRMAN FAY: Okay. Mr. Allis, thank you for your testimony.

THE WITNESS: Thank you.

CHAIRMAN FAY: Safe travels.

(Witness excused.)

MR. REHWINKEL: Mr. Chairman, I know the next witness is Ms. Fuentes. We have a significant amount of exhibits to pass out, and I don't know if you want to wait until after she's tendered or you want to try to do those before. It doesn't --

CHAIRMAN FAY: Let's go ahead and do them now. Do our folks have them or do you have them -- do you still have them?

MR. REHWINKEL: I have them. I got to distribute them.

CHAIRMAN FAY: Okay. Let's go ahead and do that, and then we will get -- we will get Ms. Fuentes up there ready to go. And then --

MR. REHWINKEL: Okay.

COMMISSIONER FAY: -- once they are distributed we will start.

MR. REHWINKEL: Okay. And just per the protocol, we would ask that, for the company and the witness, that they be upside down until asked to turn them over.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: Thank you.

CHAIRMAN FAY: All right. Mr. Rehwinkel, I believe we've all got your exhibits here.

Florida City Gas, you got the exhibits? Yep, okay.

All right. So either, Ms. Wessling or Mr. Rehwinkel, whenever you are ready. Mr. Rehwinkel, you are recognized.

MR. WRIGHT: I think we made may need to introduce the witness.

CHAIRMAN FAY: Oh, I apologize. I am jumping the gun here.

Go ahead, Mr. Wright, let's get her in the right posture, and then we will let Mr. Rehwinkel begin his questioning.

MR. WRIGHT: Thank you.

Florida City Gas calls Liz Fuentes.

Whereupon,

LIZ FUENTES

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

EXAMINATION

BY MR. WRIGHT:

Q Can you please state your name?

A Liz Fuentes.

Q Have you been sworn?

A Yes.

Q Is your business address, Florida Power & Light 4200 West Flagler Street, Miami, Florida, 33134?

A Yes.

Q By whom are you employed and in what capacity?

A I am employed by Florida Power & Light Company as Senior Director of Regulatory Accounting.

Q On May 31st, 2022, did you file 23 pages of direct testimony?

A Yes.

Q Do you have any corrections to your direct testimony?

A Yes, I do.

On August 16th, 2022, FCG filed a notice of identified adjustments that affect the revenue requirements for the 2023 test year. Additionally, as part of its rebuttal case, the company identified three additional adjustments to the calculation of the revenue requirements for the 2023 test year. In my rebuttal testimony, I recalculated the base revenue increase for the 2023 test year to reflect these adjustments.

Under FCG's proposed four-year rate plan, the recalculated total base rate revenue increase is 23.3 million, and the incremental revenue increase is 18.8 million. This recalculated base rate increase with RSAM is provided in my Exhibit LF-11 attached to my rebuttal testimony.

If the Commission does not approve FCG's proposed four-year rate plan, the recalculated total base rate revenue increase is 31.3 million, and the incremental revenue increase is 21.5 million. This recalculated base rate increase without RSAM is provided in my Exhibit LF-12 attached to my rebuttal testimony.

My direct testimony should be reflected corrected to reflect these recalculated base rate increases.

Q Okay. With those corrections, if I asked you the questions contained in your direct testimony, would your answers be the same?

A Yes.

MR. WRIGHT: Mr. Chairman, I would ask that Ms. Fuentes' direct testimony be inserted into the record as though read subject to the corrections stated here on the record today.

CHAIRMAN FAY: Okay. Show that entered as though read with the corrections.

(Whereupon, prefiled direct testimony of Liz Fuentes was inserted.)

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20220069-GU

FLORIDA CITY GAS

DIRECT TESTIMONY OF LIZ FUENTES

Topics: **2023 Test Year Revenue Requirement, 2022 Depreciation Study, Adjustments to 2023 Test Year, and Affiliate Transactions**

Filed: May 31, 2022

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Liz Fuentes. My business address is Florida Power & Light Company, 4200 West Flagler Street, Miami, Florida, 33134.

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

A. I am employed by Florida Power & Light Company ("FPL") as Senior Director, Regulatory Accounting.

Q. Please describe your duties and responsibilities in that position.

A. I am responsible for planning, guidance, and management of most regulatory accounting activities for FPL and Pivotal Utility Holdings, Inc. d/b/a Florida City Gas ("FCG" or the "Company"). In this role, I ensure that financial books and records comply with multi-jurisdictional regulatory accounting requirements and regulations.

Q. Please describe your educational background and professional experience.

A. I graduated from the University of Florida in 1999 with a Bachelor of Science Degree in Accounting. That same year, I was employed by FPL. During my tenure at the Company, I have held various accounting and regulatory positions of increasing responsibility with most of my career focused in regulatory accounting and the calculation of revenue requirements. Specifically, I have filed testimony or provided accounting support in multiple FPL retail base rate filings, clause filings, and other regulatory dockets filed at the Florida Public Service Commission ("FPSC" or the "Commission") as well as the Federal

Energy Regulatory Commission ("FERC"). My responsibilities have included the management of the accounting for FPL's cost recovery clauses and the preparation, review, and filing of FPL's monthly Earnings Surveillance Reports ("ESR") at the FPSC. I am a Certified Public Accountant ("CPA") licensed in the Commonwealth of Virginia and member of the American Institute of CPAs.

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

A. Yes. I am sponsoring the following exhibits:

- LF-1 List of MFRs Sponsored or Co-Sponsored by Liz Fuentes
- LF-2 MFR G-5 for the 2023 Test Year
- LF-3 2023 SAFE Revenue Requirements Transferred to Base Rates
- LF-4 2023 ROE Calculation without Rate Relief
- LF-5(A) Impact to Depreciation Expense using 2022 Depreciation Study Rates for Base vs. Clause for 2023
- LF-6 ADIT Proration Adjustment to Capital Structure for 2023 Test Year

I am co-sponsoring the following exhibits:

- LF-5(B) Proposed Depreciation Company Adjustment for Base vs. Clause for 2023 using the RSAM Adjusted Depreciation Rates
- MC-6 Reserve Surplus Amortization Mechanism, filed with the testimony of FCG witness Campbell.

Q. Are you sponsoring or co-sponsoring any Minimum Filing Requirements ("MFRs") in this case?

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

Q. What Test Year is the Company using for its proposed base rate increase?

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

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support the calculation of the revenue requirements and appropriateness of certain ratemaking adjustments FCG proposes in this proceeding for the 2023 Test Year. My testimony supports accounting and ratemaking practices that affect the determination of the appropriate rate base, working capital, rate of return, capital structure, and net operating income. In addition, I provide an overview of the results of FCG's depreciation study (the "2022 Depreciation Study"), which was conducted in accordance with the rules and requirements of the FPSC. The 2022 Depreciation Study has been prepared by FCG witness Allis of Gannett Fleming and is supported in his direct testimony in this docket. I also provide the Reserve Surplus Amortization Mechanism ("RSAM") adjusted depreciation rate impacts to depreciation expense that are discussed in more detail later in my testimony. Finally, I provide testimony and information on various affiliate transactions.

Q. Please summarize your testimony.

A. I sponsor and co-sponsor many MFRs and provide the calculation of net operating income, working capital, rate base, capital structure, and revenue requirements for the 2023 Test Year, including all FPSC and proposed Company adjustments. Based on these supporting calculations, and as further explained below, FCG is requesting an incremental base rate increase of $19.4 million for the 2023 Test Year.

In addition, I provide an overview of the 2022 Depreciation Study results prepared by FCG witness Allis and the impacts to the 2023 Test Year. As described in FCG witness Campbell's testimony, in this proceeding the Company is requesting the approval of a RSAM and my testimony presents the RSAM-adjusted depreciation rates that the Commission could approve in lieu of the depreciation rates presented in FCG witness Allis' 2022 Depreciation Study should the Commission allow FCG to implement the RSAM. The impact of these RSAM-adjusted depreciation rates is presented as a Company adjustment to depreciation expense and accumulated depreciation in the 2023 Test Year.

Finally, I provide an overview of the corporate support and services FCG has received and will continue to receive from its affiliates during the 2023 Test Year and describe the policies in place to ensure there is no subsidization of affiliate activities across the NextEra Energy, Inc. ("NEE") enterprise. As explained below, all costs associated with affiliate transactions are allocated and assigned to FCG using the same long-standing affiliate cost charging methods approved by this Commission for FPL.

II. 2023 TEST YEAR REVENUE REQUIREMENT

Q. What is the amount of FCG's requested total base rate increase for the 2023 Test Year?

A. As explained in the direct testimony of FCG witness Campbell, FCG is proposing a four-year rate plan that includes the adoption of the RSAM. Under the four-year proposal with the RSAM, FCG is requesting a total base revenue increase of $29.0 million based on a projected 2023 Test Year. As discussed later in my testimony, this amount reflects the Commission and Company proposed adjustments to the 2023 Test Year, and includes the impact of incorporating the RSAM-adjusted depreciation rates, the previously approved Liquefied Natural Gas ("LNG") Facility, and the reclassification of the Safety, Access, and Facility Enhancement ("SAFE") program investments from clause to base rates.

Q. Which MFRs directly support the 2023 Test Year revenue increase under the Company's proposed four-year rate plan?

A. Page 1 of Exhibit LF-2 identifies the MFRs that directly support the total 2023 Test Year revenue requirement increase of $29.0 million under FCG's proposed four-year rate plan with RSAM. Those MFRs include schedules that reflect the impact of the RSAM-adjusted depreciation rates discussed later in my testimony and support adjusted rate base of $489 million, adjusted net operating income of $13.3 million, and the calculation of the revenue expansion factor of 1.3527 used to derive the requested base revenue increase. Additionally, page

1 of Exhibit LF-2 identifies the MFR that supports the adjusted capital structure, the overall rate of return of 7.09%, and FCG's requested return on equity ("ROE") of 10.75% that is further discussed in the testimony of FCG witnesses Campbell and Nelson.

Q. Does FCG's total requested base revenue increase include the previously approved LNG Facility?

A. Yes, it does. As explained by FCG witness Howard, the previously approved LNG Facility[1] is projected to be placed in-service in March 2023 and, therefore, is included in the 2023 Test Year Per-Book forecast sponsored by FCG witness Campbell and included in the calculation of rate base and net operating income, as appropriate. As a result, the previously approved LNG Facility is included in FCG's requested $29.0 million total base revenue increase. However, the Commission has already approved a $3.8 million base revenue increase when the LNG Facility goes into service.[1] This $3.8 million revenue increase is factored into the incremental base revenue increase as described later in my testimony and reflected in FCG's proposed rate calculations as addressed by FCG witness DuBose in her testimony.

Q. Does FCG's requested total base revenue increase include the Commission's requirement to transfer SAFE program investments from clause recovery to base rates?

A. Yes, it does. Per Order No. PSC-15-0390-TRF-GU, Docket No. 150116-GU, investments in the SAFE program are required to be folded into any newly

---

[1] Order No. PSC-2018-0190-FOF-GU, Docket No. 20170179-GU (the "2018 Settlement Agreement").

approved rate base and the SAFE surcharge is to begin anew. In order to clearly reflect this requirement in its filing, FCG initially reflected all currently-approved and forecasted SAFE investments and associated operating expenses recoverable through the 2022 SAFE surcharge[2] in the 2023 Test Year forecast and then applied a Company adjustment, as discussed later in my testimony, to move the associated investment as of December 31, 2022, from clause recovery to base rates. As reflected on Exhibit LF-3, this results in the transfer of $5.7 million[3] of SAFE revenue requirements from clause recovery to base rates in the 2023 Test Year.[4] As a result, the $5.7 million of SAFE revenue requirements that were transferred from clause to base are included in FCG's requested $29.0 million total base revenue increase.

Q. Does FCG's requested total base revenue increase reflect amortization of unprotected Excess Accumulated Deferred Income Taxes ("EADIT") approved by the Commission in Order No. PSC-2018-0596-S-GU in Docket No. 20180154-GU?

A. No, it does not. As required by Commission Order No. PSC-2018-0596-S-GU, FCG's unprotected EADIT resulting from the Tax Cuts and Jobs Act of 2017 will be fully amortized as of December 31, 2022. Therefore, FCG has not included any unprotected EADIT amortization in the calculation of its total base revenue increase for the 2023 Test Year, resulting in an increase of $0.3 million

---

[2] See Order No. PSC-2021-0430-TRF-GU, Docket No. 20210149-GU (approving the projected SAFE revenues and factors for calendar year 2022).

[3] Calculated using FCG's proposed RSAM-adjusted depreciation rates and weighted average cost of capital, which includes a ROE of 10.75%.

[4] All forecasted SAFE investments beginning January 1, 2023, will continue to be recovered through the SAFE program subject to Commission review and approval in FCG's annual SAFE program filings.

in FCG's operating expenses in the 2023 Test Year. This increase in operating expense is included in FCG's requested $29.0 million total base revenue increase.

Q. What is the amount of FCG's requested incremental base revenue increase for the 2023 Test Year?

A. As reflected on page 1 of Exhibit LF-2, FCG is requesting an incremental base revenue increase of $19.4 million, which is calculated as follows:

Total Base Revenue Increase	$29.0
Less:	
LNG Revenue Increase	$3.8
Transfer of SAFE Investments	$5.7
Incremental Base Revenue Increase	$19.4[5]

Q. Please describe FCG's historical earned ROEs since its last rate case.

A. FCG has continually earned below its currently authorized ROE range of 9.19% to 11.19% in each December ESR since its last base rate case as shown below.

