BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20250035-GU

Petition for approval of 2025 depreciation study and for approval to amortize reserve imbalance, by Florida City Gas.
___________________________________/

VOLUME 1
PAGES 1 - 240

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN MIKE LA ROSA
COMMISSIONER GARY F. CLARK
COMMISSIONER GABRIELLA PASSIDOMO SMITH

DATE: Thursday, December 11, 2025

TIME: Commenced: 9:30 a.m.
Concluded: 4:50 p.m.

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

REPORTED BY: DEBRA R. KRICK
Court Reporter

PREMIER REPORTING
TALLAHASSEE, FLORIDA
(850) 894-0828

APPEARANCES:

BETH KEATING, ESQUIRE, Gunster, Yoakley & Stewart, P.A., 215 South Monroe Street, Suite 601, Tallahassee, Florida 32301; appearing on behalf of Florida City Gas (FCG).

WALT TRIERWEILER, PUBLIC COUNSEL; CHARLES REHWINKEL, DEPUTY PUBLIC COUNSEL; AUSTIN WATROUS, ESQUIRE, OFFICE OF PUBLIC COUNSEL, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, FL 32399-1400, appearing on behalf of the Citizens of the State of Florida (OPC).

TIMOTHY SPARKS, JACOB IMIG and SHAW STILLER, ESQUIRES, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission (Staff).

ADRIA E. HARPER, GENERAL COUNSEL; MARY ANNE HELTON, DEPUTY GENERAL COUNSEL, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, Advisor to the Florida Public Service Commission.

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P R O C E E D I N G S

CHAIRMAN LA ROSA: All right. Well, good morning, everybody. Today is December 11th, a little after 9:30 a.m. I would like to go ahead and call this hearing to order.

Staff, go ahead and start by reading to the notice.

MR. SPARKS: By notice published on November 21st, 2025, this time and place has been set for a hearing in Docket No. 20250035-GU. The purpose of the hearing is set forth more fully in the notice.

CHAIRMAN LA ROSA: Excellent. Great. Thank you, Mr. Sparks.

Let's go ahead and take appearances, and let's start with FCG.

MS. KEATING: Good morning, Mr. Chair, Commissioners. I am Beth Keating with the Gunster Law Firm here this morning for Florida City Gas.

CHAIRMAN LA ROSA: Excellent. Great.

OPC.

MR. REHWINKEL: Good morning, Mr. Chairman and Commissioners. My name is Charles Rehwinkel, and I am with the Office of Public Counsel appearing on behalf of the customers of Florida City Gas. I would also like to make an appearance for Walt Trierweiler and Austin Watrous.

Thank you.

CHAIRMAN LA ROSA: Great. Thank you.

Staff.

MR. SPARKS: Yes, Timothy Sparks. And I would also like to enter an appearance on behalf of Jacob Imig and Shaw Stiller.

MS. HELTON: And finally, Mary Anne Helton is here as your Advisor, along with your General Counsel, Adria Harper.

CHAIRMAN LA ROSA: Excellent. Great. Thank you, everybody.

Let's go ahead and move to preliminary matters. Are there any that need to be addressed before us today?

MR. SPARKS: Staff has no preliminary matters.

CHAIRMAN LA ROSA: Okay. FCG.

MS. KEATING: Sorry, Mr. Chair, we have errata for Mr. Everngam's rebuttal testimony and for Ms. Lee's amended direct testimony, and her amended PSL-2. We have handed those out to the parties and to the court reporter, and we will have that filed by close of business today.

CHAIRMAN LA ROSA: Okay.

MS. KEATING: It just seemed like it would be smoother than having to do the corrections on the stand.

CHAIRMAN LA ROSA: Great. Thank you. I am assuming -- is there any objections to that, or --

MR. REHWINKEL: No. I think that's a good approach. Thank you.

CHAIRMAN LA ROSA: Awesome.

I am assuming there is no preliminary matters from OPC?

MR. REHWINKEL: No.

CHAIRMAN LA ROSA: Awesome. Then, let's -- thank you. Thank you both.

Let's then move to the record, and we will start with exhibits. Staff.

MR. SPARKS: Staff has compiled a Comprehensive Exhibit List, or a CEL, with prenumbered Exhibits 1 through 66. Item 1 on the CEL is the CEL itself. The list has been provided to the parties, the Commissioners and the court reporter.

Staff requests that the CEL be marked for identification purposes as Exhibit No. 1, and that the other exhibits listed on the CEL be marked for identification as set forth in the CEL.

CHAIRMAN LA ROSA: The exhibits are so marked.

(Whereupon, Exhibit Nos. 1-66 were marked for identification.)

MR. SPARKS: Staff asks at this time that the CEL marked as Exhibit No. 1 be entered into the record.

CHAIRMAN LA ROSA: All right. Are there any objections?

MR. REHWINKEL: No objection.

CHAIRMAN LA ROSA: All right. Seeing none, No. 1 is then entered.

(Whereupon, Exhibit No. 1 was received into evidence.)

MR. SPARKS: At this time, staff asks that the exhibits identified in the CEL as staff hearing exhibits, which are Nos. 26 through 49, be entered into the record.

CHAIRMAN LA ROSA: Objections?

MR. REHWINKEL: No.

CHAIRMAN LA ROSA: Seeing none, then so moved.

(Whereupon, Exhibit Nos. 26-49 were received into evidence.)

MR. SPARKS: The prefiled exhibits and any cross exhibits will be moved into the record and the conclusion of each witness's cross-examination.

CHAIRMAN LA ROSA: I think that's fair. No objections to that.

Let's go ahead and then move to opening statements. We will start with FCG.

MS. KEATING: Thank you, Mr. Chair.

Good morning, Commissioners. Thank you for the opportunity to address you this morning. And let me also thank your staff for helping us to get to this hearing today. We know it isn't easy coordinating a hearing in just a couple of months. Commissioners, how we got here warrants a little background.

Chesapeake acquired Florida City Gas at the end of 2023. While the acquisition offered a great opportunity, FCG was underearning, which meant that the RSAM mechanism created in the last rate case was being depleted. As such, its new owners were almost immediately in the position of planning FCG's next rate case, which also prompted consideration of the need to do a new depreciation study. A new study was appropriate to align FCG's depreciation accounts with those of other Chesapeake companies. And based on the outcomes of FCG's 2022 rate case, FCG's new owners suspected a new depreciation study might also yield an imbalance that could be potentially used to delay that next rate case.

As FCG's new owners, Chesapeake was well aware that the Public Counsel and Commission staff were not fans of the RSAM mechanism, and, therefore, focused on conducting a new traditional depreciation study. If an imbalance did, indeed, result, the company planned a corrective option that would help it delay a rate case, but that was also more traditional and presumably not as controversial. This would allow additional time to assimilate FCG and engage the synergies that Chesapeake believes exist, while also delaying a rate increase for FCG's customers.

The company therefore, hired outside consultant Pat Lee, a reputable depreciation expert who's done depreciation studies for Chesapeake companies in the past. As the study neared completion, it became apparent that a relatively large reserve imbalance would, indeed, result. The company determined that the most appropriate corrective mechanism was amortization of the reserve imbalance over two years, which is a more traditional corrective measure.

FCG and Chesapeake believed, and still do, that this corrective proposal is a good and fair resolution, particularly since the filing has already resulted in a delay to the rate case beyond 2025, ensuring new rates will not go into effect until January 2027 at the earliest.

Prior to the filing, the company reached out to both staff and OPC to give them a heads-up. There were some misgivings voiced around the fact that the prior rate case was on appeal, but once those jurisdictional concerns were addressed, the company believed that the matter would move forward quickly, providing relief for the company and a delay in the rate case that would be beneficial for all. It was only later, as the case slowly progressed, that it became apparent that Commission staff and the OPC were both very opposed to the study and the corrective measure proposed.

With that said, this as complete and valid study, and the company's amortization proposal is a legitimate means to correct the imbalance in a manner that provides temporary relief to the company without adversely impacting its customers.

