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BEN ALBRITTON
President of the Senate

DANIEL PEREZ
Speaker of the House of Representatives

December 5, 2025

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

Re: Docket No. 20250035- GU- Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas

Dear Mr. Teitzman:

I am attaching an amended version of the responsive direct testimony of OPC witness William Dunkel along with the amended Exhibit WWD-012. This amended testimony should replace Mr. Dunkel's testimony filed on November 5, 2025 and the exhibit should be substituted. I am also transmitting by separate email a redline version of the amended testimony which shows the changes made to Mr. Dunkel's originally filed testimony. These changes were necessitated by, and limited to, the material changes to the testimony of FCG witness Pat Lee submitted on the afternoon of November 4, 2025.

Please advise if there are any questions.

Sincerely,

/s/ Charles J. Rehwinkel
Charles J. Rehwinkel
Deputy Public Counsel
Florida Bar No.: 527599
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Attachment

CC: Parties of Record and Distribution list

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas	DOCKET NO.: 20250035-GU FILED: December 4, 2025

AMENDED DIRECT TESTIMONY

OF

WILLIAM DUNKEL

ON BEHALF

OF

THE CITIZENS OF THE STATE OF FLORIDA

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William Dunkel. My business address is 8625 Farmington Cemetery Road, Pleasant Plains, Illinois 62677.

Q. WHAT IS YOUR PRESENT OCCUPATION?

A. I am a consultant with, and the principal of, William Dunkel and Associates ("WDA"). For decades I have addressed utility depreciation rates and dismantlement in numerous proceedings in various jurisdictions.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN FLORIDA?

A. Yes. I am addressing depreciation rates and dismantlement cost in the current Florida Power & Light Company's ("FPL") proceeding, Docket No. 20250011-EI. In addition, I addressed dismantlement costs in the prior FPL proceeding, Docket No. 20210015-EI. In addition, I addressed depreciation rates regarding Duke Energy Florida in Docket No. 20240025-EI.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL QUALIFICATIONS.

A. I am the principal of William Dunkel and Associates, which was established in 1980. For over 40 years since that time, I have regularly provided consulting services in utility regulatory proceedings throughout the country. I have participated in over 300 state regulatory proceedings before over one-half of the state commissions in the United States. I provide, or have provided, services in utility regulatory proceedings to the following clients:

The Public Utility Commissions or their Staffs in these States:

Arkansas	Maryland
Arizona	Mississippi
Delaware	Missouri
District of Columbia	New Mexico
Georgia	North Carolina
Guam	Utah
Illinois	Virginia
Kansas	Washington
Maine	U.S. Virgin Islands

The Office of the Public Advocate, or its equivalent, in these States:

Alaska	Maryland
California	Massachusetts
Colorado	Michigan
Connecticut	Missouri
District of Columbia	Nebraska
Florida	New Jersey
Georgia	New Mexico
Hawaii	Ohio
Illinois	Oklahoma
Indiana	Pennsylvania
Iowa	Utah
Maine	Washington

The Department of Administration in these States:

Illinois	South Dakota
Minnesota	Wisconsin

I graduated from the University of Illinois in February 1970 with a Bachelor of Science Degree in Engineering Physics, with an emphasis on economics and other business-related subjects. In the past I was a design engineer for Sangamo Electric Company designing electric watt-hour meters used in the electric utility industry. I was granted patent No. 3822400 for solid-state meter pulse initiator which was used in metering.

I am a member of the Society of Depreciation Professionals. I have made presentations in the 2018 and 2011 annual meetings of the Society of Depreciation Professionals.

Nationwide, 50% of my firm's cases are on behalf of the commissions or commission staffs, and the remainder are on behalf of public advocates.

Q. HAVE YOU PREPARED AN EXHIBIT THAT DESCRIBES YOUR QUALIFICATIONS?

A. Yes. My qualifications and previous experiences are shown on the attached Exhibit WWD-1.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of the Office of Public Counsel of the State of Florida ("OPC").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will address Issues 1 through 5, and Issue 7 on Attachment A of Order No. PSC-2025-0366-PCO-GU in this case.

A primary purposes of my testimony are to (1) address the Direct Testimony of Patricia Lee filed October 1, 2025 and as amended November 4, 2025, (2) address the Florida City Gas ("FCG" or "Company") 2025 Exhibit PSL-2 Revised FCG Depreciation Study and Workbook, (3) address the Exhibits PSL-1, PSL-3 and, PSL-4, (4) address portions of the Direct Testimony of Matt Everngam filed October 1, 2025, and (5) address the associated, discovery responses, and other information related to the Florida City Gas 2025 Depreciation Study and associated testimonies. I also reviewed information that FCG had provided prior to the October 1, 2025, filing. I also address the Staff Report filed August 12, 2025.

Q. PLEASE DESCRIBE SOME OF THE STEPS YOU TOOK TO PREPARE YOUR TESTIMONY.

A. The steps I took to prepare for my testimony included the following:

- Reviewed the Direct Testimonies filed by Patricia Lee and by Matt Everngam, and the FCG 2025 Depreciation Study and associated documents and workpapers filed in this proceeding.
- Reviewed the Staff Report filed August 12, 2025
- Prepared discovery requests to be issued in this proceeding as they pertain to depreciation, reviewed the responses, prepared follow-up discovery requests as appropriate, and reviewed responses to the follow-up discovery requests.
- Considered the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA").
- Considered the accepted depreciation practices, including those contained in the Public Utility Depreciation Practices published by the National Association of Regulatory Utility Commissioners ("NARUC").

- Conducted additional analyses, which are detailed in this testimony.

Q. PLEASE PROVIDE THE DEFINITION OF DEPRECIATION YOU USED.

A. Because this proceeding is for a regulated gas utility, I rely on the definition of depreciation in the FERC USOA Part 201, which states[1]:

> *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.

II. ISSUE 1: SHOULD CURRENTLY PRESCRIBED DEPRECIATION RATES FOR FLORIDA CITY GAS BE REVISED?

Q. SHOULD CURRENTLY PRESCRIBED DEPRECIATION RATES FOR FLORIDA CITY GAS BE REVISED?

A. No. The FCG proposal is nowhere near a reasonable balance of the investors and ratepayer interests, as I will now demonstrate.

A. FCG PROPOSES TO TAKE $19 MILLION OUT OF THE DEPRECIATION RESERVE AND GIVE IT TO THE OWNERS.

Q. WHAT IS ONE THING FCG IS PROPOSING?

[1] 18 CFR, Vol 1, Part 201.

A. FCG proposed to take $19,244,380 out of the depreciation reserve and give it to the owners.[2]

Q. PLEASE PROVIDE AN ANALOGY TO THIS FCG PROPOSAL.

A. Assume the bank owner took $10,000 out of your retirement account and put that money in his or her pocket. Of course that is improper, but it is a good analogy to what FCG is proposing in this case.

In this case, FCG is proposing to take $19,244,380 out of the depreciation reserve.[3]

Q. WHAT WOULD HAPPEN TO THE $19 MILLION FCG PROPOSES TO TAKE OUT OF THE DEPRECIATION RESERVE?

A. The $19 million FCG proposes to take out of the Depreciation Reserve would go to the owners as earnings.

In response to discovery, FCG said the following:

> In depreciation studies not accompanied with a rate case proceeding, the resultant expenses of revised depreciation rates, either increases or decreases, have an effect on earnings.[4]

FCG is proposing to take $19 million out of the Depreciation Reserve and give that $19 million to the owners' "earnings."

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[2] Page 5 of Amended Composite PSL-2 (Narrative). FCG would remove this by removing $9,622,190 per year from the Depreciation Reserve for two years.
[3] Page 5 of Amended Composite Exhibit PSL-2 (Narrative).
[4] FCG response to Interrogatory 24 in Responses to Staff's First Data Requests. See Exhibit WWD-2.

B. FCG MISREPRESENTS ITS PROPOSAL

Q. WHAT DOES THE EXISTENCE OF A RESERVE SURPLUS MEAN?

A. A reserve surplus means that ratepayers have overpaid for depreciation. As an analogy, if for some reason you overpaid your dentist, the dentist would not take that overpayment out of your account and put it in his or her pocket. The dentist would use it as a credit to reduce your future charges or would send the overpayment back to you.

Q. WITNESS LEE STATES THE FOLLOWING:

> **First, if FCG's proposal is accepted, the annual depreciation expenses will decrease by approximately $10.7 million for two years compared to existing rates and amortization,....In this way. FCG's proposal will provide a return of the reserve surplus, which equates to the over payment of depreciation expenses, to the generation of ratepayers who may have overpaid...**[5]

UNDER THE FCG PROPOSAL, WILL THE AMOUNT LABELED AS "SURPLUS" GO TO "THE GENERATION OF RATEPAYERS WHO MAY HAVE OVERPAID"?

A. Absolutely not. Under the FCG proposal the $19 million that is labeled as "surplus" will go **<u>to the owners,</u>** not to any ratepayers. FCG is misrepresenting its proposal. If FCG wanted to return the $19 million to the "the generation of ratepayers who may have overpaid" they could reduce the prices/tariffs charged the ratepayers by $9.6 million per year for two years.[6] That is **<u>not</u>** what FCG is proposing. FCG is proposing the $19 million be **<u>given to the owners</u>**, not to the ratepayers.

[5] Page 32, lines 11-18 of the Lee Amended Direct Testimony.
[6] I am not recommending the prices/tariffs charged to the ratepayers be reduced by $9.6 million per year for two years. My recommendations are contained elsewhere in this testimony.

<u>C. TAKING $19 MILLION OUT OF THE DEPRECIATION RESERVE HARMS</u> <u>RATEPAYERS</u>

Q. WOULD TAKING $19,244,380 OUT OF THE DEPRECIATION RESERVE HARM CUSTOMERS?

A. Yes. Taking $19,244,380 out of the depreciation reserve would result in future prices/tariffs charged to ratepayers being higher than if this $19 million is not taken out of the depreciation reserve. Taking $19 million out of the Depreciation Reserve would increase the net rate base by $19 million. This occurs because the amount in the Depreciation Reserve is a deduction when calculating the Net Rate Base amount. In a rate case, the allowed rate of return is multiplied times the Net Rate Base. So, if $19 million is taken out of the Depreciation Reserve, that means in the coming rate case the ratepayers will have to pay a rate of return on a Net Rate Base which would be $19 million higher than it would be if the $19 million is not taken out of the depreciation reserve.

<u>D. REMOVING $19 MILLION FROM THE DEPRECIATION RESERVE WOULD ENTITLE FCG TO RECEIVE $1.7 MILLION HIGHER RATES IN THE COMING RATE CASE.</u>

Q. ON PAGE 6 OF HIS TESTIMONY, WITNESS EVERNGAM CLAIMS ADOPTING THE FCG PROPOSAL WOULD BENEFIT RATEPAYERS "IN ITS NEXT BASE RATE CASE". IS THAT TRUE?

A. No. Just the opposite. Removing $19.2 million from the Depreciation Reserve would entitle FCG to receive a **<u>rate increase of</u>** $1.7 million dollars higher per year than if the $19.2 million was not removed from the Depreciation Reserve.

The amount in the depreciation reserve is a deduction when calculating the net rate base amount. A $19.2 million lower depreciation reserve increases the net rate base by $19.2 million.