Year of December ESR	Earned ROE
2018	8.90%
2019	5.69%
2020	5.03%
2021	9.12%

Q. What would be FCG's ROE for the 2023 Test Year absent the requested base rate adjustment?

A. As shown on page 1 of Exhibit LF-4, FCG's 2023 Test Year ROE absent rate relief is projected to be 5.3%, which is well below the bottom end of the ROE range supported by FCG witnesses Campbell and Nelson, as well as FCG's

[5] Total does not add due to rounding.

current authorized ROE range. The resulting ROE includes the $3.8 million LNG revenue increase and excludes the transfer of SAFE investments from clause recovery to base rates in 2023. In addition, if the RSAM-adjusted depreciation rates are not approved, the ROE absent rate relief is projected to drop from 5.3% to 4.3% as shown on page 2 of Exhibit LF-4.

Q. Did you calculate an alternative 2023 revenue requirement if the Commission declines to adopt the RSAM?

A. Yes. As discussed by FCG witness Campbell, the RSAM is an essential component of FCG's four-year rate plan. The incremental revenue requirement of $19.4 million is based on the RSAM-adjusted depreciation rates discussed later in my testimony. If, however, the Commission declines to adopt FCG's four-year rate plan, the total base revenue increase would be $32.0 million which reflects the impact of the depreciation rates in FCG's 2022 Depreciation Study. As shown on page 2 of Exhibit LF-2, which is MFR G-5 without RSAM, the amount of FCG's alternative incremental base revenue increase without RSAM for the 2023 Test Year is $22.2 million.[6] Thus, FCG's incremental revenue requirement would increase by $2.7 million if the Commission declines to adopt FCG's proposed four-year rate plan with RSAM.

[6] Similar to the incremental base increase under FCG's four-year plan with RSAM, this alternative incremental base increase without RSAM factors in the previously approved $3.8 million of revenue associated with the LNG project and excludes the $5.7 million related to the revenue requirements associated with the SAFE program investments transferred from clause recovery to base rates in the 2023 Test Year, which were discussed previously in my testimony.

Q. Please describe how FCG calculated the alternative base rate increase for the 2023 Test Year without RSAM.

A. FCG's alternative revenue requirements without RSAM are premised on essentially the same data that was used to calculate the revenue increase for the 2023 Test Year reflected on MFR G-5 with RSAM. FCG replaced the proposed depreciation Company adjustments using RSAM-adjusted depreciation rates, and related income tax adjustments discussed later in my testimony with Company adjustments reflecting the impact of the depreciation rates resulting from the 2022 Depreciation Study.

III. 2022 DEPRECIATION STUDY

Q. Please summarize the impact of the 2022 Depreciation Study on FCG's 2023 Test Year.

A. FCG witness Allis of Gannett Fleming presents the results of the 2022 Depreciation Study. The 2022 Depreciation Study incorporates updated data since FCG's last depreciation study. The total increase in depreciation expense for the 2023 Test Year as a result of the 2022 Depreciation Study is $1.0 million. As discussed in further detail in the testimony of FCG witness Allis, the increase is primarily due to plant and reserve activity since the last depreciation study.

Q. What is the basis for the plant and reserve balances used in FCG's 2022 Depreciation Study?

A. The parameters utilized in the 2022 Depreciation Study are based in part on the statistical analyses of actual plant and reserve balance activity through December 31, 2021, which incorporate data through the most recent full year of historical data (*e.g.*, retirements, net salvage, and etc.) that was available at the time the study was prepared. The results of these parameter analyses were then applied to the forecasted gross plant balances through the end of 2022, which includes actual balances as of December 31, 2021, to determine the appropriate depreciation rates. I note that, as discussed by FCG witness Howard, the Company expects the LNG Facility to be placed into service in March 2023 and FCG will apply the current depreciation rate for plant account 364, LNG plant, approved by the Commission in the 2018 Settlement Agreement.

Q. Has the Company calculated the impact to depreciation expense using the new depreciation rates from the 2022 Depreciation Study on the 2023 Test Year?

A. Yes. The depreciation expense Company adjustment reflects the impact of the difference in the rates from the 2022 Depreciation Study as compared to the depreciation rates approved in Exhibit C of the 2018 Settlement Agreement. These current depreciation rates were used to prepare the forecast for the 2023 Test Year and are different from the rates resulting from the 2022 Depreciation Study. Accordingly, FCG has calculated the impact to the 2023 Test Year to reflect changes in base depreciation expense and accumulated depreciation based on the resulting depreciation rates in the 2022 Depreciation Study. The reconciliation of total Company depreciation expense included in FCG's 2023 Test Year forecast to the calculated expense based on the 2022 Depreciation Study are reflected on Exhibit LF-5(A).

Q. **Is the entire impact to depreciation expense associated with base rate investments?**

A. No. Because some of FCG's investments are recovered through its SAFE program surcharge, the impact to base rate revenue requirements for the 2023 Test Year must exclude the amount of depreciation related to clause-recovered investment and include only the depreciation for investments recovered through base rates. Exhibit LF-5(A) reflects the total depreciation expense increase using the 2022 Depreciation Study rates and delineates between base rates and clause recovery.

Q. **Please describe the RSAM-adjusted depreciation rates.**

A. As FCG witness Campbell discusses in detail in his direct testimony, FCG is proposing a four-year rate plan that includes the adoption of the RSAM. In order to facilitate this request, the Company requested FCG witness Allis to utilize alternative depreciation parameters that the Commission could approve in lieu of those presented in the 2022 Depreciation Study to enable the use of the RSAM and the Company's four-year rate plan. With the exception of the previously approved LNG Facility, the alternative depreciation parameters were based on the parameters used for similar assets from the Peoples Gas

System's ("PGS") most recent base rate case settlement approved by the Commission in Order No. PSC-2020-0485-FOF-GU, Docket Nos. 20200051-GU, 20200178-GU, and 20200166-GU. For purposes of the LNG Facility, FCG will apply its existing approved depreciation rate for the LNG Facility when it goes into service in March 2023. A summary of these alternative depreciation parameters is provided on pages 3 through 4 of Exhibit LF-5(B).

Q. Is FCG asking the Commission to ignore the 2022 Depreciation Study that FCG witness Allis prepared?

A. No. The 2022 Depreciation Study is sound, reasonable, accurate, and should be approved, along with the associated adjustments to base revenue requirements for 2023, if the Commission does not approve FCG's proposed four-year rate plan with RSAM. If, however, the Commission approves FCG's proposed four-year rate plan, then the RSAM adjusted depreciation rates that are necessary to support the RSAM and the four-year term should be approved in lieu of the 2022 Depreciation Study depreciation rates.

Q. Has FCG calculated Company adjustments to base depreciation expense using RSAM adjusted depreciation rates for the 2023 Test Year?

A. Yes. As reflected on page 1 of Exhibit LF-5(B), I provide the proposed depreciation Company adjustment using the RSAM-adjusted depreciation rates for base versus clause for 2023. The resulting decrease to base depreciation expense for the 2023 Test Year is $2.2 million and is included in the calculation of the 2023 revenue requirements discussed earlier in my testimony. This represents a significant revenue requirement reduction for the 2023 Test Year compared to the necessary revenue requirements in the event the RSAM is not approved as part of the Company's requested four-year rate plan.

IV. ADJUSTMENTS TO 2023 TEST YEAR

Q. Has FCG included Commission adjustments to rate base and net operating income necessary to properly reflect the 2023 Test Year for ratemaking purposes?

A. Yes. As required under prior Commission orders, FCG has reflected Commission adjustments to rate base and net operating income in the calculation of the 2023 Test Year revenue requirement calculation. These adjustments are detailed in MFRs G-1, page 4, and G-2, pages 2 through 3 and are the same Commission adjustments reflected in FCG's quarterly ESRs.

Q. Has FCG proposed any Company adjustments in its calculation of rate base and net operating income for the 2023 Test Year?

A. Yes. As previously discussed, FCG is proposing a depreciation Company adjustment to incorporate the impacts of implementing the RSAM-adjusted depreciation rates in the 2023 Test Year. Since this proposal changes the calculation of book depreciation and impacts the calculation of the Average Rate Assumption Method ("ARAM") used to amortize protected EADIT,[7] FCG proposes to adjust EADIT amortization in order to properly align total

[7] Under the Tax Cuts and Jobs Act of 2017, FCG is required to follow the Internal Revenue Service normalization requirements for EADIT attributable to the book and tax differences related to depreciation of public utility property as protected and employ the ARAM. The ARAM ensures that the amortization occurs no sooner than would occur as the book and tax differences turnaround.

depreciation expense and the turnaround of EADIT, which results in a decrease of EADIT amortization in the 2023 Test Year.

In addition to these depreciation and income tax related Company adjustments, FCG is proposing various other Company adjustments to its rate base and net operating income calculations for the 2023 Test Year.

Q. Could you please describe the other Company adjustments FCG is proposing in this proceeding?

A. Yes. In addition to the Company adjustment to depreciation previously discussed, FCG is proposing the following Company adjustments to the 2023 Test Year:

- Rate Case Expenses **-** Consistent with FCG's 2018 Settlement Agreement, FCG is requesting a four-year amortization period for estimated, incremental rate case expenses associated with this case totaling $2.0 million.[8] This amount includes $1.6 million for affiliate rate case support from FPL, $0.4 million for external consultant and legal services, and less than $0.1 million for other miscellaneous docket related expenses. In addition, FCG is requesting that the unamortized balance be included in rate base in the 2023 Test Year in order to avoid an implicit disallowance of reasonable and necessary costs. The fact that FCG is requesting a four-year rate plan in this proceeding reduces the amount of rate case expenses FCG would otherwise incur for

[8] Forecasted balance as of December 31, 2022.

multiple, back-to-back proceedings as further explained by FCG witness Campbell. Full recovery of necessary rate case expenses is appropriate but will not occur unless FCG is afforded the opportunity to earn a return on the unamortized balance of those expenses.

- Outside Services for Clause Dockets – FCG is currently billed approximately $45 thousand per year for affiliate clause recovery docket support from FPL and incurs approximately $15 thousand for outside legal services, which are currently charged to base rate expenses on FCG's books and records. FCG is requesting to transfer these outside service costs from base rates to each of the respective cost recovery clauses in order to align the support provided with the related cost recovery mechanism. This approach is consistent with the cost causation principle and will ensure that only the actual costs incurred, subject to true-up, are recovered from customers.
- SAFE Program Investments – As discussed earlier in my testimony and reflected on Exhibit LF-3, FCG has transferred all SAFE investments as of December 31, 2022 from clause recovery to base rates in the 2023 Test Year. Included in this adjustment is the transfer of $40.2 million of net plant in service, $0.9 million of construction work in progress, and $2.0 million of operating expenses. I note that the SAFE transfer is done prior to the calculation of the Company's depreciation adjustment discussed above.

Q. Has FCG incorporated any adjustments other than Commission or Company adjustments in its calculation of revenue requirements for the 2023 Test Year?

A. Yes. As reflected on MFR G-3, page 2 for their respective periods, FCG has incorporated an adjustment to decrease the amount of Accumulated Deferred Income Tax ("ADIT") included in the calculation of FCG's weighted average cost of capital.

Q. Why has FCG made this adjustment to ADIT?

A. As required under Treasury Regulations §1.167(1)-1(h)(6), ADIT that is treated as zero cost capital or a component of rate base in determining a utility's cost of service, must be calculated based on the same period as is used in determining the income tax expense utilized for ratemaking purposes. The Internal Revenue Code ("IRC") goes on to state that a utility may use either historical data or projected data in calculating these two amounts, but the periods used must be consistent. If the amounts are computed using projected data, in whole or in part, and the rates go into effect during the projected period, then the utility must use the formula provided in Treasury Regulations §1.167(1)-1(h)(6)(ii) to calculate the amount of ADIT to be included for ratemaking purposes. Because FCG is presenting a change in base rates at the beginning of the projected 2023 Test Year, the Company is required to comply with Treasury Regulations §1.167(1)-1(h)(6) in this proceeding.

Q. Please describe the required formula FCG must follow to adjust ADIT in the 2023 Test Year.

A. Treasury Regulations §1.167(1)-1(h)(6)(ii) contain a precise formula ("Proration Requirement") for computing the amount of depreciation-related ADIT to be treated as zero cost capital when a future test period is used. The Proration Requirement is as follows:

> The pro rata portion of any increase to be credited or decrease to be charged during a future period…shall be determined by multiplying any such increase or decrease by a fraction, the numerator of which is the number of days remaining in the period at the time such increase or decrease is to be accrued, and the denominator of which is the total number of days in the period.

Q. Please explain the calculation of the Proration Requirement and its impact to FCG's capital structure for the 2023 Test Year.

A. As reflected on Exhibit LF-6, the calculation of the Proration Requirement for ADIT for the 2023 Test Year begins with a prorated average balance of $698 thousand. FCG then compared the prorated average balance to the Per-Book 13-month average ADIT balance for 2023 of $744 thousand. The difference results in an adjustment to ADIT of $46 thousand for the 2023 Test Year, which is reflected as a decrease to ADIT on MFR G-3, page 2.