You will hear OPC argue that the study is premature, and that tweaks made to the study over the course of case are indicative of a poorly crafted incomplete study. That's simply not correct. In basic terms, a depreciation study involves a forecast of how long the physical assets of a company will be in-service and how the investments in those assets should be allocated or recovered over that period.

Like any forecast, it has a foundation in data but also depends greatly on each individual expert's understanding of the assets, the environment in which they reside, as well as input from company personnel about what they are seeing in the field. As such, depreciation studies are sometimes tweaked as they are reviewed, which is part of the reason staff has traditionally filed a staff report before it files a staff recommendation. The report allows for edits and adjustments for areas of minor disagreement, and allows for corrections and adjustments before a formal staff recommendation is filed.

In this case, the tweaks to the company's study involve correction of two curves that were inadvertently mislabeled, correction of a formula error in a spreadsheet, and correction of certain vintage data what had been improperly recorded when it was imported from the company's prior owners.

These types of adjustments are not unusual, and they are not indicative of a problem in the study.

Along the same lines, OPC witness has suggested, as has staff, that FCG's depreciation study is not complete because Ms. Lee did not conduct a historical analysis as part of her study. On this point, both are just wrong. The Commission's rule on depreciation studies does not require a statistical analysis, which the Commission has acknowledged in prior orders.

In this case, Ms. Lee determined that a statistical analysis was not necessary given the information available from the company and other Florida gas utilities. In her rebuttal testimony, she explains that information from company operations personnel was a key component of her analysis, providing more recent real life information that also took into account FCG's safe facility replacement and relocation program, and in her opinion, yielded a better basis for projecting the likely lives of the assets.

She does not say that statistical analysis is pointless, just that it's not necessary or helpful in every instance, which is the reason it's not required by the Commission's rule. We have not been able to find any instance in which the Commission has rejected the depreciation study for not including a statistical analysis.

As for the reserve amortization proposal, let me emphasize a few key points.

One, FCG's proposal in this case will not result in a rate increase in this case.

Two, FCG's rate case has already been delayed by virtue of this filing, which is a benefit to FCG's customers. Approval of the requested amortization would simply allow FCG to earn closer to the bottom of its approved earnings range for 2025.

And, three, the amortization proposal is not contrary to Commission policy. There are Commission orders that state that the Commission's policy is that a reserve imbalance should be corrected over a period shorter than remaining life. There are also Commission orders that say it's Commission policy to correct imbalances over remaining life.

The fact of the matter is there is no consistent definitive policy on correction of an imbalance other than that it should be corrected. Instead, the Commission typically makes its determination on the appropriate corrective measure based on the circumstances of each case, as it did in FCG's last rate case when it approved the RSAM, which was a variation on an amortization corrective mechanism.

Commissioners, the foundation of this case is a valid complete depreciation study conducted by a reputable depreciation expert. The study in the company's proposal to correct the resulting reserve imbalance should be approved. Doing so will establish appropriate depreciation rates, correct the reserve imbalance and provide a measure of relief to the company in advance of its upcoming rate case without adversely impacting FCG's customers.

Thank you.

CHAIRMAN LA ROSA: Great. Thank you.

OPC.

MR. REHWINKEL: Thank you, Mr. Chairman. Again, good morning.

Commissioners, the evidence in this case that you will base your decision on will be provided by the witnesses and the documentation that you would take in, not what attorneys like me and Ms. Keating say. I appreciate this opportunity to make this opening.

If you look at the style of this docket, this would appear to be a depreciation case, but it's not, at least not entirely, and probably not principally. This is primarily a case about earnings. The Public Counsel believes that this case was filed prematurely. The evidence you will hear today will support that.

One might call this case the Holy Grail case. It's a quest much like the one in the British comedy that really does not exist, or perhaps it's like the Sean Connery Indiana Jones comedy adventure about a quest that should never have been undertaken.

In a non-final 2023 order on appeal right now, a $52 million surplus was created, and 25 million of it was set aside for use by FCG's owners to create a mechanism that this company told you would allow them to stay out of coming back in for rate relief for four years. You accepted that commitment, FCG used that mechanism and the $25 million under both sets of ownership. Both owners benefited from the order, and now the current owner wants to change the rules.

You told FCG that the $27 million of unused surplus would be dealt with the next time the company filed a depreciation study. FCG's depreciation study was not due to be filed until May 31st, 2027. This case was a rushed and thinly veiled attempt to syphon off that $27 million.

FCG is here to attempt to validate, sustain, create, achieve, however, whatever you want to call it, a depreciation reserve surplus that looked eerily like the ear consistently like the surplus remainder that was created in 2023. Today, the surplus just has a different sticker on the box it arrived in.

FCG's target of desire on this current quest was the $27 million and its newly labeled box. The grail or the trophy in the form of the surplus was to be attained at the expense of the customers. FCG desires it, and they want to find somewhere in this building -- they want to find it somewhere in this building. In fact, they just wanted you to give it to them without competent, substantial evidence, or meeting their burdens of proof, you should resist and terminate this quest.

Why do I say that? I say it, because like the mountain, that $27 million was there, and they wanted it. Period. The object of desire was placed there in 2023 by the intentional creation of a surplus in the last FCG rate case. The circumstances of that case are on appeal before the Supreme Court, and the fact of that appeal casts a long shadow over what the remainder surplus -- over that remainder surplus balance. As it is the subject of the pending appeal, and was specifically mentioned to the Court in oral argument, we think the summer -- that you should avoid having anything to do with this repackaged and relabeled surplus.

Yes, it is true that the object of desire is now $19 million. But when FCG started this quest, it was $27 million. Then, early on, your staff noted an error in the rushed filing, so FCG refined it to $22 million. Then more discovery and staff review revealed another error, and the putative surplus dropped to $19 million.

Your staff has now taken the highly unusual step of filing the testimony of a bright young hard-working professional, revealing that if this case should go forward at all, the actual number is less than $7 million. But make no mistake, the initial ask for $27 million what this journey was all about.

The current rate case order under which FCG's four-year, 48-month, stay-out commitment was given and accepted was issued on June 19th, 2023. A mere 21 months later the same company knocked on your door with hand out and brazenly asked for you to approve, shock of shocks, the coincidental amount of $27 million of depreciation surplus to be used for the benefit of shareholders for '25 and '26. Why? Well, the evidence will show that they blew through the $25 million in about 19 months. They appear to have missed the target by 29 months.

The Public Counsel objects to this handout. FCG should be sent packing and come back when they have a complete study that is synced up with the change in customer rates.

We recognize you are obligated to listen to all the evidence that is offered by the company and the customers, and importantly, your own staff. You should make your own mind up. We think that after you do that, though, the evidence is overwhelming that FCG is breaking the commitment they made to you, the commitment that you accepted, the evidence is there in plain sight.

But beyond the issue of the existence of the commitment, the evidence that they put forward falls short of supporting the very existence of a surplus or the need to use the surplus, it's riddled with holes like a fine Swiss cheese.

So what is this evidence? William Dunkel is our expert. He testifies for commissions and staffs about 50 percent of the time and consumers, like OPC, the other 50 percent. His expertise in these matters is accepted all over this nation.

Mr. Dunkel points out the fallacy of using the surplus to enrich the shareholders. He points out errors in FCG's submittal. He shows that there is bias, what he refers to as a conflict of interest, in the parameters that inflate the surplus. He shows you that the FCG proposal harms customers by putting upward pressure on depreciation rates, rate base and expenses for years to come. He points out that you and your staff have been provided incomplete and inadequate information, and that the submittal is not a complete study. It is inconsistent with your rule, and it is over two years premature.

That is just part of what our evidence will show. Public Counsel will also show that apart from the breach of faith from the 2022 rate case commitments that you accepted and the deficiencies in this filing, you cannot and should not rely on the company's claims of self-inflicted poverty.

