



Joel T. Baker
Principal Attorney
Florida Power & Light Company
700 Universe Boulevard
Juno Beach, FL 33408-0420
(561) 691-7255
(561) 691-7135 (Facsimile)
Joel.Baker@fpl.com

April 2, 2021

-VIA ELECTRONIC FILING-

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

RE: Docket No. 20200151-EI - Petition for approval of a regulatory asset to record costs incurred due to COVID-19, by Gulf Power Company.

Docket No. 20200189-WS - Petition for approval of a regulatory asset to record costs incurred due to COVID-19, by Utilities, Inc. of Florida.

Docket No. 20200194-PU – Petition for approval of regulatory assets to record costs incurred due to COVID-19, by Florida Public Utilities Company, Florida Public Utilities Company - Indiantown Division, Florida Public Utilities Company - Fort Meade, Florida Division of Chesapeake Utilities Corporation.

Dear Mr. Teitzman:

Please find enclosed, for electronic filing in the referenced consolidated dockets, the pre-filed testimony of Gulf Power witnesses Mitchell P. Goldstein, along with Exhibit MG-1, and Terry Deason.

Thank you for your assistance. Please contact me should you or your staff have any questions regarding this filing.

Sincerely,

/s/ Joel T Baker

Joel T. Baker
Fla. Bar No. 0108202

cc: Counsel for parties of record (w/encl.)

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **GULF POWER COMPANY**

3 **DIRECT TESTIMONY OF MITCHELL P. GOLDSTEIN**

4 **DOCKET NO. 20200151-EI**

5 **APRIL 2, 2021**

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

I. INTRODUCTION.....3

II. BACKGROUND5

III. COVID-19 REGULATORY ASSET.....8

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Mitchell Goldstein, and my business address is One Energy Place,
5 Pensacola, Florida, 32520.

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

7 A. I am employed by Gulf Power Company (“Gulf Power”)¹ as Vice President, Finance.

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

9 A. I am responsible for Gulf Power’s finance organization, including financial accounting
10 and internal and external reporting. As a part of these responsibilities, I ensure that
11 Gulf Power’s financial reporting complies with requirements of Generally Accepted
12 Accounting Principles (“GAAP”) and multi-jurisdictional regulatory accounting
13 requirements.

14 **Q. Please describe your educational background and professional experience.**

15 A. I graduated from the Wharton School of the University of Pennsylvania in 1982 with a
16 Bachelor of Science degree in Economics, *magna cum laude*, and from Harvard
17 Business School in 1986 with a Masters of Business Administration degree, *with*
18 *honors*. I began my working career with Strategic Planning Associates (“SPA”), a
19 management consulting firm, in 1982, as a Research Analyst. I left SPA in 1984 to

¹Gulf Power was merged into Florida Power & Light Company on January 1, 2021, but remains a separate ratemaking entity. On January 11, 2021, pursuant to Rule 25-9.044, F.A.C., FPL submitted a notice of the change in ownership of Gulf Power effective January 1, 2021 and FPL’s adoption and ratification of Gulf Power’s existing rates and tariffs on file with the Commission. FPL adopts the petition filed by Gulf Power in this docket.

1 attend business school, returned as an Associate in 1986, and was promoted several
2 times, becoming Vice President in 1994. In 1995, I joined Campbell Soup Company
3 as Director, Strategic Planning, and became Vice President and Chief Financial Officer
4 of Vlasic Foods International, a company spun-off from Campbell, in 1998. I
5 subsequently held the Chief Financial Officer position for several companies, including
6 The Great Atlantic & Pacific Tea Company, Nice-Pak Products and Clear Channel
7 Radio, before joining NextEra Energy in 2011 as Vice President, Finance, for the
8 company's Nuclear division. I assumed my current responsibilities in January 2019.

9 **Q. Are you sponsoring any exhibits in this case?**

10 A. Yes, I am sponsoring Exhibit MG-1, which shows Gulf Power's COVID costs by
11 category, broken out by the amounts incurred through February 2021 and the amounts
12 forecasted to be incurred the remainder of 2021, based on Gulf Power's most recent
13 forecast.

