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May 7, 2021

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

Re: Consolidated Docket No. 20200151-WS, 20200189-WS & 20200194-PU

Dear Mr. Teitzman,

Please find enclosed for filing in the above referenced docket the Direct Testimony and Exhibits of Daniel J. Lawton. This filing is being made via the Florida Public Service Commission's Web Based Electronic Filing portal.

If you have any questions or concerns; please do not hesitate to contact me. Thank you for your assistance in this matter.

Sincerely,

/s/Stephanie A. Morse
Stephanie A. Morse
Associate Public Counsel

cc: All Parties of Record

CERTIFICATE OF SERVICE
DOCKET NO. 20200151-EI, 20200189-WS & 20200194-PU

I HEREBY CERTIFY that a true and correct copy of the foregoing Citizens' Direct Testimony of Daniel J. Lawton has been furnished by electronic mail on this 7th day of May, 2021, to the following:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of a regulatory asset to record costs incurred due to COVID- 19, by Gulf Power Company.	DOCKET NO. 20200151-EI
In re: Petition for approval of a regulatory asset to record costs incurred due to COVID- 19, by Utilities, Inc. of Florida.	DOCKET NO. 20200189-WS
In re: 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.	DOCKET NO. 20200194-PU FILED: May 7, 2021

DIRECT TESTIMONY

OF

DANIEL J. LAWTON

ON BEHALF OF THE CITIZENS OF THE STATE OF FLORIDA

Richard Gentry
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Exhibits

DIRECT TESTIMONY OF

DANIEL J. LAWTON

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

20200151-EI, 20200189-WS & 20200194-PU

SECTION I: INTRODUCTION

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Daniel J. Lawton. My business address is 12600 Hill Country Boulevard, Suite R-275, Austin, Texas 78738.

Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I have been working in the utility consulting business as an economist since 1983. My consulting engagements have included electric utility load and revenue forecasting, cost of capital analyses, financial analyses, revenue requirements/cost of service reviews, regulatory policy issues, and rate design analyses in litigated rate proceedings before federal, state and local regulatory authorities, and in court proceedings. I have worked with numerous municipal utilities developing electric rate cost of service studies for reviewing and setting rates. In addition, I have a law practice based in Austin, Texas. My main areas of legal practice include administrative law representing municipalities in electric and gas rate proceedings and other litigation and contract matters. I have included a brief description of my relevant educational background and professional work experience in Exhibit DJL-1.

Q3. HAVE YOU PREVIOUSLY FILED TESTIMONY IN RATE PROCEEDINGS?

A. Yes, I have, including a number of cases before the Florida Public Service Commission. A list of cases where I have previously filed testimony is included in Exhibit DJL-1. In these prior rate proceedings, I have addressed deferred accounting issues and the impact of the accounting requirements in the rate process.

A. BACKGROUND

Q4. ON WHOSE BEHALF ARE YOU FILING TESTIMONY IN THIS PROCEEDING?

A. I am filing expert testimony on behalf of the Office of the Public Counsel ("OPC"), which retained me to review and analyze the deferred accounting requests filed by the various Petitioners in consolidated Docket Nos. 20200151-EI, 20200189-WS, and 20200194-PU. The Petitioners whose requests I will be addressing in this testimony are Gulf Power Company ("Gulf"), and the companies I collectively refer to in this testimony as Florida Public Utility Company ("FPUC"), i.e., Florida Public Utility Company (Electric Division), Florida Public Utilities Company (Gas Division), Florida Public Utilities Company – Indiantown (Gas Division), Florida Public Utilities Company – Ft. Meade (Gas Division), and Florida Division of Chesapeake Utilities

Corporation. [1]

Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony in this proceeding is to address the alleged economic justification and potential regulatory policy impacts of the deferred accounting requests in these dockets. I will address each of the requested deferral amounts, earnings levels, and offsetting savings. In addition, as to each utility, I will address the deferral request as part of the business risk incorporated in the authorized equity return, the Company's financial integrity, and cash flow issues related to return and risk.

Q6. WHAT MATERIALS DID YOU REVIEW AND RELY ON FOR THIS TESTIMONY?

A. I have reviewed prior orders of the Florida Public Service Commission ("Commission" or "PSC"), the Petitioner's prior filings, Direct Testimony in these dockets, historical Earnings Surveillance Reports, other testimony and supporting schedules from other cases, depositions in this docket, Petitioner's responses to discovery requests, financial reports and other financial information available in the public domain. When relying on various sources, I have referenced such sources in my testimony and/or attached Exhibits and included copies or summaries in my exhibits and/or work papers.

[1] On or about March 30, 2021 Petitioner Utilities Inc. of Florida ("UIF") filed a Notice of Voluntary Dismissal Without Prejudice seeking to end its participation in this proceeding. At this time, the PSC has not issued an order regarding UIF's Notice. This testimony does not address UIF's petition.

B. SUMMARY

Q7. WHAT STANDARDS SHOULD THE COMMISSION EMPLOY IN DECIDING WHETHER TO AUTHORIZE DEFERRED ACCOUNTING AND THE CREATION OF REGULATORY ASSETS IN THIS CASE?

A. Before authorizing deferred accounting some basic standards or rules of the road should be considered. I have identified three basic standards or requirements that go into the balance of the decision on deferred accounting. These three types of standards are: i) accounting requirements, ii) financial integrity requirements, and iii) the equity balance between customers and shareholder interest that all regulatory authorities must constantly weigh and evaluate.

By employing these three standards or guidelines, the Commission avoids permitting deferred accounting and the creation of regulatory assets without limitation. The regulatory authority should seek to avoid creating the expectation by regulated utilities that these unusual balances and expenses are always recoverable and part of the everyday regulatory process. The goal of the guidelines and standards is to avoid the normalization of a piecemeal, single-issue one-way approach.

Once rates are established through the test year ratemaking process, revenues, expenses, and investment will change through time, but the original rates stay in place until changed in the next rate case. Deferred accounting and the creation of a regulatory asset is not strictly a rate case proceeding, but rather it is an accounting procedure and is a “single-issue” or “piecemeal” process. In this case, the subject utilities identified COVID-19 expenses that they contend were not previously included in revenue requirements or rates, along with a limited number of offsets (savings), to estimate an incremental COVID-19 expense deferral and creation of regulatory asset for future recovery. By eliminating the current expensing of these COVID-19 amounts (deferring to a regulatory asset for future expensing and collection), the utility’s current year financials and equity return are boosted. Nothing could be more single issue or piecemeal.

But a deferred accounting order will carry with it a general presumption that the deferred costs, if prudent, are entitled to full recovery in rates (including the time value of money). The Commission’s assurance of the probability of recovery of a deferral is an important factor underlying the recognition of deferred accounting. Given the assurance of recovery requirement, the Commission should consider the total utility position, not just increased costs. For example, during 2020, Gulf had base O&M savings well over $30 million.[2] These savings in O&M more than offset Gulf’s requested deferral.

Obviously, it makes no sense to issue a deferred accounting order every time an expense or revenue item is different than anticipated in the rate setting process. Gulf could have filed a deferred accounting order request to share Gulf’s O&M savings with

[2] See NextEra Energy Website, Investor Relations, 4th Quarter and 2020 Results, Presentation, and Remarks 1/26/2021 at page 17. Base O&M savings were the primary driver of approximately 2 cents per share growth. 1.98333 billion shares times $0.02 per share.

customers, but the Company did not make such a filing to share savings. Now, the Commission has the opportunity to consider these O&M savings at Gulf as part of the COVID-19 deferred accounting request. Deferred accounting cannot be the answer merely because a utility requests a cost increase. Deferred accounting should not be a one-way street.

1. GULF SUMMARY

Q8. PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS RELATED TO GULF'S PETITION FOR APPROVAL OF A REGULATORY ASSET.

A. Gulf's request for deferred accounting and the creation of "regulatory assets" and future amortization and collection of these deferred assets is not appropriate for several reasons and should be denied.

First, the requested COVID-19 related deferred accounting requests may not satisfy the materiality requirements of the Uniform System of Accounts ("USOA"), and if the Commission determines the request is not material, the Gulf request should be denied.[3]

Second, the deferral of these COVID-19 costs and the creation of regulatory assets is not necessary to maintain profits and financial integrity for Gulf, and all efforts to defer COVID-19 costs and create regulatory assets should cease until proven necessary.

[3] 18 CFR Part 101 General Instruction 7 "Extraordinary Items."

Third, the COVID-19 costs provided by Gulf fail to identify any standards for approval, instead Gulf merely requested out of period costs solely because such costs are not included in existing rates.

Fourth, Gulf like any regulated public utility, should be treated like **all** other businesses in terms of business risks. As business expenses and/or revenues rise and fall due to exogenous factors, shareholders bear the **business risk** in exchange for a previously authorized return and profit in a monopoly setting.

Based on the above findings, I recommend that the Commission deny Gulf' request for a COVID-19 related accounting deferral order and deny the request for a COVID-19 regulatory asset. The Gulf request provides nothing more than enhanced shareholder profits. Most importantly, Gulf's request fails to balance the benefits and burdens between the customers and shareholders. Instead, under Gulf's request, customers bear all burdens while shareholders capture all benefits.

Q9. DOES GULF'S DEFERRED ACCOUNTING REQUEST MEET THE ACCOUNTING STANDARDS?

A. Under most estimates of COVID-19 costs, Gulf meets the materiality standard. The COVID-19 costs are i) unusual and ii) infrequent costs that were not previously recognized or included in rates. But the incremental COVID-19 expense (which includes offsets) is overstated for 2020. Given the issue with COVID-19 bad debt estimates discussed below, the 5 percent materiality threshold is met in the evaluations.

As I also discuss below, Gulf's financial integrity is not harmed; therefore, it is not important whether the preliminary accounting standards are ultimately met, as Gulf's financial integrity and profits are maintained without deferred accounting for COVID-19 costs, and so Gulf's Petition ultimately fails, regardless of the fact that the subject costs are unusual, infrequent, or not specifically identified in the last base rate case test year.

Q10. IS DEFERRED ACCOUNTING NECESSARY FOR GULF TO MAINTAIN FINANCIAL INTEGRITY?

A. No deferred accounting is not necessary for Gulf to maintain its financial integrity. In terms of earnings, in 2020 Gulf's equity return exceeds the midpoint of the authorized level. Earnings in 2021 are projected to exceed 2020 levels. During 2021, Gulf is in the midst of a base rate case as part of Florida Power & Light Company ("FPL"), where all costs and revenues will be reviewed to set rates and profit levels for 2022 and beyond.

Q11. DID RATING AGENCIES ADDRESS THE GULF POWER FINANCIAL INTEGRITY AND COVID-19 IMPACTS DURING 2020?

A. Yes. In a June 17, 2020 Update to Credit Analysis, Moody's viewed the Gulf Power financials favorably and stated the following:

> **We expect Gulf Power to be resilient to recessionary pressures related to the coronavirus** because of its rate regulated business model.
> …
> The effects of the pandemic could result in financial metrics that are weaker than expected, however, we see these issues as temporary and

> not reflective of the long-term financial or credit profile of Gulf Power.[4] (emphasis added).

Thus, rating agencies such as Moody's have not identified any substantial risk issues for Gulf Power as a result of COVID-19.

Q12. HOW DID GULF POWER PERFORM FINANCIALLY DURING 2020 THROUGH THE COVID-19 PANDEMIC?

A. Based on the transcript from the NextEra fourth quarter and full year 2020 earnings conference and call, Gulf Power performed remarkably well and profited at the higher end of the authorized return range.[5] NextEra reported that Gulf's 2020 net income was $238 million, about 2 cents per share above 2019 levels on an adjusted basis.[6] NextEra stated: **"[b]ase O&M reductions were the primary driver of Gulf Power's 19% year-over-year growth in adjusted earnings[7]…. Gulf Power's O&M costs have declined 30 percent."[8]** These Gulf Power cost reductions and savings have not been reflected as part of the Gulf COVID-19 request. Moreover, Gulf has never proposed a deferred liability to capture O&M savings for customers. It would seem that deferred accounting requests are filed only for increasing costs and not decreasing costs.