They have not demonstrated that they need earnings relief. FCG has not met any kind of burden to show that they have included proper costs in earnings reports, or that they have excluded improper costs. They have not justified the steep increases and expenses that have been booked in the 18 or so reporting months since the ownership changed. Their earnings position has not been vetted or validated.

In short, the evidence will show that you do not have a basis for granting relief to FCG. They should be sent back to the drawing board and come back when they have a substantiated completed study and have the rate case they say they will file. Without the surplus amortization they seek here to review the prudence of their costs and earnings, FCG's claims should be denied and the quest terminated.

Thank you.

CHAIRMAN LA ROSA: Great. Thank you for those statements.

Staff, are there any additional stipulations to discuss at this time?

MR. SPARKS: Staff is not aware of any.

CHAIRMAN LA ROSA: Okay. Seeing none, let's go ahead and move to witness testimony. It looks like I have got Ms. Lee here.

Are there any other witnesses in the room? I presume so. If there is any witnesses in the room, do you mind standing and we will take the oath all together so we can knock that out now? Please, obviously, stand and raise your right hand.

(Whereupon, Chairman La Rosa administered the oath to the witnesses present.)

CHAIRMAN LA ROSA: Excellent. Great. Thank you.

MR. REHWINKEL: Mr. Chairman, Mr. Dunkel was just out in the hall. Could you --

CHAIRMAN LA ROSA: Mr. Dunkel, come on up and let's do that. Right there is fine. If you don't mind just maybe take the oath with us real quick.

(Whereupon, Chairman La Rosa administered the oath to the remaining witnesses.)

CHAIRMAN LA ROSA: Awesome. Great. So we will knock that out so when your turn comes, we won't have to do that again.

So just kind of as a quick reminder for the witnesses, summary of testimonies are limited to five minutes each, or 10 minutes for witnesses who are presenting both direct and rebuttal combined. As with opening statements, brevity is always appreciated.

To the extent possible, I ask that the witness do their best to answer questions as they are asked. Please let us all give witnesses the opportunity to clarify their response even for yes or no questions when -- of course, when that's necessary. My hope is that we will maintain a clean record while efficiently proceeding through the witness testimony. I am confident we will.

I would also like to remind everyone that if you need to refer to an exhibit on Case Center, you may navigate to that exhibit yourself and push it out to all parties, or request Brian, who is here with us with the Clerk's Office, to do that for you. He is a rock star, so I know we will be moving efficiently.

Also on the topic of exhibits, if someone has objections to an exhibit, please note it when the exhibit is introduced, and do not hold that objection.

And then finally, please remember that friendly cross-examination is not allowed.

Awesome. So I see, Ms. Lee, you are already

with us, so I will go ahead and toss it to FCG.
You may introduce your witness.
MS. KEATING: Thank you, Mr. Chairman. As you said, I don't need to call Ms. Lee to the stand because she's already there.
Whereupon,
PATRICIA S. LEE
was called as a witness, having been previously duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:
EXAMINATION
BY MS. KEATING:
Q So, Ms. Lee, will you please state your full name and address for the record?
A Patricia S. Lee, 116 Southeast Villas Court, Apartment C, Tallahassee, Florida.
Q And for whom are you appearing in this proceeding?
A I am appearing on behalf of Florida City Gas.
Q And did you cause to be prepared and filed 36 pages of direct testimony on October 3rd, 2025?
A That is correct.
Q Did you then cause to be prepared and filed 37 pages of amended direct testimony on November 4th, 2025?
A Correct.

MS. KEATING: Mr. Chairman, I will just note that we have submitted errata for Ms. Lee's amended direct testimony that will be filed in the docket this afternoon.

CHAIRMAN LA ROSA: Okay.

BY MS. KEATING:

Q With the edits that we have offered up in your errata, do you have any other changes or corrections to your amended direct testimony?

A No, I do not.

MS. KEATING: Mr. Chair, we would ask that the amended direct testimony of witness Patricia S. Lee be entered into the record as though read.

CHAIRMAN LA ROSA: So moved.

(Whereupon, prefiled direct testimony of Patricia S. Lee was inserted.)

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE PETITION FOR)
APPROVAL OF 2025 DEPRECIATION STUDY) Docket No. 20250035-GU
AND FOR ARROVAL TO AMORTIZE RESERVE)
IMBALANCE, BY FLORIDA CITY GAS)

AMENDED DIRECT TESTIMONY OF PATRICIA LEE

ON BEHALF OF
FLORIDA CITY GAS

November 4, 2025

C2-47

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Patricia Lee. My address is 116 SE Villas Court, Unit C, Tallahassee, Florida 32303.

Q. On whose behalf are you submitting this testimony?

A. I am submitting this testimony on behalf of Florida City Gas ("FCG" or "Company"), which is a natural gas division of Chesapeake Utilities Corporation ("CUC").

II. STATEMENT OF QUALIFICATIONS AND PURPOSE

Q. Please state your prior work experience and responsibilities.

A. I was employed as a high school mathematics teacher from 1971-1974 when I began working in statistical analysis for the State of Florida. I joined the Florida Public Service Commission ("FPSC") staff in 1978. While my position changed over the years, my primary focus areas were depreciation and capital recovery. I also reviewed and analyzed cost studies to determine unbundled network element prices and universal service cost levels, as well as to determine the appropriate annual accrual levels for nuclear decommissioning and fossil dismantlement. In that regard, I was responsible for depreciation issues and other issues, such as determining the appropriate cost model inputs. I retired in 2011 after over 30 years of service. I began working for BCRI Inc., d/b/a BCRI Valuation Services[1] in 2012, where I represented consumer advocate groups and Industrial Power Users in hydro and electric and jet fuel company depreciation filings. I prepared CUC-Florida Public Utilities Company's 2015, 2019 and 2023 consolidated electric Depreciation Studies, and the 2019 and

[1] BCRI is a consulting and research company founded in 1998 by Stephen Barreca. The company specializes in assessing technological change and appraising utility property.

2022 consolidated natural gas Depreciation Studies. I also prepared separate and consolidated Depreciation Studies for CUC-Maryland's three natural gas entities and for CUC-Delaware's natural gas entity in 2023 and 2024, respectively.

Q. What is your educational background?

A. I have a Bachelor of Science in mathematics from Appalachian State University in Boone, North Carolina.

Q. Please describe your other professional activities.

A. I am a member of the Society of Depreciation Professionals ("SDP"), an organization that has established national standards for depreciation professionals. I previously served as President of the SDP and was an instructor at several annual meetings concerning depreciation accounting. On behalf of the FPSC, I participated as a faculty member of the National Association of Regulatory Utility Commissioners ("NARUC") Annual Regulatory Studies Program and also for the SDP in the area of depreciation accounting. I was also a member of the NARUC Staff Subcommittee on Depreciation and Technology. In this regard, I co-authored the NARUC 1996 Public Utility Depreciation Practices manual and three NARUC papers that addressed the impact of depreciation on infrastructure development, economic depreciation and stranded investment. Two of these papers were published in the 1996-1997 and 1998 SDP Journals.

Q. Have you previously testified before any state and/or international regulatory commissions?

A. Yes. I have proffered testimony on depreciation in proceedings before the Alberta Utilities Commission, the Public Utilities Board of Manitoba, the Newfoundland

Labrador Board of Commissioners, the Maryland Public Service Commission ("MPSC"), and the FPSC. My Curriculum Vitae and a list of proceedings I was either assigned or in which I presented testimony are found in Exhibit PSL-1.

Q. **Have you been accepted as an expert in Depreciation in any previous proceedings?**

A. Yes, on multiple occasions.

Q. **When did FCG file its last depreciation study?**

A. FCG filed its last depreciation study in Docket No. 20220069-GU. In addition to that depreciation study, FCG proposed an alternate mechanism that applied different depreciation parameters and resulting depreciation rates than those reflected in the filed depreciation study. These different depreciation parameters resulted in a significant reserve surplus. The Commission approved the alternate depreciation parameters and resulting depreciation rates rather than those reflected in the depreciation study. The Commission also approved FCG's proposal for correcting a portion of the calculated reserve surplus. The revised depreciation rates and amortizations were approved effective January 1, 2023 by Order No. PSC-2023-0177-FOF-GU.