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

15 A. The purpose of my testimony is to support the amount of incremental costs, less savings,
16 Gulf Power has incurred and reasonably anticipates incurring, associated with the
17 COVID-19 pandemic through December 31, 2021. This includes how Gulf Power has
18 accounted for these costs as a regulatory asset as well as calculations for determining
19 incremental bad debt expense. In addition, I provide background on the extraordinary
20 and unprecedented nature of the COVID-19 pandemic and highlight the actions Gulf
21 Power undertook to support its customers and protect its employees and contractors
22 from the impacts of the virus.

23

1 **II. BACKGROUND**

2

3 **Q. What are the circumstances giving rise to Gulf Power’s petition in this matter?**

4 A. In late 2019, a severe outbreak of the Novel Coronavirus Disease 2019, or COVID-19,
5 began. Since the beginning of the outbreak, COVID-19, has spread internationally and
6 to all 50 U.S. states. COVID-19’s severity and transmissibility caused the World Health
7 Organization to classify COVID-19 as a pandemic.

8

9 The State of Florida undertook numerous actions to reduce the virus’ impact on its
10 residents. On March 1, 2020, Governor Ron DeSantis issued Executive Order number
11 20-51, directing the State Health Officer and Surgeon General to declare a public health
12 emergency, and on March 9, 2020, the Governor issued Executive Order number 20-
13 52 declaring the existence of a state of emergency in the State of Florida. On April 1,
14 2020, Governor DeSantis issued Executive Order number 20-91 (the “Safer at Home
15 Executive Order”), requiring that “all persons in Florida shall limit their movements
16 and personal interactions outside of their home to only those necessary to obtain or
17 provide essential services or conduct essential activities.” The state of emergency has
18 been extended by executive order (currently through April 2021).

19 **Q. Please explain the measures Gulf Power took to assist its customers in response to**
20 **the pandemic.**

21 A. Gulf Power took numerous steps in assisting its customers with the impact of the
22 pandemic. Among those many actions are the following:

- 1 • Gulf Power suspended customer disconnections for nonpayment from March 17,
2 2020 through mid-November 2020.
- 3 • Gulf Power received Florida Public Service Commission (“Commission”)
4 approval to implement a one-time decrease of approximately 40% for the typical
5 residential customer bill in May 2020, as an accelerated return of an expected
6 fuel over-recovery. Most business customers experienced a 40-50% decrease in
7 their total bill.
- 8 • The Gulf Power Foundation made a \$500,000 donation to the three United Way
9 organizations serving our region.
- 10 • The Gulf Power Economic Development Trust Fund contributed more than
11 \$450,000 to the Northwest Florida Small Business COVID-19 Recovery Grant
12 Program.
- 13 • Gulf Power made a \$100,000 donation to Project SHARE, which is a program
14 administered by the Salvation Army that helps its customers pay their utility
15 bills.

16 **Q. What were the effects of Gulf Power’s decision to suspend customer disconnects?**

17 A. As I mentioned, Gulf Power’s suspension of customer disconnects remained in place
18 for over eight months, which had the effect of dramatically increasing Gulf Power’s
19 accounts receivable. For example, Gulf Power’s accounts receivable on November 28,
20 2020, shortly following the resumption of disconnects, was \$103 million, which is 36%
21 higher than the balance of \$76 million on December 31, 2019. Even more impactful
22 was the increase in bills aged over 60 days, which rose 10-fold from \$2 million on
23 December 31, 2019 to \$23 million on November 28, 2020. This 10-fold increase in

1 accounts receivable aged over 60 days demonstrates the unprecedented and
2 extraordinary nature of COVID-19, the effects of which were not anticipated or
3 accounted for in base rates.

4
5 With the resumption of disconnects since November, the level of receivables aged over
6 60 days has declined to \$19 million as of February 28, 2021. This change is reflected
7 in the current reserve for uncollectible accounts receivable, the current bad debt
8 expense and the 2021 forecast incremental bad debt expense noted in Exhibit MG-1.

