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FPUC’s Responses to Staff’s Eleventh Set of Interrogatories, Nos. 126-140

(Including Attachments)

INTERROGATORIES

Interrogatory No. 126

126. Please refer to the rebuttal testimony of witness Moul, page 3, lines 14 through 18.

a. Please define the term "investors" as used in the sentence.

b. Please define the term "unsupportive" as used in the sentence.

c. Please explain if witness Moul has conducted any empirical studies to determine if an authorized ROE of 9.25 percent would be viewed by investors as unsupportive?

d. Please explain how an authorized ROE of 9.25 percent would create higher rates for customers in the long run.

Company Response:

a. Those stakeholders that provide capital (debt and equity) to an enterprise.

b. Lack of support.

c. The Company objects that the phrase "any empirical studies" is vague. FPUC has made a good-faith and reasonable attempt to ascertain the meaning of such requests and provide a response based on such attempt, but FPUC responds without waiving its objection to the vagueness of the request, and the Company responds: Yes. As noted on page 17 of Mr. Moul's prefiled rebuttal testimony, the DCF return for the Gas Group is 10.7%. A return of 9.25% would not support investor expectations in this regard.

d. A non-supportive return will drive up the cost of both debt and equity for the Company. The higher costs of debt and equity would contribute to higher rates for customers in the future.

Respondent: Paul Moul

Interrogatory No. 127

127. Please refer to the rebuttal testimony of witness Moul, page 3, lines 21 through 23.

a. Please explain and quantify witness Moul's understanding of "investors' expectations."

b. Please explain if witness Moul has conducted any studies or analysis of the recent trend in the authorized ROEs received by gas utilities over the last five years, and if so, what were the results of those studies or analyses.

Company Response:

a. The Company objects that the request is vague and potentially overly burdensome. FPUC has made a good-faith and reasonable attempt to ascertain the meaning of such requests and provide a response based on such attempt, but FPUC responds without waiving its objections to the request, and the Company responds: As noted on page 17 of Mr. Moul's prefiled rebuttal testimony, the DCF return for the Gas Group is 10.7%.

b. The Company objects that the phrase "any studies or analysis" is vague, and that the reference to "the recent trend" is vague. FPUC has made a good-faith and reasonable attempt to ascertain the meaning of such requests and provide a response based on such attempt, but FPUC responds without waiving its objection to the vagueness of the request, and the Company responds: No.

Respondent: Paul Moul

Interrogatory No. 128

128. Please refer to the rebuttal testimony of witness Moul, page 4, lines 1 through 5. Please clarify if the term "Company's" is referring to FPUC or its parent, Chesapeake Utilities Corporation.

Company Response:

It refers to both FPUC and CUC.

Respondent: Paul Moul

Interrogatory No. 129

129. Please refer to the rebuttal testimony of witness Moul, page 4, lines 18 through 22.

a. Please explain how the returns “compare” to recently requested returns.

b. Please explain witness Moul’s understanding of how the returns for Duke Energy Florida, LLC and Tampa Electric Company were established.

Company Response:

a. In both instances the 6.7% and 7.9% returns are well below 10.10% and 10.20%

b. The Company objects that asking how “returns … were established” is vague. FPUC has made a good-faith and reasonable attempt to ascertain the meaning of such requests and provide a response based on such attempt, but FPUC responds without waiving its objection to the vagueness of the request, and the Company responds: The returns in each instance were established with a range and that interest rate triggers permitted adjustments to those ranges.

Respondent: Paul Moul

Interrogatory No. 130

130. Please refer to the rebuttal testimony of witness Moul, page 5, line 3 through page 6, line 4. Please explain if a Commission authorized ROE of 9.25 percent in this case would be considered by the investment community as unsupportive regulation is witness Moul's opinion or if he is aware of empirical evidence supporting his testimony.

Company Response:

The Company objects that the question is vague as a whole due to its use of the conjunctive "or", and that the term "empirical evidence" is vague. FPUC has made a good-faith and reasonable attempt to ascertain the meaning of such requests and provide a response based on such attempt, but FPUC responds without waiving its objection to the vagueness of the request, and the Company responds: Yes. A return of 9.25% would be unsupportive of the Company. It would deny the Company returns comparable to those available to other enterprises that have corresponding risks and uncertainties, would not maintain credit, and would inhibit the ability to attract capital.