Q. **Explain why FCG is filing the current depreciation study.**

A. Rule 25-7.045, Florida Administrative Code, requires regulated gas companies to file a comprehensive depreciation study at least once every five years from the date of the last study. The last depreciation review was conducted when FCG was owned by FPL. Since that time, FCG was purchased by CUC in 2023, marking a major change. FCG is now operating in a different corporate environment, using the same operational and accounting procedures as other Chesapeake business units, and certain capital projects previously planned are no longer being pursued. For these reasons as well as changes in net plant (investment less reserve), there is a need to revise currently prescribed depreciation rates.

Q. What was your responsibility and participation in the 2025 Depreciation Study for FCG ("2025 Study" or "Study")?

A. I was responsible for and participated in all aspects of the work performed, resulting in the recommendations contained in the Depreciation Study narrative and workbook in amended Exhibit PSL-2. As a result of errors revealed in the earlier portion of this proceeding, the Study and workbook set forth in amended Exhibit PSL-2 reflect corrections not included in the Company's initial filing on February 24, 2025.

Q. What corrections have been made and what necessitated those corrections?

A. The following corrections/adjustments have been made to the amended Exhibit PSL-2:

1. Schedule K has been corrected to reflect reserve adjustments of $(183,942). This, in turn, caused Schedules A-E-3, G2024, and K to be revised to reflect correct balances.
2. The curve shape for Account 3761, Plastic Mains, is corrected to R2.5. This curve shape recognizes expectations of increased future retirements of early vintages of plastic pipe and the replacement of mains running through less accessible parts of customer property with mains located in more accessible areas.

3. The curve shape and average remaining life for Account 3762, Steel Mains, revised to R2.5 and 46 years. The R2.5 curve shape recognizes expectations of increased future retirements of early vintages of plastic pipe and the replacement of mains running through less accessible parts of customer property with mains located in more accessible areas. The corrected average remaining life is the result of using the existing average age, corrected curve shape, and proposed average service life.

4. The average remaining life for Account 3922, Transportation – Light, Medium Trucks, SUVs, and Vans has been re-calculated to correct a mathematical mistake.

5. Additional subsequent corrections were necessitated when, during the course of developing discovery responses pertaining to vintages of certain assets (Accounts 3762, Mains- Steel, 3810, Meters, and 3820, Meter Installations and 3850, Industrial Measuring and Regulating Equipment), it became apparent that "hard-coded" or static formulas in the depreciation workbook needed to be corrected for Plastic and Steel Mains Accounts 3761 and 3762. Correction of these items resulted in changes to the average ages and average remaining lives for Accounts 3761, Mains – Plastic, 3762, Mains – Steel, 3810, Meters, 3820, Meter Installations, and 3850, Industrial Measuring and Regulating Equipment, with a change to the reserve imbalance, resulting in a net reserve surplus of $19.2 million.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to sponsor and support the depreciation study and reserve surplus amortization for FCG's natural gas assets. The Depreciation Study attached as amended Exhibit PSL-2 produces the depreciation rates and amortizations used to determine the depreciation expense for FCG assets included in this filing. My amended testimony reflects the revised imbalance amount of $19.2 million.

Q. Are you sponsoring any exhibits?

A. Yes. Attached to my testimony are Exhibits PSL-1, PSL-2, PSL-3, and PSL-4. Exhibit PSL-1 is my Curriculum Vitae; Exhibit PSL-2 is the amended Depreciation Study and Workbook; Exhibit PSL-3 is a Life Table example; and Exhibit PSL-4 is the Florida peer gas companies' averages. I am submitting amended Exhibit PSL-2, which contains the corrected formulas and data. With these revisions, to the best of my knowledge, the information contained in these exhibits is true and correct.

Q. Please summarize your testimony.

A. My testimony will explain how the 2025 amended Depreciation Study was prepared and will set forth the depreciation rates that result from the Study, if accepted by the Commission. The Study includes all requirements outlined in Rule 25-7.045, F.A.C. I also provide additional detail on each section of the Study in my testimony.

The overall result of the 2025 amended Depreciation Study is a net decrease in FCG's depreciation rates compared to the currently prescribed rates, which decreases annual depreciation and amortization expenses by about $10.7 million based on January 1, 2025 investments. As detailed later in my testimony, this decrease is primarily due to amortization of the calculated net reserve surplus of $19.2 million over a 2-year period rather than the average remaining life of the related assets. The service lives recommended also reduce depreciation expenses generally. Once the amortization is completed, the depreciation rates will result in approximately $1 million annual decrease in expense compared to current depreciation expenses.

My testimony also addresses other options for the treatment of the reserve surplus and life and salvage parameters for some accounts, and why FCG's proposal is the most appropriate.

III. TESTIMONY STRUCTURE AND DEPRECIATION DEFINITION

Q. How is your testimony structured?

A. My testimony has eight sections. Sections I, II and III are introductory.

Section IV explains how the Depreciation Study conforms to the depreciation study requirements of Rule 25-7.045, Florida Administrative Code, and provides context for the 2025 Florida City Gas Depreciation Study. This section is broken into the following subparts: (A) Amortization Accounting, (B) Study Approach, (C) Survivor Curve and (D) Depreciation Study Conclusions.

Section V addresses the determination of depreciation rates, including identifying the formula used in the remaining life rate design. This section also explains and fully discusses each component of the depreciation rate supported by the Study.

Section VI is broken into the following subparts, which align with the components of the depreciation rate formula: (A) Depreciation Rate Formula, (B) Reserve, (C) Net Salvage and (D) Remaining Life Analysis.

Section VII discusses the change in annual depreciation expenses based on my proposed resultant depreciation rates and amortizations.

Section VIII concludes my direct testimony.

Q. Please define depreciation.

A. The Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA") and the National Association of Regulatory Utility Commissioners ("NARUC") define depreciation as follows:

> *Depreciation,* as applied to depreciable gas plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirements of gas plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities and, in the case of natural gas companies, the exhaustion of natural resources.[2]

The American Institute of Certified Public Accountants ("AICPA") in Accounting Research Terminology Bulletin #1 defines depreciation accounting as follows:

> Depreciation accounting is a system of accounting which aims to distribute cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not valuation. Depreciation for the year is the portion of

[2] 18 C.F.R. 201 (FERC Uniform System of Accounts), Definition 12B. Public Utility Depreciation Practices, August 1996, compiled and edited by Staff Subcommittee on Depreciation of The Finance and Technology Committee of the National Association of Regulatory Utility Commissioners (NARUC Depreciation Practices), p. 318.

> the total charge under such a system that is allocated to the year. Although the allocation may properly take into account occurrences during the year, it is not intended to be a measurement of the effect of all such occurrences.[3]

As noted above, the definition of depreciation emphasizes the allocation of cost concept rather than valuation. In other words, depreciation expense allocates the cost of the asset, including any estimated net salvage necessary to remove the asset, as an ongoing cost of operations over the life of the asset. However, the amount allocated to any one accounting period does not necessarily represent an actual loss or decrease in value that will occur during that particular period. The Company accrues depreciation on the basis of the original cost of all depreciable property included in each functional property group. On retirement, the full cost of depreciable property, less net salvage value, is charged to the depreciation reserve.

Q. What is the basic purpose of depreciation?

A. The purpose of depreciation is to systematically spread the recovery of prudently invested capital over the period the plant items represented by that capital are providing service to the public. Depreciation is an expense of doing business. Ideally, the timing of the expenses matches the timing of the active period of service. Depreciation rates are prescribed on the basis of estimates of the equipment's expected rate of loss in value due to known causes, including wear and tear, obsolescence and changes in demand. Depreciation expense is part of a company's revenue requirement, and the accumulated depreciation (depreciation reserve) is a deduction from rate base.