9 **Q. Please explain the measures Gulf Power took to address safety as a result of**
10 **COVID-19.**

11 A. Gulf Power also undertook and continues to undertake safety-related actions to ensure
12 its employees, contractors, and customers are protected from COVID-19. To this end,
13 Gulf Power has obtained materials and equipment to limit the potential spread of
14 COVID-19 and has implemented a variety of practices at its facilities based on
15 recommendations from the United States Centers for Disease Control and Prevention
16 and Florida Department of Health. I provide further details about these efforts and their
17 costs later in my testimony.

18 **Q. Please explain why Gulf Power requested the establishment of a regulatory asset**
19 **in this proceeding.**

20 A. Although Gulf Power was able to implement various measures to assist its customers
21 during the pandemic, Gulf Power has incurred incremental operating costs that were
22 not contemplated when base rates were last reset. Therefore, due to this unique and
23 extraordinary event beyond Gulf Power's control, Gulf Power petitioned for deferral

1 of the incremental operating costs and to seek recovery through rates at a later time.
2 Gulf Power's request was preliminarily approved by the Commission in Order No.
3 PSC-2020-0406-PAA-EI, issued October 27, 2020, which is the subject of the Office
4 of Public Counsel's protest petition.

5

6

III. COVID-19 REGULATORY ASSET

7

8 **Q. What operating costs are being recorded by Gulf Power into the COVID-19**
9 **regulatory asset?**

10 A. Gulf Power has incurred two types of costs due to the impacts of COVID-19: 1)
11 incremental bad debt expense and 2) incremental operating costs to preserve the health
12 and safety of its employees, contractors and customers. Both types of costs are being
13 deferred in Account 182.3, Other Regulatory Assets.

14 **Q. Please explain how Gulf Power calculated the incremental bad debt expense**
15 **attributable to COVID-19.**

16 A. For those months which have been completed (April 2020 through February 2021), to
17 determine the incremental bad debt expense related to COVID-19 each month, we
18 compared the actual bad debt expense for that month to the average bad debt in the
19 corresponding month in the three preceding years (2017, 2018, 2019). The difference
20 between these amounts is the incremental bad debt expense for that month (*e.g.*,
21 incremental bad debt expense for April 2020 would be the total bad debt expense for
22 that month less the three-year average of April 2017, 2018 and 2019).

23

1 For months which are not yet completed and for which we have forecasted costs (March
2 2021 through December 2021), we forecasted the bad debt expense expected for each
3 month, based on the most recent information available following the end of February
4 2021. To determine the incremental bad debt expense for these months, we compared
5 the forecast of bad debt expense for each month to the average bad debt in the
6 corresponding month during 2017, 2018 and 2019, and the difference between these
7 amounts is the incremental bad debt expense forecasted for that month

8

9 For the months of 2020, we made one adjustment to the above calculation of
10 incremental bad debt expense. During 2020, Gulf Power implemented a new Customer
11 Account Management System (“CAMS”) and suspended customer disconnects during
12 the transition to the new system (January through March 2020). As such, pre-COVID,
13 Gulf Power anticipated an increase to historic levels of bad debt expense due to this
14 brief suspension of disconnects. Thus, as more specifically explained below, Gulf
15 Power reduced the amount recorded to the COVID-19 regulatory asset by \$71,853 each
16 month during 2020 due to the suspension of customer disconnects that occurred during
17 Gulf Power’s CAMS implementation. This adjustment does not apply in 2021 because
18 the CAMS implementation was completed in early 2020.

19 **Q. Please explain how Gulf Power accounted for the reduction in the COVID-19**
20 **regulatory asset related to the CAMS.**

21 A. Prior to the onset of COVID-19, Gulf Power upgraded its customer billing and
22 communication system, completing the implementation of CAMS during February
23 2020. During the final implementation phase, beginning January 2020, customer

1 disconnects were suspended, with the plan that disconnects would be restarted at the
2 end of March 2020.

3
4 Gulf Power anticipated this pre-COVID-19 disconnect suspension would increase bad
5 debt expense for the full year of 2020 to \$4,439,337, an increase of \$862,231 over the
6 2017-2019 three-year average of \$3,577,105. Therefore, Gulf Power reduced the
7 monthly amount of incremental bad debt expense recorded in the COVID-19 regulatory
8 asset in 2020 by \$71,853, which is an average monthly amount based on the estimated
9 full year increase of \$862,231.