The fact that deducting money from the Depreciation Reserve **<u>increases</u>** the Net Utility Plant is illustrated below: [7]

Figure 1:

Hypothetical Utility

		Normal		Deduct $ 19.2 Million From Reserve		Difference
	Utility Plant in Service	700,000,000			700,000,000	
-	Depreciation Reserve	200,000,000	-	19,244,380	180.755,620	
	Net Utility Plant	500,000,000			519,244,380	19,244,380

Q. IN A RATE CASE, WHAT IMPACT DOES A HIGHER NET RATE BASE HAVE?

A. A higher Net Rate Base results in higher rates.

In a rate case, the dollar amount of the Required Net Operating Income is calculated by multiplying the Commission-approved rate of return times the amount of the Net Rate base. If the Net Rate base is higher, the dollar amount of the Required Net Operating Income is

[7] In a rate case, items in addition to those shown in Figure 1 would be added or subtracted in calculating the Net Utility Base.

higher. An example of this calculation in an actual rate case is shown on Exhibit WWD-3 from Order No. PSC-2023-0177-FOF-GU.

To see the approximate impact of taking $19,244,380 out of the Depreciation Reserve, the calculation below uses the rate of return and Expansion Factor [for income tax] approved in the prior FCG case, Docket No. 20220069-GU.[8]

Figure 2:[9]

Hypothetical Utility

		Normal		Deduct $19.2 Million From Reserve		Difference
	Utility Plant in Service	700,000,000			700,000,000	
-	Depreciation Reserve	200,000,000	-	19,244,380	180,755,620	
	Net Utility Plant	500,000,000			519,244,380	$19,244.380
		Rate of Return				6.44%
		Required Net Operating Income				$ 1,239,338
		Revenue Expansion Factor [For Income Taxes]				1.3527
		Increase from removing $19.2 M from Reserve				$ 1,676,453

If in this case the Commission approves removing $19.2 million from the Depreciation Reserve and giving that to the owners, that would impact the books such that the owners

[8] See Exhibit WWD-3. From Attachment 5, Order No. PSC-2023-0177-FOF-GU.
[9] This calculation is for illustrative purposes. I am not forecasting what rate of return or tax factor might be approved in the future case.

would also receive in the coming rate case $1.2 million higher Required Net Operating Income than if the $19.2 million is not removed from the Depreciation Reserve.[10] This would increase the rates on the ratepayers by $1.7 million more **per year** after the Revenue Expansion Factor [for income taxes].[11] In addition, the impact of higher prices/tariffs on ratepayers due to removing $19.2 million from the reserve could last for decades.

E. INVESTORS RECEIVE A RETURN ON AN ADDITIONAL $19.2 MILLION INVESTMENT, WITHOUT MAKING ANY ADDITIONAL INVESTMENT.

Q. WHAT IS THE BASIC CONCEPT OF ALLOWING INVESTORS A RATE OF RETURN ON THE NET RATE BASE?

A. The basic concept of allowing investors a rate of return on the **net** rate base is that investors should receive a rate of return on the capital the investors have invested. Investors are not entitled to receive a rate of return on capital they have not invested.

Q. DOES THIS FCG FILING VIOLATE THIS CONCEPT?

A. Yes. Under the FCG proposal, after investors **remove** $19.2 million from the Depreciation Reserve, investors would receive a rate of return on an additional $19.2 million. This is because removing $19.2 million from the Depreciation Reserve increases the net rate base

[10] Even if all of the $19,244,380 had not yet been fully removed from the Depreciation Reserve in the time period looked at in the rate case, a proforma adjustment could be made since it would be known the $19,244,380 would soon be fully removed (if the FCG proposal in this case had been adopted).

[11] FCG also proposes to reduce the depreciation rates by approximately $1 million per year, which would reduce the amount credited into the Depreciation Reserve by approximately $1 million per year, which would further increase the Net Utility Plant by $1 million per year. The impact of the FCG proposed depreciation rate changes would be in addition to what is shown above. The FCG proposed reduction of depreciation rates means future depreciation rates would have to be higher than they otherwise would be, to make up for the smaller amount going into the Depreciation Reserve under the depreciation rates FCG proposes in this case.

by $19.2 million. But the investors did not invest an additional $19.2 million in this transaction. In fact, the investors **<u>received</u>** that $19.2 million.

This FCG proposal is unreasonable and violates proper regulatory concepts.

<u>F. IMPACT ON DEPRECIATION RATES IN FUTURE</u>

Q. WOULD THE FCG PROPOSAL ALSO INCREASE THE DEPRECIATION RATE IN THE NEXT DEPRECIATION STUDY?

A. Yes. Taking $19.2 million out of the depreciation reserve will also increase depreciation rates in the next depreciation study, compared with what the depreciation rates would be if the $19.2 million is not removed from the Depreciation Reserve.

The dollar amount in the Depreciation Reserve is part of the calculation of the remaining life depreciation rate. The smaller the dollar amount in the Depreciation Reserve, the higher the depreciation rate is, everything else being the same. Removing $19.2 million from the Depreciation Reserve will result in the future depreciation rates being in the range of half a million dollars a year higher, than if the $19.2 million is not removed from the Depreciation Reserve.[12]

In this case FCG proposes to reduce the depreciation rates by approximately $1 million per year. But that would be a temporary reduction. The depreciation rates would have to be

[12] $19,244,380 out of the Depreciation Reserve / average Remaining life of 49 years = $392,742,449 impact on annual depreciation expense.

increased because of the money taken out of the reserve and because of the lower amount being booked into the reserve.

G. TAKING $19 MILLION OUT OF THE DEPRECIATION RESERVE HARMS RATEPAYERS, EVEN IF YOU CALL IT "SURPLUS".

Q. FCG CALLS THE $19,244,380 A "RESERVE SURPLUS." DOES CALLING THIS AMOUNT A "RESERVE SURPLUS" MEAN IT CAN BE REMOVED FROM THE DEPRECIATION RESERVE AT NO COST TO THE RATEPAYERS?

A. No. Regardless of what name you give it, removing $19.2 million from the Depreciation Reserve will cost the ratepayers. Regardless of what name you give it, removing $19.2 million from the Depreciation Reserve will, in the next rate case, entitle FCG to rates which are approximately $1.7 million per year higher than they would be if the $19.2 million is not removed from the Depreciation Reserve, as shown in prior Figure 2. Higher costs to ratepayers as the result of removing $19.2 million from the Depreciation Reserve could last for decades.

In addition, regardless of what name you give it, removing $19.2 million from the Depreciation Reserve will, in the next depreciation study, result in rates which are approximately half a million dollars a year higher than if the $19.2 million is not removed from the Depreciation Reserve.

H. PURPOSE OF THE DEPRECIATION RESERVE

Q. WHAT IS THE PURPOSE OF THE DEPRECIATION RESERVE?

A. The Depreciation Reserve accumulates money from the ratepayers, and that money is taken out of the Depreciation Reserve when investments retire. For example, when a facility that has an original cost of $1,000 in the Plant in Service account retires, $1,000 is removed from the Plant in Service account, and under double-entry bookkeeping, $1,000 is also removed from the Depreciation Reserve account.

In the USOA, the official name of what we call the Depreciation Reserve is Account "108 Accumulated provision for depreciation of gas plant." As described in the FERC Uniform System of Accounts (USOA), "Amounts charged to account 403, Depreciation Expense" are "credited" into the Depreciation Reserve. And:

> At the time of retirement of depreciable gas utility plant, this account shall be charged with the book cost of the property retired and the cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance.[13]

Q. CAN MONEY PROPERLY BE TAKEN OUT OF THE DEPRECIATION RESERVE AND CONVERTED TO EARNINGS?

A. No. The USOA says the following regarding Account 108 "Accumulated provision for depreciation of gas plant":

> The utility **is restricted in its use of the provision for depreciation to the purposes set forth above**. **It shall not transfer any portion of this account to retained earnings** or make any other use thereof without authorization by the Commission.[14] (Emphasis added)

[13] CFR Title 18- Vol 1. Part 201 from "108 Accumulated provision for depreciation of gas utility plant." There is similar wording for other circumstances, such as leases.
[14] CFR Title 18- Vol 1. Part 201 from "108 Accumulated provision for depreciation of gas utility plant."

I. THE FCG PROPOSAL IS NOT A REASONABLE BALANCING OF THE INVESTOR AND THE CONSUMER INTERESTS.

Q. THE U. S. SUPREME COURT HAS STATED THE FOLLOWING:

> **THE RATEMAKING PROCESS UNDER THE ACT, *I.E.,* THE FIXING OF "JUST AND REASONABLE" RATES, INVOLVES A BALANCING OF THE INVESTOR AND THE CONSUMER INTERESTS.[15]**

IN YOUR OPINION IS THE FCG PROPOSAL A REASONABLE BALANCING OF THE INVESTOR AND THE CONSUMER INTERESTS?

A. No. FCG proposes taking $19,244,380 out of the Depreciation Reserve and giving that to the investors. Taking $19,244,380 out of the Depreciation Reserve would also entitle the investors to receive an additional $1.2 million per year in earnings, because of the impact on the net rate base of taking $19,244,380 out of the Depreciation Reserve.

On the ratepayers' side, FCG taking this money out of the Depreciation Reserve will cost the ratepayer an additional $1.7 million per year.[16] Higher costs to ratepayers as the result of removing $19.2 million from the Depreciation Reserve could last for decades. This is due to the impact on the net rate base of FCG taking $19,244,380 out of the Depreciation Reserve.

In my opinion, this is absurdly one sided. This is nowhere near a reasonable balancing of the investor and the consumer interests, using the plain meaning of the words.

[15] *Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591 (1944) at 603.
[16] After the Revenue Expansion Factor [For Income Taxes]. See prior Figure 2.

J. FCG'S DEPRECIATION STUDY VIOLATES THE RULES, AND MUST BE REJECTED

Q. WHAT IS THE SECOND REASON THE FCG PROPOSAL IN THIS CASE SHOULD BE REJECTED?

A. FCG's depreciation study violates the Rules and must be rejected.

Q. WHAT IS ONE THING PARTICULARLY RELEVANT TO THIS ISSUE THAT THE FPSC RULE 25-7.045, FLORIDA ADMINISTRATIVE CODE, REQUIRES?

A. FPSC Rule 25-7.045, Florida Administrative Code ("F.A.C.") includes the following:

> (5) A depreciation study shall include:
>
> …
>
> h) The mortality and salvage data used by the company in the depreciation rate design **must agree with activity booked by the utility**. Unusual transactions not included in life or salvage studies, e.g., sales or extraordinary retirements, must be specifically enumerated and explained. (Emphasis added)

Q. DOES THE DATA IN THE DEPRECIATION STUDY FCG FILED IN THIS CASE "AGREE WITH ACTIVITY BOOKED BY THE UTILITY"?

A. Absolutely not, as I will now demonstrate. The FCG books are audited by Deloitte, and the audited numbers are provided in the FCG Annual Report to the FPSC. There are vast inconsistencies between the data on which FCG is basing its claimed depreciation rates, and the data in the audited FCG Annual Reports.

For example, as I will demonstrate below, for a number that should be the same amount, that number is $5,565,780 from the data in the audited FCG Annual Reports, but that number is $386,460 in the calculations FCG used in calculating their proposed depreciation rates and claimed reserve surplus. The number FCG used in its depreciation study is less than 1/10th the number on the books as shown in the audited FCG Annual Report.