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[4] Moody's Investor Service, Credit Opinion, Gulf Power Company Update to Credit Analysis at 1 (June 17, 2020).
[5] See NextEra Energy Website, Investor Relations, 4th Quarter 2020 Results, Presentation, and Remarks (1/26/2021 at 7, 16, and 17).
[6] See NextEra Energy Website, Investor Relations, 4th Quarter 2020 Results, Presentation, and Remarks (1/26/2021 at 17).
[7] See NextEra Energy Website, Investor Relations, 4th Quarter 2020 Results, Presentation, and Remarks (1/26/2021 at 17).
[8] See NextEra Energy Website, Investor Relations, 4th Quarter 2020 Results, Presentation, and Remarks (1/26/2021 at 7).

The Gulf Power 2020 equity return for regulatory purposes is well within the authorized range for the 12-months ending December 2020, which is an equity range of 9.25% to 11.25%.[9] All deferred accounting does is push the equity return to the higher end of the range. NextEra expects that Gulf will earn in the upper half of its authorized equity return range in 2021.[10] These results demonstrate that Gulf's shareholder profits are being enhanced through the COVID-19 pandemic.

Q13. HAVE YOU CONSIDERED THE THIRD STANDARD BALANCING THE INTERESTS OF GULF'S SHAREHOLDERS AND CUSTOMERS?

A. Yes, I have. Given that Gulf is able to earn returns in the authorized return level, denial of the deferred accounting request will result in a balancing of shareholder and customer interest. Allowing Gulf to proceed with deferred accounting will result in Gulf earning an additional return. Such a result would not be in the public interest.

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[9] See NextEra Energy Website, Investor Relations, 4th Quarter 2020 Results, Presentation, and Remarks (1/26/2021 at 17).

[10] See NextEra Energy Website, Investor Relations, 4th Quarter 2020 Results, Presentation, and Remarks (1/26/2021 at 17).

2. FPUC SUMMARY

Q14. PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS RELATED TO FPUC'S JOINT PETITION FOR APPROVAL OF REGULATORY ASSETS RELATIVE TO THE ACCOUNTING, FINANCIAL INTEGRITY, AND EQUITY STANDARDS.

A. As discussed below, correcting FPUC's safety related O&M shown in Table 5, results in a negative overall cost value of ($244,985). These adjusted COVID-19 related O&M do not meet the materiality threshold. The FPUC claimed COVID-19 related bad debts are overstated. It is difficult to determine what a reasonable level of bad debt for FPUC is for 2020. But based on the data available I cannot determine if the total FPUC COVID-19 costs are material.

Q15. DID YOU EVALUATE THE FINANCIAL INTEGRITY IMPACT OF DEFERRED ACCOUNTING ON FPUC?

A. Yes, and FPUC acknowledges that financial integrity is not threatened by these COVID-19 costs.[11] As to current earned returns on equity the results for FPUC are mixed at best. FPUC historical earnings as measured by overall rate of return and equity return for most business units do not reach the authorized return levels and in the case of Indiantown and Fort Meade gas operations are negative. These two gas operations have had negative returns since at least 2018 so financial integrity for these two operations is not related to COVID-19 impacts, but rather, is related to other structural

[11] FPUC response to OPC's Interrogatory No. 13.

rate and cost recovery problems. The other two FPUC gas operations FPU Gas and Chesapeake have year-end equity returns of 8.80% and 10.94% respectively, and includes the impact of the deferral of a portion of the costs that are the subject of the deferred accounting request.[12] The year-end 2020 FPU Electric return is 7.82% and also includes a deferred accounting amount.[13]

However, FPUC has not provided sufficient support to justify extraordinary deferred accounting treatment. A rate case where all costs and revenues are considered is the more appropriate solution to a persistent under-earning problem. Analysis of claimed COVID-19 O&M expenses, when properly adjusted show such request to be negative not positive costs. The bad debt claims rest on a faulty bad debt base line coupled with inflated estimates of future bad debts. This type of analysis cannot support extraordinary deferred Accounting allowances.

Nevertheless, if deferred accounting is authorized for FPUC, I recommend that the Commission clearly delineate the exact type of costs and savings FPUC should employ in the deferral to only include COVID-19 safety-related items and incremental COVID-19 related bad debt write-offs, offset by COVID-19 related savings, without regard to earnings. I would further recommend that FPUC be required to report actual 2020 write-offs for evaluation and determination.

[12] FPUC response to OPC's Interrog. Nos. 11, 14.
[13] FPUC response to OPC's Interrog. No. 11; also see FPUC response to OPC's Interrog. No. 18(g) where the 2020 COVID-19 deferral expenses on the books are $1,503,895.

SECTION II: OVERVIEW OF THE CONCEPT OF DEFERRED ACCOUNTING

Q16. PLEASE DESCRIBE THE ENVIRONMENT IN WHICH THE REQUESTED COVID-19 RELATED DEFERRED ACCOUNTING ORDER REQUESTS AROSE.

A. In the first half of 2020, the COVID-19 pandemic created significant economic upheaval, record unemployment, and business closures across the country and much of the world, leading to numerous impacts across the country and economy in general. While many consumers have faced loss of employment or (extended unemployment), many businesses have seen complete failure or extended shutdowns with limited capacity reopening. Given the economic uncertainty and potential for financial impacts, some utility operations across the country and in Florida have requested **extraordinary accounting deferral orders** and creations of regulatory assets associated with the COVID-19 related expenses, including but not limited to write-offs related to uncollected customer accounts.

The impact of these added COVID-19 related expenses in 2020 was to lower net income for some utilities. In other words, because of increased expenses, cash flow, return, and profit will be lower. Like any expense increase, added COVID-19 costs, without increased revenues, may cause profits and returns to be lower.

Q17. PLEASE DESCRIBE DEFERRED ACCOUNTING ORDERS.

A. The types of requested deferred accounting orders at issue are just that - "accounting orders." But such accounting orders should require extraordinary circumstances that are "unusual in nature," "infrequent in occurrence," and **"material"** (where material is measured as 5 percent of income) to be considered extraordinary items.[14] The USOA extraordinary items requirement applies in this case since the Commission prescribes the USOA for public utilities in Florida.[15] Unfortunately, none of the deferred accounting filings by Petitioners address the USOA "Extraordinary Items" requirement that regulators traditionally require. Instead, Petitioners seem to take the position that because COVID-19 expenses occurred and were not part of the rate recovery process, such expenses must be recovered in the future.

An additional factor that must be considered is the financial integrity of each Petitioner. Certainly, if the Petitioner is earning profits within its authorized return levels, or is not otherwise experiencing a threat to financial integrity, then any additional return through deferred accounting orders and future recovery will likely only further enhance profits at the expense of consumers. Thus, if there is no financial reason or requirement for considering deferred accounting, the Commission should decline to provide any deferred accounting orders.

Q18. PLEASE SUMMARIZE THE IMPACT OF DEFERRED ACCOUNTING.

A. The impact of deferred accounting is to enhance a company's average overall rate of return. This is best illustrated by Gulf's response to OPC Interrogatory No. 23, which demonstrates that allowing deferred accounting will boost Gulf's average overall rate of return by 40 basis points and equity return by 93 basis points at December 31, 2020. The result of deferred accounting is that current rates are not changed, but instead only

[14] See Uniform System of Accounts 18 CFR Part 101 General Instruction 7 "Extraordinary Items".
[15] See Rule 25-6.014 F.A.C. Records and Reports in General.

the books and records are adjusted to defer current expenses for collection at a future date. Deferring expenses today enhances current financials – whether or not such financials need enhancement (note the Gulf 40 basis point ROR example above). The deferred expenses will be recovered from customers in the future through higher rates. To offset the impact on current profit levels and preserve the COVID-19 expenses for future recovery, each Petitioner has requested the suspension of recognition of 2020 COVID-19 costs through a deferred accounting order. If such deferral order is approved, the identified COVID-19 costs will be removed from 2020 expenses, placed in a deferral account, and the regulatory asset will be recovered when future revenues can be included in rates to recover these deferred items. There is no enhancement to future financial integrity or profit because rate increases offset these deferred expenses.

SECTION III: <u>OVERVIEW OF THE GULF DEFERRED ACCOUNTING PETITION</u>

Q19. PLEASE DESCRIBE THE REQUESTED COVID-19 DEFERRED ACCOUNTING ORDER REQUESTS BY THE PETITIONERS.

A. On or about May 22, 2020, Gulf filed a petition for approval to defer COVID-19 costs and establish a regulatory asset to record the deferred COVID-19 costs. In its Petition, Gulf requested that incremental bad debt expenses and safety-related costs attributable to COVID-19 be authorized for deferral treatment. The Commission initially entered an Order granting Gulf's request, but subsequently vacated the Order on November 27, 2020. Order No. PSC-2020-0405-PCO-EI, vacating Order No. PSC-2020-0262-PCO-EI. The Commission subsequently entered Order No. PSC-2020-0406-PAA-EI, granting Gulf's petition for approval of regulatory asset to record costs incurred due to COVID-19; this Order is the subject of the protest at issue in this proceeding.

Q20. PLEASE SUMMARIZE THE GULF DEFERRED ACCOUNTING REQUEST.

A. The Gulf request for deferred accounting for COVID-19 costs consists of Gulf's calculations of safety related expenditures and bad debt expenses, both of which are offset by COVID-19 related savings to arrive at a net regulatory asset amount for deferral. According to Gulf, the safety related expenditures are new out-of-pocket expenses not included in current Gulf base rates. COVID-19 related savings reflect Gulf's calculation of reductions in expected costs (that are included in base rates), such as business travel, that resulted from travel restrictions during the pandemic.

The third, and largest, category in Gulf's request is incremental bad debt. According to Gulf, this bad debt category represents a write-off of consumer amounts due, or receivables. An allowance for bad debts is generally included in base rate revenue requirements through a revenue expansion factor similar to other revenue expansion factors such as taxes.[16] These bad debt revenue expansion factors are generally based on a 3-year to 5-year historical average of bad debt write-offs. Gulf does not know the amount of bad debt expenses in current base rates because the basis for the current base rates is a "black box" settlement in the last case.[17]

[16] See Gulf Power Company Docket No. 20160186-EI, Witness Ritenour Exhibit (SDR-1) Schedules 17 and 18 from Gulf's last base rate case.
[17] See Gulf's response to OPC's Interrog. No. 7.

To calculate incremental bad debt for the COVID-19 period, April 2020 through February 2021, Gulf first calculated the monthly historical bad debt write-offs for the three-year average for 2017, 2018, 2019.[18] The monthly three-year historical average was then compared to the "actual bad debt expense" for the corresponding month in 2020 and early 2021.[19] The difference between the three-year average historical bad debt and the 2020 bad debt write-off value was recorded as the incremental bad debt related to COVID-19.[20]

The problem is Gulf did not compare the three-year average amount of write-offs with the 2020 **actual bad debt write-offs** to calculate incremental bad debt. Instead, the 2020 comparative values were "Current Month Reserve Adjustments" or estimates of what Gulf calculated should be written off.[21] In other words, Gulf's analysis consisted of comparing historical bad debt write-offs (based on a three-year average) to Gulf's **estimates of write-offs** also known as "Current Month Reserve Adjustments." Thus, the entire calculation is an estimate and not a good one when one considers actual values.

The **actual** bad debt write-off for the March 2020 through March 2021 period was $9,079,212.[22] The Gulf three-year average bad debt is $3,577,105 and the CAMS adjustment of $862,236 increases the historical or expected bad debt level to $4,439,341 ($3,577,105 + $862,236). The difference between the actual bad debt in

[18] See Direct Testimony Gulf witness Mitchell Goldstein at page 8 lines 16 – 22.
[19] See Direct Testimony Gulf witness Mitchell Goldstein at page 8 lines 16 – 22.
[20] It should be noted a slight downward adjustment ($71,853) was made each month to reflect the change in Customer Accounts Management billing systems ("CAMS") see Gulf witness Mitchell Goldstein at page 9 lines 9 – 18.
[21] Goldstein Deposition at page 68, lines 18-25 through page 69, lines 1-3.
[22] Gulf response to OPC's Interrog. No. 28.

2020 of $9,079,212 and the expected bad debt of $4,439,341 equals $4,639,871 ($9,079,212 - $4,439,341). Thus, given known data on Gulf's bad debt write-offs, the March 2020 – March 2021 period incremental write-off is actually $4,639,871, not Gulf's claim or estimate of $15,014,000. This bad debt calculation issue for Gulf is further addressed below.

Q21. PLEASE ADDRESS THE GULF CLAIMED COVID-19 O&M EXPENSES?

A. The Gulf request for deferred accounting for COVID-19 O&M costs consists of safety related expenditures and bad debt expenses, both of which are offset by COVID-19 related savings. The following Table 1 provides a brief summary of the impact or dollars at issue based on information by Gulf.