10 **Q. Please explain what types of operating costs comprise Gulf Power's safety-related**
11 **COVID-19 costs.**

12 A. As I mentioned, Gulf Power has undertaken and continues to undertake significant
13 actions, and incur related costs, to preserve the health and safety of its employees,
14 contractors, and customers. These safety-related actions have included: (1) monitoring
15 the health and body temperatures of employees and contractors at its generating
16 facilities, major field locations, and offices; (2) testing employees for COVID-19 and
17 antibodies; (3) making modifications to facilities such as restrooms, break areas, and
18 office configurations to ensure clean, sanitary, and touch free access; (4) obtaining
19 personal protective equipment such as masks and gloves; and (5) signage on buildings
20 and trucks to encourage social distancing and other COVID-related safety protocols.

21 **Q. Are there any COVID-related cost savings Gulf Power has recorded to the**
22 **COVID-19 regulatory asset?**

23 A. Yes. Gulf Power has reduced the COVID-19 regulatory asset by achieved savings in

1 travel and meals expenses and in medical expenses.

2 **Q. Has Gulf Power received any government assistance for COVID-19 costs?**

3 A. No. Gulf Power has not received any government assistance for COVID-19 costs.

4 **Q. When did Gulf Power begin recording amounts to the COVID-19 regulatory**
5 **asset?**

6 A. As approved by the Commission in Order No. PSC-2020-0406-PAA-EI, COVID-19-
7 related costs and savings incurred after April 1, 2020 have been recorded to the
8 COVID-19 regulatory asset. Such amounts have been reported to the Commission in
9 a schedule included along with Gulf Power's monthly earnings surveillance reports,
10 beginning in July 2020.

11 **Q. What is the current amount of the COVID-19 regulatory asset?**

12 A. As of February 28, 2021, the amount of the COVID-19 regulatory asset is \$17.6
13 million, representing incremental bad expense and COVID-19-related operating
14 expenses, reduced by savings for travel and meals expenses, as explained above.
15 During March 2021, Gulf Power reviewed the status of savings on medical expenses
16 achieved between April 2020 and February 2021. These savings were initially
17 anticipated to be due to changes in timing, with the likelihood that such costs would
18 increase in early 2021. Since no increase has occurred to date, Gulf Power made an
19 entry in March 2021 to reduce the amount deferred to the COVID-19 regulatory asset
20 by \$1.6 million, based on the savings achieved each month versus the planned expense
21 for that month. Such reduction is reflected in Exhibit MG-1 as a savings in total costs
22 incurred to date.

23

1 **Q. When does Gulf Power propose to cease deferring amounts to the COVID-19**
2 **regulatory asset?**

3 A. Gulf Power proposes to cease deferring amounts to the COVID-19 regulatory asset on
4 December 31, 2021, based on Gulf Power's forecast that the most significant impacts
5 of COVID-19 will be concluded at that time, with accounts receivable and bad debt
6 returning to historic levels and less need for the strict COVID operating protocols now
7 in place.

8 **Q. What is the total amount of COVID-related cost that Gulf Power is proposing to**
9 **defer?**

10 A. As shown on Exhibit MG-1, Gulf Power's current forecast is that it will defer \$20.7
11 million through the end of 2021. This forecast is updated as of early March, based on
12 actual results through February 2021 and the current outlook for the remainder of 2021.
13 Gulf Power's outlook for forecasted safety-related costs and for COVID-related cost
14 savings is informed by Gulf Power's 12 months of experience handling and anticipating
15 COVID-related costs, and at this point in the pandemic are largely ascertainable. Gulf
16 Power's outlook for forecasted incremental bad debt expense is based on Gulf Power's
17 decades of experience in forecasting bad debt expense in light of current levels and
18 aging of accounts receivable and economic forecasts. While economic forecasts are
19 never certain and cannot be guaranteed, the anticipated COVID-related bad debt costs,
20 like the safety-related costs, are also somewhat ascertainable now.