Respondent: Paul Moul

Interrogatory No. 131

131. Please refer to the rebuttal testimony of witness Moul, page 10, lines 6 through 19.

a. Please explain if witness Moul conducted a quantitative analysis to determine if a lower equity ratio in FPUC's rate making capital structure would move CUC's "2b" designation in the NAIC credit ranking system to junk bond status?

b. Please explain how CUC's equity ratio would be effected by lowering FPUC's equity ratio.

Company Response:

a. The Company objects that the question is vague for misstating the witnesses quoted testimony. FPUC has made a good-faith and reasonable attempt to ascertain the meaning of such requests and provide a response based on such attempt, but FPUC responds without waiving its objection to the vagueness of the request, and the Company responds: No.

b. A lower FPUC's equity ratio, in of itself, would not affect the equity ratio of CUC. Rather, use of a lower equity ratio in a rate case would serve to lower the returns realized by CUC. This is shown by the following. A 9.25% return on a hypothetical 48.2% common equity ratio would translate into an 8.10% (9.25% x .482 = 4.46% ÷ .5505) return on the actual 55.05% common equity ratio.

Respondent: Paul Moul

Interrogatory No. 132

132. Please refer to the rebuttal testimony of witness Moul, page 17, lines 8 through 10. Please explain who demonstrated analyst's forecasts to be superior. Please provide supporting documentation or empirical evidence supporting witness Moul's claim.

Company Response:

Please refer to the article "Choice Among Methods" provided in response to Citizen's First Request for Production of Documents, number 2.

Respondent: Paul Moul

INTERROGATORIES

Interrogatory No. 133

133. Please refer to the rebuttal testimony of witness Moul, page 17, lines 11 through 13. Please provide the calculations used to produce a corrected DCF return of 10.7 percent.

Company Response:

Please refer to the attachment to "STAFF POD 07-23" provided under separate cover on October 3, 2022.

Respondent: Paul Moul

Interrogatory No. 134

134. Please refer to the rebuttal testimony of witness Moul, page 17, lines 22 through 23. Please explain the difference between the Hamada Formula and the Modigliani & Miller approach.

Company Response:

The Hamada formula is restricted exclusively to the beta, while the Modigliani & Miller approach deals with the pre-tax returns on capital. Please refer to the attachments to Citizen's First Request for Production of Documents, number 2, for the original research on these items.

Respondent: Paul Moul

Interrogatory No. 135

135. Please refer to the rebuttal testimony of witness Moul, page 22, regarding firm-specific business risk. Does witness Moul agree that stock prices reflect investors' expected returns, which include all anticipated risks, including business risk? If not, please explain why not.

Company Response:

Yes.

Respondent: Paul Moul

Interrogatory No. 136

136. Please refer to the rebuttal testimony of witness Reno, page 2, lines 9 through 12. Please explain witness Reno's understanding of "double leverage" as it applies to the parent/subsidiary relationship between FPUC and Chesapeake Utilities Corporation.

Company Response:

The Company objects that the phrase "as it applies" is vague because concepts like double leverage could "apply" in many ways, and because it assumes that the concept of double leverage applies to "the parent/subsidiary relationship between FPUC and Chesapeake Utilities Corporation." FPUC has made a good-faith and reasonable attempt to ascertain the meaning of such requests and provide a response based on such attempt, but FPUC responds without waiving its objection to the vagueness of the request, and the Company responds: Double leverage is a concept where a subsidiary has its own third-party debt and its parent company also has third party debt. It is assumed that the equity of the subsidiary is funded by both the debt and equity of the parent. If this structure exists, the portion of the parent company debt that is allocable to the subsidiary's equity results in the double leverage. In this case, Chesapeake Utilities Corporation is the debt holder and FPUC does not have third part debt of its own. Since there is only one level of debt, the concept of double leverage is not applicable to FPUC.

Respondent: Michael Reno

Interrogatory No. 137

137. Please refer to the rebuttal testimony of witness Reno, page 2, lines 16 through 20. Please clarify if FPUC files a consolidated Federal Income Tax Return with Chesapeake Utilities Corporation or if FPUC files its own Federal Income Tax Return.

Company Response:

Yes, FPUC is included in the consolidated Federal Income Tax Return with Chesapeake Utilities Corporation. FPUC does not file a separate Federal Income Tax Return.