Q. PLEASE PROVIDE THE DETAILS OF THE EXAMPLE YOU DISCUSSED ABOVE.

A. Page 22 of the 2021 FCG Annual Report to the FPSC shows that the Additions in 2021 were $5,565,780 in Mains -Steel.[17] This 2021 Annual Report was audited by Deloitte, as is shown in Exhibit WWD-4. FCG admits there have been no retirements in the 2021 vintage in that account,[18] so the balance in service at the time used in the study (1/1/2025) was still $5,565,780 ($5,565,780 - $0 = $5,565,780).[19]

However, Schedule J of FCG Amended Exhibit PSL-2 shows the balance in service at the time used in the study (1/1/2025) was [allegedly] $546,527 which FCG further adjusted to $386,460 in the same 2021 vintage of the same account, Mains -Steel.[20] The audited data from the annual report shows the amount is $5,565,780, but FCG used $386,460 in the Average Age Calculations. FCG uses that claimed Average Age in calculating its claimed depreciation rate and in calculating its claimed reserve surplus.

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[17] See Exhibit WWD-4, page 6 of 6. FCG Annual Report to the FPSC for 2021, page 22 shows the Additions in 2021 were $5,565,780 in Mains- Steel (which at that time was Account 376.1).
[18] See Exhibit WWD-5, page 4 of 11. The FCG response to Citizens' Third Set of Interrogatories, Interrogatory No.17, part (c) starts as follows: "There have been no retirements from the vintage year 2021." This was addressing Account 3762, Mains -Steel. The FCG responses to Citizens' Third Set of Interrogatories, Interrogatories Nos. 17-19 are attached as Exhibit WWD-5.
[19] There have also been no retirements, no transfers and no adjustments in the 2021 vintage in this account. See Exhibit WWD-5.
[20] Page 81 of 258 of Amended Composite Exhibit PSL-2 (workbook), "Sch J Amended", FCG filed on 11-4-2025.

Q. ARE THE NUMBERS IN THE FCG ANNUAL REPORTS BOTH AUDITED BY DELOITTE AND ALSO CERTIFIED BY THE "RESPONSIBLE ACCOUNTING OFFICER" OF FCG?

A. Yes. As shown on the pages of the FCG 2021 Annual Report which are attached as Exhibit WWD-4, the FCG Annual Reports are both audited by Deloitte and also certified by the "responsible accounting officer" of FCG. The Annual Report also states the signing "responsible accounting officer" of FCG could be subject to criminal charges in the event of false information.

Q. DID FCG ADMIT THAT HUGE INCONSISTENCIES EXISTED IN THE NUMBERS FCG USED IN ITS DEPRECIATION STUDY COMPARED TO THE NUMBERS IN THE FCG ANNUAL REPORTS?

A. Yes. In response to discovery, FCG admitted in many accounts a huge "variance" existed between the numbers FCG used in its depreciation study compared to the numbers in the FCG Annual Reports. Below I have copied the 2021 data FCG provided in response to OPC discovery:[21]

[21] See Exhibit WWD-5, page 9 of 11. "OPC ROG 3-19 2021-2024 Transaction Periods (38660739.1)" provide by FCG in response to Citizens' Third Set of Interrogatories, Interrogatory No.19. Pages 9 and 10 of Exhibit WWD-5 also shows numerous large variations in the 2022, 2023, and 2024 vintages. This document is attached as Exhibit WWD-5.

Dunkel Comment:

	This Column Per FCG Annual Report	This Column Per FCG Sch J In Depr. Study:

From FCG response to OPC ROG 3-19:

Plant	**Account**	**OPC ROG 2-8a - 2021**			**Sch J**	**Variance**	
Account	**Description**	**Additions**	**Retirements**	**Net Additions**	**Additions**	**$**	**%**
3750	Struc&Impr	$97,376		$97,376	$98,567	($1,191)	-1%
3761	Mains - Plastic (Formally Acct 3762)	$16,821,851		$16,821,851	$15,890,410	$931,441	6%
3762	Mains - Steel (Formally Acct 3761)	$5,565,780		$5,565,780	$546,527	$5,019,253	90%
3780	M&R Stat Eq-Gen	$569,979		$569,979	$31,663	$538,316	94%
3790	M&R Stat Eq-CGate	$1,333,472		$1,333,472	$1,199,726	$133,746	10%
3801	Services - Plastic (Formally Acct 3802)	$10,024,838	($528)	$10,025,366	$6,441,585	$3,583,781	36%
3802	Services - Steel (Formally Acct 3801)	$20,929		$20,929	$14,263	$6,666	32%
3810	Meters	$1,951,167	($8,140)	$1,959,307	$1,605,197	$354,110	18%
3812	Meters - ERT (Formally Acct 3811)	$751,626	($71,610)	$823,236	$639,123	$184,113	24%
3820	Meter Installs	$791,856	($41,411)	$833,267	$361,786	$471,481	60%
3821	Meters Installs - ERTs	$25,554	($6,858)	$32,412	$4,839	$27,574	108%
3830	House Reg	$767,916	($40,906)	$808,822	$745,283	$63,539	8%
3840	House Reg Installs	$125,567	($27,966)	$153,533	$85,421	$68,112	54%
3850	M&R Stat Eq-Ind	$353		$353	$190,574	($190,221)	-53887%
3870	Other Eq	$373,921		$373,921	$120,692	$253,229	68%
3900	Struc&Impr	$25,178		$25,178	$10,802	$14,376	57%
3960	Pwr Op Equip	$53,822		$53,822	$50,377	$3,445	6%

This shows that FCG admitted that for the majority of the accounts, there is a huge "Variance" between the number FCG used in its depreciation study compared to the number in the FCG Annual Reports. Both the "Net Additions" column (per the Annual Reports) and the "Sch J" column in the above table are at the same time (1/1/2025). There should be no variance. In its Amended Schedule J, FCG changed the 2021 amounts to

$386,460 in Account 3762, and to $1,341,215 in Account 3810, and to $625,768 in Account 3820, and to $2 in Account 3850, and to $11,802 in Account 3900. These FCG amended numbers are still very different than the audited Annual Report numbers, which are shown on the chart on the prior page.

Likewise, the FCG response to Citizens' Third Set of Interrogatories, Interrogatory No.19 also admits that in 2022, 2023, and 2024 there are numerous similar Variances in the data on which FCG is basing its proposed depreciation rates and surplus amounts, compared to the audited data from the FCG Annual Reports. This response is attached as Exhibit WWD-5.

Q. WHAT IS ONE EXPLANATION FCG PROVIDED FOR THESE HUGE DISCREPANCIES IN THE FCG DATA?

A. FCG said the following:

> **Supporting entries were not provided by FPL** with the reconciliation schedule; and therefore, **vintages for the correcting entries cannot be determined by FCG**. As a result, FCG continues to have confidence that its CRP records are the best option **and swiftest option** to provide the appropriate distribution of assets at 1/1/2025 to compute the average age calculation for adjusted accounts.[22] (Emphasis added)

[22] See Exhibit WWD-5, page 6 of 11. From the FCG response to Citizens' Third Set of Interrogatories, Interrogatory No.18. The FCG responses to Citizens' Third Set of Interrogatories, Interrogatories Nos.17-19 are attached as Exhibit WWD-5.

FCG is saying that they are not sure of its data, as a result of the acquisition of FCG by Chesapeake Utilities Corporation in 2023. FCG says the correct numbers "cannot be determined by FCG."

Even though the correct numbers "cannot be determined by FCG", FCG says the Commission should use the numbers FCG has filed, because using them is the "swiftest option."

In my opinion, it would be improper to base multimillion-dollar decisions on FCG's numbers, when FCG says the correct numbers "cannot be determined by FCG." Using these inaccurate numbers because that is the "swiftest" thing to do, is not proper.

Q. HAS FCG FURTHER SAID THEY DO NOT KNOW WHAT THE CORRECT NUMBERS ARE?

A. Yes. FCG said the following:

> Previously, attachment OPC ROG 2-8a Service Life Data provided additions based on what was stated on the original Sch G 202X **which may or may not have been the vintage total for the year.**[23] (Emphasis added)

Multi-million-dollar depreciation rate revisions should not be based on numbers "which may or may not" be correct.

[23] From the FCG response to Citizens' Third Set of Interrogatories, Interrogatory No.19 (d). The FCG responses to Citizens' Third Set of Interrogatories, Interrogatories Nos.17-19 are attached as Exhibit WWD-5.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend the Commission find that the "study" provides an inadequate basis to make any changes and that the current depreciation rates remain in effect. The Commission should direct that a new, correct, depreciation study be filed as part of the coming rate case.

FPSC Rule 25-7.045, F.A.C., includes the following:

> (5) A depreciation study shall include:
>
> …
>
> h) The mortality and salvage data used by the company in the depreciation rate design **<u>must agree with activity booked by the utility</u>**. Unusual transactions not included in life or salvage studies, e.g., sales or extraordinary retirements, must be specifically enumerated and explained. (Emphasis added)

The depreciation study FCG filed in this case directly and severely violates this requirement and therefore must be rejected.

The FCG response to Citizens' Third Set of Interrogatories, Interrogatory No.19 (Exhibit WWD-5) shows that in numerous accounts and in numerous years, the numbers FCG used to calculate its claimed depreciation rates and claimed reserve surplus are vastly inconsistent with the audited numbers in the Annual Reports, which were audited by Deloitte.

It would be improper to revise depreciation rates based on numbers which have been proven to be incorrect and which FCG admits "which may or may not" be correct. FCG says that the correct numbers "cannot be determined by FCG", but the correct, audited numbers are available as shown by the audited FCG Annual Reports. FCG using numbers that are provably extremely inaccurate is not valid evidence which would support changing the current depreciation rates.

A new depreciation study is not now due. A new depreciation study must be filed by May 31, 2027. The most recent prior depreciation study was filed on May 31, 2022.[24] Rule 25-7.045(4)(a), F.A.C., requires regulated gas utilities to file a depreciation study "…at least once every five years from the submission date of the previous study..." A depreciation study is not now due, and will not be due until May 31, 2027.

FCG witness Everngam's testimony indicates FCG is expecting to file a rate case in the near future, regardless of the outcome of this case.[25] Filing a new depreciation study as part of that general rate case proceeding would allow FCG the time it needs to better check its data to provide reliable depreciation information.

We have proven that the numbers FCG used to calculate its claimed depreciation rates and claimed reserve surplus are vastly inconsistent with the numbers in the Annual Reports, which were audited by Deloitte. This inaccurate data cannot reasonably be used as a basis for changing depreciation rates.

As noted above, I recommend the Commission find that the "study" provides an inadequate basis to make any changes and that the current depreciation rates remain in effect. The

[24] See page 1 of the FCG 2025 Depreciation Study Narrative.
[25] Witness Everngam Direct testimony page 6, line 22 to page 7, line 1 states that even if the FCG proposal in this case was approved that would not "allow FCG to delay a rate case for two years." Also see page 7, lines 2-11 of Witness Everngam Direct testimony. So, it appears a rate case is coming soon.

Commission should direct that a new, correct, depreciation study be filed as part of the coming rate case.

K. DEPRECIATION EXPENSE IS AUTOMATICALLY ADJUSTED WHEN INVESTMENT IS ADDED

Q. WITNESS EVERNGAM SAYS THE FOLLOWING:

> **IT WAS ALSO IMPORTANT TO PROCEED WITH THIS DEPRECIATION STUDY TO ENSURE THAT RECENT CAPITAL INVESTMENTS FOR NEW CONSTRUCTION BY FCG, WHICH HAS TAKEN PLACE UNDER ITS NEW OWNERSHIP BY CUC, ARE ACCURATELY DEPRECIATED BASED UPON UPDATED LIVES AND SALVAGE VALUES THAT ALIGN WITH THOSE OF FPUC AND OTHER, SIMILARLY-SITUATED CUC AFFILIATES.[26]**

IS IT NECESSARY TO CHANGE THE DEPRECIATION RATES AS THE RESULT OF A CHANGE IN THE AMOUNT OF INVESTMENT IN AN ACCOUNT?