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[3] Accounting Research and Terminology Bulletin #1, AICPA, p. 25.

Q. Please define service life.

A. The term service life or life broadly refers to the period of time an asset provides service.[4] FERC defines service life similarly as follows:

> *Service life* means the time between the date gas plant is includible in gas plant in service, or gas plant leased to others, and the date of its retirement.[5]

Q. What is service value?

A. Service value, as defined by FERC, is "the original cost of an asset less its estimated net salvage."[6] NARUC defines the term similarly.[7]

Q. Please define net salvage.

A. FERC states "*Net salvage value*" means the salvage value of property retired less the cost of removal."[8] Net salvage is either positive in which the salvage value exceeds the removal costs or negative in which the removal costs exceed the salvage value proceeds.

Q. Please generally describe the purpose of the Study.

A. The basic purpose of the Depreciation Study is to attain the proper depreciation expenses and reserve level for the FCG gas intangible, storage, distribution and general plant accounts. The prime concerns in developing depreciation rates for each account are life, salvage, and reserve level. The key functions of the Study are to (1) determine the average service lives for Intangible, Storage, Distribution and General Plant accounts; (2) determine the appropriate net salvage for Intangible, Storage,

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[4] NARUC Depreciation Practices, page 321.
[5] FERC Uniform System of Accounts, Definition 36.
[6] FERC Uniform System of Accounts, Definition 37.
[7] NARUC Depreciation Practices, page 324.
[8] FERC Uniform System of Accounts, Definition 23.

Distribution and General Plant accounts; review the reserve position for each account and address the correction of any imbalance thereof; and, (4) develop depreciation rates, including the annual depreciation expenses.

IV. DEPRECIATION STUDY

Q. As part of the Study, did you review prior Commission orders on FCG's depreciation rates?

A. Yes. I reviewed the 2022 Depreciation Study sponsored by Ned Allis for FCG in Docket No. 20220069-GU, which I will refer to as the "Gannett Fleming Depreciation Study", and the depreciation rates, alternate parameters, and corrective reserve measures ultimately approved by the Commission in Order No. PSC-2023-0177-FOF-GU.

Q. Please summarize the results of the 2025 Study.

A. The results of the Depreciation Study are shown on amended Exhibit PSL-2, Schedules A-E. The Study results in an annual decrease in depreciation expense of about $10.7 million for the next 2 years, followed by an approximate $1 million decrease for the latter years. Revised Table 1 below summarizes the decrease in annual depreciation expenses by function.

Table 1 Summary of Depreciation Study Results

Function	Adjusted 1/1/25 Investment	Adjusted 1/1/25 Reserve	Proposed ASL	Proposed Rates	Proposed Annual Accruals	Current Annual Accruals	Change in Expense
Intangible Plant	$9,071,097	$1,582,461	18.6	5.4	$488,997	$523,730	($34,733)
Storage Plant	$60,013,891	$1,200,277	50.0	2.0	$1,200,278	$1,200,277	$1
Distribution Plant	$597,640,813	$167,437,000	58.0	2.3	$13,580,165	$14,285,359	($705,194)
General Plant	$29,975,107	$8,436,046	18.7	4.8	$1,448,313	$1,758,283	($309,970)
Total Depreciable Plant	**$696,700,908**	**$178,655,784**	**51.0**	**2.4**	**$16,717,752**	**$17,767,649**	**($1,049,897)**
Reserve Surplus Amortization					($9,622,190)	$0	($9,622,190)
Total Accruals with Reserve Surplus Amortization					**$7,095,562**	**$17,767,649**	**($10,672,087)**

The proposed depreciation rates reflect the lives, net salvage values, and theoretical reserves for each account to recover the net investments over each account's average remaining life. The life parameters are based on the average service life procedure and remaining life technique. For net salvage, a review of historical and the most recent 4-year average was performed.

Q. Has a comparison of the impact of proposed depreciation rates and amortizations to current depreciation rates been prepared?

A. Yes. <u>Amended</u> Exhibit PSL-2, Schedules C and D, compares the proposed depreciation rates and amortizations to those currently approved. The proposed depreciation rates and amortizations result in a decrease in annual depreciation expenses of about <u>$10.7</u> million or about <u>60%</u> over the next two years. Afterwards, it is an approximate $1 million or about 6 percent decrease.

Q. What does the FPSC Rule 25-7.045, Florida Administrative Code, require a depreciation study include?

A. The Commission's depreciation rule requires the following information be included in a depreciation study:

- An effective date for new depreciation rates and/or recovery schedules. If the proposed effective date coincides with the expected data for new revenues initiated through a rate proceeding, the depreciation study must be submitted no later than the filing of the Minimum Filing Requirements.
- A comparison of the current and proposed depreciation components for each account. the components include average service life, average age, curve shape, net salvage, and average remaining life.

- A comparison of current and proposed depreciation rates and expenses identifying the proposed date for implementing the proposed rates. Additionally, plant balances, reserve balances, remaining lives, and net salvage percentages are required in this comparison.
- Each recovery and amortization schedule.
- A comparison of the book reserve to the calculated theoretical reserve based on proposed rates and components for each account.
- A general narrative describing the service environment of the company and the factors necessitating a revision in depreciation rates.
- An explanation and justification for each account under study defining the specific factors that justify the proposed life and salvage components and rates. A discussion of any proposed reserve transfers to correct reserve imbalances. Any statistical or mathematical methods of analysis or calculation used in the depreciation rate design should be included.
- All calculations, analysis, and numerical basic data used in the depreciation rate design for each account. this should include plant activity and reserve activity for each account since the last submitted study. Where available, retirement data should be aged.
- The mortality and salvage data used in developing proposed depreciation rates for each account must agree with the booked activity. Unusual transactions not included in life or salvage studies should be specifically enumerated and explained.

- Calculations of the proposed depreciation rates should be made using both the whole life and remaining life techniques.

Q. Does the 2025 Depreciation Study contain the information and data required by the Commission's depreciation rule?

A. Yes, it does. The narrative and workbook in amended Exhibit PSL-2 contain all the information and data required.

Q. Did the Company provide any specific information for conducting the Study?

A. Yes, the Company provided the following information:

- Aged retirements for each year since the last depreciation study (2021-2024);
- Plant and reserve summaries for each year since the last depreciation study (2021-2024);
- Net salvage for 2004-2024;
- 2025 motor vehicle listing from its fixed asset system;
- 2025 office equipment listing from its fixed asset system;
- 2025 average age calculations;
- Prior period plant and reserve adjustments.
- Historical plant data, average retirement rates, and net salvage; and
- 2022 depreciation study reserve surplus calculation and account allocation.

Q. What date of implementation is recommended for the revised depreciation rates?

A. A January 1, 2025, implementation data is recommended for the revised depreciation rates and amortization schedules set forth in the Study. All data have been provided reflecting this date as required by Rule 25-7.045, Florida Administrative Code.

Q. Does the Study reflect any corrections to the information provided by the Company?

A. Yes. During the course of the Study, it was determined that some immaterial prior period adjustments needed to be made to the data furnished by the Company. <u>Additional adjustments were determined and included as the result of responding to discovery.</u> These adjustments are summarized by account on Schedules H – K, flow through the Study as adjustments to Schedule G 2024, and are reflected in the investments and reserves shown on Schedules A – E of <u>amended</u> Exhibit PSL-2. These adjustments will be reviewed and recorded by the Company.

Q. Does the Study provide a general narrative describing the service environment and factors necessitating the need to revise current approved depreciation rates?

A. Yes. <u>Amended</u> Exhibit PSL-2 contains a general narrative discussing the need to revise depreciation rates.

Q. Does the Study provide an explanation and justification for all proposed changes in life and salvage factors and any proposed reserve amortizations?

A. Yes. <u>Amended</u> Exhibit PSL-2, pages 8-25, contains account-by-account explanations and justification for the proposed life and salvage allowances and pages 4-<u>7</u> provide an explanation and justification for recommended reserve corrections.