V. AFFILIATE TRANSACTIONS

Q. Do FCG's proposed revenue requirements for the 2023 Test Year include costs for services provided by affiliates?

A. Yes. Consistent with historic practice, FCG has included the affiliate services that are necessary to run and manage its business in the 2023 Test Year. These services allow FCG to efficiently lever talent and resources across the NEE enterprise, which include services and support for activities such as gas procurement, information technology, human resources, finance and accounting, legal support, and integrated supply chain.

Q. How are the costs for affiliate services provided by FPL charged to FCG?

A. All costs associated with affiliate services provided by FPL are charged to FCG pursuant to FPL's Cost Allocation Manual ("CAM"), a document required under Rule 25-6.1351, Florida Administrative Code ("F.A.C."), Cost Allocation and Affiliate Transactions. FPL's CAM largely follows the published guidelines recommended by the National Association of Regulatory Utility Commissioners and is consistent with FPL's approach over at least the last 10 years, including three base rate reviews. Consistent with FPL's CAM, costs associated with affiliate services provided by FPL to FCG are billed as either direct charges or as part of FPL's Corporate Services Charges ("CSC"). Direct charges are used whenever possible and practical and represent the fully loaded costs of resources used exclusively to provide services for the benefit of FCG. However, there is a significant portion of shared corporate support services which benefit the entire NEE organization, including FCG, and cannot be directly billed. These costs are billed through the CSC, and are allocated among all benefiting affiliates based on either: (a) a specific cost driver (*e.g.*, workstations or headcount), which has a direct relationship to the causation of the expense and the effect this activity has on the operations of the benefiting entity; or (b) the industry-accepted Massachusetts Formula for services that do not have a distinct cost driver.

Q. Does FCG receive charges from affiliates other than FPL?

A. Yes. FCG occasionally receives fully loaded direct charges primarily from NextEra Energy Resources, LLC, FPL Energy Services, LLC, and NextEra Energy Pipeline Services, LLC for various project support and services that are directly supported by the affiliate.

Q. What is the forecasted amount of direct charges from affiliates to FCG in the 2023 Test Year?

A. FCG has included $1.3 million of forecasted direct charges from FPL and other affiliates for various other projects and services in the 2023 Test Year. This amount is included in the total amount of operation and maintenance expenses in the calculation of revenue requirements and does not reflect any affiliate costs related to rate case expenses or costs that were transferred from base to clause as discussed above.

Q. What is the forecasted amount of CSC to be allocated from FPL to FCG in the 2023 Test Year?

A. FCG has included $1.7 million of forecasted CSC from FPL in the 2023 Test Year, which is included in the total amount of administrative and general expenses in the calculation of revenue requirements.

Q. Is FCG subject to any regulatory reporting requirements with respect to its affiliate transactions?

A. Yes. FCG complies with affiliate transaction reporting requirements, which are included in the Annual Report of Natural Gas Utilities filed in compliance with Rule No. 25-7.135, Annual Reports, F.A.C.

Q. Does this conclude your direct testimony?

A. Yes.

BY MR. WRIGHT:

Q Ms. Fuentes, do you have Exhibits LF-1 through LF-5A, LB-5B and LF-6 that were attached to your direct testimony?

A Yes.

MR. WRIGHT: Chairman, I would note that those have been identified as Exhibits 17 through 21 on the comprehensive exhibit list.

BY MR. WRIGHT:

Q Were these exhibits prepared by you or under your supervision?

A Yes.

CHAIRMAN FAY: Real quick, Mr. Wright. I have LF-5B is 22, so you said down to 21, 17 through 21?

MR. WRIGHT: Oh, I apologize, 22, you are correct.

CHAIRMAN FAY: Okay. Just making sure we are --

MR. WRIGHT: Thank you, Chairman.

BY MR. WRIGHT:

Q These exhibits were prepared by you or under your direct supervision?

A Yes.

Q Okay. And you are co-sponsoring Exhibit LF -- or I am sorry, are you co-sponsoring any exhibits?

A Yes. I am co-sponsoring LF-5B attached to my direct testimony, and Exhibit MC-6 attached to the direct testimony of FCG witness Campbell.

Q Okay. Do you have any corrections to any of these exhibits?

A Yes.

The revenue deficiencies with RSAM shown on page one of Exhibit LF-2 should be updated to reflect the recalculated total and incremental base rate revenue increases I previously discussed, which are provided to Exhibit LF-11 attached to rebuttal testimony.

Likewise, the revenue deficiencies without RSAM shown on page two of Exhibit LF-2 should be -- sorry, LF-12, I believe, should be updated to reflect the recalculated total and incremental base revenue increases I previously discussed, which are provided in Exhibit LF-12 attached to my rebuttal testimony.

Q Okay. Thank you.

Would you please provide a summary of your direct testimony?

A Good afternoon, Commissioners. Thank you for the opportunity to speak with you today.

My testimony provides the calculation of FCG's requested incremental base rate increase of 18.8 million as recalculated in my rebuttal for the 2023 test year under FCG's proposed four-year rate plan, as further described by FCG witness Campbell.

The revenue increase is based on supported calculations for net operating income, working capital, rate base, capital structure and revenue requirements utilizing RSAM adjusted depreciation rates which is a critical component of the four-year rate plan submitted by the company, and addressed by FCG witness Campbell.

In the event the Commission does not approve the company's request for a four-year rate plan, I have calculated an alternate incremental base rate increase of 21.5 million, as recalculated in my rebuttal, for the 2023 test year using depreciation rates resulting from FCG's 2022 depreciation study. This amounts to approximately 2.7 million of additional revenue requirements annually versus the amount under FCG's proposed four-year rate plan.

The revenue requirement that I calculate reflects all required Commission and company adjustments in order to properly present the 2023 test year. Each accounting adjustment appropriately reflects this commission's rules, practice, prior orders and sound regulatory policy. Among these are the depreciation company adjustment to incorporate the impacts of implementing the RSAM adjusted depreciation rates, the

Commission required transfer of safe investments as of December 31st, 2022, from clause recovery to base rates, the recovery of rate case expenses, and the transfer of costs for outside services supporting FCG's clause filings from base rates to each respective cost recovery clause.

Finally, I provide an overview of the corporate support and services FCG has received, and will continue to receive, from its affiliates during the 2023 test year, and describe the policies in place to ensure there is no subsidization of affiliate activities across the NextEra Energy, Inc., enterprise. As explained in my testimony, all costs associated with affiliate transactions are allocated and assigned to FCG using the same longstanding affiliate cost charging methods approved by this commission for Florida Power & Light Company.

This concludes my summary.

Q Thank you.

And on October 3rd, 2022, did you file 24 pages of rebuttal testimony in this proceeding?

A Yes.

Q Do you have any corrections to your rebuttal testimony?

A Yes. On page 16, line five, July 1st, 2015, should be replaced with July 1st, 2016.

Q And just can you repeat that correction one more time, please?

A Sure. On page 16, line five, July 1st, 2015, should be replaced with July 1st, 2016.

Q Thank you.

And with that correction, if I asked you the questions contained in your rebuttal testimony, would your answers be the same?

A Yes.

MR. WRIGHT: Chairman, I would ask that Ms. Fuentes' rebuttal testimony be inserted into the record as though read.

CHAIRMAN FAY: Okay. Show it entered as though read.

(Whereupon, prefiled rebuttal testimony of Liz Fuentes was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20220069-GU

FLORIDA CITY GAS

REBUTTAL TESTIMONY OF

LIZ FUENTES

Topics: **Rate Case Expenses, Acquisition Adjustment, LNG Facility, and Revenue Requirement Adjustments Identified By FCG**

Filed: October 3, 2022

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Liz Fuentes. My business address is Florida Power & Light Company ("FPL"), 4200 West Flagler Street, Miami, Florida, 33134.

Q. Did you previously submit direct testimony in this proceeding?

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

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to certain claims and recommendations in the testimonies of Office of Public Counsel ("OPC") witness Schultz and Federal Executive Agencies ("FEA") witness Collins. Specifically, my rebuttal testimony will address these witnesses' proposed adjustments to FCG's rate case expenses, the AGL Resources, Inc. ("AGLR") acquisition adjustment, and the revenue requirements associated with the Liquified Natural Gas ("LNG") Facility. I will explain why each of these adjustments are not appropriate and should be rejected. In addition, I will present the recalculated base revenue increase for the 2023 Test Year to incorporate certain adjustments identified by FCG.

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

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

- LF-7 – Revised Rate Case Expenses
- LF-8 – FCG Responses to OPC Discovery in Docket No. 20220069-GU

- LF-9 – OPC's Proposed Adjustments to Rate Base and Net Operating Income in Docket No. 20170179-GU
- LF-11 – 2023 Test Year Recalculated Revenue Requirements with RSAM
- LF-12 – 2023 Test Year Recalculated Revenue Requirements without RSAM

I also co-sponsor Exhibit LF-10 – FCG's Notice of Identified Adjustments filed August 16, 2022, with FCG witnesses DuBose and Howard.

Q. Before addressing the specific issues and recommendations raised by OPC and FEA, do you have any general observations and concerns regarding OPC's recommendations and adjustments?

A. Yes, I do. OPC witness Schultz ignores portions of prior FCG settlement agreements, to which OPC is a signatory, and is attempting to re-litigate items already approved by the Commission in prior dockets. In addition, his recommendations to limit recovery of certain costs included in FCG's 2023 Test Year are unsupported and contrary to traditional ratemaking.

II. <u>RATE CASE EXPENSES</u>

Q. What amount did FCG originally estimate for incremental rate case expenses associated with this case and how was it determined?

A. As reflected on Exhibit LF-7, FCG originally estimated $2.0 million of rate case expenses mainly for incremental rate case expenses associated with external witnesses, legal support, and affiliate support from FPL. This amount was estimated based on the expectation of a fully litigated rate case. The primary driver of a rate case expense is the amount of work involved to litigate the case. Obviously, no one can accurately predict with 100% certainty the amount of work that will be involved to fully litigate a rate case because the issues and opposition are specific and unique to each individual rate case. To provide a reasonable estimate of the amount of work involved in a litigated rate case, FCG referred to work and time involved in FPL's recent base rate proceeding in Docket No. 20210015-EI and compared the estimated rate case expenses to those proposed in FCG's most recent base rate case in Docket No. 20170179-GU and Peoples Gas System's most recent rate case in Docket No. 20200051-GU. These considerations provided a reasonable framework to estimate the work involved to fully litigate the 2022 rate case, which in turn drives the estimated rate case expense. However, it is important to remember the actual amount of work involved and the associated rate case expense is, in large part, a product of factors that are largely beyond the Company's control, including, but not limited to: the number of intervenors, the number of issues raised by intervenors and Commission Staff ("Staff"), whether any issues are stipulated or settled, the amount and types of discovery propounded by intervenors and Staff, extent of hearing preparation required, the amount of cross-examination and time required for hearings, and the number of issues to be briefed. In short, with the exception of the preparation of the initial filing, rate case expenses are largely beyond FCG's control.

Q. How did FCG develop the original estimate for services provided by FPL to support rate case activities for this docket?

A. The original estimate for affiliate support from FPL of $1.6 million was based on the same assumptions listed above as well as prior rate case experiences, including FPL's recent base rate proceeding in 2021. Each FPL employee expecting to provide support for the FCG rate case provided an estimate of their hours to be spent in direct support of this docket, which totaled approximately 14,000 hours. This bottom-up estimate was then multiplied by an average FPL employee payroll rate, including all applicable payroll related costs, to develop the cost estimate.

Q. Has FCG revised its estimated amount for services provided by FPL in support of this docket?

A. Yes. As reflected on Exhibit LF-7, FCG has reduced the estimated amount of hours of affiliate support from FPL for this proceeding to approximately 13,000 hours, resulting in a decrease in its original estimate of $1.6 million to $1.5 million. This decrease is mainly due to the amount of discovery and issues raised in this proceeding, but is offset by the need for an additional witness and support resources needed to respond to discovery and rebut intervenor testimony. The revised amount is based on actual costs as of August 31, 2022 of $1.0 million and estimated time and work involved for the remainder of the proceeding to support a fully litigated rate case.

Q. Starting on page 45 line 22, through page 46, line 8 of his testimony, OPC witness Schultz makes an assumption that FCG replaced external legal and temporary services in the prior rate case totaling $876,018 with services provided by FPL in this docket of $1,564,981, and states that the replacement costs are excessive. Do you agree with his assertion?

A. No, I do not. OPC witness Schultz is making an unsupported assumption. First, based on my review of FCG's prior rate case expense filed in Docket No. 20170179-GU, it is uncertain whether FCG forecasted any affiliate support in its rate case expenses. FCG clearly had affiliate support in its last rate case, including multiple Southern

Company witnesses. However, it is unclear whether the associated costs for such affiliate support were included in FCG's forecasted rate case expense and, if not, where such costs were recorded.

Second, FCG's rate case affiliate support in this proceeding was not simply a replacement of the external legal and temporary services forecasted in the prior rate case (Docket No. 20170179-GU), as suggested by OPC witness Schultz. Rather, as I explained above, the affiliate support for this proceeding was based on a bottom-up review of the individual time and work involved to support a fully litigated case based on prior rate case experiences.