21 **Q. How does Gulf Power propose to recover the COVID-19 regulatory asset from**
22 **customers?**

23 A. As discussed in FPL witness Fuentes's testimony filed in Docket No. 20210015-EI,

1 recovery of the COVID-19 regulatory asset is requested over a four-year period as part
2 of its the base rate adjustment beginning in 2022.

3 **Q. How does Gulf Power propose to incorporate the outcome of the COVID-19**
4 **regulatory asset in this proceeding into Docket No. 20210015-EI?**

5 A. Gulf Power has requested in the 20210015-EI docket that the Commission incorporate
6 its decision in this proceeding before the record is closed in Docket No. 20210015-EI.

7 **Q. If the Commission determines that any portion of prudently incurred COVID-19**
8 **costs should not be deferred as a regulatory asset, how does Gulf Power propose**
9 **to record those costs?**

10 A. If the Commission determines that any portion of the prudently incurred COVID-19
11 costs should not be deferred as a regulatory asset, then Gulf Power proposes to record
12 those costs to above-the-line operations and maintenance expense.

13 **Q. Does this conclude your direct testimony?**

14 A. Yes.

Gulf Power Company
COVID-19 Related Costs (\$000)

<u>Cost category</u>	<u>Total incurred: April 2020 to February 2021</u>	<u>Forecasted costs: March 2021 to December 2021</u>	<u>Total COVID- related costs</u>
Incremental Bad Debt expense	\$15,014	\$3,936	\$18,950
<u>Safety Related Costs:</u>			
Testing	\$1,189	\$824	\$2,013
Personal Protective Equipment	\$689	\$400	\$1,089
Temperature Screening	\$1,021	\$0	\$1,021
Facilities Upgrades/Cleaning	\$516	\$131	\$647
Other	\$16	\$0	\$16
Total Safety Related Costs	\$3,431	\$1,354	\$4,785
Total COVID-19 Costs	\$18,445	\$5,290	\$23,735
Less: Savings in Travel and Meal Expenses	(\$831)	(\$590)	(\$1,421)
Less: Savings in Medical Expenses ⁽¹⁾	(\$1,627)	\$0	(\$1,627)
Total Regulatory Asset	\$15,987	\$4,700	\$20,687

(1) -- Savings of \$1,627,000 are shown in the column for "Total Incurred" costs because they reflect savings achieved between April 2020 and February 2021. The accounting entry reflecting this savings was made during March 2021 following review of Medical Expenses.

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **GULF POWER COMPANY**

3 **DIRECT TESTIMONY OF J. TERRY DEASON**

4 **DOCKET NO. 20200151-EI**

5 **APRIL 2, 2021**

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

I. INTRODUCTION.....3

II. COVID PANDEMIC AND EFFECTS ON UTILITIES4

III. ESTABLISHMENT OF A REGULATORY ASSET6

IV. GUIDING COMMISSION POLICY AND PRECEDENT.....8

1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Terry Deason. My business address is 4377 NW Torreya Park Road,
5 Bristol, Florida 32321.

6 **Q. By whom are you employed and in what capacity?**

7 A. I am self-employed as an independent consultant specializing in the fields of
8 energy, telecommunications, water and wastewater, and public utilities
9 generally.

10 **Q. Please describe your educational background and professional experience.**

11 A. I have more than 43 years of experience in the field of public utility regulation
12 spanning a wide range of responsibilities and roles. I served a total of seven
13 years as a consumer advocate in the Florida Office of Public Counsel (“OPC”)
14 on two separate occasions. In that role, I testified as an expert witness in
15 numerous rate proceedings before the Florida Public Service Commission
16 (“Commission”). My tenure of service at OPC was interrupted by six years as
17 Chief Advisor to Florida Public Service Commissioner Gerald L. Gunter. I left
18 OPC as its Chief Regulatory Analyst when I was first appointed to the
19 Commission in 1991. I served as Commissioner on the Commission for 16
20 years, serving as its chairman on two separate occasions. Since retiring from the
21 Commission at the end of 2006, I have been providing consulting services and
22 expert testimony on behalf of various clients, including public service
23 commission advocacy staff, county and municipal governments, and regulated

1 utility companies. I have also testified before various legislative committees on
2 regulatory policy matters. I hold a Bachelor of Science Degree in Accounting,
3 summa cum laude, and a Master of Accounting, both from Florida State
4 University.