Q. How was the average age of the surviving investment for each account determined?

A. The calculation of the average age of the surviving investments as of January 1, 2025, is shown in the workbook on <u>amended</u> Exhibit PSL-2, Schedules H, I and J. Schedule J shows the computation of the average age as of January 1, 2025, for each account except office equipment and furniture and motor vehicles. The source for the vintage and cost basis of each vintage is the CUC-FCG Continuing Property Record System. Schedule H identifies the office furniture and equipment assets for each of the subaccounts. Schedule I identifies each motor vehicle in service as of January 1, 2025, the placement year, the original cost, and the age of the vehicle to which the average age is calculated. For consistency across all CUC business units and administrative ease, office furniture and equipment assets and transportation equipment are proposed to be segregated consistent with all CUC gas companies (CUC-Maryland, CUC-Delaware, and CUC-Florida consolidated natural gas divisions).

The age is determined by subtracting the placement or install year from the Study date minus a half year. The Study date for these schedules is January 1, 2025. The reduction by a half year is called the half-year convention and assumes that the additions were made throughout the year so that, on average, they came into service about mid-year.[9] For example, the age of investments surviving from 2014 would have an age of 10.5 years as of January 1, 2025. The average age for each account is the direct weighting of the vintage age with the original vintage cost.

Q. What property is included in the Depreciation Study?

A. Four functional groups of depreciable property are analyzed in the Study: 1) Intangible, 2) Storage, 3) Distribution Plant, and 4) General Plant. Intangible plant contains CUC-FCG's customized software. Storage plant consists of a liquified natural gas facility placed in service in 2023. Distribution plant primarily consists of lines and

[9] The half-year convention is a common accounting convention adopted to obtain consistent statistics. Frank K. Wolf and W. Chester Fitch, *Depreciation Systems*, Iowa State University Press, 1992, p. 22.

facilities used to distribute gas to CUC-FCG's customers. General plant is plant (such as office buildings) used to support the overall utility operations.

A. AMORTIZATION ACCOUNTING

Q. Please describe vintage group amortization accounting.

A. Vintage group amortization is proposed for accounts with a large number of small value assets. Asset records will be maintained at a vintage level. Periodic inventories will no longer be needed to properly reflect plant in service. Retirements will be recorded when a vintage is fully amortized rather than when the associated assets are removed from service. Each plant account or group of assets will be assigned a fixed period that represents an anticipated life during which the assets will provide benefit. For example, assets having a 20-year amortization period will be fully recovered after 20 years of service and retired from the Company's books at that time, but not necessarily physically removed from service. Assets taken out of service before the end of 20 years remain on the books until the amortization period for that vintage has expired.

Q. Is vintage group amortization accounting proposed for certain plant accounts?

A. Yes. Under the Stipulation and Settlement Agreement approved in FCG's 2017 rate case by Order No. PSC-2018-0190-FOF-GU, vintage group accounting was adopted for certain General Plant accounts, specifically, Accounts 391X, 3930-3950 and 3970-3980. These accounts represent less than 1% of FCG's total plant investment.

Q. How were the proposed amortization periods determined for General Plant accounts?

A. Based on discussions with Company personnel, CUC seeks to adopt uniform amortization periods for General Plant accounts across all CUC natural gas business units. This will allow CUC to streamline business processes and reduce administrative burdens across all business units. These amortization periods are based on judgement and were approved in the most recent depreciation studies for CUC-Florida Public Utilities Company's consolidated natural gas divisions,[10] CUC-Delaware natural gas division[11], and CUC-Maryland's consolidated natural gas divisions[12].

Q. Has vintage group amortization been adopted by other utilities?

A. Yes. Vintage group amortization has been adopted for all of CUC's other natural gas and electric entities, as well as other electric and gas utilities.

Q. Are there any additional proposals for these amortization accounts?

A. Yes. I propose that the January 1, 2025 net unrecovered costs (investment less reserve) for each of these accounts be amortized over the remaining amortization period determined by the age minus the amortization period. In other words, if the amortization period is 20 years for a given account and the average age of those related assets is five years, then the remaining amortization period for the net unrecovered costs is 15 years. A depreciation/amortization rate is calculated by investment less reserve divided by the remaining amortization period. At the end of the remaining amortization period of 15 years, the related net investment will be fully recovered and

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[10] Order No. PSC-2023-0103-FOF-GU, issued March 15, 2023, in Docket No. 20220067-GU, *In re: Petition for rate increase by Florida Public Utilities Company, Florida Division of Chesapeake Utilities Corporation, Florida Public Utilities Company - Fort Meade, and Florida Public Utilities Company – Indiantown Division.*

[11] Order No. 10753, issued June 18, 2025, in Docket No. 24-0906, *In the Matter of The Application of Chesapeake Utilities Corporation for A General Increase in Its Natural Gas Rates and For Approval of Certain Other Changes to Its Natural Gas Tariff Filed August 12, 2024.*

[12] Order No. 91242, issued July 24, 2024, in Case No. 9721, *Chesapeake Utilities Corporation, Sandpiper Energy, Inc. and Elkton Gas Company's Joint Petition for Approval of Changes in their Depreciation Rates.*

should be retired from the Company's books. For vintages 2025 going forward, an amortization/depreciation rate of 5.00 percent should be applied to additions placed in service.

B. STUDY APPROACH

Q. Please describe your Depreciation Study approach.

A. The components required in the remaining life rate design are average service life, age, curve shape, average remaining life, net salvage, and reserve. The aged retirement data and the average age distributions of the surviving investments along with the lives of other Florida gas companies were used to determine if a revision to the average service life underlying the currently approved average remaining life for each account is needed.

First, data was assembled from the last depreciation review. Next, I reviewed the statistical analyses and data contained in the 2022 Gannett Fleming Depreciation Study. After that review, I conferred with field personnel, engineers, and managers responsible for the installation, operation, and removal of the assets under study to gain additional input into the operation, maintenance, and salvage of the assets. FCG's plant and reserve data for the January 2021- November 2023 period was obtained from FPL and the data for the period following the acquisition were reviewed for accuracy with all discrepancies examined and adjusted as needed. That information, along with recent data and the range of currently prescribed lives and net salvage values, was then evaluated to determine the expected future average service life and net salvage.

Finally, the theoretical reserve for each account was calculated and reviewed for the need for corrective action.

For many FCG accounts, the historical average retirement rate[13] as well as the recent 2001-2024 average retirement rate for each account has averaged less than one percent. This level of activity makes the results of any statistical analysis meaningless for developing life expectations. For this reason, reliance on industry averages is necessary. I have used the range of average service lives underlying the currently prescribed average remaining lives for other Florida gas utilities in determining an appropriate average service life for the Company.[14] Florida gas companies have more similar operating and regulatory environments among them than they do with gas utilities in other states.

Q. Did you perform statistical analysis for your proposed life or salvage factors?

A. No, I didn't.

Q. Please explain.

A. I reviewed the statistical analysis presented in the 2022 Gannett Fleming Depreciation Study and decided there was no need for additional statistical analysis. Statistical analysis, at best, only indicates how the account under study has lived in the past. Company personnel are a better source for what the future may look like. Only if the past is a mirror of the future is statistical analysis of value. If the past is considered to mirror the future, repetitive statistical analysis serves no real purpose.

[13] Retirement rate = retirements/exposures = [retirements during the year/(end of year plant balance + retirements)] x 100.
[14] See Exhibit PSL-4.

C. SURVIVOR CURVE

Q. What is a survivor curve?

A. A survivor or mortality curve is a graphical picture of the amount of property surviving at each age through the life of the property group. The graph plots the percent surviving on the y-axis and the age on the x-axis. The survivor curve depicts the expected retirement pattern of plant in an account over time. Iowa Curves are types of survivor curves developed to describe the life characteristics of utility property. They are the descriptive and accepted representation of retirements of utility property and consist of 34 retirement distributions. Survivor curves were not generated by statistical analysis for any account in the Study. Rather, the Iowa Curve underlying the currently prescribed average remaining life for each account was reviewed to determine if it is still appropriate based on the average age and average retirement rate.