Third, the level of affiliate support provided by FPL to FCG in this docket includes witnesses and their support teams, regulatory docket management, legal, and other support required for docket activities such as the preparation of testimony and Minimum Filing Requirements ("MFRs"), responding to discovery, and hearing preparation and attendance. As stated in FCG's response to OPC's Second Set of Interrogatories No. 137, which is reflected on page 1 of Exhibit LF-8, the use of affiliate support allows FCG to temporarily secure external staff for a periodic and intensive rate case effort and leverage the expertise of affiliate resources. By doing so, FCG avoids the need for permanent staff to meet periodic peak workload requirements associated base rate cases that would otherwise be included in FCG's base rate revenue requirements.

Q. Do you have any other concerns with OPC witness Schultz's recommendation to reduce the affiliate support included in FCG's rate case expenses?

A. Yes. Rule No. 25-6.1351, Cost Allocation and Affiliate Transactions, Florida Administrative Code ("F.A.C."), requires FPL to charge FCG for all support provided to FCG in order to avoid FPL's customers subsidizing FCG's customers. Thus, OPC witness Schultz's proposal to limit the amount of affiliate support from FPL recoverable in FCG's base rates, if accepted, would result in an implicit disallowance of prudently incurred costs.

Q. On page 45, lines 19 through 22 of his testimony, OPC witness Schultz asserts the cost of FCG's 2022 Depreciation Study is excessive and "could be because FCG asked the witness to manipulate the results to create new parameters to facilitate RSAM." Do you agree with his assertion?

A. No, I do not. First, FCG's original estimate for Outside Consultants: Depreciation Study reflected on MFR C-13 of $158 thousand is based on agreed upon contracted rates and the level of services needed to support all depreciation issues in this docket. It is not just for the preparation of FCG's 2022 Depreciation Study. The services contracted with FCG witness Allis include preparation of the study, preparation of direct and rebuttal testimony and exhibits, responding to and reviewing discovery, and hearing preparation and attendance. Second, FCG witness Allis is not testifying to the Company's four-year rate plan proposal which includes the adoption of RSAM discussed by FCG witness Campbell in his direct testimony. FCG witness Allis' support related to RSAM has been limited to the calculation of the Company's proposed RSAM-adjusted depreciation rates based on the Company's request to use alternative depreciation parameters as reflected on Exhibit LF-5(B) attached to my direct testimony, which he co-sponsors. Based on the above, the costs for the services provided by FCG witness Allis are not excessive as asserted by OPC witness Schultz and his suggestion that they are, should be rejected.

Q. Has FCG revised its estimated amount for services provided by FCG witness Allis in this docket?

A. Yes. The depreciation related issues raised and the amount of depreciation related discovery propounded in this proceeding have, as of the preparation of my rebuttal, been lower than originally anticipated. As a result, the estimated level of services required from FCG's depreciation consultant for the duration of this proceeding is expected to be lower than originally forecasted. Therefore, as reflected on Exhibit LF-7, FCG has reduced the estimated amount for Outside Services: Depreciation Study/Witness from $158 thousand to $107 thousand, based on $67 thousand of costs incurred through August 31, 2022, and $40 thousand for estimated support needed for the remainder of this proceeding to support a fully litigated rate case, including preparation of rebuttal testimony, and preparing for and attending the technical hearing.

Q. On page 21, lines 16 through 17 of his testimony, FEA witness Collins recommends limiting the recovery of rate case expense to the amount approved in the prior rate case adjusted for inflation. Do you agree with his recommendation?

A. No, I do not. Witness Collins's use of FCG's 2017 prior rate case expenses adjusted for inflation as a proxy is unsupported. The amount of rate case expenses in a particular docket is based on the evidence and support needed for the Company's request in that case. As described above, the amount of FCG's rate case expenses, as adjusted on

Exhibit LF-7, is based on services required to support a fully litigated rate case and the specific issues raised by Staff and intervenors to be addressed in this docket. Therefore, FEA witness Collins's recommendation should be rejected.

Q. Did OPC or FEA raise any concern with FCG's proposal to include unamortized rate case expenses in rate base?

A. No, they did not. Both OPC and FEA only took issue with the amount of unamortized rate case expenses to include in rate base.

Q. On page 47, lines 14 through 18 of his testimony, OPC witness Schultz asserts that the fact FCG's total actual rate case expenses increased from January through May 2022 and then decreased in June is an indicator that FCG's rate case expenses are excessive. Do you agree with his assertion?

A. No. FCG's rate case expenses fluctuate from month to month depending on the rate case activities being performed in any given month, such as the timing of when the filing takes place and responding to discovery served and issues raised by Staff and intervenors. Again, once the initial filing has been made, the actual rate case expense experienced each month is largely beyond FCG's control and, instead, is a product of the issues raised, discovery issued, and activities by intervenors and Staff.

As one would expect, FCG's rate case expenses from January 2022 through May 2022 increased each month as FCG was preparing and finalizing its rate case filing, which occurred on May 31, 2022. Therefore, May 2022 reflected higher costs when compared to other months during the January through June 2022 time frame due to the amount of time spent preparing, reviewing and finalizing testimony, exhibits, and MFRs.

Therefore, it is not concerning or an indicator of being excessive that rate case expenses increased from January through May 2022 and then decreased the following month.

Q. Has FCG revised the total amount of incremental rate case expenses?

A. Yes. As reflected on Exhibit LF-7, the revised total amount of estimated, incremental rate case expenses is $1.9 million, which is $0.1 million lower than the original estimate. FCG updated its estimated rate case expenses with actuals through August 31, 2022 of $1.1 million and recalculated its estimate for the period of September 2022 through January 2023, based on the services required to support the remaining activities for a fully litigated rate case. The revised amount includes $1.532 million for affiliate rate case support from FPL, $0.234 million for external witness and legal services, and $0.115 million for other miscellaneous docket related expenses. As a result, the annual amortization expense over FCG's requested four-year amortization period is $0.5 million and the unamortized 13-month average balance to be included in rate base in the 2023 Test Year is $1.6 million. This is a slight reduction in annual amortization of $28 thousand and rate base of $96 thousand for the 2023 Test Year as compared to FCG's original estimate. As discussed later in my testimony, the revised rate case expense amounts are reflected in the updated revenue requirement calculations for the 2023 Test Year on Exhibits LF-11 and LF-12.

III. ACQUISITION ADJUSTMENT

Q. Did FCG request Commission permission to establish an acquisition adjustment when it was acquired from Southern Company Gas in July 2018 and became a wholly-owned subsidiary of FPL?

A. No. FCG has not requested Commission approval of an acquisition adjustment related to the acquisition from Southern Company Gas in July 2018, nor has it included any associated acquisition adjustment in its 2023 Test Year. Rather, FCG carried over the actual amounts reflected on its balance sheet at the time of the acquisition from Southern Company Gas in July 2018, and did not recognize or record an acquisition adjustment resulting from this transaction. This carryover amount included FCG's existing positive acquisition adjustment and associated accumulated amortization related to Southern Company Gas's acquisition of AGLR from NUI Corporation in 2016 of $21.7 million, which was approved by Commission Order No. PSC-07-0913-PAA-GU in Docket No. 20060657-GU ("AGLR Order"). As a result, FCG's rate base remained unchanged when it was acquired from Southern Company Gas in 2018 and there was no need to request permission to establish an acquisition adjustment as a result of this transaction.

Q. Did FCG continue the amortization of the AGLR acquisition adjustment after it was acquired by Southern Company Gas in 2016?

A. Yes. Consistent with the AGLR Order, FCG continued the amortization of the existing AGLR acquisition adjustment after the acquisition by Southern Company Gas over a 30-year recovery period. The AGLR Order also required that the Commission review the permanence of the acquisition adjustment and related amortization in base rates in FCG's next base rate proceeding, which occurred in Docket No. 20170179-GU.

Q. Did FCG address the permanence of the AGLR acquisition adjustment and related amortization expense in Docket No. 20170179-GU?

A. Yes. FCG witnesses Bermudez and Kim presented testimony in Docket No. 20170179-GU supporting the continuation of the AGLR acquisition adjustment in rate base and its related amortization expense in net operating income.[1] As reflected in its 2018 Test Year in Docket No. 20170179-GU, FCG reflected a net acquisition adjustment of $11.8 million (MFR G-1, page 1, sum of lines 3 and 8) and amortization expense of $0.7 million (MFR G-2, page 26, line 32).

Q. Did OPC propose an adjustment to remove the AGLR acquisition adjustment or its related amortization expense in Docket No. 20170179-GU?

A. No, they did not. As reflected on pages 1 and 2 of Exhibit LF-9, OPC witness Willis proposed various adjustments to FCG's 2018 Test Year rate base in Docket No. 20170179-GU; however, OPC did not propose any rate base adjustments to remove the AGLR acquisition adjustment or its related accumulated amortization. In addition, as shown on pages 3 through 5 of Exhibit LF-9, OPC's proposed net operating income adjustments for the 2018 Test Year in Docket No. 20170179-GU explicitly did not include any adjustment to remove the amortization of the AGLR acquisition adjustment.

[1] *See* Direct Testimony of Carolyn Bermudez filed on October 23, 2017 in Docket No. 20170179-GU, which is available at: http://www.psc.state.fl.us/library/filings/2017/09061-2017/09061-2017.pdf; *see also* Direct Testimony of Matthew Kim filed on October 23, 2017 in Docket No. 20170179-GU, which is available at: http://www.psc.state.fl.us/library/filings/2017/09050-2017/09050-2017.pdf; *see also* Rebuttal Testimony of Matthew Kim filed on February 16, 2018 in Docket No. 20170179-GU, which is available at: http://www.psc.state.fl.us/library/filings/2018/01408-2018/01408-2018.pdf.

Q. On pages 17 and 18 of his testimony, OPC witness Schultz states that the continued recovery of the AGLR acquisition adjustment was not approved in Docket No. 20170179-GU since the docket resulted in a settlement agreement. Do you agree with his assertion?

A. No, I do not. While Docket No. 20170179-GU resulted in a settlement agreement,[2] to which OPC is a signatory, it does not negate the fact that it was addressed in the referenced docket as required by the AGLR Order.

As reflected on pages 4 and 5 of Exhibit LF-8, which is part of Attachment No. 1 of FCG's response to OPC's Fifth Set of Interrogatories No. 159, FCG responded to Staff's First Data Request on Stipulation and Settlement No. 2 in Docket No. 20170179-GU ("Staff's 2017 Settlement Data Request") regarding FCG's intent for the continued recovery of the AGLR acquisition adjustment in base rates. While OPC witness Schultz refers to a limited portion of FCG's response to Staff's 2017 Settlement Data Request on pages 17 and 18 of his testimony, he fails to refer to subpart (c) where the Commission expressly asked, "does FCG believe that this Stipulation and Settlement Agreement fulfills its obligation to demonstrate to the Commission the prudence of the Acquisition Adjustment?" FCG's response was as follows:

> While the Stipulation and Settlement does not specifically address the Acquisition Adjustment, the Company provided the testimonies of Witnesses Kim and Bermudez in support of the continued prudence of the Acquisition Adjustment. To the extent that no intervenor party provided testimony recommending an adjustment to the unamortized amount associated with the Acquisition Adjustment, and the Settlement and Stipulation does not contain a specific adjustment to the remaining unamortized amount associated

[2] Order No. PSC-2018-0190-FOF-GU, Docket No. 20170179-GU (the "2018 Settlement Agreement")

> with the Acquisition Adjustment, FCG believes that a sufficient demonstration has been made as to the continued prudence of the Acquisition Adjustment.

Q. Did FCG include the AGLR acquisition adjustment and its related amortization expense in its 2023 Test Year?

A. Yes. FCG included the $21.7 million AGLR acquisition adjustment and related accumulated amortization of $13.5 million in rate base, and $0.7 million of amortization expense in net operating income in the 2023 Test Year. This treatment is consistent with the 2018 Settlement Agreement.

Q. On pages 18 through 20 of his testimony, OPC witness Schultz recommends the removal of the AGLR net acquisition adjustment and related amortization expense from the 2023 Test Year because, according to him, the Commission "has established a policy for the protection of customers that acquisition adjustments do not survive subsequent purchases of a utility's assets." Do you agree with his recommendations?

A. No, I do not. OPC witness Schultz refers to excerpts from two water and wastewater utility orders as the basis for excluding the AGLR acquisition adjustment in this proceeding; however, these references are taken out of context. The Commission's decisions in the referenced water and wastewater orders were based on the unique facts and circumstances specific to those dockets and nothing in either order suggests that the Commission's decisions would be considered "policy" for all utilities, including gas utilities. In addition, the utilities in the referenced dockets must comply with the requirements under Rule 25-30.0371, F.A.C., which is a rule specific to acquisition adjustments for water and wastewater utilities. There is not a comparable acquisition adjustment rule for gas utilities, nor is FCG aware of any Commission decisions that disallow continued recovery of acquisition adjustments after a subsequent acquisition for gas utilities. In fact, FCG's AGLR acquisition adjustment already survived a subsequent acquisition for ratemaking purposes. FCG was acquired by AGLR in 2004 and the positive AGLR acquisition adjustment was approved in the AGLR Order issued on November 13, 2007. Subsequently, on July 1, 2016 ~~2015~~, AGLR was acquired by Southern Company and FCG became a subsidiary of Southern Company Gas. Despite the subsequent acquisition by Southern Company Gas, the AGLR acquisition adjustment was continued and, pursuant to the AGLR Order, the permanence of the acquisition adjustment was addressed and resolved in FCG's most recent rate case in Docket No. 20170179-GU as explained above.