A. No. The depreciation expense is automatically adjusted when the investment changes. Each year or each month, a utility multiplies the Commission-approved depreciation rate times the then-current investment amount. If the investment was $1,000,000 and a 5% depreciation rate was approved, then the depreciation expense would be $50,000. If later the investment had grown to $2,000,000 then the 5% depreciation rate would produce a $100,000 depreciation expense.

[26] Page 5, lines 6-10 of Witness Everngam Direct testimony.

<u>III. ISSUE 2: BASED ON FCG'S 2025 DEPRECIATION STUDY, WHAT ARE THE APPROPRIATE DEPRECIATION PARAMETERS (E.G., SERVICE LIVES, REMAINING LIFE, NET SALVAGE PERCENTAGE, AND RESERVE PERCENTAGE) AND RESULTING DEPRECIATION RATES FOR EACH DEPRECIABLE PLANT ACCOUNT?</u>

Q. IS THERE A MAJOR PROBLEM WITH THE DETERMINATION OF THE PARAMETERS THAT FCG IS FILING IN THIS CASE?

A. Yes. There is a major conflict of interest in the preparation of the FCG filing. Under FCG's proposal, the money that is identified as a "surplus" in the depreciation reserve would be transferred to the owners. The amount of money which is claimed to be "surplus" is determined by the "parameters" selected. This creates a conflict of interest for the personnel selecting parameters to be proposed by FCG.

Q. IN MOST DEPRECIATION STUDIES, DOES THE AMOUNT THAT IS IDENTIFIED AS THE RESERVE SURPLUS GET TRANSFERRED OUT OF THE DEPRECIATION RESERVE TO THE OWNERS?

A. No. In most depreciation studies, the amount that is identified as the reserve surplus does not get transferred out of the depreciation reserve to the owners. A reserve surplus is the result of an over collection from ratepayers. In most cases any reserve surplus is returned to the ratepayers, often over time through the "remaining life" depreciation rates. Likewise, any reserve deficiency is collected from the ratepayers, often over time through the "remaining life" depreciation rates.

The fact that under the FCG proposal in this case, the amount identified as a "surplus" in the depreciation reserve would be transferred to the owners, creates an unusual conflict of interest in the selection of the parameters to be proposed in the FCG depreciation study.

A. FCG DID NOT FILE A COMPLETE DEPRECIATION STUDY.

Q. RULE 25-7.045 (4), F.A.C. STATES THE FOLLOWING REGARDING DEPRECIATION STUDIES:

> **(4)(A) EACH COMPANY SHALL FILE A STUDY FOR EACH CATEGORY OF DEPRECIABLE PROPERTY FOR COMMISSION REVIEW AT LEAST ONCE EVERY FIVE YEARS FROM THE SUBMISSION DATE OF THE PREVIOUS STUDY OR PURSUANT TO COMMISSION ORDER AND WITHIN THE TIME SPECIFIED IN THE ORDER.**

Q. WHAT IS A MAJOR PART OF A NEW DEPRECIATION STUDY?

A. When performing a new depreciation study several years after the prior study, you will have several years of new actual data which was not available at the time of the prior study. A major part of a new depreciation study is to do statistical analyses of the life and net salvage data, including the new data.

Q. WAS SEVERAL YEARS OF ADDITIONAL ACTUAL DATA AVAILABLE?

A. Yes. At the time FCG performed the depreciation study, there were four years of new actual data that was not in the 2022 Depreciation Study. The "2022 Gannett Fleming Depreciation Study" used actual data through 2020 (see page 59 of Exhibit NWA-1 in Docket No. 2022-0069-GU). In this case FCG had actual data available through 2024 at the time FCG performed the depreciation study.

Q. IN DIRECT TESTIMONY, WHAT DID WITNESS LEE ADMIT?

A. Witness Lee admitted the following:

> **Q. DID YOU PERFORM STATISTICAL ANALYSIS FOR YOUR PROPOSED LIFE OR SALVAGE FACTORS?**
>
> A. No, I didn't.
>
> **Q. PLEASE EXPLAIN.**
>
> A. I reviewed the statistical analysis presented in the 2022 Gannett Fleming Depreciation Study and decided there was no need for additional statistical analysis.[27]

Q DID FCG FILE A COMPREHENSIVE DEPRECIATION STUDY IN THIS PROCEEDING?

A. No. A major part of a comprehensive depreciation study is to analyze the actual experience data of that utility, including the new data from recent years. In the respected *Public Utility Depreciation Practices* written by the Staff Subcommittee on Depreciation of the National Association of Regulatory Utility Commissioners (NARUC), the first sentences in the Chapter entitled *Actuarial Life Analysis* are as follows:

> Knowing what happened yesterday may help one to better understand what is happening today and what may happen tomorrow. This is also true with depreciation studies. Historical life analysis is the study of past occurrences that may be used to indicate the future survivor characteristics of property. Accumulation of suitable data is essential in an historical life analysis.[28]

[27] Page 22, lines 13-17, of Witness Lee's Amended Direct Testimony.
[28] Page 111, *Public Utility Depreciation Practices (1996)* published by NARUC.

However, the FCG filing in this case did **not** include a statistical life analysis. Instead, it uses the same statistical life analysis from the prior study, but appears to think that by making different arguments the result will be different.

Q. WHAT DOES THIS MEAN?

A. The FCG filing in this case is not a new depreciation study. The statistical analyses used are from the prior case and included actual data only through 2020. I recommend that the Commission order that in the coming rate case, FCG file a new depreciation study which includes the statistical analyses for life and salvage factors which include the actual data after the year 2020.[29]

B. THE FCG CLAIM THAT RETIREMENTS OF LESS THAN 1% ARE "MEANINGLESS," IS A FALSE CLAIM.

Q. WHAT REASON DID FCG GIVE FOR NOT RELYING ON THE ACTUAL FCG AGED DATA?

A. Witness Lee said the following:

> For many FCG accounts, the historical average retirement rate as well as the recent 2001-2024 average retirement rate for each account has averaged less than one percent. This level of activity makes the results of any statistical analysis meaningless for developing life expectations. For this reason, reliance on industry averages is necessary.[30]

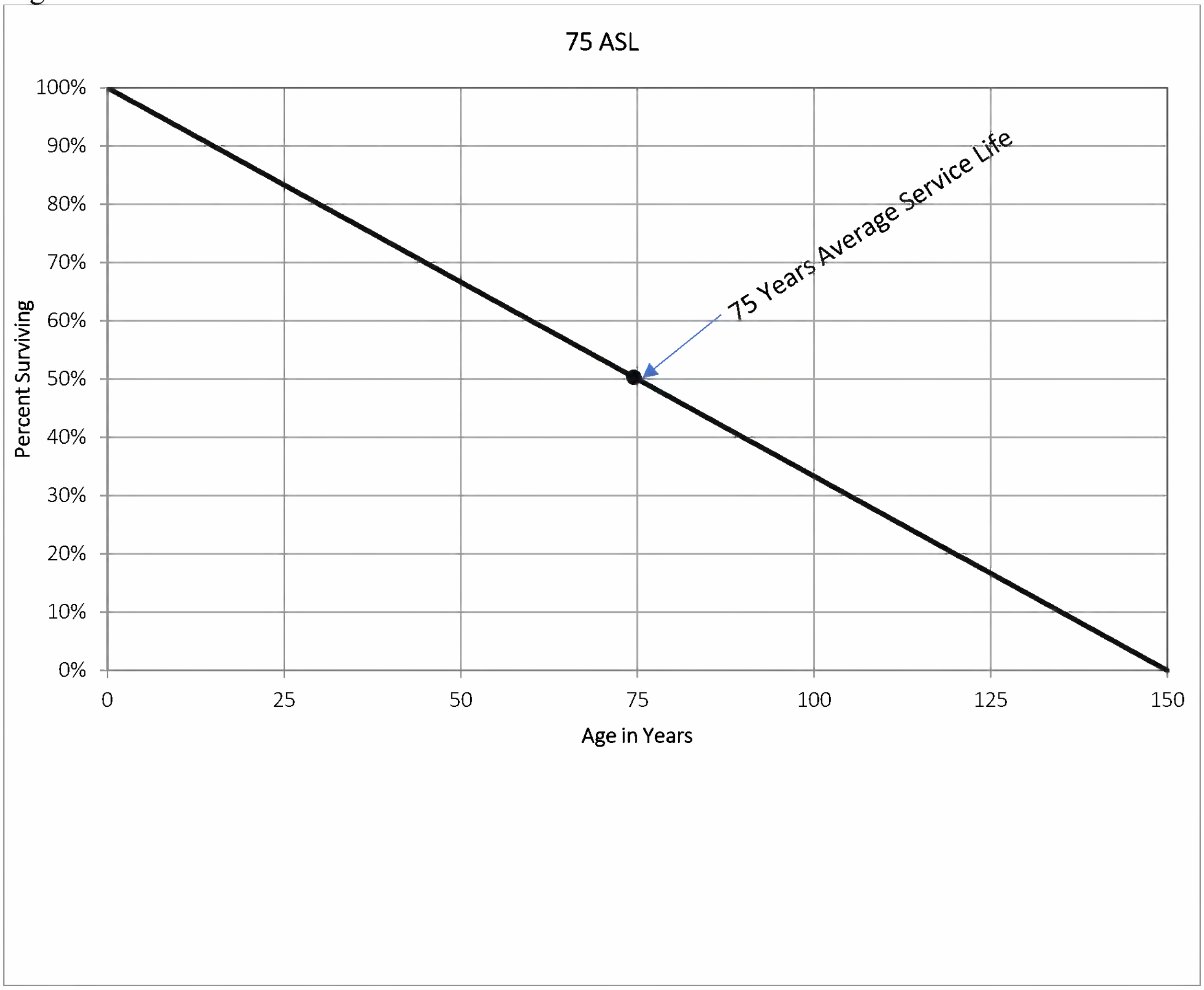
[29] Including the actual data that is available at the time the new depreciation study is prepared.
[30] Page 22, lines 4-8 of the Lee's Amended Direct Testimony.

Q. DOES THE FACT THAT THE "RETIREMENT RATE[S]" HAVE "AVERAGED LESS THAN ONE PERCENT" MEAN THAT DATA IS "MEANINGLESS FOR DEVELOPING LIFE EXPECTATIONS"?

A. Absolutely not. A low number of retirements over time indicates the facilities are having a long life.

For the largest account, Account 3761 Mains- Plastic, the average annual retirement rate **has to be less than 1%** to be consistent with the 75-year Average Service Life which both FCG and the Staff recommend. A 75-year Average Service Life does not mean all of the investment will be retired by the 75th year. At a 75-year ASL, some investment is still in service after age 75. Assuming the same retirement rate each year, the annual retirement rate would be 0.67% for a 75-year ASL. This is shown in the graph below:

Figure 3:



0.67 % of the investment retires each year. This is consistent with a 75-year ASL. 0.67% is a "retirement rate" which is "less than one percent" but that does not mean that data is "meaningless for developing life expectations." That retirement rate proves the investment are living a long life, such as a 75-year ASL.