TABLE 1

GULF POWER CLAIMED COVID-19 COSTS/ REGULATORY ASSET ($000)[23]

DESCRIPTION	AMOUNT APRIL 2020 - FEBRUARY 2021	AMOUNT MARCH 2021 DECEMBER 2021	TOTAL COVID-19 COSTS
INCREMENTAL BAD DEBT	$15,014	$3,936	$18,950
SAFETY RELATED COSTS			
TESTING	$1,189	$824	$2,013
PPE	$ 689	$400	$1,089
TEMPERATURE SCREENINGS	$1,021	$0	$1,021
FACILITY UPGRADE & CLEANING	$516	$131	$647
OTHER	$16	$0	$16
TOTAL SAFETY COVID-19 COSTS	$3,431	$1,354	$4,785
TOTAL ALL COVID-19 COSTS	**$18,445**	**$5,290**	**$23,735**
LESS SAVINGS MEAL & TRAVEL	**($831)**	**($590)**	**($1,421)**
LESS SAVINGS MEDICAL	**($1,627)**	**$0**	**($1,627)**
TOTAL REGULATORY ASSET	**$15,987**	**$4,700**	**$20,687**

[23] See Gulf Power Company Direct Testimony Mitchell Goldstein, Exhibit MG-1, Page 1 of 1.

As can be seen from Table 1, the claimed actual Gulf COVID-19 safety expenses representing additional dollars expended by Gulf to date amount to $3,431,000 in expenses over the 11-month April 2020 through February 2021 period. The forecasted amounts of safety expenses for the period March 2021 – December 2021 amount to $1,354,000. These actual and estimated COVID-19 safety expenses amount to $4,785,000, and are almost entirely offset by the actual and estimated COVID-19 related savings of $3,048,000 ($1,421,000 + $1,627,000). When actual and estimated COVID-19 safety related expenses are netted against COVID-19 related savings, the net COVID-19 O&M expenditures amount is $1,737,000 ($4,785,000 - $3,048,000) over a 21-month (April 2020 – December 2021) period. As I discuss below, $1,737,000 of increased expenditures are not material, nor do they significantly impact Gulf's earnings, as the total amount represents less than 1% of Gulf's 2020 earnings.[24] As I discuss below, the bad debt write-offs must also be considered in the materiality analysis.

Q22. WHY DO YOU STATE GULF'S PROPOSED BAD DEBT WRITE-OFF IS AN ESTIMATE AND NOT AN ACTUAL BAD DEBT WRITE-OFF?

A. First, witness Goldstein acknowledges it is an estimate, "… it is our best estimate based on everything we know of what our future write-offs to be...."[25] Mr. Goldstein further explains that expectations of bad debt are a function of revenue and aging of accounts

[24] See NextEra Fourth Quarter & Full Year 2020 Earnings Conference Call transcript page 17 (1/26/21), NextEra Energy website. Gulf reported 2020 earnings of $238 million about a 9.7 million increase over 2019 results.
[25] Goldstein Dep. p. 52, lines 16-18.

receivables.[26] Mr. Goldstein provides an example of how the bad debt write-off estimates are developed. Mr. Goldstein further explains that each month, Gulf bills customers for electric consumption, but knows not all customers will pay these bills.[27] Knowing that 100 percent of revenues billed will not be collected, Gulf estimates a bad debt write-off that is trued-up over time when actual bad debts are ultimately known.[28]

Customers are allowed a certain amount of time to pay the bill, but if nonpayment persists, the customer service is cut off.[29] Then Gulf attempts over a several month period to collect the debt. If not collected the debt amount is written off as a bad debt.[30] Gulf's response to OPC's Interrogatory No. 9 states the collection to write-off process is approximately 90 days.

To summarize, at the end of every month, Gulf develops an estimate of the amount that needs to be reserved for bad debts. This reserve analysis for bad debts is based on revenues, the aging of accounts receivable, and economic outlook.[31]

Q23. WHY ARE THESE BAD DEBT ESTIMATES A PROBLEM IN THIS CASE?

A. Under normal operating conditions, the estimates of bad debt write-offs as actual bad debt is relatively stable over time. For example, in Gulf's last base rate case, Docket

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[26] Goldstein Dep. p. 52, lines 12 -13.
[27] Goldstein Dep. p. 53, lines 24 -25 through page 54.
[28] *Id*.
[29] *Id*.
[30] *Id*.
[31] Goldstein Dep. p. 53, lines 24 -25 through p. 68, lines 18 – 25.

No. 20160186-EI, Gulf estimated a test year bad debt level of $3,994,413 for the 2017 test year.[32] The actual annual bad debt write-offs for 2018 and 2019 were $4,050,051 and $3,822,425 respectively.[33] Gulf's 2016 estimate based on historical values was quite consistent with bad debt levels following the test year during normal operations and general economic growth.

Now, we have Gulf's estimates made in the midst of a pandemic, unprecedented economic collapse, and operating conditions never before experienced. It is no wonder that Gulf's bad debt estimates are overstated and do not reflect rapid economic recovery through 2021. Also, pandemic conditions and operating conditions have improved as well through 2021.

Q24. PLEASE ADDRESS FURTHER GULF'S CLAIMED COVID-19 RELATED COSTS – BAD DEBT.

A. As shown in Table 1, Gulf claimed Bad Debt amounts of $15,014,000 (actual) and $3,936,000 (forecasted). Bad debt claims are by far the largest portions of the Gulf COVID-19 deferred accounting request. These are amounts billed that have been outstanding and have now been written off as uncollectible, i.e., bad debt. Further, these amounts of incremental bad debts are not actual bad debts, but rather are based entirely on estimates using a three-year average of actual bad debts as the baseline compared to estimates or monthly "Reserve Adjustments" for bad debts. **Again, the Company does**

[32] Gulf's response to OPC's Interrog. No. 6.
[33] Gulf's response to OPC's Req. for Production. No. 13, Attachment.

not know how much bad debt is in base rates let alone how much bad debt is related to COVID-19.

More importantly, the amount of bad debt reported by Gulf appears to be substantially overstated. Gulf defines a bad debt or write off as follows:

> Gulf Power's write-off process begins at account closure, which can be either due to a customer's request to close his or her account or a failure to make payment to reconnect service within ten days following disconnection for non-payment. If any debt remains outstanding on the account for at least 90 days after closure, the account debt is written off.[34]

Thus, it takes at least 90 days following account closure for the outstanding and owed balance to be written off and become a bad debt. Now, Gulf "**suspended customer disconnects for nonpayment and the associated write-offs from mid-March 2020 through mid-November 2020**."[35] On the one hand, Gulf claims to have suspended the disconnect and write-off process, but on the other hand Gulf claims large amounts of bad debts which require implementation of service disconnects and write-offs.

The following Table 2 provides a summary of the Gulf claimed incremental bad debt amounts by month, as reported in the Earnings Surveillance Reports. In other words, Table 2 shows the Gulf claimed incremental, over and above the three-year (2017 – 2019) average bad debt write-off.

[34] See Gulf's response to OPC's Interrog. No. 9.
[35] See Gulf's response to OPC's Interrog. No. 9.

TABLE 2[36]

GULF POWER CLAIMED INCREMENTAL BAD DEBT COSTS

MONTH	AMOUNT
APRIL	$1,673,598
MAY	$2,001,364
JUNE	$1,639,872
JULY	$862,052
AUGUST	$2,224,584
SEPTEMBER	$1,916,365
OCTOBER	$2,323,727
NOVEMBER	$642,922
DECEMBER	$605,729
TOTAL 2020	$13,890,213
JANUARY 2021	$810,719
FEBRUARY 2021	$313,068[37]
TOTAL ACTUALS[38]	$15,014,000
FORECASTED MARCH – DECEMBER 2021	$3,936,000
TOTAL ALL ACTUALS & FORECASTED	$18,950,000

The above Table 2 shows substantial incremental bad debt write-offs in every month in 2020. If Gulf's policy is bad debt write-offs only occur 90-days after account disconnection, but customer disconnects were suspended, it is difficult to accept the accuracy of the estimate of substantial incremental write-offs claimed in Table 2. As I noted earlier, **Gulf acknowledges that the actual March 2020 through March 2021 write-offs totaled $9,079,212**.[39]

[36] See Gulf Earnings Surveillance Report August 2020, Supplemental Sheet 2 data for April through August 2020.
[37] Calculated as 2020 total $13,890,213 plus Jan. $810,719 minus Total actuals $15,014,000.
[38] Gulf Direct Testimony Gulf witness Mitchell Goldstein at Exhibit MG-1.
[39] Gulf Response to OPC's Interrog. No. 28.

The problem with Gulf's COVID-19 related bad debt proposal is that it is an estimate, not an actual bad debt write-off. In response to OPC's Interrogatory No. 28 on this matter, Gulf states:

> Therefore, the write-off for an uncollectible account occurs several months after bad debt expense is recorded, and, as such, the change in the balance sheet provisions is not directly correlated with the write-offs in the same period. The amounts written off from March 2020 to present (March 2021) totaled $9,079,212. These write-offs are not directly correlated to the increase in bad debt expense for the same period due to the timing variance explained above.

Given the bad debt write-off actual numbers available for the March 2020 to March 2021 period, then in order to be consistent with its interrogatory response above, the original Gulf claim of $15,014,000 (Table 2 above) should instead be $9,079,212, a reduction of $5,935,000.

The Gulf three-year average bad debt baseline is $3,577,105 and the CAMS adjustment of $862,236 increases the historical or expected bad debt level to $4,439,341 ($3,577,105 + $862,236). The difference between the actual bad debt in 2020 of $9,079,212 and the expected bad debt of $4,439,341 equals $4,639,871 ($9,079,212 - $4,439,341). Thus, given known data on Gulf's bad debt write-offs, the March 2020 – March 2021 period incremental write-off is $4,639,871, not Gulf's claim or estimate of $15,014,000. Accepting Gulf's forecast of bad debt write-offs in Table 1 of $3,936,000 puts total bad debt at $8,575,871 total, or about $4,900,000 annualized.[40]

[40] (8,575,871/21 months) * 12 months

Q25. IF WE ACCEPT GULF'S CLAIMED TOTAL COVID-19 RELATED COSTS AS FILED, ARE THE CLAIMED TOTAL AVERAGE ANNUAL COVID-19 COSTS MATERIAL OR A FINANCIAL BURDEN TO GULF?

A. The 2020 year-end earnings stated on Gulf's earnings surveillance reports indicate $175.7 million of operating income. The equity return is about $145.4 million. This equity return was further reduced 93 basis points to reflect the impact of the deferral of COVID-19 costs. The resulting net income is about $117.5 million. The resulting materiality measure is 5% of $117.5 million or $5.9 million. The total Gulf claimed actual and forecasted COVID-19 costs are $20,687,000.[41] These COVID-19 costs annualized amount to $11,821,000.[42] Comparing an annual average claimed COVID-19 costs to Gulf's annual net income of about $117.5 million indicates the COVID-19 amount is higher than 5% of net income. Therefore, the COVID-19 request – if accurate (which it is not, as demonstrated above) -- would pass muster with the materiality threshold. If the Gulf requested deferred asset amount of $20,687,000 is reduced for the $5,935,000 actual bad debt actuals correction discussed above, the annualized COVID-19 costs of $8,429,714 are greater than 5% of net income.[43] However, in no case does Gulf earn outside the authorized return range.[44] The Gulf returns stay in the authorized range.[45] The Gulf financial integrity is not threatened or diminished.

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[41] Goldstein Direct Testimony at Exhibit MG-1.
[42] Total COVID-19 cost ($20,867,000/ 21 months) * 12 months annualized.
[43] The annualization is (($20.687 mm - $5.935 mm)/21) * 12 months = $8,429,714.
[44] See Gulf's Response to OPC's Interrog. No. 23. The financial impact is much lower when corrected numbers for bad debts are included.
[45] See Gulf's Response to OPC's Interrog. No. 19.

Q26. PLEASE SUMMARIZE THE GULF DEFERRED ACCOUNTING REQUEST AND ISSUES RAISED BY THE REQUEST

A. As shown in Table 1, Gulf's request for deferred accounting totals $20,687,000. Gulf claims its safety-related costs are $4.785 million. When offset by the $3.048 million savings amount listed by Gulf, the safety-related costs total approximately $1.7 million – not a significant amount warranting deferred accounting. The largest amounts proposed by Gulf for deferral are the bad debt write-off amounts, but these are essentially all estimated.