Respondent: Michael Reno

Interrogatory No. 138

138. Please refer to the rebuttal testimony of witness Reno, page 3, lines 1 through 5.

a. Please explain how the application of CUC's capital structure (reconciliation to rate base) satisfies the requirement of Rule 25-14.004, Florida Administrative Code.

b. Please clarify the statement by witness Reno that FPUC has no debt on its books and records, but MFR Schedule G-3 Consolidated, Page 2 of 11, clearly lists long term debt of $98,721,741, and short term debt of $13,816,704 in the column titled "Per Books."

c. Please explain the reason for the specific adjustment to remove $2,469,682 from common equity on MFR Schedule G-3 Consolidated, Page 2 of 11.

Company Response:

a. FPUC does not have any third-party debt of its own. To arrive at FPUC's capital structure, the Company takes the total projected parent company equity, long-term debt and short-term debt to arrive a ratio for each of these components. These ratios are then applied to the total rate base supported by these components. The total rate base is adjusted to account for the amount of rate base attributable to customer deposits, deferred taxes, and regulatory tax liabilities before the ratios are applied.

b. The FPUC companies are not borrowers to any third party debt. When presenting the cost of capital amounts detailed on MFR Schedule G-3 Consolidated, Page 2 of 11, the Company uses the capital structure of Chesapeake Utilities Corporation to allocate its projected rate base that is not specifically related to direct items from the divisions. The "Per Books" presentation is calculated based on the projected test year rate based details included in the "Projected Test Year Unadjusted Average Year" column on MFR Schedule G-1 Consolidated, Page 1 of 28. The Company subtracted the projected direct customer deposits, deferred taxes and regulatory tax liability from its projected rate base and used the remaining investment in rate base to multiply by the percentage of parent Company's equity, long term debt, and short term debt as shown in the box on the bottom of the schedule to get the allocated debt of the parent Company. Therefore, the "Per Books" reference is based on the use of the projected "per books" rate base before regulatory adjustments and not the actual debt instruments.

c. The amount removed from equity relates to the adjustment to remove goodwill from rate base. This balance was the result of the acquisition of Florida Public Utilities and represents the amount not approved in the acquisition adjustment. Since the goodwill wasn't approved by the PSC, FPUC removed goodwill from rate base and specifically from equity as opposed to allocating the adjustment between equity and debt.

Respondent: Michael Reno

Interrogatory No. 139

139. Please refer to the rebuttal testimony of witness Reno, page 3, lines 12 through 18. Please explain if the adjustment described in lines 12 through 18 is an interest synchronization adjustment or a parent debt adjustment described in Rule 25-14.004(4), Florida Administrative Code.

Company Response:

The adjustment is intended to be an interest sync adjustment to compute the tax benefit of interest consistent with the proposed regulatory capital structure.

Respondent: Michael Reno

Interrogatory No. 140

140. Please refer to the rebuttal testimony of witness Reno, page 4, lines 9 through 11. Please explain how the interest synchronization calculation serves to achieve the intent of Rule 25-14.004, Florida Administrative Code.

Company Response:

FPUC has no interest expense deduction included on a separate company basis, but is included in the consolidated Federal income tax return of the parent. The interest synchronization calculations allocates a tax benefit for interest expense consistent with the parent company's capital structure.

Respondent: Michael Reno

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities – Fort Meade and Florida Public Utilities – Indiantown Division	) Docket No. 20220067-GU)))) Filed: October 3, 2022)

DECLARATION

I hereby certify and affirm that I sponsored the Company's responses to STAFF'S ELEVENTH SET OF INTERROGATORIES TO FLORIDA PUBLIC UTILITIES COMPANY, Nos. 126 to 135 in Docket No. 20220067-GU. The responses are true and correct to the best of my knowledge.

Under penalty of perjury, I declare that I have read the foregoing declaration and the interrogatory responses identified above, and that the facts stated therein are true.

Paul R Moul

Paul Moul, Declarant

Dated: 09-29-2022

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities – Fort Meade and Florida Public Utilities – Indiantown Division	) Docket No. 20220067-GU)))) Filed: October 3, 2022)

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Under penalty of perjury, I declare that I have read the foregoing declaration and the interrogatory responses identified above, and that the facts stated therein are true.

Michael Reno, Declarant

Dated: 9/29/2022