Q. WHAT IS THE AVERAGE RETIREMENT RATE IF THE RETIREMENT RATE IS NOT THE SAME EACH YEAR?

A. The retirement rate expected each year varies depending on the Iowa Curve.

At the 75-year R2.5 Iowa Curve which FCG recommends, the retirement rates would vary by year but would average 0.73% per year.[31]

At a 75-year ASL with an R4 Iowa Curve that the Staff Report recommends, the retirement rates would vary by year but would average 0.88% per year.[32]

For FCG to claim the fact that the retirement rate is less than 1.00% means there's something wrong with the data, is entirely false. At a 75-year ASL, the average retirement rate has to be less than one percent per year, under most common Iowa Curves.

Q. DOES THE NARUC *PUBLIC UTILITY DEPRECIATION PRACTICES* STATE THAT IF THE RETIREMENT RATE IS LESS THAN 1%, THAT INDICATES THE DATA IS INSUFFICIENT OR UNRELIABLE?

A. No. The *Public Utility Depreciation Practices,* published by NARUC (1996) is a 332-page book authored by the NARUC Staff Subcommittee on Depreciation.

In discovery we asked FCG The following:

> Please cite which page in Public Utility Depreciation Practices, published by NARUC (1996) says that retirement rates (or retirement ratios) of less than 1 % are not reliable.

The Company response begins as follows:

> **Company Response:**
> a. **<u>There is no specific cite from *Public Utility Depreciation Practices.* The statement is based on Ms. Lee's vast depreciation experience</u>**. Stated simply,

[31] In a 75-year R2.5 Iowa Curve the last investment retires at age 138. This is an average annual retirement rate of 0.73%.
[32] In a 75-year R4 Iowa Curve the last investment retires at age 113. This is an average annual retirement rate of 0.88%.

> when retirement rates average less the 1%, the results of statistical analysis are considered meaningless for service life or net salvage projections, because there is not a reasonable sample size upon which to conduct the statistical analysis.[33] (Emphasis added).

Witness Lee's claim that if retirement rates have "averaged less than one percent" means that data is "meaningless," is not a rule accepted by the NARUC *Public Utility Depreciation Practices*.

Q. CAN YOU PROVIDE FURTHER PROOF THAT THE CLAIM THAT RETIREMENT RATES HAVE "AVERAGED LESS THAN ONE PERCENT" MEANS THAT DATA IS "MEANINGLESS FOR DEVELOPING LIFE EXPECTATIONS" IS A FALSE CLAIM?

A. Yes. In the USA, whenever someone dies, a death certificate is issued, and government agencies track and analyze that data. 0.75 % of the US population died in the year 2023, and 0.799 % of the US population died in the year 2022.[34] Those are well less than 1.00%. Of course, the fact that the actual data shows that less than 1% of the population dies per year does not mean that data is "meaningless." What it means is that less than 1% of the population dies per year.

If someone declared that since the actual data shows that less than 1% of the U.S. population dies per year that data is "meaningless for developing life expectations" and

[33] See Exhibit WWD-6, page 2 of 2. FCG response to Citizen's Second Set of Interrogatories, Interrogatory No. 16(a).
[34] Mortality in The United States, 2023-NCHS Data Briefs. "http://www.ncbi.nlm.nih.gov/books", visited 9-12-2025, U.S. Centers for Disease Control and Prevention (CDC).

therefore, the recommended life expectancy of the U.S. population would be based on the life expectancy in Cuba, in Mexico, etc., that would be unreasonable.

<u>C. FCG MISCALCULATES THE RETIREMENT RATES.</u>

Q. IS THERE A PROBLEM IN THE FCG CALCULATION OF WHAT IT CALLS THE RETIREMENT RATES?

A. Yes. These calculations in the FCG filing divide dollar amounts which were recorded more recently, by dollar amounts that were recorded farther back in the past. Because of inflation, the number of dollars of original cost for an item which was installed decades ago, (for which the original cost was recorded in dollars decades ago), is a much lower number of dollars than the cost of a similar item which was recently installed (for which the original cost was recorded in recent dollars). For example, the Consumer Price Index-Urban states that the Cost of a Basket of Goods and Services which cost $113.60 in 1987 dollars would cost $270.97 in 2021 dollars. For a basket of goods and services, the number of dollars in 2021 dollars is 2.4 times the number of dollars in 1987 dollars.

On Schedule F-1, for Account 3761, Mains-Plastic, FCG calculates what is called the Retirement Rate by dividing the Original Cost of the items that <u>**retired**</u> in the year 2024, by the Original Cost of the Plant in Service at the end of 2024. In the numerator, the units which retired in 2024 tend to be at the end of their lives, and their Original Costs amounts were recorded decades ago, on average. The denominator of the FCG calculation is the original cost of the plant in service at the end of the year 2024. The majority of the dollar amounts in this plant in service in the denominator were recorded in more recent years.

For comparison, in the prior depreciation study the Retirement Ratios were calculated using amounts in the numerator which were the **same age** as the amounts in the denominator. For example, in the prior FCG depreciation study, for Services, the Retirement Ratio for investments as age 20.5 was calculated by dividing the dollar amount of Retirements, which were age 20.5, by the dollar amount of Exposures, which were also age 20.5.[35]

D. CIRCULAR LOGIC

Q. PLEASE PROVIDE AN EXAMPLE OF CIRCULAR LOGIC.

A. Assume there were only two regulated gas distribution utilities in the state: Utility A and Utility B. When Utility A files its depreciation study, it does not analyze the actual data it has showing how long its investments actually live, but instead Utility A proposes that it use the same lives that utility B uses.

Later, when Utility B files its depreciation study, it does not analyze the actual data it has showing for how long its investments actually live, but instead Utility B proposes that it use the same lives that Utility A uses.

Utility A uses lives because Utility B uses them, and Utility B uses lives because Utility A uses them. That is circular logic.

[35] Page 64 of Exhibit NWA-1, 2022 Depreciation Study, in Docket No. 20220069-GU.

Q. IS THE FCG PRESENTATION IN THIS PROCEEDING BASED UPON CIRCULAR LOGIC?

A. Yes. Page 15 of the FCG Depreciation Study,[36] authored by witness Lee, says the following:

> Plastic services are likely to experience life expectancies longer than 50 years. The retirement rate for the account during the 2021-2024 period has averaged less than 1%. In fact, the retirement rate for the 2004-2024 also averaged less than 1%. This activity makes results of statistical analysis for life and salvage factors meaningless. Other gas companies in Florida have estimated average service lives ranging from 40 years to 55 years, averaging 48 years.

Similar claims appear several times in the FCG filing.

Q. DID FCG SHOW WHAT OTHER "GAS COMPANIES IN FLORIDA" IT HAD USED TO CALCULATE THE FLORIDA AVERAGE?

A. Yes. This is shown on FCG Exhibit PSL-4, page 1. FCG calculated the Florida Average of the ASL of an account as the average of the ASL for that account of the following four utilities: (1) St. Joe, (2) Peoples Gas, (3) FPUC, and (4) Sebring Gas.[37]

Q. STARTING WITH FPUC, IN THE FPUC CASE, DID WITNESS LEE BASE THE ASLS FILED FOR FPUC ON THE ACTUAL FPUC DATA?

A. No. In the FPUC case, witness Lee said the ASLs for FPUC should be based on the lives of the "other Florida gas utilities." The Order in the FPUC case says the following regarding witness Lee:

[36] Composite Exhibit PSL-2 (Narrative) page 15.
[37] FCG Exhibit PSL-4, page 1.

> Witness Lee explained that retirement rates for FPUC averaged less than one percent since the last depreciation study for many accounts, which provided insufficient data to perform any meaningful statistical analyses for life characteristics, which **led her to rely on life characteristics for similar plant of other Florida gas companies** to make a complete analysis.[38] (Emphasis added)

Of course, for FPUC, FCG is one of the "other Florida gas companies." This is circular logic.

Q. ARE TWO OF THE FOUR UTILITIES WHICH FCG INCLUDED IN ITS "FLORIDA AVERAGE" TINY COMPARED TO FCG?

A. Yes. Florida City Gas has 125,000 customers.[39] Listed below are the approximate number of Florida gas customers of each of the other Florida gas companies:

Other Florida gas utilities	**Customers**
Sebring Gas System:[40]	711
St. Joe Natural Gas Company:[41]	2,878
Florida Public Utilities Company:[42]	100,000
Peoples Gas Service:[43]	470,000

Two out of the four "other Florida gas utilities" that FCG used in the averages FCG relied on, are **tiny** compared to FCG.

[38] See WWD Exhibit-8, page 2 of 3. Page 15, Order No. PSC-2023-0103-FOF-GU.
[39] See Exhibit WWD-7, page 9 of 9. FCG response to Citizens' Second Set of Interrogatories, Interrogatory No. 6(a).
[40] See Exhibit WWD-7 page 5 of 9. Page 1 of Order No. PSC-2022-0153-PAA-GU issued April 22, 2022, in Docket No. 20210183-GU.
[41] See Exhibit WWD-7 page 6 of 9. Page 1 of Order No. PSC-2023-0215-PAA-GU issued July 26, 2023, in Docket No. 20230022-GU.
[42] See Exhibit WWD-7 page 9 of 9. FCG response to Citizens' Second Set of Interrogatories, Interrogatory No. 6 (a).
[43] See Exhibit WWD-7 page 4 of 9. Page 4, Order No. PSC-2023-0388-FOF-GU issued December 27, 2023, in Docket No. 20230023-GU.

The Company response to Citizens' Second Set of Interrogatories, Interrogatory No. 16(a).) begins as follows:

> **Company Response:**
> a. There is no specific cite from *Public Utility Depreciation Practices.* The statement is based on Ms. Lee's vast depreciation experience. Stated simply, when retirement rates average less the 1%, the results of statistical analysis are considered meaningless for service life or net salvage projections, because there is **not a reasonable sample size upon which to conduct the statistical analysis**.[44] (Emphasis added).

If the "sample size" for FCG, which has 125,000 customers, is allegedly too small, then it is totally unreasonable for FCG to significantly rely upon life information for Sebring, which has 711 customers and would therefore have a "sample size" approximately 1/175th the size of FCG, but that is what FCG has filed. [45]

If the "sample size" for FCG, which has 125,000 customers, is allegedly too small, then it is totally unreasonable for FCG to rely upon life information for St. Joe, which has 2,878 customers and would therefore have a "sample size" approximately 1/44th the size of FCG, but that is what FCG has filed. [46]

Q. HAS WITNESS LEE STATED THAT UTILITIES WHICH ARE A DIFFERENT SIZE CANNOT BE USED AS A PROXY?

A. Yes. In the FPUC case, the Order discusses and quotes the witness Lee testimony as follows:

> Witness Lee also testified that the customer sizes of witness Garrett's out-of-state proxy companies make them poor proxies for FPUC. She points out that Liberty

[44] See Exhibit WWD-6, page 2 of 2. FCG response to Citizens' Second Set of Interrogatories, Interrogatory No. 16(a).
[45] 711/125,000 = 1/175.
[46] 2,873/125,000 = 1/44.

> has approximately 60,000, NIPSCO has approximately 821,000, and Piedmont Natural Gas has 157,000 customers, while FPUC has approximately 108,000. **Witness Lee stated that, "The operational characteristics and demand on assets between these different sized companies can create different accounting and operation process dynamics for each company**."[47] (Emphasis added).

In the FPUC case, witness Lee said utilities which are a different size cannot be used as a proxy, but in this case witness Lee is basing parameters for FCG, which has 125,000 customers, substantially on parameters for Sebring, which has 711 customers, and on parameters for St. Joe, which has 2,878 customers. That is not reasonable.