Also, Gulf experienced substantial O&M savings in 2020 – all the while earning within the authorized return range with or without deferred accounting. A deferred accounting order is not necessary and will only serve to further enhance profits, at the expense of Gulf's customers.

Other utility company operations had similar reactions to COVID-19 costs based on a materiality analysis. For example, Emera Incorporated, which owns Tampa Electric and Peoples Gas System in Florida among other regulated operations, stated the following with regard to the COVID-19 Pandemic impact on operations:

> Some of Emera's utilities have been impacted more than others. However, on a consolidated basis these unfavorable **impacts have not had a material financial impact to net earnings** primarily due to a change in the mix of sales across customer classes. … Favourable weather in 2020, particularly in Florida, has further reduced the

> consolidated impact. **The Company has not deferred any costs for future recovery as a result of the pandemic**.[46] (emphasis added)

Materiality of these expenses is just the first step of the analysis -- a point well demonstrated by Emera Incorporated.

SECTION IV: OVERVIEW OF THE FPUC DEFERRED ACCOUNTING PETITION

Q27. WHAT ARE THE FPUC CLAIMED COVID-19 COSTS AND REGULATORY ASSET REQUEST?

A. The FPUC deferral cost estimate has been all over the map and FPUC still does not have a reasonable dollar amount of deferrals to put before the Commission. The problem is that FPUC seems to have changing theories (FPUC refers to these changing theories as refinements in the calculations) of what should or should not be included in COVID-19 costs. The changing theories or refinements on COVID-19 costs has over time led to enormous increases in FPUC's COVID-19 estimates.

It is important to keep these COVID-19 expenses in perspective. When the pandemic hit in early 2020, the cost concern was primarily incremental PPE costs, incremental cleaning costs, incremental safety related cost, and incremental bad debt write-offs all offset by savings. For FPUC these simple costs have morphed into hazard or bonus pay, lost business opportunities, the entire elimination of savings offsets, and inflated

[46] Emera Incorporated, Management's Discussion & Analysis, page 15 (February 16, 2021).

estimates of bad debt costs. As I discuss below, it is difficult to accept FPUC's estimates as a realistic COVID-19 cost estimate for purposes of deferred accounting.

To demonstrate some of the problems with FPUC's COVID-19 cost estimates, I present in Table 4 the changes in the claimed COVID-19 calculations over time from the FPUC filed COVID-19 cost reports filed in this docket.[47]

TABLE 4

FPUC BREAKDOWN OF COVID-19 COSTS JUNE 2020 – FEBRUARY 2021[48]

MONTH	COVID-19 EXPENSES	BAD DEBT EXPENSES	SAVINGS	TOTAL
JUNE 2020[49]				$428,000
OCTOBER 2020	$194,523	$1,027,838	($743,308)	$479,053
NOVEMBER 2020	$553,526	$1,200,813	($779,846)	$974,493
DECEMBER 2020	$1,154,947	$2,375,780	($791,431)	$2,739,296
JANUARY 2021[50]	$42,176	$145,517	NOT REPORTED	$187,693
FEBRUARY 2021	$103,862	($86,005)	NOT REPORTED	$17,857

Table 4 shows that the FPUC COVID-19 periodic filings with the Commission reflect a dramatic and unexplained increase through the 2020 period. For example, the November 2020 to December 2020 one month period shows over 180% increase in

[47] Since FPUC filed its March 2021 COVID-19 expense and savings information on May 3, 2021, just prior to the filing of this testimony, it has not been addressed in this testimony. However, I note that in the March 2021 report, the year-to-date Incremental Bad Debt Expense is ($238,045), and the Total Preliminary COVID-19 Impact is ($269,804) including offsetting savings.

[48] See Joint Petition for Approval of Regulatory Assets to Record Costs Incurred Due to COVID-19 by Florida Public Utilities Company (Electric and Gas Divisions) and the Florida Division of Chesapeake Utilities Corporation (8/11/20) at page 9 Exhibit A "Breakdown of Costs among FPU Companies" (through June 2020). Data for the months of October, November, and December 2020 can be found in the FPUC periodic filings in the Docket No. 20200194-PU see December 1, 2020 Doc. No. 13044, January 4, 2021 Doc. No. 00251, February 1, 2021 Doc. No. 01830, March 1, 2020 Doc. N Doc. No. 03185o. 02526, and April 1, 2021

[49] The 2020 June through December COVID-19 costs reflect cumulative costs.

[50] The 2021 COVID-19 costs reflect monthly incremental costs.

claimed COVID-19 costs for deferral ($974,493 in November 2020 to $2,739,296 for December 2020). However, these are not month-to-month changes in COVID-19 costs, but rather a change or "refinement" in how FPUC calculates COVID-19 costs. For example, Table 4 shows COVID-19 specific O&M expenses increasing from $553,526 in November 2020 to $1,154,947 in December 2020 – a $601,421 month-to-month increase. The FPUC most recent discovery response reports December 2020 COVID-19 related expenses of $48,038 for the five FPUC companies – much lower than the claimed $601,421 amount shown in Table 4.[51] The transition into 2021 shows numbers on an incremental basis and savings are no longer reported – another new theory. The bottom line is that the FPUC filed COVID-19 costs referenced in Table 4 do not appear reliable or reasonable for evaluation in this case.

Q28. HAS FPUC FILED REVISED COVID-19 COST DATA IN DISCOVERY?

A. Yes, they have. A review of the FPUC discovery responses shows more detail, more new theories on COVID-19 costs, and many more questions regarding the FPUC COVID-19 costs and proposed deferral. The current problem is that there is no one place where the Commission can find an FPUC total dollar deferral request. Unlike the Gulf COVID-19 cost of $20.687 million presentation discussed in Table 1, there is no overall request by FPUC so the Commission knows what is being requested for possible approval for FPUC. Without a requested amount, it is difficult to know what is being approved.

[51] See FPUC response to OPC's Interrog. No. 18(b) attachment for December 2020.

To address the issues regarding the FPUC COVID-19 request, I start with Table 5 which represents the most current data related to FPUC's COVID-19 O&M costs for each of the five FPUC companies.

TABLE 5

COVID-19-SPECIFIC O&M EXPENSES BY BUSINES UNIT

A	B	C	D	E	F
FPUC BUSINESS UNIT	**FPUC[52] REQUESTED TOTAL COVID-19 COSTS MARCH 2020 FEB 2021**	**HAZZARD PAY[53]**	**OTHER INSURANCE COST[54]**	**SAVINGS[55]**	**ADJUSTED TOTAL COST**
FLORIDA NATURAL GAS	**$698,082**	**$62,685**	**$159,048**		
CENTRAL NATURAL GAS	**$226,685**	**25,524**	**$63,054**		
INDIANTOWN	**$3,389**	**1,236**	**$941**		
FORT MEADE	**$2,688**	**$541**	**$941**		
TOTAL GAS	**$930,844**	**$283,466**	**$223,984**	**($584,162)**	**($160,768)**
ELECTRIC	**327,966**	**$123,978**	**$80,936**	**($207,269)**	**($84,217)**
TOTAL FPUC	**$1,258,810**	**$407,444**	**$304,920**	**($791,431)**	**($244,985)**

Table 5 column B shows the latest data for COVID-19 O&M costs (excludes bad debt costs) by business unit. If these costs were accepted, it would amount to $1,258,810. But there are at least three problems outlined in columns C, D, and E with FPUC updated COVID-19 cost calculations. First, column C "Hazzard Pay" represents added payment to employees designated as front-line employees.[56] Employees have wage agreements, were provided PPE and other safety measures to follow and the added pay

[52] See FPUC Response to OPC's Interrog. Nos. 18 A and 18 B.
[53] *Id*.
[54] *Id*.
[55] FPUC Regulatory Asset Filing Data Document No. 02526, filed on March 1, 2021 for the December 2020 period.
[56] See FPUC response to OPC's Interrog. No. 18 e.

does not appear necessary. Further, FPUC provides no analysis to show that hazard pay or COVID-19 bonus pay has caused FPUC payroll to exceed the level of payroll in current base rates. This deferral request is designed to be an effort to capture incremental **COVID-19** costs. Just because FPUC or Chesapeake came up with this bonus concept and paid $407,444 dollars to employees does not in and of itself make this an incremental amount. For the above reason, I have removed $407,444 by business unit as shown in Column C.

Second, Column D reflects a claimed “lost business opportunity” associated with casualty related insurance premiums.[57] Based on FPUC response to OPC Interrogatory No.18 f, FPUC claims that in 2019 the Company sought alternative bids for casualty insurance cost. The bids indicated that cost savings would amount to $330,000. When COVID-19 hit the economy, these bids were withdrawn by insurance providers and FPUC assert these lost insurance savings are a COVID-19 cost due to the lost business opportunity to lower insurance costs. This is not a COVID-19 cost. Insurance cost is included in base rate charges; there are no increased costs. Further, the lost opportunity to lower costs is not a new cost facing FPUC. For the above reasons, $304,920 in Column D is removed from COVID-19 costs.

Third, Column E reflects savings related to COVID-19 which represent an offset to COVID-19 costs. Earlier FPUC filings with the Commission in this docket calculated saving achieved to offset COVID-19 costs. Now in response to OPC Interrogatory No.

[57] See FPUC response to OPC’s Interrog. No. 18 f.

19 FPUC states; "**If the Company had exceeded its allowed earnings, we would have reduced the amount deferred in the Regulatory Asset. At this time, the Companies have determined that there are no incremental savings that would have directly offset the incremental expenses already charged to the regulatory asset**."[58] (Emphasis added). FPUC had previously reported savings through at least December 2020. Now a new and yes, a novel theory has been developed which eliminates all savings and somehow ties savings to excess earnings. The existence of savings is not dependent on whether there are excess earnings. There is no basis to exclude savings. So, savings should offset COVID-19 costs. This case involves an accounting order request not an opportunity to increase rates and return levels like a base rate case.

Savings should be included as an offset to COVID-19 costs. I have included in Table 5 the FPUC December 2020 calculated level of COVID-19 related savings of $791,431 previously filed with the Commission.

The bottom line is that making three obvious adjustments; i) remove bonus pay, ii) removing a claimed lost business opportunity, and iii) including the FPUC savings calculated through December 2020 results in negative ($244,985) COVID-19 related O&M costs. I should note that FPUC has included other questionable O&M costs such as communication cost, legal fees, consultant fees to name a few. I have not had sufficient data to make these added adjustments at this time. The end result is that

[58] See FPUC response to OPC Interrogatory No. 19.

COVID-19 O&M costs are negative and probably should be more negative. The unfortunate incidence of a pandemic should not be seen as an opportunity to load up questionable costs onto the customers who are suffering the impacts of a pandemic.

Q29. HAVE YOU REVIEWED THE FPUC BAD DEBT EXPENSE ESTIMATES?

A. Yes, I have. A review of the FPUC discovery responses shows more detail on bad debt and more new theories on bad debt calculations related to COVID-19. As I discuss below, the bad debt data write-off data presented by FPUC is not a reliable estimate.

Q30. PLEASE DESCRIBE THE PROBLEMS YOU HAVE IDENTIFIED WITH FPUC'S BAD DEBT WRITE-OFF ESTIMATES?

A. The first problem is that FPUC employs a three-year average bad debt amount as the baseline for calculating incremental bad debt related to COVID-19.[59] To calculate the incremental COVID-19 bad debt, the three-year base line is subtracted from the corresponding month of 2020 bad debt.[60] The use of a three-year average of bad debt write-offs for all FPUC operations has inflated the FPUC bad debt calculation. Gulf used this method because Gulf's base rates were based on a black box settlement and specific bad debt levels were not known. However, FPUC knows the bad debt amounts included in base rates for the three largest entities.[61] The impact of FPUC's use of the wrong or incorrect bad debt amounts are shown in Table 6 below.

[59] Direct Testimony FPUC witness David Craig at page 10, lines 5 – 13.
[60] Direct Testimony FPUC witness David Craig at page 10, lines 5 – 13.
[61] See FPUC Response to OPC Interrog. No. 2. Bad debt amounts for Indiantown and Fort Meade cannot be determined.