Q. Please explain why the net acquisition adjustment and related amortization should be included in the 2023 Test Year.

A. As stated previously, the permanence of the AGLR acquisition adjustment has already been addressed and resolved in FCG's most recent rate case in Docket No. 20170179-GU. In addition, the inclusion of the AGLR acquisition adjustment and related amortization in base rates is consistent with the treatment for any other regulatory asset or liability that FCG had on their books and records when it became a wholly-owned subsidiary of FPL. Therefore, there is no need to make adjustments to remove the AGLR acquisition adjustment and associated amortization from FCG's 2023 Test Year.

Q. On pages 52 and 53 of his testimony, OPC witness Schultz appears to question whether there will be a future potential merger or sale of FCG. Do you have a response?

A. Yes. OPC witness Schultz's concerns regarding a future merger or acquisition of FCG are unsupported speculations that are irrelevant to this proceeding. First, as OPC witness Schultz acknowledged on page 52, line 21 of his testimony, FCG has confirmed that there are no plans to merge FCG and FPL. Even if FCG and FPL were to legally merge, they would need to remain separate regulated, cost-based ratemaking entities and maintain separate regulated operations, books, and records. Second, as reflected in FCG's response to OPC's Third Set of Interrogatories No. 140, sponsored by FCG witnesses Howard and Campbell, which is reflected on page 2 of Exhibit LF-8, FCG has not forecasted any activity associated with a future potential merger or sale in its 2023 Test Year. Third, even if there is a merger or sale in the future, any impact to FCG's base rates would be addressed by FCG and this Commission in the applicable base rate proceeding. It would be inappropriate to incorporate the impacts of a future acquisition in this base rate proceeding where it is entirely unknown and pure speculation on the part of OPC witness Schultz that such a transaction will even occur at some unknown time in the future.

IV. <u>LNG FACILITY</u>

Q. On pages 21 and 22 of his testimony, OPC witness Schultz raises a concern as to why FCG's current base rates reflect costs and expenses associated with the LNG Facility when the unit is not yet in service. Do you have a response?

A. Yes, perhaps OPC witness Schultz is unaware that OPC agreed to this ratemaking treatment as part of FCG's 2018 Settlement Agreement. Section III of the 2018 Settlement Agreement, to which OPC is a signatory, contemplates the recovery of a portion of the costs and expenses associated with the LNG Facility prior to its in-service date. Specifically, it states the following:

> The Parties further agree that the Company shall be allowed to increase its base rates and charges in an amount sufficient to recover the additional revenue requirement of $3.8 million of the completed liquified natural gas ("LNG") facility described in Section IV of this 2018 Agreement by the end of 2019 or upon the in-service date of the LNG Facility, whichever is later.

This provision in the 2018 Settlement Agreement recognizes a portion of costs and expenses associated with the LNG Facility is currently included in FCG's base rates and FCG is allowed to implement a subsequent increase to its existing base rates in order to collect an <u>additional</u> $3.8 million in revenue requirements once the LNG Facility goes into service.

Moreover, as FCG explained in its response to OPC's Fifth Set of Interrogatories No. 172, which is reflected on pages 6 through 8 of Exhibit LF-8, the revenue requirement calculation for the LNG Facility that was provided to support the additional subsequent increase of $3.8 million upon the in-service date clearly identified that current rates approved by the 2018 Settlement Agreement included approximately $2.5 million in revenue requirements associated with the LNG Facility. More specifically, the revenue requirement calculation for the LNG Facility indicated: (1) the total estimated revenue requirement associated with the LNG Facility was $6.4 million (Exhibit LF-8, page 7, line 26); (2) the current base rates approved in the 2018 Settlement Agreement included revenue requirements of $2.5 million associated with the LNG Facility (Exhibit LF-8, page 8, line 26); and (3) the incremental additional revenue requirement to become effective on the in-service date of the LNG Facility is $3.8 million (Exhibit LF-8, page 7, line 26). The revenue requirement included in current base rate represents a return on $29.0 million of related rate base of $2.4 million (Exhibit LF-8, page 8, line 22) plus $0.2 million of operating expenses (Exhibit LF-8, page 8, sum of lines 23-25).

Q. On page 22, lines 6 through 8 of his testimony, OPC witness Schultz recommends that amounts collected from customers associated with the LNG Facility prior to when it goes into service should be "set aside in a regulatory liability and amortized back to ratepayers over the next five years." Do you agree with this recommendation?

A. No, I do not. As mentioned previously, FCG's current base rates include costs and expenses associated with the LNG Facility pursuant to the 2018 Settlement Agreement, which OPC agreed to. OPC witness Schultz's recommendation is in direct violation of the settlement agreement. Therefore, his recommendation should be rejected.

V. <u>REVENUE REQUIREMENT ADJUSTMENTS IDENTIFIED BY FCG</u>

Q. Has FCG identified adjustments that should be made to the revenue requirement calculations for the 2023 Test Year?

A. Yes. The identified adjustments to the calculation of revenue requirements for the 2023 Test Year are reflected in FCG's notice of identified adjustments filed on August 16, 2022, which is attached as Exhibit LF-10. In addition, FCG has identified three additional adjustments to the calculation of revenue requirements for the 2023 Test Year, which were identified after the notice of identified adjustments was filed. The adjustments are as follows:

1) <u>Rate Case Expenses</u> - As described earlier in my rebuttal testimony, FCG has decreased the amount of estimated, incremental rate case expenses from $2.0 million to $1.9 million and has included an adjustment to amortization expense and the related unamortized balance in its revised revenue requirement calculations.

2) <u>Forecasted Billing Adjustments</u> - As described in the testimony of FCG witness DuBose, FCG inadvertently included $16 thousand of forecasted billing adjustments to miscellaneous revenues, which should be removed for the 2023 Test Year.

3) <u>Executive Incentive Compensation</u> - As discussed in the rebuttal testimony of FCG witness Slattery, the forecasted amount of affiliate expenses from FPL in 2023 included $505 thousand of executive incentive compensation, which the Company is electing to remove in this proceeding consistent with FPL's incentive compensation methodology.

All of these adjustments, including the previously filed notice of identified adjustments, are included in Exhibits LF-11 and LF-12, which reflect revised revenue requirements for the 2023 Test Year and the impact of these adjustments on rate base, net operating income, and capital structure.

Q. Are there any other adjustments proposed by OPC witness Schultz to FCG's 2023 revenue requirement calculation or four-year rate plan that you would like to address?

A. Yes. In addition to the proposed adjustments on Exhibit HWS-2 that I have previously addressed, OPC witness Schultz has proposed several other adjustments to FCG's 2023 revenue requirement calculation. For the reasons discussed in the rebuttal testimonies of FCG witnesses Allis, Campbell, Howard, Nelson, and Slattery, the following adjustments proposed by OPC witness Schultz should be rejected and, therefore, have not been incorporated into FCG's recalculated 2023 base revenue increase on Exhibits LF-11 or LF-12:

- <u>Removal of Advanced Metering Infrastructure Pilot Costs</u> – Addressed in the rebuttal testimony of FCG witness Howard.
- <u>Injuries and Damages Adjustment</u> – Addressed in the rebuttal testimony of FCG witness Howard.
- <u>Plant-In-Service Reductions</u> – Addressed in the rebuttal testimonies of witnesses Howard and Campbell.
- <u>Cash Working Capital Reductions</u> – Addressed in the rebuttal testimony of FCG witness Campbell.
- <u>Reduction of Storm Damage Reserve Accrual</u> – Addressed in the rebuttal

testimony of FCG witness Howard.

- Impact of Parent Debt Adjustment – Addressed in the rebuttal testimony of FCG witness Campbell.
- Directors and Officers Liability Insurance Expense Adjustment – Addressed in the rebuttal testimony of FCG witness Campbell.
- Employee Payroll, SERP, Benefits and Incentive Compensation Adjustments – Addressed in the rebuttal testimony of FCG witness Slattery.
- Adjustments to 2022 Depreciation Study Rates – Addressed in the rebuttal testimony of FCG witness Allis.
- Capital Structure Adjustments – Addressed in the rebuttal testimonies of FCG witnesses Campbell and Nelson.
- Return on Equity Adjustment – Addressed in the rebuttal testimony of FCG witness Nelson.

In addition, OPC witness Schultz recommends the rejection of FCG's proposed RSAM, resulting in the rejection of FCG's four-year rate plan, which is addressed in the rebuttal testimony of FCG witness Campbell.

Q. How does FCG propose that the Commission use the adjustments reflected on Exhibit LF-11?

A. The Commission should include the effect of the adjustments in determining FCG's revenue requirements for the 2023 Test Year requested base revenue increase. The net impact of the adjustments identified result in a decrease to FCG's revenue requirements for the 2023 Test Year.

Q. What is the amount of FCG's recalculated base revenue increase for the 2023 Test Year?

A. As shown on Page 1 of Exhibit LF-11, the amount of FCG's recalculated base revenue increase for 2023 is $28.3 million and incremental revenue increase is $18.8 million. The recalculated amount is based on MFR G-5 with RSAM, which is consistent with FCG's four-year rate plan discussed by FCG witness Campbell, and includes all the identified adjustments discussed previously. Pages 2 through 3 of Exhibit LF-11 present the impact of each adjustment to rate base, NOI, and capital structure. The recalculated base revenue increase for 2023 is lower than the amount reflected on MFR G-5 with RSAM by approximately $0.7 million.

Q. Did FCG recalculate the alternative base revenue increase that would be required for the 2023 Test Year in the event the Commission does not approve FCG's proposed four-year rate plan?

A. Yes. As shown on Page 1 of Exhibit LF-12, the amount of FCG's recalculated alternative base revenue increase for 2023 is $31.3 million and incremental revenue increase is $21.5 million. The recalculated amount is based on MFR G-5 without RSAM, and includes all the identified adjustments discussed previously. Pages 2 through 3 of Exhibit LF-12 present the impact of each adjustment to rate base, NOI, and capital structure. The recalculated base revenue increase for 2023 is lower than the amount reflected on MFR G-5 without RSAM by approximately $0.7 million.

Q. How do FCG's recalculated incremental revenue requirements under FCG's proposed four-year plan compare to the recalculated incremental revenue requirements that would apply if the Commission does not approve the four-year plan?

A. FCG's recalculated incremental revenue requirements under the four-year plan remain about $2.7 million lower per year compared to the alternative incremental revenue requirements. Over four years, this amounts to roughly $10.8 million of lower revenue requirements, which does not account for any additional base revenue increases for the period of 2024 through 2026 that would result if the four-year plan is not approved, as discussed by FCG witness Campbell.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BY MR. WRIGHT:

Q Ms. Fuentes, do you have Exhibit LF-7 through LF-12 attached to your rebuttal testimony?

A Yes.

MR. WRIGHT: Chairman, I would note, hopefully I got this right of this time, I believe those have been identified as Exhibits 107 through 112 on the comprehensive exhibit list.

CHAIRMAN FAY: Okay.

BY MR. WRIGHT:

Q And are you co-sponsoring Exhibit LF-10?

A Yes, with witnesses Howard and Dubose.

Q Were these exhibits prepared by you or under urban direct supervision?

A Yes.

Q Do you have any corrections?

A No.

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

A Sure.

My rebuttal testimony addresses certain claims and recommendations in the testimonies of OPC witness Schultz and FEA witness Collins regarding rate case expenses, the AGL Resources, Inc., or AGLR acquisition adjustment, and the revenue requirements associated with the liquified natural gas, or LNG facility. In addition, I present the recalculated base revenue increase for the 2023 test year to incorporate certain adjustments identified by FCG.

First, FCG has revised a total amount of estimated rate case expenses to 1.9 million, which is 96,000 lower than the original estimate. The revised incremental rate case expenses are based on actuals through August 2022 and a bottom-up review of the remaining time and work needed to support a fully litigated rate case, and consists mainly of necessary expenses associated with external witnesses, legal support and affiliate support.

Except for the preparation of FCG's initial filing, rate case expenses are largely beyond FCG's control, as they are a direct result of the specific issues raised during a rate case proceeding. As discussed in my testimony, it OPC witness Schultz's claim that FCG's estimated rate case expenses are excessive, and FEA witness Collins' recommendation to use FCG's 2017 prior rate case expenses adjusted for inflation as a proxy, are unsupported.

Additionally, to reduce or limit the amount of necessary affiliate support recoverable in FCG's base rates, as suggested by OPC witness Schultz, would result in an implicit disallowance of prudently incurred costs.

Second, FCG was acquired by AGLR in 2024 -- I am sorry, 2004, and the resulting positive acquisition adjustment was approved by the Commission in the AGLR order issued on November 13th, 2007. In that same order, the Commission required FCG to address the permanence of the acquisition adjustment in rates in its next base rate proceeding.

Subsequently, on July 1st, 2016, AGLR was acquired by Southern Company, and FCG became a subsidiary of Southern Company Gas. Despite the subsequent acquisition by Southern Gas Company, the AGLR acquisition adjustment continued to be recovered in base rates. And pursuant to the AGLR order, the permanence of the acquisition adjustment was not contested and was fully resolved in FCG's next base rate proceeding in its 2017 rate case. Therefore, OPC witness Schultz's recommendation to remove the AGLR acquisition adjustment for recovery in this proceeding is not needed and should be rejected.