5 **Q. For whom are you appearing as a witness?**

6 A. I am appearing as a witness for Gulf Power Company (“Gulf Power”).¹

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

8 A. The purpose of my testimony is to support the use of a regulatory asset approach
9 to appropriately address the net incremental bad debt and safety-related cost
10 increases associated with the COVID-19 pandemic (the “COVID Costs”). I do
11 this from an overall regulatory policy perspective. Gulf Power Witness
12 Goldstein will address specific amounts and accounting entries pertaining to the
13 associated regulatory asset.

14

15 II. COVID PANDEMIC AND EFFECTS ON UTILITIES

16

17 **Q. At a national level, what financial impact has the COVID-19 pandemic had on**
18 **utilities?**

19 A. The pandemic has caused significant adverse financial impacts across the entire

¹ Florida Power & Light Company (“FPL”) and Gulf Power were merged legally on January 1, 2021, but Gulf Power continues to exist as a separate ratemaking entity. On January 11, 2021, pursuant to Rule 25-9.044, F.A.C., FPL submitted a notice of the change in ownership of Gulf Power effective January 1, 2021 and FPL’s adoption and ratification of Gulf Power’s existing rates and tariffs on file with the Commission.

1 economy, including utilities. A cursory review of regulatory proceedings across the
2 country involving utilities reveals a sweeping need to address these impacts.

3 **Q. Have those impacts been felt by Florida utilities, as well?**

4 A. Yes, Florida utilities are not immune to these impacts.

5 **Q. What sort of impacts have Florida utilities incurred due to the pandemic?**

6 A. The impacts generally fall into one of two major categories. The first, which I will call
7 financial impacts, include such things as increased financial uncertainty, lost revenues,
8 and increased bad debts. The second, which I will call operational impacts, include
9 increased costs incurred to protect customers, employees, and the public generally from
10 the spread of the COVID-19 virus and to maintain reliable service to customers. These
11 costs would include the cost of such things as personal protective equipment, enhanced
12 sanitation efforts, and increased security measures.

13 **Q. If no recording mechanism such as a regulatory asset is established, what would
14 be the impact on Gulf Power?**

15 A. Gulf Power's current rates were not set to recover such unanticipated increased costs.
16 As such, these costs will not ever be recovered in rates unless they are identified and
17 booked into a regulatory asset. Even booking them into a regulatory asset does not
18 insure their ultimate recovery. It does, however, provide a tool to enable eventual
19 recovery, should the Commission so decide. It should also be noted that some adverse
20 financial impacts, such as increased financial uncertainty and lost revenues, will be
21 manifest regardless of whether a regulatory asset is created. This is another reason why
22 it is so imperative that a regulatory asset is approved for the COVID Costs.

1 **Q. Not every utility in Florida has requested the establishment of a regulatory asset**
2 **for these costs. Should this have any bearing on Gulf Power’s request to establish**
3 **a regulatory asset?**

4 A. No. Each utility is different in its circumstances, including such things as rate cases and
5 settlements. As such, a decision by one utility to not seek a regulatory asset should not
6 be used as an indication that another utility, such as Gulf Power, is not needful of a
7 regulatory asset.

8

9 **III. ESTABLISHMENT OF A REGULATORY ASSET**

10

11 **Q. What is the Commission’s authority to allow for the creation of a regulatory asset?**

12 A. Essentially all Commission authority is derived from Florida Statutes and Court
13 decisions impacting the interpretation and implementation of those statutes over time.
14 Under Florida Statutes, the Commission is enabled to liberally construe its authority to
15 regulate in the public interest. As such, the Commission has significant discretion in
16 establishing fair and reasonable rates and certainly can exercise its discretion to create a
17 regulatory asset where it is appropriate to do so.