Table 6

FPUC HISTORICAL BASE LINE BAD DEBT WRITE-OFF CALCULATIONS

FPUC BUSINESS	3-YEAR AVG[62]	AUTHORIZED BAD DEBT LEVEL[63]	ADJUSTED BAD DEBT[64]
CHESAPEAKE	$46,961	$41,832	$41,832
INDIANTOWN	$1,987	$0	$1,987
FORT MEADE	$1,978	$0	$1,978
FPUC GAS	$231,267	$522,322	$522,322
TOTAL GAS	$282,193	$564,154	$568,119
TOTAL ELECTRIC	$239,591	$221,975	$221,975
TOTAL FPUC	$521,784	$786,129	$790,094

In Table 6, the 3-year average column shows FPUC's bad debt base line based on a 3-year historical average. The next column shows the current authorized bad debt levels by business unit. Only Indiantown and the Fort Meade gas operations have no current authorized bad debt levels in base rates. The third column reflects authorized bad debt levels that were known and 3-year average bad debt levels for the two business units where authorized bad debt in base rates is not known. By employing a lower 3-year average of $521,784 as a base line, versus an alternative analysis that included bad debts included in base rates $790,094, FPUC was able to inflate the bad debt calculation by $268,310 ($790,094 - $521,784) on an annual basis.

[62] See FPUC Response to OPC Interrog. No. 3 Attached file.
[63] See FPUC Response to OPC Interrog. No. 2.
[64] Employed authorized level in base rates otherwise employed 3-year average.

Q31. DID FPUC CALCULATE ACTUAL WRITE-OFFS OF BAD DEBT OR DID FPUC CALCULATE WRITE-OFF ESTIMATES?

A. Like Gulf's calculation of bad debt described earlier, FPUC calculated estimates of bad debt write-offs. Now, FPUC witness Galtman would have one believe that these are actual bad debt expenses.[65] In reality, like the situation with Gulf, bad debts were not known for each month and an estimate was employed. Mr. Galtman points out the increase in aged accounts receivable balances, but this does not mean all such receivables are ultimately write-offs.[66] To see how out of line these estimates of bad debt write-offs are one need only examine FPUC's current estimate of these costs.

[65] FPUC Direct Testimony Michael Galtman at page 4, lines 15 – 20.
[66] FPUC Direct Testimony Michael Galtman at page 4, lines 20 – 23.

Table 7

FPUC MONTHLY BAD DEBT WRITE-OFFS

BASELINE CALCULATIONS

MONTH	FPUC NEW MONTHLY BAD DEBT ESTIMATE[67]
MAR. 2020	$3,913
APR. 2020	$38,172
MAY 2020	$38,369
JUN. 2020	$633,433
JUL. 2020	$31,572
AUG. 2020	$553,500
SEP. 2020	$332,143
OCT. 2020	$27,980
NOV. 2020	$30,961
DEC. 2020	$1,148,478
TOTAL 2020 MAR-DEC	$2,838,522
JAN. 2021	$47,518
FEB. 2021	$36,196

The FPUC latest bad debt estimates above shows substantial bad debt claims in some months. The December 2020 value of $1,148,478 is more than 10 times the level of any actual monthly write-off shown in the historical actual data.[68] This result is even more suspect when one looks at the two months prior and two months following December 2020, these months are more than 25 times lower than December 2020. Given the improvement in the economy since mid-year 2020 and the progress made on

[67] See FPUC Response to OPC's Interrog. No. 18 b, Attachment Bad Debt 4-19.
[68] See FPUC Response to OPC's Interrog. No. 3, Attachment file "ROG1 #3" for bad debt expense.

the pandemic, one would expect the COVID-19 costs to decline. This appears true for all FPUC costs except the December 2020 bad debt outlier. This is the result of using the inflated bad debt base line discussed earlier and relying on estimates rather than actual bad debts. FPUC's estimates just cannot be supported.

Q32. WHAT ARE YOUR CONCLUSIONS WITH REGARD TO THE SPECIFIC FPUC COVID-19 REQUESTS?

A. Correcting FPUC's safety related O&M shown in Table 5, results in a negative overall cost value of ($244,985). The FPUC attempts to quantify actual bad debts are not based on actual write-offs and are overstated. It is difficult to determine what a reasonable level of bad debt for FPUC is for 2020. I would recommend that FPUC report actual 2020 write-offs for evaluation. But based on the data available, I cannot determine if the FPUC COVID-19 costs are material. More important is that based on the data available FPUC has not provided sufficient evidence that the COVID-19 impact is material and qualifies for a deferral. Further, FPUC has failed to demonstrate any harm to financial integrity caused by COVID-19 impacts. There just is no basis to conclude FPUC should be granted deferred accounting in this case.

SECTION V: REGULATORY AND POLICY ISSUES REGARDING DEFERRED ACCOUNTING

Q33. PLEASE EXPLAIN THE DEFERRED ACCOUNTING CONCEPT AS IT RELATES TO THE REGULATORY PROCESS.

A. Both Petitioners in the consolidated dockets appear to suggest that during the pandemic, they incurred expenses related to COVID-19 that were not specifically identified in the test year when their rates were last set. As such, they each claim the impact of these added COVID-19 expenses in 2020 was to lower their net income. In other words, because of increased expenses the bottom-line cash flow, return, and profit will be lower. However, all that occurred is that like any expense increase, COVID-19 costs caused profits and return to be lower.

To offset the impact on profit and preserve the COVID-19 expenses for future recovery, both Petitioners have requested the suspension of recognition of 2020 COVID-19 costs through a deferred accounting order. If such deferral orders are approved, the identified COVID-19 costs will be removed from each Company's 2020 expenses and beyond, placed in a deferral account and be recovered when future revenues can be included in rates to recover these deferred items. According to both Petitioners, there is no effect on future financial integrity or profit because future revenues offset this future expense recovery.

Even if an authorization to establish a deferred accounting regulatory asset has no immediate impact on a utility's rates, there are still serious consequences to the use of the deferral mechanism and establishment of a regulatory asset. A deferred accounting order carries with it **a general presumption that the deferred costs, if prudent, are entitled to future recovery in rates**. This factual presumption is based on Generally Accepted Accounting Principles ("GAAP") that govern the accounting practices of the Utilities regulated by the Commission. Specifically, Accounting Standards Codification ("ASC") 980-340-25-1 (Recognition of Regulatory Assets") provides the regulations that govern regulatory assets and reads as follows:

> 25-1 Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall capitalize all or part of an incurred cost that would otherwise be charged to expense if both of the following criteria are met:
>
> a. It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable cost for rate-making purposes.
>
> b. Based on available evidence; the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

> A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date.[69]

When the Commission authorizes the creation of a regulatory asset, the Commission is also prejudging that it is probable pursuant to ("ASC") 980-340-25-1 (Recognition of Regulatory Assets) the utility will be allowed to collect the incremental COVID-19 costs recorded in the deferral account. In other words, absent a finding of imprudent management action, the presumption of probable recovery is essentially a guarantee of recovery.

In addition, as discussed earlier, the USOA requires that only "extraordinary items" be included in a deferral.[70] This requirement is most problematic for the Petitioners when they fail to address the basic requirement that the COVID-19 expenses meet the USOA Extraordinary Items requirement of materiality discussed earlier. Even if the materiality requirement is met, next a Petitioner is also required to satisfy the second question of whether a deferral is necessary to protect the financial integrity of the Petitioner.

[69] Electronic Application of Duke Energy Kentucky, Inc. For an Order Approving The Establishment of a Regulatory Asset or Liability Associated with Pension Settlement, Commonwealth of Kentucky Public Service Commission, Cause No. 2019-00352, (March 30, 2020) at page 2.
[70] 18 CFR Part 101 General Instruction 7 "Extraordinary Items".

Q34. IS A COMMISSION ORDER REQUIRED FOR DEFERRED ACCOUNTING?

A. The short answer is yes. Evidence to support the Commission Order requirement for deferred accounting first includes the fact that the Petitioners have filed these cases with the Commission requesting deferred accounting orders. Second, FPUC witness Craig's testimony quotes a prior Commission Order that states; "To create a regulatory asset or liability, **a regulated company must have the approval of its regulator."**[71] **(**emphasis added**)** So, in this case, FPUC cites to a 2008 Commission Order authorizing deferral accounting pursuant to a request from FPUC, and the 2008 Order explicitly states that deferred accounting requests require this Commission's approval. That alone should be enough to show a Commission Order is required.

Therefore, absent a regulatory order, the ability to record the deferral for financial reporting purposes can certainly be questioned in an annual audit.

This audit issue is an important point regarding Commission Orders and accounting requirements, and is addressed in the NextEra 2020 Annual Report by the accountant auditors, Delloitte & Touche LLP where they state: "FPL follows the accounting guidance that allows regulators to create assets and impose liabilities, based on the probability of future cash flows, that would not be recorded by non-rate regulated entities."[72]

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[71] FPUC Direct Testimony D. Craig p. 6, lines 20-21, citing a prior FPUC Deferred Accounting request before the PSC, Order No. PSC-08-0134-PAA-PU at page 3 (March 3, 2008).
[72] See NextEra 2020 annual Report, by the accountant auditors, Delloitte & Touche LLP, *Critical Audit Matter Description*, page 59.

Deferred accounting is unique to regulated operations, but there are several requirements to safeguard proper financial reporting. Such safeguards include a Commission Order assuring future revenues to recover the deferral.

Q35. WHY ARE THESE ACCOUNTING REQUIREMENTS AND SAFEGUARDS IMPORTANT TO FOLLOW?

A. General accounting and reporting rules provide assurance that a particular company's reported financial results are what they purport to be – no hidden traps or pitfalls for the investor or consumer of such information. As I noted above, non-regulated entities may not use deferred accounting, as there is no regulatory authority standing behind deferrals to assure higher revenue through higher rates, thus create a substantial probability of collecting the deferrals.

A famous quote by Warren Buffett illustrates the importance of these accounting rules at times of economic crisis: **"It's only when the tide goes out that you learn who's been swimming naked."**[73] (emphasis added). The requirements to qualify for deferred accounting, including the requirement to have a Commission Order, all help assure that a company's reported financials, books and records are what they purport to be. However, the accounting rules and requirements only work if they are followed. Otherwise, a financial crisis or other extraordinary event will not reveal a company's other financial weakness that was previously hidden by a high tide.

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[73] Berkshire Hathaway, Inc. 1992 Letter to the Shareholders of Berkshire Hathaway Inc. see https://www.berkshirehathaway.com/letters/1992.html

Q36. WHAT STANDARDS SHOULD THE COMMISSION EMPLOY IN DECIDING WHETHER TO AUTHORIZE DEFERRED ACCOUNTING AND THE CREATION OF REGULATORY ASSETS IN THIS CASE?

A. Once rates are established through the test year ratemaking process, revenues, expenses, and investment will change through time, but the original rates stay in place until changed in the next rate case. The process of deferred accounting and creation of a regulatory asset is not a rate proceeding, but rather, it is an accounting mechanism. The creation of a regulatory asset is a "single-issue" or "piecemeal" process. In this proceeding, COVID-19 expenses that have not been included in revenue requirements or rates, along with a limited number of offsets (savings), have been identified to estimate an incremental COVID-19 expense deferral and creation of a regulatory asset for future recovery. When a company eliminates the current expensing of these COVID-19 amounts, i.e., when it defers the costs to a regulatory asset for future expensing and collection, the utility's current year financials and equity return are boosted. Nothing could be more single issue or piecemeal.

Nonetheless, a deferred accounting order will carry with it a general presumption that the deferred costs, if prudent, are entitled to full recovery in rates (including the time value of money). As noted above, the Commission's assurance of probable recovery of a deferral is an important factor underlying the recognition of deferred accounting. Given the assurance of recovery requirement, the Commission should consider the total utility position, not just increased costs. For example, during 2020, Gulf had base O&M

savings well over $30 million.[74] These savings in O&M more than offset the amount for which Gulf requested deferral.

Obviously, it makes no sense to issue a deferred accounting order every time an expense or revenue item is different than anticipated in the rate setting process. But Gulf could have filed a deferred accounting order request to share Gulf's O&M savings with customers. Now, the Commission has the opportunity to consider Gulf's O&M savings as part of the deferred accounting request. Deferred accounting should not be automatically granted upon a utility's unsubstantiated request. Deferred accounting cannot be a one-way street.

Therefore, some basic standards or rules of the road are required. I have identified three standards that factor into the decision on deferred accounting which I have applied in my analysis above. These three standards are: i) accounting requirements, ii) financial integrity requirements, and iii) the equity balance between customers and shareholder interests that all regulatory authorities must constantly weigh and evaluate.