Third, OPC witness Schultz's concern that the recovery of costs or expenses associated with the LNG facility included in FCG's current base rates when the unit is not yet in service ignores the fact that OPC agreed to this treatment as part of FCG's 2018 settlement agreement. The 2018 settlement agreement explicitly allows FCG to recover a portion of costs and expenses associated with the LNG facility in its current rates, and implement a subsequent increase to its existing base rates in order to collect an additional 3.8 million in revenue requirements once the LNG facility goes into service. OPC witness Schultz's proposed refund is contrary to what was approved in the 2018 settlement agreement and should be reflected.

Lastly, I provide the consolidation of adjustments to revenue requirement calculations that the company has identified. Based on these adjustments, FCG's recalculated base incremental revenue increase for 2023 is 18.8 million under FCG's proposed four-year rate plan, which is 691,000 lower than the amount in the company's initial filing.

In the event the Commission does not approve the company's request for a four-year rate plan, I have also calculated the impact of similar adjustments to FCG's alternate incremental base rate increase, which results in 2.7 million of higher revenue requirements compared to FCG's proposed four-year rate plan.

This concludes my summary.

Q Thank you.

MR. WRIGHT: We tender the witness for cross.

CHAIRMAN FAY: Okay. All right. Mr. Rehwinkel, now you can begin cross.

MR. REHWINKEL: Thank you, Mr. Chairman.

EXAMINATION

BY MR. REHWINKEL:

Q And good afternoon, Ms. Fuentes.

A Good afternoon.

Q In your role as Director of Regulatory Accounting with FPL and FCG -- well, let me start with a predicate.

Pivotal Utility Holdings is the official title of the company, right?

A That's correct.

Q But -- and FCG, or Florida City Gas, is a d/b/a, or doing business as, right?

A That's correct.

Q So from here on out, I will not use Pivotal, I will use FCG, and you know what I mean, right?

A That's fine.

Q Okay. In your role as Director of Regulatory Accounting with FPL and FCG, you ensure that the financial books and records comply with multi-jurisdictional regulatory accounting requirements and regulation, is that right?

A That's correct.

Q And you are a CPA in the state of Virginia, right?

A That's correct.

Q Virginia CPAs and Florida CPAs sit for the same CPA exam, right?

A If I recall, it's been quite some time, but yes.

Q And they learn the same GAAP and IFRS, I-F-R-S standards, right?

A It's -- are you talking about in a CPA profession? Depending on what the CPA does on a day-to-day basis it depends, but in general, yes.

Q And it's not state specific. It's about your area of practice, right?

A That's correct.

Q So your accounting expertise before this commission is the same regardless of the state that you are licensed in, is that right?

A That's correct.

Q You and Mr. Campbell both report to Keith Ferguson, who is the Controller of FPL and FCG, right?

A I report to Keith Ferguson, but Mark Campbell does not.

Q Okay. Can we agree that -- let's see, I already asked that question there.

Mr. Ferguson is the responsible person who puts his name on and submits the annual reports and quarterly earnings surveillance reports for the company, right?

A That are submitted to this commission?

Q Yes.

A Yes. That's correct.

Q And your role of ensuring that FPL and FCG's financial books and records comply with multi-jurisdictional regulatory accounting requirements and regulations include such responsibilities related to the annual report and surveillance reports that FCG files with the Commission, is that right?

A It's somewhat correct. I provide a lot of guidance on how items should be treated from a regulatory perspective. Those could go into our earnings surveillance report. It could be on how to account for things that are in compliance with either an FPSC order or a FERC order, and make sure that those are implemented timely.

Q Okay.

MR. REHWINKEL: Mr. Chairman, I would like to ask that two exhibits be identified for the record, and I think they are the first two in the -- in the packet.

THE WITNESS: So flip this over and grab the first two?

MR. REHWINKEL: Yes, please.

And, Mr. Chairman, the first -- the thicker document is -- it says, FCG Annual Report Excerpts 2018 through 2021.

CHAIRMAN FAY: Okay. That will be 186.

MR. REHWINKEL: Okay.

(Whereupon, Exhibit No. 186 was marked for identification.)

MR. REHWINKEL: And then the second one is FCG Annual Report Excerpts 2016 and 2017, and that will be 187?

CHAIRMAN FAY: Okay, yep.

MR. REHWINKEL: Thank you.

(Whereupon, Exhibit No. 187 was marked for identification.)

BY MR. REHWINKEL:

Q Do you have Exhibit 186 before you, the thicker one?

A Yes, I do.

Q Okay. I will represent to you that this is a compilation of portions of the annual report that FCG has filed with the Commission from 2018 through 2021. Would you accept that representation?

A Sure, subject to check, yes.

Q And the explanation you gave to my previous question would indicate that you have some role and responsibility in the information that's provided in these annual reports, is that correct?

A Yes, that's correct. It's partial.

Q Yes. And so would it be fair to say that you are familiar with these annual reports?

A I am somewhat familiar. I don't review these in the entirety. I do review some sections on an annual basis, but not in the entirety.

Q Okay. And if I could get you --

MR. REHWINKEL: I have, Mr. Chairman, numbered this document with Bates stamp in the upper right-hand corner, and I will refer to those pages in my questions.

CHAIRMAN FAY: Great. Thank you.

BY MR. REHWINKEL:

Q You understand?

A Yes.

Q Okay. So on Bates No. 4, we see -- this is the 2021 annual report first page with Mr. Ferguson's name on it, right?

A That's correct.

Q Okay. And then Bates No. 6 is -- contains an

attestation that basically, in shorthand terms, means that these reports are filed under oath, is that right?

A That's correct.

Q Okay. Mr. Ferguson, your boss, signs these, correct?

A Yes, he signed it this particular year.

Q Okay. And the annual reports are audited. And in this case, the 2021 report has an audit opinion provided by Deloitte, right?

A Yes, on page three.

Q Okay. And is it -- is it fair to say that each year's annual report, since FPL -- I mean, FCG has been filing them under FPL's ownership, is audited by an outside auditor?

A That's my understanding, yes.

Q Okay. Do you have a copy of -- let's put this aside for just a second, and I want to ask you to turn to MFR C-26. Do you have that with you?

A No, I do not.

Q You do not, okay. Let me see if I can ask you a question without -- and get you to agree to it, if Mr. Wright will let me do this.

A Can you read me the heading of that MFR?

Q It's the parent debt MFR.

A Okay.

MR. WRIGHT: Mr. Rehwinkel, I am sorry, which MFR?

MR. REHWINKEL: It's C-26.

MR. WRIGHT: Okay. Thank you.

MR. REHWINKEL: And I am asking you about it because you are shown as being the witness responsible for it. I had assumed the witness would have the MFR's with her name on it. If it's okay with Mr. Wright, I have a paper copy to show the witness.

MR. WRIGHT: Yes, that's fine. Thank you.

BY MR. REHWINKEL:

Q Do you have that before you?

A I do.

Q Okay. This is the parent debt information MFR that's in the submittal that the company made on May 31st, right?

A That's correct.

Q And it's populated with all zeros, is that right?

A That's correct.

Q And at the bottom of the page, there is a note, and could you read that out loud?

A Sure. It says: Note, Florida City Gas is not including an income tax adjustment for interest expense of Florida Power & Light Company's investment in equity of Florida City Gas. Florida City Gas' dividends to parent have exceeded equity contributions from parent.

Q Okay. And in the upper right-hand corner, it shows you are responsible for this MFR, is that right?

A That's correct.

Q Okay. Now, I know you are not the witness designated by the company to testify about the parent debt adjustment, right?

A That's correct.

Q But I would like to ask you about the information that's in this note, and ask you to go back now to Exhibit 186, the 2018 to 2021 MFR excerpt.

A I am sorry, you mean the annual report, the first exhibit I was looking at?

Q Yes. However I described that, yeah, Exhibit 186 --

A Okay.

Q -- the annual report excerpts.

A Okay.

Q And ask you if you could turn to Bates page 20.

A Do you have a specific line you would like me to look at?

Q Yes. I am going to ask you -- well, first of

all, this is the statement of retained earnings on this page?

A   Yes. That's correct.

Q   All right. This shows on line 31 -- I apologize, 30 -- dividends paid for 2021 of $20 million, is that right?

A   Yes. That's correct.

Q   Okay. And if I could ask you to turn to Bates page 53, and if I could get you to agree that we are in the year 2020 now?

A   Yes.

Q   And this is the comparable statement of retained earnings for 2021 contained in the annual report, right?

A   That's correct.

Q   And it shows on this page no dividends paid for the year 2021 -- 2021 -- 2020, right?

A   That's correct.

Q   Okay. And if I could get you to turn to page 101.

MR. MOYLE: You are just using the Bates numbers?

MR. REHWINKEL: Yeah, Bates 101.

BY MR. REHWINKEL:

Q   It shows, on line 13, dividends declared of

$40 million for the year 2019, is that right?
A That's correct.
Q And then finally, get you to turn to Bates page 154. And this is in the year 2018, right?
A I am sorry, I am not there yet. You said page 154?
Q 154, yes.
A Okay. Yes.
Q For the year 2018, it shows, on line 13, dividends declared of 3,750,143, is that right?
A Yes. I would like to point out, though, I am not 100 percent familiar with these pages. I did not compile them, nor did I review them, but I do notice that the amounts you are asking me to look at, some are positive, some are negative. So without kind of studying this, I am not quite sure if that's relevant or not.
Q Okay. So on 154, the 3,750,143, that's -- that's in parenthesis?
A That's correct.
Q Okay. And so that would be -- would that be a debit or credit?
A I -- well, I think the retained earnings balance is normally a credit balance. That's what it's normally in a position of. So the beginning amount on

154, the 25 million, that's likely a natural credit balance. So if these are in parenthesis on line 13 for the 3.7 million, that might be a reduction of it. So I am not 100 percent sure. I would have to go back and look at that. I can't tell for certainty.

Q Okay. So if retained earnings is a subset of proprietary capital, in the balance sheet it's shareholder equity, right?

A That's correct.

Q And it sits on the balance sheet as a credit, right?

A Normally. Yes.

Q So if you paid dividends out of retained earnings, that would be a debit to the credit balance, correct?

A That's correct. It would lower the balance.

Q Okay. So have we looked at any of the retained earnings that are not shown as a debit?

A I think one or two of them were.

Q Okay. So we -- back -- so let's look at that again. Back on page 20, for the year 2021, line 31, we see the 20 million in brackets, right?

A That's correct.

Q So that -- that looks like the payment of difficult and since that, it is a debit to a otherwise

credit balance, correct?

A That's what it appears to be. Yes.

Q Okay. And then on 101, you are saying that the $40 million is not in brackets?

A It's not, but the math seems to suggest that it's a reduction.

Q Okay. So there might just be an error in this exhibit -- I mean, in this annual report that should have had a bracket around this 40 million, right?

A Perhaps. But once again, I did not prepare these pages, nor did I review them, so I am not 100 percent sure.

Q Okay. So someone could add line one, 39,205,149, and line 10, 5,897,934, then subtract 40 million from that, and probably end up with 5,101,083 as a retained earnings balance at the end of 2019, right?

A That's what it appears to be. Yes.

Q Okay. Let's go back to page 154 for 2018.

A Okay.

Q I think we heard, either in testimony or in an opening statement, that Florida Power & Light and NextEra, we'll talk about that later, but the company was bought from Southern Company in July of 2018, right?

A That's correct.

Q So this annual report doesn't show whether the

3,750,143 on line 12 was a dividend paid to prior owner or the current owner, does it?

A No, it does not.

Q Do you have any personal knowledge?

A Once again, I did not prepare this page, so I couldn't tell you.

Q Understood. All right. Let me set that aside for a second and ask you to go to Exhibit 187. And this is the 2016 and 2017 annual report excerpt exhibit.

A Okay. I have it.

Q Okay. Now, given that these were filed before FPL owned Florida City Gas, it would be fair to say that you, that FPL, you and Mr. Ferguson, had no role in the preparation of these documents, right?

A That's correct.

Q But with your responsibility to the Public Service Commission, you would be responsible for the information that's contained in them, right, as a subsequent owner of the company?

A I am not quite sure what you mean by that question.

Q Okay. Well, let me ask it to you this way: There are balance sheet items that are on your current balance sheet, '21, '22, those flow from, or they are the product of debits and credits that have occurred

over time that lead to the current balance, is that right?

A That's correct.

Q Okay. So you would agree with me that balance sheet items that are reported on the current annual reports have their, as their source, the changes over time in items like retained earnings, proprietary capital and long-term debt, correct?

A I am sorry, can you state your question again, please?

Q Yes. You would agree with me that the balance sheet items that are reported on the current annual report have as their source the changes over time in items and balances like retained earnings, proprietary capital and long-term debt?

A Yes, I would agree with that.

Q Okay. So I will ask you to turn in Exhibit 187 to Bates page nine, if you would.

A Okay.

Q And on-line five, would you agree with me that this shows the retained earnings balance in Column D at the end of 2017?

A Yes.

Q What's that, 25,149,468?

A Yes, that's what it shows.

Q Okay. And if we go to Bates page 12, this shows the activity in the retained earnings account is comprised of the recognition of net income for the year that is closed to retained earnings, and then the payment of dividends that yield a remaining balance of retained earnings, is that right?

A Yes. That's what it shows.

Q And then if we go to page 23, this, on-line five, also shows a year -- beginning of year and end of year change in retained earnings over the year, right?