18 **Q. Under what circumstances has the Commission exercised its discretion to**
19 **establish regulatory assets?**

20 A. The Commission has the authority and responsibility to set rates that are fair and
21 reasonable to both customers and investors. In so doing, the Commission has created
22 regulatory assets when they are required or otherwise facilitate rates that are fair and
23 reasonable. The Commission has created regulatory assets for various reasons, such as

1 situations which have caused unexpected increase in costs (often caused by major events
2 outside of management's control). The Commission has also used regulatory assets to
3 accumulate known cost increases that should be recovered but are difficult to quantify
4 and may exist for an unknown duration. And in other situations, the Commission has
5 used regulatory assets to spread costs over several years to mitigate adverse impacts in
6 any one year. Often regulatory assets are created for all or a combination of the
7 situations I just described.

8 **Q. Are the costs that Gulf Power has incurred due to the pandemic appropriate for**
9 **recording into a regulatory asset?**

10 A. Yes. These costs are resulting from a major unanticipated event beyond management's
11 control. A regulatory asset is an appropriate regulatory tool to segregate and tabulate
12 these costs for future consideration and to spread them over a reasonable number of
13 years to help mitigate their impact on customers.

14 **Q. What does the creation of a regulatory asset for the COVID Costs accomplish?**

15 A. It creates an appropriate mechanism to identify and tabulate the cost increases and to
16 report them to the Commission periodically. It further allows a mechanism for the
17 Commission to evaluate these costs for possible inclusion in rates at a future time and
18 over an appropriate period.

19 **Q. Does the recording of costs to a regulatory asset ensure a utility will eventually**
20 **recover the amounts recorded?**

21 A. No. The utility must still demonstrate that the increased costs are reasonable in nature
22 and amount. The Commission retains its full authority to review the costs for their
23 reasonableness and prudence before they are ever reflected in rates to customers. Gulf

1 Power witness Goldstein addresses the reasonableness and prudence of the COVID
2 Costs addressed in Gulf Power's request to establish a regulatory asset.

3

4 **IV. GUIDING COMMISSION POLICY AND PRECEDENT**

5

6 **Q. Is the request of Gulf Power to establish a regulatory asset for the COVID Costs**
7 **consistent with Commission policy and precedent?**

8 A. Yes, Gulf Power's COVID-19 request is consistent with prior Commission decisions.
9 First, the increase in costs is being caused by a major event outside of management's
10 control. And, secondly, the regulatory asset allows a prudency review by the
11 Commission in this docket and further enables any approved costs to be spread over an
12 appropriate period.

13 **Q. Given your long tenure on the Commission, did you ever experience an event**
14 **similar to the COVID-19 pandemic?**

15 A. Yes, the terrorist attacks on September 11, 2001 come to mind. Like the COVID-19
16 pandemic, these attacks negatively impacted the entire country and resulted in
17 significant unforeseen cost increases for utilities in the form of increased security costs
18 at nuclear power plants. And like efforts to prevent the spread of the virus, preventing
19 attacks on nuclear power plants was seen to be a matter of national interest and great
20 public concern.

21 **Q. How did the Commission address the increased security costs at nuclear power**
22 **plants?**

23 A. The Commission recognized that increasing security at nuclear power plants was in the

1 public interest and authorized a mechanism to allow for recovery of the unforeseen cost
2 increases.

3 **Q. Did the mechanism to allow for cost recovery include the use of a regulatory asset?**

4 A. No, the Commission used a more immediate form of cost recovery through the fuel and
5 purchased power adjustment clause. The Commission used the fuel adjustment clause
6 because of the linkage between keeping nuclear power plants online and saving fuel
7 costs. Had it not been for this linkage, in my opinion the Commission would have
8 considered and in all likelihood would have authorized the creation of a regulatory asset
9 for these costs. This is because the two approaches are analogous.