By employing these three standards, the Commission avoids unfettered deferred accounting and creation of regulatory assets. The regulatory authority should seek to avoid creating the expectation by regulated utilities that any unusual balances or expenses will always be recoverable on demand or as a matter of course. The point of

[74] See NextEra Energy Website, Investor Relations, 4th Quarter and 2020 Results, Presentation, and Remarks (1/26/2021 at page 17. Base O&M savings were primary driver of approximately 2 cents per share growth. 1.98333 billion shares times $0.02 per share.

having guidelines and standards is to avoid the normalization of a piecemeal, single-issue one-way approach.

Q37. PLEASE EXPLAIN THE FIRST ACCOUNTING STANDARD.

A. Deferred accounting should be used sparingly when extraordinary events occur. A Commission Order should be required before deferrals are created on the books of the Company. As I noted earlier, this Commission has historically required a deferred accounting Order.

The accounting requirements for the creation of a regulatory asset is set forth in ASC 980-340-25-1 Recognition of Regulatory Assets has already been explained above. The key requirements from this accounting rule is that the regulator assure that it is probable that the capitalized cost (regulatory asset) will be recovered from future revenue as part of allowable costs in the rate-making process.

The USOA accounting criteria is that the expenses to be deferred must be: i) of unusual nature, ii) have infrequent occurrence, and iii) be material in size (5 percent of income) to be considered extraordinary and subject to deferred accounting treatment.[75]
By employing these basic straightforward accounting standards to the facts and circumstances of each case, the Commission can be assured whether the expense in question meet an “extraordinary” accounting threshold.

[75] 18 CFR Part 101 General Instruction 7 “Extraordinary Items”.

Q38. PLEASE EXPLAIN THE FINANCIAL INTEGRITY STANDARD.

A. Once a Petition for deferred accounting and regulatory asset creation meets the accounting standard above, the inquiry should continue to consideration of the financial integrity of the Petitioner. Clearly, it is a mathematical certainty that once deferred accounting is authorized, a Petitioner's financial integrity will improve. However, improving financial integrity in and of itself should not be the goal. In order to balance the interest of customers and shareholders, the regulatory authority should authorize deferred accounting only if necessary, to protect the utility's financial integrity. Thus, a utility's financial integrity should be evaluated to determine whether financial enhancement is necessary. The financial integrity evaluation should consider the shareholder return earned relative to authorized return or range levels. Financial integrity can also be reviewed through the lens of rating agency reports (such as Moody's Investor Services, Standard & Poor's, and Fitch) evaluating credit risks and cash flow on an historical, current and forecasted basis.

Regulatory agencies have authority to grant deferred accounting treatment to protect a regulated utility's financial integrity due to the impact of regulatory lag. For example, a utility is generally allowed a reasonable opportunity to recover its operating expenses together with a reasonable return on invested capital. This return requirement is met when the return is sufficient to assure confidence in the financial integrity of the firm so as to maintain credit and attract capital on reasonable market terms.[76]

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[76] *Federal Power Comm'n v. Hope Natural Gas Co*. 320 U.S. 591, 603, 64 S. Ct. 281, 288, 88 L. Ed. 333 (1944) also see *Bluefield Water works Improvement Co. v. Public Serv. Comm'n of the State of West Virginia*, 262 U.S. 679, 692-93, 43 S. Ct. 675, 678-79, 67 L. Ed 1176 (1923).

The basic goal of the financial integrity standard is to establish that deferred accounting is necessary to ensure that the utility needs such special treatment to meet the opportunity to recover costs and have an opportunity to earn a return on investment consistent with authorized levels. This standard seeks to eliminate those situations where the utility may incur an unusual or extraordinary cost, but is still earning profits at a high level well within current authorized return levels. Such firms that experience no threat to financial integrity do not require additional risk reducing measures and return enhancements.

On the other hand, a firm experiencing extraordinary costs along with strained financial integrity, such as bond rating reductions and limits on reasonable access to capital on reasonable terms and prices may be a good candidate for deferred accounting. Again, the first hurdle is the accounting criteria thresholds and once those are met, the second standard is financial integrity or financial need.

It is important that Gulf has acknowledged that it will maintain financial integrity and a return within its authorized range, **even if deferred accounting is denied**.[77] FPUC acknowledges that its financial integrity is not undermined by COVID-19 costs.[78] It would appear deferred accounting is not necessary in either of these dockets.

Applying the standards related to accounting rules and financial integrity assures a

[77] See Gulf Response to OPC's Interrog. No. 19.
[78] See FPUC Response to OPC's Interrog. No. 13.

consistent application of deferred accounting, and avoids the problematic *ad hoc* ratemaking which may lead to unjust results.

Q39. PLEASE DESCRIBE THE THIRD STANDARD FOR DEFERRED ACCOUNTING THE EQUITY BALANCE BETWEEN CUSTOMERS AND SHAREHOLDER INTEREST.

A. The regulatory process in general involves a balancing of investor or shareholder interests and customer interests. All regulatory authorities balance the rights of the utility's investors to recover costs, and the opportunity to earn a fair rate of return on investment with the rights of consumers to pay no more than reasonable rates for quality service from the utility. Such balancing of interests between investor and customer interests typically takes place during a general base rate case or rate setting proceedings where all revenues and expenditures are evaluated.

However, in single-issue accounting proceedings such as petitions for regulatory assets, it is more important than ever to maintain the balancing of interests between investors and customers. It is important to weigh the potential financial impact on shareholders, as well as the impact of the rate deferral and future rate impacts on customers. This evaluation includes whether the utility is able to demonstrate that the financial impact is known, measurable, and substantial on the financial integrity of the company. The burden of proof is on the petitioning utility, so a utility's failure to establish with credible evidence that the alleged extraordinary costs are having a known, measurable, and substantial impact on its financial integrity (and are thus by definition extraordinary) means the balance of fairness should favor the customer interests, and requires denial of the request for a regulatory asset.

Q40. PLEASE PROVIDE A SUMMARY OF THE ACCOUNTING, FINANCIAL INTEGRITY, AND EQUITY BALANCING GUIDELINES.

A. The general ratemaking process of setting and establishing just and reasonable rates is not perfect, but does include protections for both shareholders and customers. Between rate cases many events occur that cause costs and revenues to change. In cases such as the current proceeding there must be basic standards to assure that investors have an opportunity to earn a reasonable return, utilities continue to maintain financial integrity, and customers receive quality service at reasonable prices. The three standards outlined above will assure that rates continue to be reasonable and customer along with shareholder interests are protected.

Q41. WHAT IS THE IMPACT OF APPLYING THE ACCOUNTING STANDARD, THE FINANCIAL INTEGRITY STANDARD, AND THE EQUITY BALANCING STANDARD TO THE GULF REQUEST?

A. I would say at the outset that it is a better approach to wait for an authoritative commission order before recording deferred accounting. I will leave for others to opine whether Florida law requires this. The Commission decision in this case will determine how this issue should be handled in the future. As to the Accounting Standard I have shown earlier, that the Gulf COVID-19 request when adjusted for actuals is not material and therefore does not meet the extraordinary standard set forth in USOA 107 when the $238 million 2020 earnings is employed. But if the earnings surveillance report regulatory earnings are employed the Gulf request is material. Materiality cannot be determined for FPUC.

As to the financial integrity standard, I addressed above how both Gulf and FPUC have acknowledged that financial integrity will not be impaired. Given that the evidence does not support materiality and financial integrity is not an issue, basic equity leads to the conclusion that the deferrals should be denied. The basic process of regulation involves a balancing of investor or shareholder interest and customer interests.

SECTION VI: <u>COVID-19 IMPACTS ON THE ECONOMY</u>

Q42. DO CURRENT ECONOMIC CONDITIONS WARRANT THE AUTHORIZATION OF DEFERRED ACCOUNTING?

A. In my opinion, no. Prior to the COVID-19 pandemic, the U.S. economy was doing quite well with historically low unemployment, low inflation, and record setting equity markets. However, following the closure of a significant amount of economic activity at the early stages of the pandemic (Quarter 1 2020), real GDP fell in the second quarter of 2020 by about 31.4%. Unemployment spiked to 14.7% the highest post WWII level and remains elevated today. Many workers in certain industries such as leisure, hotel, and travel have faced prolonged hardship due to the closures required by the pandemic.

Since these early 2020 events, the economy has made substantial recoveries. Both monetary policy and fiscal policy stimulus have driven economic recovery. I discuss below, a number of monetary and fiscal policy efforts driving economic recovery. Such policies include two major efforts at fiscal stimulus including cash payments to taxpayers, enhanced unemployment stimulus, payments to impacted business under Paycheck Protection Programs and direct grants and loans to struggling businesses.

Most of the Federal Reserve action in 2020 combined a lower federal funds rate with quantitative easing to address the impact of COVID-19 impacts on the economy.

Prior to the pandemic, during the second half of 2019 and into January 2020, Federal Reserve Federal FOMC statements and monetary policy announcements signaled accommodative monetary policy and continued low interest rates.[79] The Federal Reserve's actions to lower the federal funds rate during the last half of 2019 were in response to slower economic growth, both domestically and globally.[80] Then in March 2020, the Federal Reserve's monetary policy action recognized the impact of COVID-19 on the economy.[81] On or about March 3, 2020, the Federal Reserve lowered the Federal Funds rate by 50 basis points from 1.5% - 1.75%, down to 1.0% - 1.25%.[82] Then less than two weeks later, on March 15, 2020, the Federal Reserve took

[79] Board of Governors of the Federal Reserve System, FOMC Statement Press Release, June 19, 2019; July 31, 2019; September 18, 2019; October 30, 2019, December 11, 2019 and January 29, 2020. These press releases and the Federal Reserve economic projections referred to herein have been included as Exhibit DJL-2. They can also be found at https://www.federalreserve.gov/newsevents/pressreleases.htm.

[80] *See* Exhibit DJL-2, Board of Governors of the Federal Reserve System, FOMC Statement Press Release, July 31, 2019.

[81] *See* Exhibit DJL-2, Board of Governors of the Federal Reserve System, FOMC Statement Press Release, March 3, 2020 and March 15, 2020.

[82] *See* Exhibit DJL-2, Board of Governors of the Federal Reserve System, FOMC Statement Press Release, March 3, 2020.

emergency action and lowered the federal funds rate to **zero**.[83] In addition, the Federal Reserve stated that Quantitative Easing tools would be employed to maintain credit flows.[84] Thus, over this period the FOMC has been easing monetary policy to accelerate economic growth - first in response to slower growth and now since March 2020 in response to COVID-19 impacts on the economy. The following Table 8 provides a summary of the monthly average 30-year U.S. Treasury Yields in 2020.

TABLE 8[85]

30-Year U.S. Treasury Yields (Monthly)

MONTH	**YIELD (%)**
JAN.	**2.015**
FEB.	**1.671**
MAR.	**1.351**
APR.	**1.266**
MAY	**1.407**
JUN	**1.409**
JUL	**1.198**
AUG	**1.452**
SEP	**1.451**
OCT	**1.640**
NOV	**1.573**
DEC	**1.646**

[83] *See* Exhibit DJL-2, Board of Governors of the Federal Reserve System, FOMC Statement Press Release, March 15, 2020.
[84] *See* Exhibit DJL-2, Board of Governors of the Federal Reserve System, FOMC Statement Press Release, March 15, 2020.
[85] Yahoo Finance *see* www.finance.yahoo.com/quote/%5ETYX/history

The 30-year U.S. Treasury yields were substantially lower in 2020 as a result of Federal Reserve policy actions addressing COVID-19 impacts on the economy. Current yields in 2021 are back to 2.25% levels.

Q43. DID REGULATORY AUTHORITIES AROUND THE COUNTRY RECOGNIZE THE DECLINING COST OF EQUITY AND DEBT CAPITAL IN SETTING RATES FOR THE 2020 PERIOD?

A. Yes. Many regulatory authorities have established equity returns reflective of the declining cost of equity, such that the average authorized equity return continues to be well below 10%. Regulatory authority cost of equity decisions for regulated electric utility operations during calendar year 2019 averaged about 9.7%.[86] The national average electric equity return for the year 2020 declined to about **9.4%**.[87] **The cost of utility capital declined during 2020 while COVID-19 impacted the economy**.

The end result is that cost of capital for utility operations declined to historically low levels during 2020, but these savings are not recognized as part of either Gulf's or FPUC's COVID-19 cost and savings analysis.