A On line five, yes.

Q Yes. And then on page 26, we see the information that explains how, on a high level, the change in retained earnings occurred, closing of net income to retained earnings, and then the payment of dividends, and then a small item of other comprehensive income, right?

A Yes. That's what it shows.

Q Okay. You would agree with me that when NextEra bought Florida City Gas that the retained earnings balance that we saw at the end of 2017 did not go away, right?

A I believe so. Can you point me somewhere?

Q Yes. Let's go -- given that that end-of-year balance is 25,149,468, if we turn to, in Exhibit 186, to

Bates page 151, if you could kind of hold open that 187 page there. You would agree with me that the beginning of year balance in 2018 is 25,149,458, right?

A That's correct.

Q And then the end of year balance -- now, the beginning of year, Southern Company owned Florida City Gas, right?

A That's correct.

Q And at the end of the year, FPL owned Florida City Gas, right?

A It was a subsidiary of FPL, yes.

Q Right. So we see the end-of-year balance of 39,205,149 in line five, retained earnings, right?

A For the end of '18, yes.

Q Yes. And then like we discussed on page 154, this shows the derivation of the 39 million 205 that we saw for the end-of-year balance in retained earnings, right?

A That's correct.

Q Okay. So would you agree with me that these numbers, if you follow them through, show that retained earnings balance followed from Southern Company's ownership into Florida Power & Light's ownership of FCG?

A I agree that there is retained earnings, because that's typical when you are recording items on your balance sheet. However, I can't tell you for certainty exactly how, when FCG was acquired by NextEra, exactly what the account the accounting was at the time of acquisition. So I can't tell you for certainty, like, what flowed through. But we did carry the balances on the balance sheet at the time of acquisition and brought them on to the ledger. If there were any adjusting entries, I don't know. I can't speak to that.

Q Right. But let's look at -- let's go back to 151.

A Okay.

Q Okay. And what we see on 151 is that at the end-of-year, on line 16, total long-term debt, is -- goes from 102,661,212 as the starting balance to zero, right?

A I am sorry, which line? Line 16?

Q 16, long-term debt.

A In the beginning of the year, it had a balance. At the end of the year, there was no balance.

Q Right. So the long-term debt that was on the books under Southern's ownership went away after the acquisition, right?

A It appears to be, but I am not an expert in this area on long-term debt.

Q All right. But this is what the annual report

shows to the Commission, right?
A That's what it shows. Yes.
Q Yeah. And you would also agree with me that -- and we could go back and forth between page nine of Exhibit 187 and page 151 of 186, but we can see that the paid-in capital balance of 73,819,655 at the end of 2017 is the starting balance for FCG at the beginning of '18, right?
A Yes. I see that.
Q And then we see that the paid-in capital amount at the end of 2018 is 259,796,072, is that right?
A Yes. That's what it shows.
Q Okay. And that's -- if you add that, that is FPL's investment, paid-in capital investment in FCG as a subsidiary, correct?
A I am not 100 percent sure.
Q Could it be anything else?
A It should be, but once again, I don't know what goes into these numbers.
Q Okay. So we have our 39,205,149 that we have touched on a few times, right, of retained earnings?
A Yes.
Q That added to the 259,796,072 gives you a total proprietary capital of 299,001,221, is that right?
A At the end of '18, yes, that's what it shows.

Q Yes. And proprietary capital is the owner's investment in the utility, is that right?

A I believe so. But once again, I don't have the details of what makes up this number.

Q Okay. You would agree with me that Florida Power & Light recapitalized FCG upon ownership, correct?

A Can you explain what you mean by recapitalized?

Q Well, the balance sheet that was -- that represented the ownership of Southern Company, or Southern Company Gas and FCG was replaced by the, in this case, at the end of the year, the debt -- the equity investment of FPL and FCG?

A Can you restate that, please?

Q So we saw that the debt went away --

A Yes, that's correct.

Q -- the debt that went away. And then the equity balances changed, so that the only balance sheet item in the liabilities, the long-term liabilities section on -- at the end of 2018 was 100 percent equity, right?

A It appears to be. Once again, I am not 100 percent familiar with a lot of this, and how we fund debt and equity at our company. Perhaps maybe witness Campbell might be a better person to ask that question.

Q Well, I am going to ask you for now because you are the one on the MFR that had this statement about dividends and capital contributions. And by the way, line four, paid-in capital, that is synonymous with the phrase that shows up on MFR C-27, equity contributions from parent, correct?

A Subject to check, I don't have that exactly in front of me.

Q Yes, that's C-20 --

A C-20?

Q C-26 --

A Uh-huh.

Q -- the note that we reviewed earlier.

A And what's your question?

Q The phrase, equity contributions from parent, in the note on C-26, that is synonymous with paid-in capital as it's reflected on page 151, correct?

A I am not 100 percent sure. And this MFR was prepared many months ago, and I don't recall exactly what was involved when we were making that particular comment.

Q Okay. That was filed on May 31st, right?

A Yes.

Q All right. We can put those aside for now. Those meaning these 186 and 187.

A Okay.

Q So I want to turn to some of the specifics contained in your testimony.

You would agree with me that, in this case, you were responsible for compiling the results, some of which are provided by others, in the MFRs, is that right?

A That's correct.

Q And your testimony also is an explanation of that compilation as it reflects the company's revenue requirement, is that fair?

A That's correct.

Q In developing the revenue requirements for this case, are you aware of whether there were projections that had a range of costs, where the company elected to include the higher amount on the presumption that the Commission may not allow recovery of all of the revenue requirement amounts that you requested in your filing?

A I am not aware of anything, but I am also not the forecast witness. Perhaps witness Campbell might be able to provide some clarity on that.

Q Okay. So if I asked you the exact same question, but I replace the word cost with revenues and reflected it as lower, the lower amount, would your

answer be the same?

A It would be the same.

Q Okay. All right. Let's go to your rebuttal testimony, if we can, at page nine, lines 11 through 16. And I am also going to ask you if you have the response to OPC interrogatory 8th set, No. 211?

A I probably don't.

MR. REHWINKEL: Okay. So if I could, Mr. Chairman, I have provided an exhibit. It should be the one after the thick one on -- that's left on the top.

CHAIRMAN FAY: Okay. What's the title?

MR. REHWINKEL: It says Response to OPC 8th Set of Interrogatories, 211 through 214 and 221. Do you see that?

CHAIRMAN FAY: Yeah. It's the -- I have it as the last one in my pile. So Response to OPC's 8th Set of Interrogatories, 211 through 214?

MR. REHWINKEL: Yes.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: All right. Thank you.

And this is also --

CHAIRMAN FAY: Mr. Rehwinkel, let's go ahead and identify this exhibit here for the record.

MR. REHWINKEL: Okay. This will be 188.

CHAIRMAN FAY: Yes.

(Whereupon, Exhibit No. 188 was marked for identification.)

MR. REHWINKEL: This is also -- I should have written this down. It is included in Exhibit 166, which shows 8th Set of Interrogatories 208 through 214 and 221.

CHAIRMAN FAY: Okay. In its entirety?

MR. REHWINKEL: Yes.

CHAIRMAN FAY: Okay.

BY MR. REHWINKEL:

Q So you have Exhibit 188 with you?

A I do.

Q Okay. And I have included, I think, the declarations at the end of this exhibit. And you declare that you are the sponsor of 209 through 213, and cosponsor 214, right?

A I only see one declaration, and it's signed by witness Howard.

Q I wonder if this is an every other page.

A I see three discovery responses and one declaration.

Q I have a feeling that this was copied every other page. So --

MR. REHWINKEL: Let me do this, Mr. Chairman, I am going to take these questions and put them in a different order. It's 10 minutes to 5:00 right now. I am not trying to stop anything, but I will try to get a better set of these.

CHAIRMAN FAY: Okay. We will just -- we will give you a chance to cure that, and then tomorrow you can bring an updated set, if that works, and then you can move on.

And I presume we will go a little bit past 5:00 today just because we had technical difficulties. I want to make sure we give you the time that you need this afternoon.

MR. REHWINKEL: Right. Thank you.

CHAIRMAN FAY: Uh-huh.

BY MR. REHWINKEL:

Q Let me say, maybe I will do this without reference to these, so let's try this.

In your testimony at page nine, lines 11 through 16, you testify that the company plans to reduce its rate case expense for the depreciation witness from 158,000 to 107,000, is that right?

A That's correct.

Q Since the time that you filed rebuttal, are there any other expense reductions that you are aware of?

A Not that I am aware of.

Q Okay. If there were any, would you -- should you be aware of them?

A Perhaps. My team does a quarterly review of rate case expenses, so we haven't looked at them again since we filed rebuttal.

Q Okay. Let me ask it a little broader than just the rate case expense.

Are there any expense reductions in the case that you are aware of that have not been brought to the Commission's attention?

A Not that I am aware of. However, it is a forecasted test year, and we've provided our forecast. I have participated in multiple rate case proceedings, and we typically don't revise the forecast.

Q If you could go to your rebuttal testimony on page 18 and 19.

A I am there.

MR. REHWINKEL: Chairman, if I could just get a second --

CHAIRMAN FAY: Okay.

MR. REHWINKEL: -- to pull up hers on here. I am trying -- you see me work with these little documents, and now I have tried to switch to electronic.

CHAIRMAN FAY: It's too big for you.

MR. REHWINKEL: Yeah.

CHAIRMAN FAY: You are on page 18 and 19 of rebuttal?

MR. REHWINKEL: Yes.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: Okay. I apologize for the delay.

BY MR. REHWINKEL:

Q Is it your testimony here that the current rates that are in effect today, and being collected from customers, include a return on $29 million in rate base and $200,000 of operating expenses related to the LNG facility?

A I am sorry, I have an exhibit that details this, and I am going to flip through to it. It's LF-8, page seven of eight. Can you please repeat those numbers?

Q Yes.

Is it your testimony here, and with the supporting exhibit, that current rates in effect and being collected from customers include a return on $29 million in rate base and recovery of $200,000 of operating expenses related to the LNG facility?

A Yes, that's correct. On my Exhibit LF-8, page eight of eight, you can see those numbers in the calculation of the total revenue requirement associated with the LNG facility that's currently being recovered through base rates.

Q Okay. And on rebuttal, page 19, lines 11 through nine, you testify that you do not agree with Mr. Schultz that customers should be given credit for the earnings on rate base and the expenses included in rates that have been collected so far from customers, is that right?

A Somewhat correct. If I could clarify.

Witness Schultz proposed a refund for the revenue requirements being collected through the -- through current base rates associated with the LNG facility because it's not yet in service. However, I disagree with that. It's clearly identified in our 2018 settlement agreement that we can recover a portion of these costs, to which OPC was a party to in the 2017 rate case, therefore, I don't believe a refund is required.

MR. REHWINKEL: Okay. And let's do this, if we can. I have an exhibit, Mr. Chairman, that is entitled FCG 2018 Settlement Order No. PSC-2018-0190.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: Can we give that a number?

CHAIRMAN FAY: 189.

MR. REHWINKEL: 189.

(Whereupon, Exhibit No. 189 was marked for identification.)

BY MR. REHWINKEL:

Q And you have that in front of you?

A I do.

Q So let's go -- and I am going to ask you to use the upper left-hand Commission numbers, and ask you to turn to page 16, if you will.

A Okay. I am there.

Q Okay. And is the provision that's under Roman numeral III, revenue requirement A, the provision that you are referring to in your previous answer?

A Yes. That's correct.

Q Okay. Can you read me the part of this that you believe supports the -- your previous answer, that the parties agreed that this revenue requirement could be recovered in rates?

A Sure. The parties further agree that --

Q So this is about, what, six lines down?

A I am sorry. Yes. It's, yes, about six lines down.

Q Okay.

A The parties further agree that the company shall --

CHAIRMAN FAY: Hold on one second, Mr. Moyle.

MR. MOYLE: Yeah. Okay. Thank you, Mr. Chair.

CHAIRMAN FAY: Sure. No problem. And we are on the page 16 of the Commission's label under revenue requirement.

MR. MOYLE: Got it.

CHAIRMAN FAY: And she's about six lines down.

MR. MOYLE: Okay.

CHAIRMAN FAY: Okay. Ms. Fuentes, go ahead.

THE WITNESS: The parties further agree that the company shall be allowed to increase its base rates and charges in the amount sufficient to recover the additional revenue requirement of 3.8 million on the completed liquified natural gas, LNG, facility described in Section IV of this 2018 agreement by the end of 2019, or upon in-service date of the LNG facility, whichever is later.

BY MR. REHWINKEL:

Q Okay. And just so we don't have to go through whether you are a lawyer or not, you are proud not to be one, right?

A Yes.

Q Okay. And I am -- my questions to you are not going to be based on seeking a legal opinion from you, but you would agree with me that you have taken this language and you have translated into a regulatory response that's included in your testimony, right?

A I would agree that's partially correct. In my rebuttal testimony, I do have a schedule that shows the full revenue requirement associated with the estimated LNG facility that was presented in the 2017 rate case. It's on my LF-8, page seven and eight, which I was referring to before.

Page seven reflects the full revenue requirement associated with the LNG facility that was calculated during the case, as well as discussed during negotiations during the 20 -- for the '18 settlement agreement. And page seven shows there is 6.4 million of revenue requirements associated with the LNG facility at that point in time, of which, on page eight of eight, shows 2.5 million is what is included in current rates. Therefore, the difference equates to the 3.8 million that the parties agree to increase base rates when the unit actually goes into service.