Q. SHOULD THE FCG TESTIMONY ON LIVES BE ACCEPTED?

A. No. The FCG testimony on lives is based on circular logic and on assuming that the data from FCG is too small of a "sample size," while pretending that information about utilities that are a tiny compared to FCG, is not too small of a "sample size."

I recommend that the Commission order that in the coming rate case, FCG file a new depreciation study which includes the statistical analyses for life factors which include the actual data after the year 2020.[48]

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[47] See Exhibit WWD-8 page 3 of 3. Page 19, Order No. PSC-2023-0103-FOF-GU in Docket No. 20220067-GU.
[48] Including the actual data that is available at the time the new depreciation study is prepared.

E. NET SALVAGE

Q. WHAT CHANGE IN NET SALVAGE DOES FCG PROPOSE FOR THE LARGEST ACCOUNTS?

A. There are three accounts which each contain more than $100 million in investment. These three accounts contain 73% of all the total depreciable gas plant.[49] In **each of these three accounts**, FCG proposed to change the currently approved net salvage factor in the **direction which increases the calculated reserve surplus**. This is shown in the following table:[50]

Figure 4:

	Net Salvage Factor		
	Currently Approved For FCG	FCG Proposed	Change
Accounts 3761, Mains -Plastic	(33)	(30)	3
Account 3762, Mains – Steel	(50)	(40)	10
Account 3801, Service – Plastic	(68)	(40)	28

[49] Accounts 3761, Mains -Plastic, Account 3762, Mains – Steel and Account 3801, Service – Plastic. 73% calculated from Schedule A of the FCG Exhibit PSL-2.
[50] Source for FCG Current and FCG Proposed is FCG Exhibit PSL-2, Schedule B.

Making the net salvage factor a smaller negative number increases the claimed reserve surplus. In every one of the three largest accounts, FCG is proposing to change the net salvage factor **<u>in the direction that increased the claimed reserve surplus</u>**. Any money labeled as "surplus" would be taken by the investors, under the improper FCG proposal in this case.

Q. THE LARGEST FCG PROPOSED CHANGE ON THE TABLE ABOVE IS THAT FCG PROPOSES CHANGING THE NET SALVAGE PERCENT FOR ACCOUNT 3801, SERVICE – PLASTIC FROM (68)% TO (40)%. WHAT IMPACT DOES THAT ONE PROPOSED CHANGE HAVE?

A. This one proposed change increases the amount of the claimed surplus by $6 million. This $6 million is included in the $19 million alleged surplus that would be given to the owners under the FCG proposal.

<u>F. THE FACTS IN THIS CASE DO NOT SUPPORT CHANGING THE NET SALVAGE FROM (68)% TO (40)% IN SERVICE PLASTIC.</u>

Q. FCG SAYS THAT "…IT WAS NECESSARY TO RELY ON LIFE CHARACTERISTICS FOR SIMILAR PLANT OF OTHER FLORIDA GAS UTILITIES TO MAKE A COMPLETE ANALYSIS."[51] WHAT DO THE PARAMETERS OF "OTHER FLORIDA GAS UTILITIES" SHOW FOR NET SALVAGE FOR SERVICE- PLASTIC?

A. For Florida gas customers other than FCG, 82 percent of those Florida gas utilities' customers are served by Peoples Gas[52] which has an approved (75) % net salvage for Service-Plastic.[53]

FCG's proposal to move from (68) % to a (40) % net salvage is moving away from (75) % net salvage that currently applies to 82 percent of the other Florida gas utilities customers.

When we also include all of other smaller Florida gas utilities, the average approved net salvage for Florida gas customers, other than FCG, is (67) %.[54] That is very close to the (68) % which is currently approved for FCG. The (67) % average for other Florida utilities is far removed from the (40) % to which FCG proposes to move.

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[51] Page 24, lines 15-17, Amended Direct Testimony of Witness Lee.
[52] See Exhibit WWD-7. As shown on Exhibit WWD-7 page 4 of 9 (Order No. PSC-2023-0388-FOF-GU, p. 4) Peoples Gas serves approximately 470,000 gas customers/ 573,589 (Exhibit WWD-7) total Florida (Commission-regulated/investor-owned) gas customers (other than FCG) = 82%.
[53] See Exhibit WWD-10 page 2 of 2. Order No. PSC-2023-0388-FOF-GU, page 22, Table 2, Commission-Approved Depreciation Parameters and Resulting Remaining Life Depreciation Rates for Peoples Gas System.
[54] See Exhibit WWD-7, page 1 of 9.

Q. DO THE FCG-SPECIFIC NUMBERS FILED BY FCG SUPPORT MOVING TO A (40) % NET SALVAGE?

A. No. Schedule Q in FCG Exhibit PSL-2 Revised shows that for Account 3801 Service-Plastic the Net Salvage Percent in the "Five Year Average" (2020-2024) is (132) %, as calculated by FCG. FCG's proposal to move from (68) % to (40) % is moving away from (132) % that FCG has calculated as being shown by the FCG actual experience.

For Service – Plastic, the table below compares the FCG actual net salvage data and the average for other Florida gas customers to the FCG current and FCG proposed net salvage percent.

Figure 5:

Net Salvage Percent				
	Average Approved For Other Florida Gas Customers	**FCG Last Five Year Average, Per FCG Schedule Q.**	**Currently Approved For FCG**	**FCG Proposed**
Account 3801, Service – Plastic	(67)	(132)	(68)	(40)

As can be seen above, FCG's proposal to move from the current (68)% to (40)% is contrary to even the net salvage data as calculated and filed by FCG.[55] But, by FCG proposing this

[55] Using the data as even calculated by FCG to impeach the FCG proposal, does not imply that I have checked or necessarily support those numbers as calculated by FCG. But the fact the numbers calculated by FCG do not support the FCG proposal demonstrates the weakness of the FCG proposal.

drastically, and unsupported, change in the net salvage for Service – Plastic, $6 million more would be claimed to be "surplus" and would be transferred from the depreciation reserve to the owners, compared to using the currently-approved (68)%. Any money labeled as "surplus" would be taken by the investors, under the improper FCG proposal in this case.

Q. WHAT DID FCG SAY TO TRY TO SUPPORT ITS PROPOSAL TO MOVE FROM A (68) % TO A (40) % NET SALVAGE FOR SERVICE – PLASTIC.

A. Regarding Account 3801: Services - Plastic, Composite Exhibit PSL-2 (Narrative), page 15 states the following:

> FCG has a program to replace mains and services running through less assessable parts of customer property (e.g., backyards) with mains and services located in more accessible areas.

It also states the following regarding Account 3801: Services – Plastic:

> At this time, the Company proposes a decrease to (40)% net salvage given easier accessibility to the retired service as well as projections from other Florida gas utilities.[56]

First of all, the approved net salvage percents applied to the customers of "other Florida gas utilities" averages (67) % for Services – Plastic, as is shown on Exhibit WWD-7.

In addition, the claimed higher Cost of Removal for the services in the "less assessable parts of customer property (e.g., backyards)" were primarily **<u>steel</u>** services, which are in a different account from the plastic services.

[56] Amended Composite Exhibit PSL-2 (Narrative), pages 15-16.

It is not **plastic** mains and services FCG is retiring from the "less assessable parts of customer property (e.g., backyards)" to be replaced in more accessible areas.

In response to discovery, FCG said:

> "Based on FCG's records, there were 204 plastic services retired in 2024."[57]

However, **none** of those **plastic** services retired were retired from "less assessable parts of customer property (e.g., backyards)" and replaced with "services located in more accessible areas."

In discovery we asked FCG the following:

> Please state separately for each of the years 2024, 2023, 2022, and 2021 how many service lines **which were plastic** and **were in "less assessable parts** of customer property (e.g., backyards)" FCG retired and replaced with "services located in more accessible areas"?[58]

The FCG answer stated that in 2024 "no plastic services" retired from less assessable parts of customer property (e.g., backyards) and were replaced with services located in more accessible areas. [59]

We also asked the following in discovery:

> (b) Please state "yes" or "no" whether it is correct that the majority of the "mains and services running through less assessable parts of customer property (e.g., backyards)" which were replaced were **steel** mains and service lines?

[57] See Exhibit WWD-9 page 3 of 4. Citizens' Fourth Set of Interrogatories, Interrogatory No. 23 (d).
[58] See Exhibit WWD-9 page 3 of 4. Citizens' Fourth Set of Interrogatories, Interrogatory No. 23, Request (e). Emphasis in the original.
[59] See Exhibit WWD-9 page 3 of 4. Citizens' Fourth Set of Interrogatories, Interrogatory No. 23 Response (e).

FCG answered "Yes"[60]

We asked the following in discovery:

> (c) Please state "yes" or "no" whether it is correct that when FCG replaced the "mains and services running through less assessable parts of customer property (e.g., backyards) with mains and services located in more accessible areas" the majority of the "mains and services located in more accessible areas" were **plastic** mains and services?

FCG answered "Yes,"[61]

The claim that the Cost of Removal for Service-Plastic will be much less in the future than it has been in the past, because [allegedly] plastic services are being retired from "less assessable parts of customer property (e.g., backyards)" and replaced with plastic "services" located in more accessible areas" does not appear to be true. The number of plastic service lines that happened to in 2024 is **zero,** and FCG did not have data showing it happened in any of the other years we asked about.[62]

G. THE FACTS IN THIS CASE DO NOT SUPPORT CHANGING THE NET SALVAGE FROM (50) % TO (40) % IN THE MAINS -STEEL ACCOUNT.

Q. ABOVE YOU DISCUSSED THE FCG PROPOSED NET SALVAGE CHANGE TO SERVICE-PLASTIC. FOR THE LARGE ACCOUNTS, WHAT IS THE SECOND LARGEST CHANGE IN NET SALVAGE PERCENT THAT FCG PROPOSES?

A. Among the three largest accounts, the second largest change in net salvage percentage that FCG proposes is the FCG proposal to change the currently approved (50) % to (40) % for

[60] See Exhibit WWD-9 page 3 of 4. Citizens' Fourth Set of Interrogatories, Interrogatory No. 23 (b).
[61] See Exhibit WWD-9 page 3 of 4. Citizens' Fourth Set of Interrogatories, Interrogatory No. 23 (c).
[62] See Exhibit WWD-9 page 3 of 4. Citizens' Fourth Set of Interrogatories, Interrogatory No. 23 (e).

Mains-Steel. Not surprisingly, this FCG proposal to change is also in the direction which would increase the amount of the claimed reserve surplus. FCG proposed net salvage change in this account increases the amount of claimed surplus by $4 million. This $4 million is included in the $19 million alleged surplus that would be given to the owners under the FCG proposal.

Q. FOR THE MAINS-STEEL ACCOUNT, COMPARE THE FCG ACTUAL NET SALVAGE DATA AND THE AVERAGE FOR OTHER FLORIDA GAS CUSTOMERS TO THE FCG CURRENT AND FCG PROPOSED NET SALVAGE PERCENT.

A. For Mains-Steel, the table below compares the FCG actual net salvage data, and the average for other Florida gas customers, to the FCG current and FCG proposed net salvage percent.

Figure 6:

	Net Salvage Percent			
	Average Approved For Other Florida Gas Customers	FCG Last Five Year Average, Per FCG Schedule Q.	Currently Approved For FCG	FCG Proposed
Account 3762, Mains – Steel	(56)	(73)	(50)	(40)

As can be seen above, the FCG proposal to move from the current (50)% to (40)% is contrary to even the net salvage data as calculated and filed by FCG.[63] But this FCG-proposed change in the net salvage for Account 3762, Mains – Steel increases the amount of its claimed reserve surplus by $4 million, which $4 million would be transferred to the owners. Any money labeled as "surplus" would be taken by the investors, under the improper FCG proposal in this case.