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[86] Edison Electric Institute (EEI), Quarterly Financial Updates, Rate Review Data 4th Quarter 2020, citing S*&P Global Market Intelligence/ Regulatory Research Associates and EEI Finance Department*.

[87] See Exhibit DJL-2; see also, Edison Electric Institute (EEI), Quarterly Financial Updates, Rate Review Data 4th Quarter 2020, citing S*&P Global Market Intelligence/ Regulatory Research Associates and EEI Finance Department*.

Q44. WERE ELECTRIC UTILITY STOCK PRICES IMPACTED BY THE COVID-19 INFLUENCE ON THE ECONOMY DURING 2020?

A. Yes, there were substantial impacts on equity markets in general and utility markets in particular. The EEI notes that between January and March 2020 the COVID-19 pandemic drove market indices down about 35%.[88] EEI stated that "Emergency Fed rate cuts, massive fiscal stimulus and vaccine optimism powered a dramatic rebound over the rest of 2020."[89]

The EEI also reported on its own EEI Index performance for 2020 and states: "The EEI Index's -1.2% 2020 return would have been lower **without NextEra Energy's 30% gain.** NextEra accounted for 17% of the EEI Index at year end. Most utility shares fell more than 5% in 2020."[90] (emphasis added) Thus, while electric utilities did see stock price declines in 2020 NextEra did not suffer stock price losses.[91]

Q45. DID REGULATED UTILITIES FACE A GENERAL ECONOMIC HARDSHIP AS A RESULT OF COVID-19 DURING 2020?

A. In my opinion, no. As I discussed earlier, the economy took a hard hit in early 2020 due to economic closures. Through the remainder of 2020 recovery has been quick, but certainly not complete.

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[88] Edison Electric Institute (EEI), Quarterly Financial Updates, EEI Stock Index 2020, Quarter 4 2020 Stock Performance.

[89] Edison Electric Institute (EEI), Quarterly Financial Updates, EEI Stock Index 2020, Quarter 4 2020 Stock Performance.

[90] Edison Electric Institute (EEI), Quarterly Financial Updates, EEI Stock Index 2020, Quarter 4 2020 Stock Performance.

[91] Gulf Power is part of the NextEra Company assets.

In the June 10, 2020 FOMC press release the Federal Reserve states: “financial conditions have improved, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and business.[92] Again, in the July 31, 2020 FOMC press release, the FOMC stated: “following sharp declines, economic activity and employment have picked up somewhat in recent months.”[93] The most recent FOMC press release of April 28, 2021 states; “amid progress on vaccinations and strong policy support, indications of economic activity and employment have strengthened.”[94] This most recent FOMC statement is supported by the recent reports of gross Domestic Product (GDP) growth of 6.4%.[95] Also, the U.S. Bureau of Labor statistics reports an unemployment rate of 6.0% and declining.[96]

Thus, while the pandemic hit the economy hard in March 2020 through the second quarter of 2020, since June of 2020 economic activity has developed substantially through the end of the year. Moreover, the first quarter of 2021 has showed continued improvement. Given the above it is difficult to accept the FPUC projections of worsening costs through the end of 2020. I have seen no particular hardship impacts that have directly impacted the utility industry in general. I discussed above that utility cost of capital actual declined during 2020 as a result of COVID-19 impacts on the economy and Federal Reserve monetary policy responses.

[92] See Board of Governors of the Federal Reserve System, FOMC Statement Press Release, June 10, 2020.
[93] See Board of Governors of the Federal Reserve System, FOMC Statement Press Release, July 31, 2020.
[94] See Exhibit (DJL-2) also see Board of Governors of the Federal Reserve System, FOMC Statement Press Release, April 28, 2021.
[95] See Exhibit (DJL-2) U.S. Bureau of Economic Analysis Gross Domestic Product First Quarter 2021.
[96] See Exhibit (DJL-2).

Q46. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

DANIEL J. LAWTON
B.A. ECONOMICS, MERRIMACK COLLEGE
M.A. ECONOMICS, TUFTS UNIVERSITY
J.D. LAW, TEXAS SOUTHERN UNIVERSITY

Prior to beginning his own consulting practice Diversified Utility Consultants, Inc., in 1986 where he practiced as a firm principal through December 31, 2005, Mr. Lawton had been in the utility consulting business with R.W. Beck and Associates a national engineering and consulting firm. In addition, Mr. Lawton has been employed as a senior analyst and statistical analyst with the Department of Public Service with the Public Utilities Commission of Minnesota. Prior to Mr. Lawton's involvement in utility regulation and consulting he taught economics, econometrics and statistics at Doane College.

Mr. Lawton has conducted numerous revenue requirements, fuel reconciliation reviews, financial, and cost of capital studies on electric, gas and telephone utilities for various interveners before local, state and federal regulatory bodies. In addition, Mr. Lawton has provided studies, analyses, and expert testimony on statistics, econometrics, accounting, forecasting, and cost of service issues. Other projects in which Mr. Lawton has been involved include rate design and analyses, prudence analyses, fuel cost reviews and regulatory policy issues for electric, gas and telephone utilities. Mr. Lawton has developed software systems, databases and management systems for cost of service analyses.

Mr. Lawton has developed and numerous forecasts of energy and demand used for utility generation expansion studies as well as municipal financing. Mr. Lawton has represented numerous municipalities as a negotiator in utility related matters. Such negotiations ranges from the settlement of electric rate cases to the negotiation of provisions in purchase power contracts.

In addition to rate consulting work Mr. Lawton through the Lawton Law Firm represents numerous municipalities in Texas before regulatory authorities in electric and gas proceedings. Mr. Lawton also represents municipalities in various contract and franchise matters involving gas and electric utility matters.

A list of cases in which Mr. Lawton has provided testimony is attached.

UTILITY RATE PROCEEDINGS IN WHICH TESTIMONY HAS BEEN PRESENTED BY DANIEL J. LAWTON

PUBLIC UTILITIES COMMISSION OF CALIFORNIA		
ALASKA REGULATORY COMMISSION		
Beluga Pipe Line Company	P-04-81	Cost of Capital
Municipal Light & Power	U-13-184	Cost of Capital
Enstar Natural Gas Co.	U-14-111	Cost of Capital & Revenue Requirements
Enstar Natural Gas Co.	U-16-066	Cost of Capital & Revenue Requirements
Municipal Light & Power	U-16-094	Cost of Capital
Southern California Edison	12-0415	Cost of Capital
San Diego Gas and Electric	12-0416	Cost of Capital
Southern California Gas	12-0417	Cost of Capital
Pacific Gas and Electric	12-0418	Cost of Capital

PUBLIC UTILITIES COMMISSION OF COLORADO		
Public Service Co. of Colorado	19AL-0268E	Cost of Capital

GEORGIA PUBLIC SERVICE COMMISSION		
Georgia Power Co.	25060-U	Cost of Capital

FEDERAL ENERGY REGULATORY COMMISSION		
Alabama Power Co.	ER83-369-000	Cost of Capital

Arizona Public Service Co.	ER84-450-000	Cost of Capital
Florida Power & Light	EL83-24-000	Cost Allocation, Rate Design
Florida Power & Light	ER84-379-000	Cost of Capital, Rate Design, Cost of Service
Southern California Edison	ER82-427-000	Forecasting

LOUISIANA PUBLIC SERVICE COMMISSION		
Louisiana Power & Light	U-15684	Cost of Capital, Depreciation
Louisiana Power & Light	U-16518	Interim Rate Relief
Louisiana Power & Light	U-16945	Nuclear Prudence, Cost of Service

MARYLAND PUBLIC SERVICE COMMISSION		
Baltimore Gas and Electric Co.	9173	Financial
Baltimore Gas and Electric Co.	9326	Financial

MINNESOTA PUBLIC UTILITIES COMMISSION		
Continental Telephone	P407/GR-81-700	Cost of Capital
Interstate Power Co.	E001/GR-81-345	Financial
Montana Dakota Utilities	G009/GR-81-448	Financial, Cost of Capital
New ULM Telephone Co.	P419/GR81767	Financial
Norman County Telephone	P420/GR-81-230	Rate Design, Cost of Capital
Northern States Power	G002/GR80556	Statistical Forecasting, Cost of Capital
Northwestern Bell	P421/GR80911	Rate Design, Forecasting

MISSOURI PUBLIC SERVICE COMMISSION		
Missouri Gas Energy	GR-2009-0355	Financial
Ameren UE	ER-2010-0036	Financial

FLORIDA PUBLIC SERVICE COMMISSION		
Progress Energy	070052-EI	Cost Recovery
Florida Power and Light	080677-EI	Financial
Florida Power and Light	090130-EI	Depreciation
Progress Energy	090079-EI	Depreciation
Florida Power and Light	120015-EI	Financial Metrics
Florida Power and Light	140001-EI	Economic and Regulatory Policy Issues
Florida Power and Light	150001-EI	Economic and Regulatory Policy Issues Financial Gas Hedging
Florida Power and Light	160001-EI	Economic and Regulatory Policy Issues Financial Gas Hedging
Florida Power and Light	160021-EI	Equity Bonus Rewards & Financial Metrics
Florida Power and Light	20170057-EI	Economic and Regulatory Policy Issues Financial Gas Hedging

NORTH CAROLINA UTILITIES COMMISSION		
North Carolina Natural Gas	G-21, Sub 235	Forecasting, Cost of Capital, Cost of Ser

OKLAHOMA PUBLIC SERVICE COMMISSION		
Arkansas Oklahoma Gas Corp.	200300088	Cost of Capital
Public Service Co. of Oklahoma	200600285	Cost of Capital
Public Service Co. of Oklahoma	200800144	Cost of Capital

Public Service Co. of Oklahoma	201200054	Financial and Earnings Related
Oklahoma Natural Gas	201500213	Return on Equity, Financial, capital Structure

PUBLIC SERVICE COMMISSION OF INDIANA		
Kokomo Gas & Fuel Company	38096	Cost of Capital

PUBLIC UTILITIES COMMISSION OF NEVADA		
Nevada Bell	99-9017	Cost of Capital
Nevada Power Company	99-4005	Cost of Capital
Sierra Pacific Power Company	99-4002	Cost of Capital
Nevada Power Company	08-12002	Cost of Capital
Southwest Gas Corporation	09-04003	Cost of Capital
Sierra Pacific Power Company	10-06001 & 10-06002	Cost of Capital & Financial
Nevada Power Co. and Sierra Pacific Power Co.	11-06006 11-06007 11-06008	Cost of Capital
Southwest Gas Corp.	12-04005	Cost of Capital
Sierra Power Company	13-06002 13-06003 13-06003	Cost of Capital
NV Energy & MidAmerican Energy Holdings Co.	13-07021	Merger and Public Interest Financial

Sierra Pacific Power Company	16-06006	Cost of Capital
Nevada Power Company	17-06003	Cost of Capital
Nevada Power & Sierra Pacific	18-02012 Consolidated	Tax Cut and Jobs Act Issues
Southwest Gas	18-05031	Cost of Capital
Sierra Pacific Power Company	19-06002	Cost of Capital
Southwest Gas	20-02023	Cost of Capital

PUBLIC SERVICE COMMISSION OF UTAH		
PacifiCorp	04-035-42	Cost of Capital
Rocky Mountain Power	08-035-38	Cost of Capital
Rocky Mountain Power	09-035-23	Cost of Capital
Rocky Mountain Power	10-035-124	Cost of Capital
Rocky Mountain Power	11-035-200	Cost of Capital
Questar Gas Company	13-057-05	Cost of Capital
Rocky Mountain Power	13-035-184	Cost of Capital
Dominion Energy Utah	19-057-13	Capital Structure & Imputed Debt
Dominion Energy Utah	19-057-02	Cost of Capital

SOUTH CAROLINA PUBLIC SERVICE COMMISSION		
Piedmont Municipal Power	82-352-E	Forecasting