In this Study, the "Proposed" curve shapes shown in the workbook on amended Exhibit PSL-2, Schedule B, are based on existing curve shapes underlying the currently prescribed average remaining life for each account, a review of the curve shapes proposed in the 2022 Gannett Fleming Depreciation Study, actual retirement experience over the 2020-2024 period as well as historical retirements, and the current average age. If the proportion surviving at the current age implies more or less retirements than those implied under the current curve shape, a change may be proposed for a curve considered indicative of future expectations. For most of the accounts, FCG has no planned near-term retirements that could affect the curve shape. Additionally, many accounts have experienced miniscule retirements indicating a curve shape with very little infant mortality. However, a Company's input for future retirement expectations is valuable and can result in a change in curve shape.

Q. How did you determine the proposed average service lives?

A. First, I compiled the annual data for the 2021-2024 period, as well as the General Ledger, Fixed Asset System, and near-term planning. I then reviewed and compared this data for accuracy and followed-up on all discrepancies with Company personnel having knowledge of the property being studied and/or Company practices. I also reviewed the data FCG acquired from FPL.

I reviewed each account's average retirement rate over the period and curve shape underlying the currently prescribed average remaining life. This data, along with the January 1, 2025, calculated average age of the account's surviving investments, indicated whether a need for some modification to the curve shape underlying the currently approved average remaining life is needed. Retirement activity averaging less than one percent provides insufficient data to perform any meaningful statistical analyses for life characteristics; therefore, it was necessary to rely on life characteristics for similar plant of other Florida gas utilities to make a complete analysis. The assumption is that the same type of plant, located in the same environment is likely to follow similar life patterns unless otherwise warranted by specific company planning. Average retirement rates were calculated for each account and compared to those implied retirements at the January 1, 2025 average age of the underlying current curve shapes to determine if any modifications are warranted.

Q. How is a survivor curve used in this Study?

A. The average service life, Iowa Curve, and average age are used to develop the average remaining life of the account..

V. DETERMINATION OF THE DEPRECIATION RATES

Q. What is the purpose of this section of your testimony?

A. This section explains how depreciation rates are determined, including the formula for depreciation rates. This portion of testimony also explains and discusses each portion of the depreciation rate formula and the theoretical reserve calculation supported by the Study.

A. DEPRECIATION RATE FORMULA

Q. How are the depreciation rates determined?

A. The depreciation rates are calculated using the remaining life technique.

$$\text{Remaining Life Rate} = \frac{100\% - \text{Reserve}\% - \text{Average Future Net Salvage}\%}{\text{Average Remaining Life (in Years)}}$$

The numerator of the formula represents the amount remaining to be recovered for each account (plant investment[15] less reserve less any net salvage) and the denominator represents the current estimate of the number of years left in which to recover (average remaining life) the investment. The use of the remaining life technique incorporates a self-correcting mechanism that will adjust for any over- or under-recoveries that have occurred. The remaining life technique ensures that the full-service value of the associated assets is recovered through depreciation expense.

Q. What portion of the formula used to derive depreciation rates is supported by the Study?

[15] Plant investment represents 100% in the remaining life depreciation rate formula.

A. The Study determines several pieces of the depreciation rate formula. The portions of the formula derived by the Study are:

Reserve: The depreciation book reserve was provided by FCG with actual plant and reserve balances on January 1, 2025. It represents historical depreciation expenses, less retirements and cost of removal, plus historical gross salvage. The book balances were restated to include Study adjustments. The reserve percent is derived by dividing the adjusted reserve balance by the adjusted plant balance for each account.

Net Salvage: The Study supports the overall net salvage percentages for each Storage, Distribution, and non-amortizable General Plant account. Net salvage is the realized gross salvage less the costs to remove the retired asset. For these plant accounts, salvage and cost of removal percentages are calculated by dividing the net salvage, gross salvage less cost of removal, by the original installed cost of the retired assets.

Remaining Life: The Study supports the remaining life calculation by determining the appropriate average service life, curve shape, and average age for each account.

Resulting Depreciation Rates and Expenses: The Study calculates the depreciation rates; the annual expenses are calculated by multiplying the depreciation rate times the plant balances as of January 1, 2025.

B. THEORETICAL RESERVE

Q. What purpose does the theoretical reserve serve in a depreciation study?

A. The theoretical reserve represents the portion of the account's investment that should have been theoretically accrued if the life and net salvage assumptions now considered appropriate had always been in effect. The Theoretical reserve serves as a point of comparison to the book reserve[16] to determine if the unrecovered investment (gross investment less net salvage) is over or under-accrued. Since the reserve is 100% (assuming zero net salvage) at the time of retirement of the plant under study, the theoretical reserve is 100% less the future accruals and less the expected net salvage. The future accruals are represented by the Whole Life depreciation rate multiplied by the years remaining for recovery (remaining life).

Q. How does the Study determine the theoretical reserve?

A. The theoretical reserve for each account is a calculation based on the plant balances as of January 1, 2025. For each account, the plant balance is multiplied by the theoretical reserve percentage. The calculation for the theoretical reserve percentage is:

100%-Remaining Life * Whole Life Rate[17] – Net Salvage%

A theoretically correct reserve is developed based on the average service life as well as the remaining life period for recovery, and salvage projections. When the book reserve and the calculated theoretically correct reserve are the same, the Remaining Life depreciation rate equals the Whole Life rate.

Q. What if the book reserve and the calculated theoretical reserve are not the same?

A. If the book reserve and the theoretical reserve are not the same, the difference is a reserve imbalance. This is not unusual. In fact, when a depreciation study with revised life and salvage factors is filed, the amount of the theoretical reserve will necessarily change from case to case. Essentially, there will always be a difference between the book reserve and the calculated theoretical reserve. In a typical case when the

[16] The book reserve is the amount of plant investment actually recovered to date.

[17] The whole life rate equals the investment less net salvage (NS) divided by the average service life (ASL). The formula is: (100%-NS)/ASL

difference is not significant, if no corrective action is taken, the imbalance will effectively be allocated over the remaining life of the associated plant. The remaining life formula will self-correct for any reserve imbalance to ensure full recovery of the investment. If the imbalance is significant, it is more pertinent to address the issue.

Q. What is a reserve deficit?

A. A reserve deficit exists when the book reserve is less than the calculated theoretical reserve. In this case, all things remaining equal, the remaining life rate will increase recognizing that not enough has been recovered to date and more needs to be recovered over the remaining period of service.

Q. What is a reserve surplus?

A. A reserve surplus exists when the book reserve is greater than the calculated theoretical reserve. In this case, all things remaining equal, the remaining life rate will self-correct to recognize that there is a smaller amount of investment to be recovered over the remaining life of the given investment. In other words, future customers would receive the full benefit from lower depreciation rates rather than those customers who may have paid for the surplus.

Q. Is it desirable for the book reserve to conform to the calculated theoretical reserve?

A. Yes. It is desirable for the book reserve to conform to the calculated theoretical reserve as closely as possible. When remaining life rates are used, the theoretical reserve provides the basis for any over or under-recovery in setting the depreciation rates at the appropriate level based on the current life and salvage expectations. The remaining life depreciation rates will self-adjust for any over or under-recovery.

Q. What are the options for correcting reserve imbalances?

A. There are three options correcting reserve imbalances: 1) through remaining life rates where the imbalance is corrected over the remaining life of the associated investments, 2) through reserve transfers between accounts using existing surpluses to offset deficits where possible, or 3) netting the various account imbalances to a bottom-line and amortizing the net amount over a short period of time that is economically practicable for the company.

Q. Have you proposed any reserve transfers?

A. Yes. I am proposing a reserve transfer from Account 3762, Steel Mains, to correct the negative reserve balance in Account 3821, Meter Installations-ERT, Sch A and Sch E-3 of the attached workbook. This transfer brings the reserve for each account more in line with its theoretically correct level.