Q Okay. Now, you said discussed in negotiations. You are not saying that you have some special information about what was discussed in

negotiations, is that right?

A That's right. I didn't participate in that. However, I am aware that this was initially a discovery response that was provided in the 2017 rate case, and it was just updated for some settlement parameters during negotiations.

Q Okay. So going back to this provision that you read from page 16 of the order. You seemed to emphasize the word additional when you read additional revenue requirement?

A That's correct.

Q What is your understanding of that in the context of recovery of the cost of this facility?

A So my understanding is, once again, looking back at my exhibit, the calculation of the revenue requirement associated with the LNG facility at the time the settlement was reached, the actual amount of the revenue increase in the 2018 settlement agreement was 11.5 million, of which 2.5 is associated with the LNG facility based on the estimated costs during the 2017 rate case.

And therefore, as I previously stated, 6.8 five million is the total revenue requirement. At that point in time, 2.5 was included in the general increase of 11.5 per the settlement agreement. So the additional

3.8 is the difference between the full revenue requirement and the amount included in rates.

Q Okay. Is the word additional in there supposed to, in any way, convey that it's extra?

A Extra in what way?

Q Above and beyond the actual cost of the facility.

A I don't believe so. My understanding is the word additional means we already have 2.5 in rates. There is an additional 3.8 that's discussed in the settlement agreement to get to the full 6.5 million revenue requirement.

Q Okay. So for the purposes of interpreting this provision, it says, by the end of 2019, or upon the in-service date of the LNG facility, whichever is later. How did you interpret that in terms of how the revenue requirement should be treated?

A Are you talking about the last sentence under Part A on that page?

Q I -- so the one you read, that -- let's see. We started where the parties further agree line. And then five lines down -- or four lines down, there is the phrase, by the end of 2019, or upon the in-service date of the LNG facility, whichever is later. Do you see that?

A Yes, I see that.
Q Okay. So what is it -- is it your interpretation that -- that the $3.8 million could be recovered from customers before the in-service date of the agreement -- of the LNG facility?
A That's not my understanding.
Q Okay. So -- okay. So the $3.8 million is not being recovered yet?
A Not yet.
Q Okay. All right. I just wanted to -- so there is a 2.5 million and a 3.8 million?
A That's correct. The 2.5 million is our understanding of what's being recovered in current rates. And the 3.8 million is additional, once the unit goes into service.
Q Okay. I just wanted -- I just wanted to make sure that there was no confusion about that for the Commission.
All right. Would you agree with me that there was an assumption underlying the settlement, that the LNG facility would be in service by the end of 2019?
A I don't know. I didn't participate in that docket.
Q Okay. But I think, as Mr. Howard testified, the LNG facility is -- wasn't in service at the end of

'19, and is still not in service today, right?

A   That's my understanding.

Q   If you were to buy a new car, and because it was not in stock and you had to back order it, would you pay for the vehicle up front without knowing when you might get it?

A   I don't know.

Q   That's a fair answer.

Would you agree that a fundamental tenet of utility ratemaking is that the company is entitled to earn both a return on and of plant when it goes into service?

A   I am sorry, can you say that again?

Q   Would you agree that a fundamental tenet of utility ratemaking is that the utility is entitled to earn both a return on and return of plant when it goes into service?

A   Typically that's the case. However, you can have some assets that are under construction, and per the Commission's AFUDC rule, we are allowed to include those costs in rate base and a return on them, as long as we are not accruing AFUDC. Return of is through depreciation expense, and that doesn't occur until the unit goes into service.

Q   Okay. So you said typically. And typically,

would the tenet that we just discussed above also apply to the recovery of projected plant based on the assumption that the plant would be in service when rates recovering that projected plant go into effect?

A That was a really long question. Could you please restate that for me, please?

Q All right. So the tenet about matching recovery on and recovery of with plant in-service, are we good there?

A Yes.

Q All right. You would agree that that also applies to the recovery of the cost of projected plant, and that that is based on the assumption that plant would be in-service by the time new rates go into effect, is that -- you agree with that?

A I am going to try to answer your question. Let me take a shot at it.

I -- based on the same caveat that I just explained, that if an asset is in-service, yes, it's earning a return, and the recovery of that asset is included in rates. However, it could be included in construction work in progress as long as it's not included AFUDC, you can include it in rate base and in a return of. That same concept holds true when you have a forecasted test period.

Q Okay. You would agree that a company should be entitled to earn a return on and return of plant based on the cost of the plant, right?

A That's correct.

Q Do you agree that a company should not be entitled to earn a return of and a return on that is more than -- no, let me ask that again.

Do you agree that a company is entitled -- should be entitled to earn a return of and return on more than the actual cost of plant?

A Are you talking about actual costs?

Q Yes.

A I agree -- I believe that it should be treated based on the actual costs incurred.

Q So you -- the complement of that would be that a company shouldn't earn a return on more than the actual cost?

A It depends on the context of the question, right? Because when we set base rates, we typically set it on a forecasted test year. And so you don't know what your actual costs are for certain things until you get down the road and you have actually incurred them, so there could be some differences. But in a forecasted period, that's what it's based on, and that's what we usually set rates on.

Q Okay. I think you have alluded to this, or answered it directly in a previous answer. Just to set the stage here, return of plant includes depreciation -- is depreciation, right?

A That's correct.

Q All right. Is -- would you agree that the current amount of LNG plant costs included in the filing are fully projected?

A I am not 100 percent sure. I did not forecast that. Perhaps witness Howard or Campbell might be able to shed some light on that. But if we did have any actual costs at the point in time the forecast was developed, it would be incorporated in the total amount that we are requesting for in this proceeding.

Q Would you agree that in this filing, the company has included the original $58 million of costs, meaning from 2017 -- 2018 time period, and reduced the revenue requirement for what was approved as a part of that settlement?

A Not -- I don't agree with that entirely. What the happen has done is we forecasted the amount of the LNG facility, which was sponsored by witness Howard. That full amount has been included in the revenue requirement calculation, and that's in my total revenue increase that I present in high testimony. Then I further have a calculation that says, of that amount that's included in the full revenue increase, it's -- the Commission has already authorized us to put into rates 3.8 million of that.

Q Okay. So listening to what you said, there was the original 58, and then that was updated, it's now 68, right?

A 68 million of the LNG facility, the current forecast is included in the revenue requirement calculations.

Q And what you backed out was the revenue requirement associated with what's already being recovered, is that right?

A Not already being recovered. What I reduced that by to show an incremental amount is the 3.8 million that the Commission is allowing us to implement at the point in time the unit goes into service per our 2018 settlement agreement.

Q I stand corrected. I understand now. Okay.

Now, we talked about the 58 and 68. You are asking for an additional $10 million related to this LNG facility, is that right?

A That's my understanding, based on witness Howard's testimony.

Q Okay. So if approved by the Commission, over

time in the future, the company would get recovery on $68 million that includes both land and plant, and by means of depreciation, recovery of the $58 million of plant costs for the LNG facility, is that right?

A I am sorry, did you say 58 million?

Q I mean 68, or the 68 minus the land?

A So, yes. If -- if that's the ultimate costs, exactly $68 million, that would be recovered through rates over the life of the plant.

Q All right. And did the land would be the only piece of that that would not be depreciated?

A That's correct.

Q All right. Would you agree that the proposed recovery would be in addition to the recovery of and on $28 million of plant that has occurred since 2018, as well as the operating expenses of $200,000, for a plant that was not in service?

A I am sorry, can you say that again, please?

Q Would you agree that your proposed recovery for the LNG facility would be in addition to the recovery of and on 28 -- $29 million of plant costs that have occurred since 2018, as well as operating expenses of $200,000 for a plant that is -- has not been in service up to this point?

A I would agree that -- that the amount that's included in our filing is our current estimate. What we -- and will be included in rates going forward.

I just want to remind the Commission that when we have our -- had our 2018 settlement agreement, it was agreed that we would include these revenues in rates. Yes, it was a forecast. Yes, it was associated with a particular unit. However, lots of things change in a forecasted test year from one rate case to another. So all we are asking for in this proceeding is the recovery of the current cost of the LNG facility in rates going forward.

Q Did the company, during the year 2019 up through today, record depreciation on its books for the $29 million of plant it was getting recovery of and on?

A No.

Q Okay. During the time beginning in 2019 up through today, did FCG rates include a depreciation expense component associated with the LNG facility?

A Yes, as shown on my Exhibit LF-8.

Q Let's go look at that exhibit, and just show the Commission where that can be found.

A Are you asking me about what's currently in rates?

Q Yes, ma'am.

A Okay. On Exhibit LF-8, page eight of eight, you can see, on line 25, depreciation of $42,083.

Q On line -- on page -- on LF-8, page seven of eight, explain what the $1,010,000 of depreciation expense represents.

A So page seven of eight represents the calculation of the full revenue requirement associated with the full cost of the estimated LNG facility during the last rate case of $58 million. So the depreciation expense is going to be a little bit higher than what -- well, higher than what you are going to see on page eight of eight, because page eight of eight is only showing a portion of the actual amount of depreciation expense.

Q So to date, $29 million of LNG facility costs, which is a 13-month average amount, is included in base rates; is that right?

A Yes. That's my understanding.

Q And that $29 million includes the $1,010,000 of depreciation expense?

A No, I think that's incorrect. The $29 million is the 13-month average of plant in-service. And see if you could see that on -- it's the sum of lines 15 and 16. So that's the rate base component, the plant in-service. The depreciation amount is expense that we were looking at.

Q Okay. So the depreciation that we talked about on page eight of eight, of 40 something thousand dollars, that was never recorded on the books of the company, right?

A That's correct.

Q It wasn't and is not being recorded today, right?

A That's correct. It's not in service yet, so therefore we can't depreciate it.

Q Okay. And isn't it correct that even though depreciation for the LNG facility was effectively being collected based on this depreciation amount, the company did not record any depreciation on its books or credit depreciation reserve?

A That's correct.

Q Okay. Also on LF-8, does your calculation there indicate that property taxes were included in LNG facility expenses that are included in rates today?

A Yes.

Q But property taxes were not paid in 2018, were they?

A No, they were not.

Q When I say property tax, I mean related to the LNG facility.

A Understood, yes. No, they were not.

Q And same question for 2019?
A That's correct.
Q 2020?
A That's correct.
Q 2021?
A I believe that's correct as well.
Q What about '22?
A My understanding is that property taxes are not yet due -- well, actually, they might have been paid by now. I think they might have been due in November, but I am not 100 percent sure.
Q Okay. So '22, for 2023 property taxes?
A I am not an expert on property taxes. I'm not 100 percent sure.
Q All right. But you are just saying that that would be the first time they would be due, which would be for the future year, is that right?
A Most likely, but I don't know if that includes anything for '22 as well.
Q Okay. The exhibit that you referenced, LF-8, pages seven and eight, we looked at that, it would be true that the company received a return of and return on the 13-month average of the full $58 million of costs of the plant, plus the land cost, as if it had been constructed and in service in 2018, is that right?

A No, I don't think that's 100 percent correct. What's currently in rates is what's reflected on page eight of eight. And shown on that page, there is roughly $29 million in rate base.

Q Is $29 million the average?

A It's a 13-month average.

Q Okay. So according to this exhibit, on page eight of eight, the company earned a return on -- a return of and of $2,363,023, is that right?

A A return on of 2,363,000, not of.

Q Okay, on. And then of, 167,150, which would be the sum of lines 23 through 25?

A Well, I would consider just recovery of depreciation expense would just be the 20 -- at the 42,000. But the sum of all those expenses were included in the revenue requirement.

Q Okay. And you would agree that there were no plant labor positions filled at any time in 2019?

A I don't know.

CHAIRMAN FAY: Mr. Rehwinkel, I know we --

MR. REHWINKEL: Yes.

COMMISSIONER FAY: -- we are getting our time where I know folks have pickup and family responsibilities and that sort of thing. Do you know if you are at a good place to stop fairly soon?

MR. REHWINKEL: Well, I have more questions in this area, but this would be a good place to stop.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: Yep.

CHAIRMAN FAY: Let's go ahead and do that --

MR. REHWINKEL: Okay.

COMMISSIONER FAY: -- and then for the handouts that you have the exhibits that aren't identified, we can retain those, and our folks will retain them for you us for purposes of retainment.

Mr. Wright, go ahead.

MR. WRIGHT: Yeah, I mean, that's fine. I just wanted to ask, did the 2018 settlement that we looked at, did that get an exhibit number? I missed it if it did. I apologize.

MR. REHWINKEL: It should be 189.

CHAIRMAN FAY: 189.

MR. WRIGHT: 189. Thank you.

COMMISSIONER FAY: Yep.

MR. REHWINKEL: Yeah. That would be -- just ask that the upside down ones stay upside down until we come back tomorrow, and thank you.

CHAIRMAN FAY: Okay. Yeah. So we will start back at 9:30 tomorrow. Ms. Fuentes, and you don't need to be sworn in or anything again. Once you are here we are can start.

THE WITNESS: Okay.

COMMISSIONER FAY: Great. Thank you.

(Transcript continues in sequence in Volume 5.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 3rd day of January, 2023.

Debbie R Krick

DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH31926
EXPIRES AUGUST 13, 2024