PUBLIC UTILITY COMMISSION OF TEXAS		
Central Power & Light Co.	6375	Cost of Capital, Financial Integrity
Central Power & Light Co.	9561	Cost of Capital, Revenue Requirements
Central Power & Light Co.	7560	Deferred Accounting
Central Power & Light Co.	8646	Rate Design, Excess Capacity
Central Power & Light Co.	12820	STP Adj. Cost of Capital, Post Test-year adjustments, Rate Case Expenses
Central Power & Light Co.	14965	Salary & Wage Exp., Self-Ins. Reserve, Plant Held for Future use, Post Test Year Adjustments, Demand Side Management, Rate Case Exp.
Central Power & Light Co.	21528	Securitization of Regulatory Assets
El Paso Electric Co.	9945	Cost of Capital, Revenue Requirements, Decommissioning Funding
El Paso Electric Co.	12700	Cost of Capital, Rate Moderation Plan, CWIP, Rate Case Expenses
El Paso Electric Co.	46831	Cost of Capital, Decommissioning Funding, Allocation
Entergy Gulf States Inc.	16705	Cost of Service, Rate Base, Revenues, Cost of Capital, Quality of Service
Entergy Gulf States Inc.	21111	Cost Allocation
Entergy Gulf States Inc.	21984	Unbundling
Entergy Gulf States Inc.	22344	Capital Structure
Entergy Gulf States Inc.	22356	Unbundling
Entergy Gulf States Inc.	24336	Price to Beat
Gulf States Utilities Co.	5560	Cost of Service
Gulf States Utilities Co.	6525	Cost of Capital, Financial Integrity
Gulf States Utilities Co.	6755/7195	Cost of Service, Cost of Capital, Excess Capacity
Gulf States Utilities Co.	8702	Deferred Accounting, Cost of Capital, Cost

		of Service
Gulf States Utilities Co.	10894	Affiliate Transaction
Gulf States Utilities Co.	11793	Section 63, Affiliate Transaction
Gulf States Utilities Co.	12852	Deferred acctng., self-Ins. reserve, contra AFUDC adj., River Bend Plant specifically assignable to Louisiana, River Bend Decomm., Cost of Capital, Financial Integrity, Cost of Service, Rate Case Expenses
GTE Southwest, Inc.	15332	Rate Case Expenses
Houston Lighting & Power	6765	Forecasting
Houston Lighting & Power	18465	Stranded costs
Lower Colorado River Authority	8400	Debt Service Coverage, Rate Design
Southwestern Electric Power Co.	5301	Cost of Service
Southwestern Electric Power Co.	4628	Rate Design, Financial Forecasting
Southwestern Electric Power Co.	24449	Price to Beat Fuel Factor
Southwestern Bell Telephone Co.	8585	Yellow Pages
Southwestern Bell Telephone Co.	18509	Rate Group Re-Classification
Southwestern Public Service Co.	13456	Interruptible Rates
Southwestern Public Service Co.	11520	Cost of Capital
Southwestern Public Service Co.	14174	Fuel Reconciliation
Southwestern Public Service Co.	14499	TUCO Acquisition
Southwestern Public Service Co.	19512	Fuel Reconciliation
Southwestern Public Service Co. Southwestern Public Service Co.	47527 49831	Cost of Capital Cost of Capital
Texas-New Mexico Power Co.	9491	Cost of Capital, Revenue Requirements, Prudence
Texas-New Mexico Power Co.	10200	Prudence
Texas-New Mexico Power Company	17751	Rate Case Expenses

Texas-New Mexico Power Company	21112	Acquisition risks/merger benefits
Texas Utilities Electric Co.	9300	Cost of Service, Cost of Capital
Texas Utilities Electric Co.	11735	Revenue Requirements
TXU Electric Company	21527	Securitization of Regulatory Assets
West Texas Utilities Company	7510	Cost of Capital, Cost of Service
West Texas Utilities Company	13369	Rate Design

RAILROAD COMMISSION OF TEXAS		
Energas Company	5793	Cost of Capital
Energas Company	8205	Cost of Capital
Energas Company	9002-9135	Cost of Capital, Revenues, Allocation
Lone Star Gas Company	8664	Rate Design, Cost of Capital, Accumulated Depr. & DFIT, Rate Case Exp.
Lone Star Gas Company-Transmission	8935	Implementation of Billing Cycle Adjustment
Southern Union Gas Company	6968	Rate Relief
Southern Union Gas Company	8878	Test Year Revenues, Joint and Common Costs
Texas Gas Service Company	9465	Cost of Capital, Cost of Service, Allocation
TXU Lone Star Pipeline	8976	Cost of Capital, Capital Structure
TXU-Gas Distribution	9145-9151	Cost of Capital, Transport Fee, Cost Allocation, Adjustment Clause
TXU-Gas Distribution	9400	Cost of Service, Allocation, Rate Base, Cost of Capital, Rate Design
Westar Transmission Company	4892/5168	Cost of Capital, Cost of Service
Westar Transmission Company	5787	Cost of Capital, Revenue Requirement
Atmos	10000	Cost of Capital
ATMOS	10580	Cost of Capital

TEXAS WATER COMMISSION		
Southern Utilities Company	7371-R	Cost of Capital, Cost of Service

SCOTSBLUFF, NEBRASKA CITY COUNCIL		
K. N. Energy, Inc.		Cost of Capital

HOUSTON CITY COUNCIL		
Houston Lighting & Power Company		Forecasting

PUBLIC UTILITY REGULATION BOARD OF EL PASO, TEXAS		
Southern Union Gas Company		Cost of Capital

DISTRICT COURT CAMERON COUNTY, TEXAS		
City of San Benito, et. al. vs. PGE Gas Transmission et. al.	96-12-7404	Fairness Hearing

DISTRICT COURT HARRIS COUNTY, TEXAS		
City of Wharton, et al vs. Houston Lighting & Power	96-016613	Franchise fees

DISTRICT COURT TRAVIS COUNTY, TEXAS		
City of Round Rock, et al vs. Railroad Commission of Texas et al	GV 304,700	Mandamus

DISTRICT COURT SOUTH DAYTONA, FLORIDA		
City of South Daytona v. Florida Power and Light	2008-30441-CICI	Stranded Costs

FEDERAL RESERVE FEDERAL OPEN MARKET COMMITTEE (FOMC) STATEMENT

PRESS RELEASE (APRIL 28, 2021)

BUREAU OF ECONOMIC ANALYSIS GROSS DOMESTIC PRODUCT

FIRST QUARTER 2021 (APRIL 29, 2021)

U.S. BUREAU OF LABOR STATISTICS ECONOMIC NEWS RELEASE

EMPLOYMENT SITUATION SUMMARY (APRIL 2, 2021)

Press Release

PDF

April 28, 2021

Federal Reserve issues FOMC statement

For release at 2:00 p.m. EDT

Share

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Amid progress on vaccinations and strong policy support, indicators of economic activity and employment have strengthened. The sectors most adversely affected by the pandemic remain weak but have shown improvement. Inflation has risen, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus, including progress on vaccinations. The ongoing public health crisis continues to weigh on the economy, and risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Raphael W. Bostic; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Charles L. Evans; Randal K. Quarles; and Christopher J. Waller.

Implementation Note issued April 28, 2021

Docket No. 20200151-EI
Economic Reports and Statistics
Exhibit DJL-2, Page 3 of 4

Gross Domestic Product, First Quarter 2021

April 29, 2021

Real gross domestic product increased at an annual rate of 6.4 percent in the first quarter of 2021, reflecting the continued economic recovery, reopening of establishments, and continued government response related to the COVID-19 pandemic. In the first quarter, government assistance payments, such as direct economic impact payments, expanded unemployment benefits, and Paycheck Protection Program loans, were distributed to households and businesses through the Coronavirus Response and Relief Supplemental Appropriations Act and the American Rescue Plan Act. In the fourth quarter of 2020, real GDP increased 4.3 percent. For more details, including source data, see the Technical Note (https://www.bea.gov/sites/default/files/2021-04/tech1q21_adv.pdf) and Federal Recovery Programs and BEA Statistics (http://www.bea.gov/recovery).

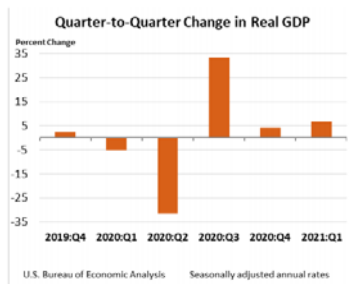
GDP highlights

The first-quarter increase in real GDP reflected increases in consumer spending, business investment, government spending, and housing investment that were partially offset by decreases in inventory investment and exports. Imports, a subtraction in the calculation of GDP, increased.

The increase in consumer spending reflected increases in goods (led by motor vehicles and parts) and services (led by food services and accommodations).

The increase in business investment reflected increases in equipment (led by information processing equipment) and intellectual property products (led by software).

The increase in government spending primarily reflected an increase in federal spending related to payments made to banks for processing and administering the Paycheck Protection Program loan applications as well as purchases of COVID-19 vaccines for distribution to the public.

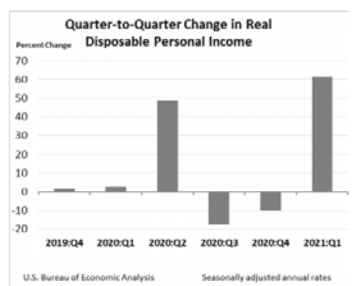


The decrease in inventory investment primarily reflected a decrease in retail trade inventories.

Personal income and saving

Real disposable personal income (DPI)—personal income adjusted for taxes and inflation—increased 61.3 percent in the first quarter after decreasing 10.1 percent in the fourth quarter of 2020.

The increase in current-dollar DPI primarily reflected an increase in government social benefits related to pandemic relief programs, notably direct economic impact payments to households established by the Coronavirus Response and Relief Supplemental Appropriations Act and the American Rescue Plan Act. Personal saving as a percent of DPI was 21.0 percent in the first quarter, compared with 13.0 percent in the fourth quarter of 2020.



Prices

Prices of goods and services purchased by U.S. residents increased 3.8 percent in the first quarter of 2021 after increasing 1.7 percent in the fourth quarter of 2020.

Energy prices increased 46.7 percent in the first quarter while food prices decreased 0.1 percent.

Excluding food and energy, prices increased 3.1 percent in the first quarter after increasing 1.6 percent in the fourth quarter of 2020.

For more information, read the full release (https://www.bea.gov/news/2021/gross-domestic-product-first-quarter-2021-advance-estimate).

U.S. BUREAU OF LABOR STATISTICS

Economic News Release

CES CPS

Employment Situation Summary

Transmission of material in this news release is embargoed until 8:30 a.m. (ET) Friday, April 2, 2021 USDL-21-0582

Technical information:
Household data: cpsinfo@bls.gov * www.bls.gov/cps
Establishment data: cesinfo@bls.gov * www.bls.gov/ces

Media contact: (202) 691-5902 * PressOffice@bls.gov

THE EMPLOYMENT SITUATION -- MARCH 2021

Total nonfarm payroll employment rose by 916,000 in March, and the unemployment rate edged down to 6.0 percent, the U.S. Bureau of Labor Statistics reported today. These improvements in the labor market reflect the continued resumption of economic activity that had been curtailed due to the coronavirus (COVID-19) pandemic. Job growth was widespread in March, led by gains in leisure and hospitality, public and private education, and construction.

This news release presents statistics from two monthly surveys. The household survey measures labor force status, including unemployment, by demographic characteristics. The establishment survey measures nonfarm employment, hours, and earnings by industry. For more information about the concepts and statistical methodology used in these two surveys, see the Technical Note.

Household Survey Data

The unemployment rate edged down to 6.0 percent in March. The rate is down considerably from its recent high in April 2020 but is 2.5 percentage points higher than its pre-pandemic level in February 2020. The number of unemployed persons, at 9.7 million, continued to trend down in March but is 4.0 million higher than in February 2020. (See table A-1. See the box note at the end of this news release for more information about how the household survey and its measures were affected by the coronavirus pandemic.)

Among the major worker groups, the unemployment rate for Asians rose to 6.0 percent in March, following a decline in the previous month. The jobless rate for Hispanics edged down to 7.9 percent over the month, while the rates for adult men (5.8 percent), adult women (5.7 percent), teenagers (13.0 percent), Whites (5.4 percent), and Blacks (9.6 percent) changed little. (See tables A-1, A-2, and A-3.)

Among the unemployed, the number of persons on temporary layoff declined by 203,000 in March to 2.0 million. This measure is down considerably from the recent high of 18.0 million in April 2020 but is 1.3 million higher than in February 2020. The number of permanent job losers, at 3.4 million, was little changed in March but is 2.1 million higher than February 2020. (See table A-11.)

The number of long-term unemployed (those jobless for 27 weeks or more), at 4.2 million, changed little over the month but is up by 3.1 million since February 2020. In March, these long-term unemployed accounted for 43.4 percent of the total unemployed. The