10 **Q. How are they analogous?**

11 A. First, both events reflect an event beyond management's control that could not have
12 been reasonably anticipated when base rates were last set and, therefore, should be
13 viewed as necessary and prudent costs recoverable by the utility. Second, they both
14 involve the recovery of costs incurred to prevent further negative outcomes of great
15 public concern. Here, the Commission should recognize that customers benefit from a
16 utility's proactive steps to respond to an emergency event and maintain reliable service,
17 in this case the COVID-19 pandemic. Incremental cost recovery of reasonable
18 incremental COVID-19 costs furthers this policy and provides regulatory stability for
19 utilities that must respond to such unforeseen events. And third, they both implemented
20 a mechanism to identify, tabulate, and report the associated costs. The only difference
21 is that the nuclear security costs were subject to a true-up via the inherent workings of
22 the fuel adjustment clause, while the COVID-19 costs will be "trued-up" when there is
23 a request to include them in base rates. It should also be noted that the increased nuclear

1 security costs were eventually allowed to be included in base rates and were taken out
2 of the fuel adjustment clause.

3 **Q. Did the Commission recognize that the nuclear security costs were not clearly**
4 **defined at the time of their initial inclusion in the fuel adjustment clause?**

5 A. Yes. Even though they were not clearly defined at the time, the Commission determined
6 it was important to send an expeditious and appropriate message to Florida's utilities.

7 **Q. What was the message delivered by the Commission?**

8 A. The message was that the Commission encourages utilities to protect their generation
9 assets in extraordinary emergency conditions.

10 **Q. Will the approval of Gulf Power's request to create a regulatory asset for the**
11 **COVID Costs also send a message?**

12 A. Yes. It will send the message that the Commission encourages its utilities to
13 expeditiously take all reasonable steps in an emergency situation to protect customers,
14 employees, and contractors, and to continue to provide customers with reliable service.
15 This encouragement would be evidenced by the fact that all reasonable costs will
16 eventually be eligible for review and potentially allowed to be recovered in rates.

17 **Q. Is there any harm done to Gulf Power or its customers by denying Gulf Power's**
18 **request to establish a regulatory asset for the COVID-19 costs?**

19 A. Yes, in addition to those consequences mentioned by Gulf Power Witness Goldstein,
20 Gulf Power would be denied cost recovery for doing the right thing for its customers
21 and employees. This would send the message that the Commission does not support
22 utilities expeditiously taking all reasonable steps to protect customers and to continue to
23 provide reliable service to customers in an emergency situation.

1 **Q. What do you mean by doing the right thing?**

2 A. I am referring to the steps Gulf Power took to prevent the spread of the virus, to continue
3 to provide reliable service, and steps taken to assist customers facing hardships due to
4 the pandemic. These measures were taken even though the resulting increased costs
5 were not budgeted and not included in rates. Actions taken to directly assist customers
6 included the temporary suspension of disconnections for nonpayment, the accelerated
7 flow-back of fuel cost savings, and increased customer outreach and facilitation of
8 access for customers to resources for assistance.

9 **Q. Does this conclude your direct testimony?**

10 A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of a regulatory asset to) Docket No.: 20200151-EI
record costs incurred due to COVID-19,)
by Gulf Power Company)
)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by electronic mail this 2nd day of April, 2021 to the following:

Office of Public Counsel
Richard Gentry
Stephanie A. Morse
Patricia A. Christensen
Anastacia Pirrello
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400
gentry.richard@leg.state.fl.us
morse.stephanie@leg.state.fl.us
christensen.PATTY@leg.state.fl.us
pirrello.anastacia@leg.state.fl.us

Office of the General Counsel
Jennifer Crawford
Samantha Cibula
Shaw Stiller
2540 Shumard Oak Blvd
Tallahassee, FL 32399-0850
jcrawfor@psc.state.fl.us
scibula@psc.state.fl.us
sstiller@psc.state.fl.us

Dean Mead Law Firm
Martin S. Friedman
420 S. Orange Ave., Suite 700
Orlando FL 32801
mfriedman@deanmead.com

Gunster Law Firm
Beth Keating
215 South Monroe Street, Suite 601
Tallahassee FL 32301
bkeating@gunster.com

Florida Public Utilities Company
Mr. Mike Cassel
208 Wildlight Ave.
Yulee FL 32097
mcassel@fpuc.com

By: /s/ Joel T. Baker
Joel T. Baker