Q. WHAT IS YOUR RECOMMENDATION ON ISSUE 2, WHICH REFERS TO PARAMETERS?

A. The fact that under the FCG proposal, the money that is identified as a "surplus" in the depreciation reserve would be transferred to the owners, creates a strong conflict of interest in the FCG selection of parameters. The amount of money which is claimed to be "surplus" is largely determined by the "parameters" selected.

The testimony above shows that the net salvage factors FCG is recommending are contrary to the data for both the Account 3801, Service – Plastic and Account 3762, Mains – Steel. These two incorrect net salvage percentages create over one half of the $19 million reserve surplus that FCG claims. This can be seen by comparing Amended Schedule E as filed by

[63] Using the data as even calculated by FCG to impeach the FCG proposal, does not imply that I have checked or necessarily support those numbers as calculated by FCG. But the fact the numbers calculated by FCG do not support the FCG proposal demonstrates the weakness of the FCG proposal.

the Company[64] compared to Amended Schedule E with the currently approved net salvages for these two accounts.[65]

All of the parameters that FCG is proposing were prepared under the same conflict of interest which is created by the fact that under the FCG proposal, money that is identified as a "surplus" in the depreciation reserve would be transferred to the owners.

As discussed elsewhere, my recommendation is that this case be closed and the current depreciation rates remain in effect, and that a new, correct, depreciation study be filed as part of the coming rate case. By then FCG will have had more time to assemble more accurate data, and to conduct a statistical analysis of the data. A new depreciation study does not have to be filed until May 31, 2027.

I also recommend that any reserve imbalance, in the case of a surplus, be returned to ratepayers, and in the case of a deficiency, be charged to the ratepayers through the "remaining life" depreciation rates. The fact that in the rate case any alleged "surplus" would not go to the owners, would reduce the conflict of interest when determining the parameters in that new FCG depreciation study.

[64] Page 32 of 258 of Amended Composite Exhibit PSL-2 (workbook), "Sch E Amended", FCG filed on 11-4-2025
[65] See Amended Exhibit WWD-12. I am not recommending the reserve surplus shown on Amended Exhibit WWD-12. This is used only to illustrate the large impact of only two corrections. This does not imply that no other corrections are appropriate.

IV. ISSUE 3: BASED ON THE APPLICATION OF THE DEPRECIATION PARAMETERS THAT THE COMMISSION HAS DEEMED APPROPRIATE TO THE FCG'S DATA, AND THE COMPARISON OF THE THEORETICAL RESERVES TO THE BOOK RESERVES, WHAT, IF ANY, ARE THE RESULTING IMBALANCES?

Q. CAN THE DOLLAR AMOUNT OF RESERVE IMBALANCE REASONABLY BE DETERMINED BASED ON THE RECORD IN THIS CASE?

A. No. As previously discussed, there are huge and numerous "Variances" in the data on which FCG is basing its proposed depreciation rates and surplus amounts, compared to the audited data from the FCG Annual Reports. The FCG response which admits this is attached as Exhibit WWD-5. Further, FPSC Rule 25-7.045(5)(h), F.A.C., states that in a "depreciation study" the data used "must agree with activity booked by the utility."

As discussed elsewhere, my recommendation is that the Commission find that the "study" provides an inadequate basis to make any changes, and that the current depreciation rates remain in effect. The Commission should direct that a new, correct, depreciation study be filed as part of the coming rate case. By then FCG will have had more time to assemble more accurate data and perform the statistical analyses. A new depreciation study does not have to be filed until May 31, 2027.

V. ISSUE 4: WHAT, IF ANY, CORRECTIVE DEPRECIATION RESERVE MEASURES SHOULD BE TAKEN WITH RESPECT TO ANY IMBALANCES IDENTIFIED IN ISSUE 3?

Q. WHAT, IF ANY, CORRECTIVE DEPRECIATION RESERVE MEASURES SHOULD BE TAKEN WITH RESPECT TO ANY IMBALANCES?

A. Any depreciation reserve imbalance identified in the new depreciation study to be filed in the coming rate case should be addressed in the remaining life calculations.

As witness Lee states:

> The use of the remaining life technique incorporates a self-correcting mechanism that will adjust for any over- or under-recoveries that have occurred. The remaining life technique ensures that the full-service value of the associated assets is recovered through depreciation expense.[66]

The new depreciation rates should become effective at the same time as the new tariffs/prices charged to ratepayers become effective. These proper actions would recover any reserve deficiency from the ratepayers or return any reserve surplus to the ratepayers.

VI. ISSUE 5: WHAT SHOULD BE THE IMPLEMENTATION DATE FOR REVISED DEPRECIATION RATES AND AMORTIZATION SCHEDULES?

Q. WHAT IMPLEMENTATION DATE DO YOU RECOMMEND FOR REVISED DEPRECIATION RATES AND AMORTIZATION SCHEDULES?

A. As was done in the prior FCG case, I recommend that the new depreciation rates and amortizations become effective at the same time as the new tariffs/prices charged to ratepayers become effective in the coming rate case. This, along with recovering any reserve imbalance in the remaining life calculations, would recover any reserve deficiency from the ratepayers, or return any reserve surplus to the ratepayers. This is fair to both investors and ratepayers.

In the prior case, Docket No 20220069-GU, the prices/tariffs charged to ratepayers were changed concurrently with the change in the depreciation rates.

In response to discovery, FCG's answer begins as follows:

[66] Page 25, lines 17-20, Amended Direct Testimony of witness Lee.

> FCG agrees that, as part of its petition for a base rate increase in Docket No 20220069-GU, an implementation date for revised depreciation rates was requested effective with the date of FCG's new revenue rates.[67]

A. FCG PROPOSES NO REDUCTION IN THE DEPRECIATION EXPENSE CHARGED TO RATEPAYERS, BUT TO REDUCE THE DEPRECIATION EXPENSE RECORDED IN THE RESERVE.

Q. WHAT IS ONE THING FCG PROPOSES IN THIS CASE?

A. In this case, FCG proposes **no** reduction in the depreciation expense collected from ratepayers but proposes to reduce the amount of depreciation expense recorded in the Depreciation Reserve.

Q. PLEASE PROVIDE AN ANALOGY TO WHAT FCG IS PROPOSING IN THIS CASE.

A. Assume that you had opened a holiday account at a bank. You deposit $100 per month and at the end of the year that money will be available for the holidays. For the first two months you deposit $100 per month, and the bank puts your $100 into your account. However, after a few months, when you deposit your $100, the bank puts $60 into your account, and the bank owner takes $40 and puts that $40 in his or her pocket. This continues every month. Of course, this is improper but is it a good analogy to what FCG is proposing.

[67] See Exhibit WWD-13 page 2 of 3. Citizens' Second Set of Interrogatories, Interrogatory No. 13 (a).

Q. IN A RATE CASE, IS DEPRECIATION EXPENSE RECOVERED FROM RATEPAYERS?

A. Yes. In a rate case, depreciation expense is one of the costs that are recovered from the ratepayers. So, an amount to cover the depreciation expense is recovered from the ratepayers in the prices/tariffs.

Another thing that occurs each month is that an amount equal to the depreciation expense is credited into the Depreciation Reserve, Account 108.[68] So the money collected from the ratepayers for depreciation is credited into the depreciation reserve.

Q. WHAT HAPPENS WHEN THE DEPRECIATION RATES ARE REDUCED, BUT THE PRICES / TARIFFS CHARGED TO THE RATEPAYERS FOR DEPRECIATION ARE NOT REDUCED?

A. When the depreciation rates are reduced outside of a rate case, the lower depreciation rates reduces the amount of recorded depreciation expense, which reduces the amount that is being credited into the depreciation reserve. But that does not reduce the prices/rates charged to the ratepayers for depreciation expense. This is similar to the analogy I previously presented, where $100 per month is being collected, but only $60 per month is being credited into the account.

[68] This accounting could be done monthly or annually. The FERC Uniform System of Accounts (CFR Title 18, Vol 1, Part 201) requires the following:

> **108 Accumulated provision for depreciation of gas utility plant.**
> A. This account shall be credited with the following:
> (1) Amounts charged to account 403, Depreciation Expense…

Q. DOES FCG ADMIT THE CHANGE IN THE DEPRECIATION RATES IN THIS CASE WILL NOT RESULT IN CHANGING THE PRICES/TARIFFS CHARGED TO RATEPAYERS?

A. Yes. We asked the following in discovery:

> Does FCG agree that the change in depreciation rates proposed by Florida City Gas in the current proceeding is not part of a petition for a base rate increase, and if accepted, no change to the prices/tariffs charged to ratepayers would be effective at approximately the same time changes to the depreciation rates to be booked would be effective?

FCG's answer begins as follows:

> Correct. Revised depreciation rates approved in the instant depreciation study, assuming a January 1, 2025 effective date as proposed, will not affect current prices/tariffs charged to ratepayers whether that change results in an increase or a decrease in depreciation expenses. [69]

Q. IS THIS DIFFERENT THAN WHAT OCCURRED IN THE PRIOR FCG DEPRECIATION STUDY?

A. Yes, in the prior case, Docket No 20220069-GU, the prices/tariffs charged to ratepayers were changed concurrent with the change in the depreciation rates.

In response to discovery, FCG's answer begins as follows:

> FCG agrees that, as part of its petition for a base rate increase in Docket No 20220069-GU, an implementation date for revised depreciation rates was requested effective with the date of FCG's new revenue rates.[70]

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[69] See Exhibit WWD-13 page 3 of 3. Citizens' Second Set of Interrogatories, Interrogatory No. 13 (b).
[70] See Exhibit WWD-13 page 2 of 3. Citizens' Second Set of Interrogatories, Interrogatory No. 13 (a).

Q. PLEASE EXPLAIN WHY IT IS IMPROPER TO BREAK THE CONNECTION BETWEEN THE DEPRECIATION COLLECTED FROM THE RATEPAYERS AND THE DEPRECIATION THAT IS CREDITED INTO THE DEPRECIATION RESERVE.

A. Page 187 of the respected *Public Utility Depreciation Practices* published by the National Association of Regulatory Utility Commissioners ("NARUC") states the following:

> In many regulatory customer rate-setting procedures, the depreciation reserve is a deduction from rate base. Therefore, it is desirable that the depreciation reserve be as accurate as possible.

If the amount of depreciation expense that is being recorded in the Depreciation Reserve is not based upon the depreciation expense that is being collected from the ratepayers, that makes the Depreciation Reserve less accurate, which makes the rate base and the amount of return on rate base the investors receive less accurate.

<u>VII. ISSUE 7: SHOULD THIS DOCKET BE CLOSED?</u>

Q. SHOULD THIS DOCKET BE CLOSED?

A. Yes. For the reasons discussed in this testimony, I recommend this case be closed and the current depreciation rates remain in effect. A new depreciation study is not due until May 31, 2027, which will be five years after the filing of the last FCG depreciation study.[71]

I recommend that a new, correct, depreciation study be filed as part of the coming rate case. I recommend that include the statistical analysis of the life data.

[71] What FCG filed in this case is not a full depreciation study, as discussed elsewhere in this testimony.

The FCG response to Citizens' Third Set of Interrogatories, Interrogatory No. 19, (Exhibit WWD-5) shows that in numerous accounts and in numerous years, the numbers FCG used to calculate its claimed depreciation rates and claimed reserve surplus are vastly inconsistent with the numbers in the Annual Reports, which were audited by Deloitte.

It would be improper to revise depreciation rates based on numbers which we have proven are incorrect. FCG says that the correct numbers "cannot be determined by FCG", [or at least not swiftly]. Those numbers are not valid evidence which would support changing the current depreciation rates.

Any imbalance identified in the new depreciation study to be filed in the coming rate case should be addressed in the remaining life calculations. The new depreciation rates should become effective at the same time as the new tariffs/prices charged to ratepayers become effective. These proper actions would recover any reserve deficiency from the ratepayers or return any reserve surplus to the ratepayers.

Under FCG's proposal, the money that is identified as a "surplus" in the Depreciation Reserve would be transferred to the owners. The amount of money which is claimed to be "surplus" is determined by the "parameters" selected. This creates an inherent conflict of interest in favor of increasing the surplus for the personnel selecting parameters to be proposed by FCG. I have demonstrated that FCG is proposing parameters which are contrary to the evidence and increase the claimed amount of "surplus", which would be paid to the owners under this unreasonable FCG filing.

I have demonstrated that removing $19.2 million from the Depreciation Reserve, and paying it to the owners, will increase by $1.7 million per year the amount of the rate increase FCG will be able to prove in the upcoming rate case. That additional $1.7 million rate increase can be avoided by rejecting the FCG filing in this case.

I recommend this case be closed and the current depreciation rates remain in effect. I recommend that a new, correct, depreciation study be filed as part of the coming rate case.

Q. THE STAFF FILED A STAFF REPORT ON AUGUST 12, 2025. IS THE STAFF REPORT AN IMPROVEMENT OVER THE FCG PROPOSALS?

A. Yes. The Staff Report is definitely more just and reasonable than are any of the FCG filings. For one thing, the Staff Report recommends using the remaining life technique to address any reserve imbalance. Page 5 of the Staff Report states the following:

> It is staff s opinion that the remaining life depreciation technique is the preferred option to correct the reserve imbalance in this instance.

A reserve surplus means that the ratepayers have overpaid for depreciation. The remaining life technique returns the surplus to the ratepayers. The FCG proposals instead would pay the surplus to the owners, which would be unjust. All of this is discussed in more detail earlier in this testimony.

Q. DOES THE STAFF REPORT CORRECT ALL THE MAJOR PROBLEMS IN THE FCG FILINGS?

A. No. The Staff Report is clearly superior to any of the FCG filings, but it does not correct all of the major issues in the FCG filings. For one example, there is no indication in the

Staff Report that the Staff had corrected the fact that the data FCG filed, and was presumably used by Staff, is inconsistent with the audited data in the FCG Annual Reports. The Staff Report contains recommendations which are still based on the inaccurate data provided by FCG.

Q. HAS FCG MADE A "LAST-MINUTE" FILING WHICH SUPPORTS YOUR TESTIMONY THAT THE NUMBERS FCG IS USING CANNOT BE RELIED UPON?

A. Yes. FCG filed new testimony and exhibits the day before we have to file this testimony. FCG filed its greatly revised numbers, exhibits and testimony on November 4, 2025. My testimony has to be filed November 5, 2025.

Q. DO THESE "LAST-MINUTE" CHANGES ELIMINATE ANY OF THE PROBLEMS DISCUSSED IN THE TESTIMONY YOU HAD FILED ON NOVEMBER 5, 2025?

A. No. In this new "last-minute" filing FCG changed many numbers, but it does not eliminate any of the issues presented in my November 5 testimony. For example, referring to the prior FCG filing, page 17 of the testimony I had filed on November 5 shows that:

> Page 22 of the 2021 FCG Annual Report to the FPSC shows that the Additions in 2021 were $5,565,780 in Mains -Steel. This 2021 Annual Report was audited by Deloitte…
>
> …

> However, Schedule J of FCG Exhibit PSL-2 shows the balance in service at the time used in the study (1/1/2025) was [allegedly] $546,527 in the same 2021 vintage of the same account, Mains -Steel. (Footnotes omitted.)

The new November 4, 2025, FCG filing changes the $546,527 to $386,460 in the 2021 vintage of the same account, Mains -Steel, so the problem has not been corrected.[72] The $386,460 number FCG is now using is still vastly inconsistent with the accurate, audited, number of $5,565,780.

Referring to the prior FCG filing, page 5 of my November 5 testimony said "FCG proposed to take $22,391,064 out of the depreciation reserve and give it to the owners." In the new November 4, 2025, filing, FCG proposes to take $19.2 million out of the depreciation reserve and give it to the owners.[73] So the same problem still exists, with somewhat different numbers.

Q. WHAT DOES THIS NEW FCG FILING FURTHER PROVE?

A. The fact that FCG is still jumping around trying to determine the numbers, further proves that FCG does not have a good understanding of what the actual numbers are. This uncertainty of the numbers reinforces my recommendation that this case be closed and the current depreciation rates remain in effect, and that a new, correct, depreciation study be filed as part of the coming rate case.

[72] The November 4, 2025, FCG Excel Exhibit PSL-2 FCG2025 Study Workbook, Sch J Amended, Account 3762 Mains Steel 2021.
[73] The November 4, 2025, FCG testimony of Lee, page 8 line 22.

Q. WHAT DO YOU RECOMMEND?

A. As discussed in more detail above, I recommend this case be closed and the current depreciation rates remain in effect. I recommend that a new, correct, depreciation study be filed as part of the coming rate case. I recommend that a new depreciation study include the statistical analysis of the life data. Any imbalance identified in the new depreciation study to be filed in the coming rate case should be addressed in the remaining life calculations. The new depreciation rates should become effective at the same time as the new tariffs/prices charged to ratepayers become effective.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does at this time. The fact that I do not address any other particular issues in my testimony or am silent with respect to any portions of FCG's Petition or direct testimony in this proceeding should not be interpreted as an approval of any position taken by FCG.

CHESAPEAKE UTILITIES CORPORATION

FLORIDA CITY GAS

2025 NATURAL GAS DEPRECIATION STUDY (AMENDED)

As of 1/1/2025

COMPARISON OF ACCUMULATED BOOK RESERVE AND THEORETICAL RESERVE

ACCOUNT - # / NAME		PLANT: BOOK INVESTMENT W/ STUDY ADJUSTMENTS 1/1/2025	PLANT: BOOK RESERVE W/ STUDY ADJUSTMENTS 1/1/2025		PROPOSED RATES: THEORETICAL RESERVE (%)	PROPOSED RATES: THEORETICAL RESERVE ($)	PROPOSED RATES: IMBALANCE	PROPOSED RATES: WLR (%)	PROPOSED RATES: ARL (YEARS)	NET SALV (%)
STORAGE PLANT										
3642	Structures & Improvements	$35,843	$807		2.00	$717	($90)	2.00	49.00	0
3643	LNG Processing Terminal Equipment	$239,769	$2,464		2.00	$4,795	$2,331	2.00	49.00	0
3645	Measuring and Regulating Equip.	$35,905	$808		2.00	$718	($90)	2.00	49.00	0
3646	Compressor Station Equipment	$59,702,374	$1,922,731		2.00	$1,194,047	($728,684)	2.00	49.00	0
	Total Storage Plant	**$60,013,891**	**$1,926,810**			**$1,200,277**	**($726,533)**			
DISTRIBUTION PLANT										
3743	Right-of-Way	$11,132	$0		41.48	$4,618	$4,618	1.33	44.00	0
3750	Structures & Improvements	$273,829	$8,672		14.20	$38,884	$30,212	2.86	30.00	0
3761	Mains - Plastic (Formally Acct 3762)	$237,376,057	$49,591,899	(A)	17.55	$41,659,498	($7,932,401)	1.73	65.00	(30)
3762	Mains - Steel (Formally Acct 3761)	$143,280,076	$65,981,846	(A)	46.05	$65,980,475	($1,371)	2.31	45.00	(50)
3780	Measuring and Regulating Equip. - General	$2,556,627	$410,733		19.25	$492,151	$81,418	2.75	33.00	(10)
3790	Measuring and Regulating Equip. - City Gates	$17,746,190	$5,689,779		28.60	$5,075,410	($614,369)	2.20	37.00	(10)
3801	Services - Plastic (Formally Acct 3802)	$128,613,988	$32,898,453	(A)	24.65	$31,703,348	($1,195,105)	3.05	47.00	(68)
3802	Services - Steel (Formally Acct 3801)	$16,378,776	$18,490,162	(A)	97.50	$15,969,307	($2,520,855)	3.75	34.00	(125)
3810	Meters	$24,050,241	$6,267,515		38.85	$9,343,519	$3,076,004	5.25	12.60	(5)
3812	Meters - ERTs (Formally Acct 3811)	$4,266,834	$301,699	(A)	15.00	$640,025	$338,326	5.00	17.00	0
3820	Meter Installations	$6,710,985	$256,072		20.55	$1,379,107	$1,123,035	2.27	35.00	0
3821	Meter Installations - ERT	$258,204	$6,171		2.39	$6,171	$0	2.27	43.00	0
3830	House Regulators	$7,527,623	$1,225,606		21.46	$1,615,428	$389,822	2.38	33.00	0
3840	House Regulators Installations	$2,065,464	$432,366		29.71	$613,649	$181,283	2.13	33.00	0
3850	Indus. Meas. & Reg. Station Equip	$3,740,797	$2,309,679		57.75	$2,160,310	($149,369)	2.50	16.90	0
3870	Other Equipment	$2,783,990	$713,530		19.92	$554,571	($158,959)	2.86	28.00	0
	Total Distribution Plant	**$597,640,813**	**$184,584,182**			**$177,236,471**	**($7,347,711)**			
GENERAL PLANT										
3900	Structures & Improvements	$13,115,013	$2,490,539		17.50	$2,295,127	($195,412)	2.50	33.00	0
3921	Transportation - Cars (revised subaccount)	$324,144	$163,750	(B)	62.25	$201,779	$38,029	7.50	3.70	10
3922	Transportation - Light -Med. Trucks, SUVs & Vans (revised subaccount)	$8,392,837	$3,453,447	(B)	29.98	$2,516,173	($937,274)	6.67	7.50	20
3923	Transportation - Heavy Trucks	$1,040,846	$591,746	(B)	53.32	$554,979	($36,767)	6.92	5.30	10
3924	Transportation - Trailers (formally account 3920)	$174,493	$137,364	(B)	51.00	$88,991	($48,373)	5.00	9.80	0
3941	Natural Gas Vehicle Equipment	$1,564,203	$826,016		42.50	$664,786	($161,230)	5.00	11.50	0
3960	Power Operated Equipment	$278,349	$84,705		35.40	$98,536	$13,831	6.00	9.10	10
	Total General Plant	**$24,889,884**	**$7,747,567**			**$6,420,371**	**($1,327,196)**			
	Total Plant	**$682,544,588**	**$194,258,559**			**$184,857,119**	**($9,401,440)**			

(A) Restated account numbers based on Chesapeake's standard chart of account for all natural gas business units. All CHPK's natural gas business units uses the same chart of accounts to streamline operations. Reclassified Misc. Intantibles from Account 30302 to Account 3031. Reclassified Steel Mains from Account 3761 to newly proposed account 3762. Reclassified Plastic Mains from Account 3762 to newly proposed account 3761. Reclassified Steel Services from Account 3801 to newly proposed account 3802. Reclassified Plastic Services from Account 3802 to newly proposed account 3801. Reclassified ERTs from Meter Account 3811 to newly proposed account 3812.

(B) Restated all Transportation assets based on proposed subaccounts shown on Sch I.