Q. What is a negative reserve and what caused the one existing for Account 3821, Meter Installations?

A. A negative reserve is failure of the past to recover adequately. A negative reserve relates to plant no longer in service and represents positive rate base that the Company will earn a return on until corrected. The negative reserve for Account 3821, Meter Installations, is from an unusually large retirement in 2021.

Q. With your proposed reserve transfers, is there a net reserve imbalance?

A. Yes, I have calculated a net reserve imbalance of $<u>19.2</u> million at January 1, 2025, based on my proposed life and salvage parameters for each account. This represents nearly <u>10%</u> of the calculated theoretical reserve. The calculation is shown on Schedules E of the Study workbook in <u>amended</u> Exhibit PSL-2. Using the remaining

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life technique to correct the imbalance, the surplus will be allocated over the remaining life of all accounts, about 43 years. I consider this too long given the amount of the surplus. Also, the resultant remaining life depreciation rates will be artificially lower than they should be because more has been recovered in the past resulting in less to be recovered in the future.

Q. What corrective action do you recommend for the identified net reserve surplus?

A. I recommend a 2-year amortization for the reserve surplus. This amortization will reduce depreciation expenses or the amortization period. After 2 years, the amortization ceases and the depreciation expenses return to a normal level based on the remaining life rates at the theoretically correct level.

Q. If the reserve surplus is corrected, what is the reserve position used in the remaining life rate calculation?

A. If the reserve surplus is corrected, each account's reserve is brought to its theoretically correct level. This is the reserve position used in the calculation of the proposed remaining life depreciation rates. Because the reserve will be corrected, the remaining life depreciation rates and the whole life rates will be the same.

Q. Has the Commission ever approved such a remedy as FCG is proposing for a reserve imbalance?

A. Yes, it has on many occasions. Commission Order No. PSC-2019-0433-PAA-GU found that when a significant imbalance is observed, reserve transfers or amortization may be necessary due to magnitude.[18] Furthermore, the Commission found in 2010 the "the matching principle argues for a quick correction of any surplus; the quicker

[18] Order No. PSC-2019-0433-PAA-GU at page 4, issued October 22, 2019, in Docket No. 20190056-GU.

the better so that the ratepayers who may have overpaid would have a chance of benefitting."[19] The Commission's historic practice has been to correct significant reserve imbalances, whether deficits or surpluses, as quickly as economically practicable to avoid intergenerational inequity. Order No. PSC-01-2270-PAA-EI found that reserve imbalances are primarily a matter of differences between current and past projections and should be recovered as fast as possible, so long as doing so does not jeopardize the financial integrity of the utility.[20] In Order No. PSC-10-0131-FOF-EI[21] and Order No. PSC-10-0153-FOF-EI[22], the Commission determined that the reserve imbalance (a surplus in both cases) should be amortized over 4 years. In Order No. PSC-94-1199-FOF-EI, the Commission delayed approval of an amortization period so a faster recovery period could be evaluated based on earnings.[23]

Q. Has the Commission approved corrective reserve measures in depreciation studies that are filed separately from a base rate case?

A. Yes, regularly. Reserve transfers between accounts, a long-standing Commission-approved practice, are tantamount to amortization of reserve imbalances correcting deficits on one account with surpluses in another. In cases where vintage year accounting for amortizable general plant accounts has been requested, the Commission has approved amortization of the reserve imbalance associated with the affected accounts to bring each to its theoretically correct level. Another example is found with Order No. 19438, issued June 6, 1986, in Docket No. 19860868-EI, where the

[19] Order No. PSC-2010-0153-FOF-EI, issued March 17, 2010, in Dockets Nos. 20080677-EI and 20090130-EI.
[20] Issued November 19, 2001, in Docket No. 20010669-EI.
[21] See, pages 45-52. Issued in Dockets Nos. 20090079-EI, 20090114-EI, and 20090145-EI, on March 5, 2010.
[22] See, pages 83-87. Issued in Dockets Nos.20080677-EI and 20090130-EI, on March 17, 2010.
[23] Issued September 30, 1994, in Docket No. 19931231-EI.

Commission approved that tax credits associated with the interest synchronization of investment tax credits should be applied to decrease the unrecovered cost associated of planned retirements and prospectively to be booked in a non-specific account to be made account specific in the next depreciation study.[24] Additionally, the Commission has previously approved that net gains from the sale of certain plant be applied first to the unrecovered cost of the associated plant with the remainder amortized over a short period.

Q. Is the Company's proposal to amortize this amount over 2 years consistent with sound depreciation techniques?

A. Yes. In this case, FCG's amortization proposal is the most appropriate way to address the imbalance. First, if FCG's proposal is accepted, the annual depreciation expenses will decrease by approximately $10.7 million for two years compared to existing rates and amortization, which I address later in my testimony. After the two year amortization of the reserve surplus is completed, depreciation expense will decrease by about $1 million compared to existing rates and amortization. In this way. FCG's proposal will provide a return of the reserve surplus, which equates to the over payment of depreciation expenses, to the generation of ratepayers who may have overpaid and provide a return to the matching principle and intergenerational equity over 2 years. If the reserve surplus is instead corrected over a longer period, such as the remaining life, current FCG customers will effectively subsidize future customers. New additions will carry the overstated reserve position resulting in lower than

[24] 88 FPSC 6:104.

equitable depreciation rates and resulting expenses. The more significant the reserve surplus, the more depressed the resulting remaining life rate will be.

C. NET SALVAGE

Q. Please explain the concept of net salvage.

A. Net salvage is a component of the service value. It is the difference between realized salvage (gross salvage) and the cost to remove and dispose of the given asset. If the cost of removal is greater than the gross salvage realized, the net salvage is negative. Conversely, if gross salvage is greater than the cost to remove the asset, the net salvage is positive.

For most accounts, the net salvage is negative in that it costs more to remove or abandon the retired plant than the Company receives from selling the retired items. Salvage and cost of removal percentages are traditionally calculated by dividing the net of gross salvage and cost of removal by the original installed cost of the assets retired.

Q. How did you determine the net salvage factor for each Distribution and General Plant account?

A. To determine the net salvage factor for each account, I start by dividing the current gross salvage less cost of removal by the original installed cost of the associated retired assets. However, judgement also is applied to select a net salvage factor that represents the future expectations for each account. To apply the judgement, historical salvage and removal data was compiled for each account to determine values and trends in net salvage. This data is shown on Schedule Q of the study workbook in amended Exhibit PSL-2.

Q. How were the net salvage percentages for Storage Plant determined?

A. The currently prescribed net salvage for these accounts is zero. The investments have only been in service since 2023 so no historical data is available. Continuation of the currently prescribed zero net salvage is recommended to be reevaluated as actual experience is incurred in the future.

D. REMAINING LIFE ANALYSIS

Q. How were the recommended average remaining lives determined for each account?

A. The recommended average service life (projection life) and January 1, 2025 calculated average age for each account were used with the selected Iowa Curve life table to determine the average remaining life. The Life Tables I used in the remaining life expectancy determinations were obtained from GTE-INC.[25] These are standard Iowa Curve life tables that can also be replicated from other sources.[26]

For example, an account with a life of 30 years following an S3 retirement dispersion (survivor or mortality curve) would, at age 9.5 years, have an average remaining life of 20.52 years, rounded to 21 years. The life table used is attached as Exhibit PSL-3. For accounts where the average age is not found in the life table, the remaining life is determined by extrapolation. For instance, using the same service life and curve shape as above, at age 9.7 years, the average remaining life is 20.3 years, rounded to 20 years.

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[25] The life tables obtained from GTE-INC are comprised of two volumes, each consisting of 646 pages, too voluminous to copy and attach to this testimony.

[26] Frank K. Wolf and W. Chester Fitch, *Depreciation Systems*, Iowa State University Press, 1992, p. 40 and Appendix 1, pp. 305-338; Robley Winfrey, *Bulletin 125: Statistical Analyses of Industrial Property Retirements*, 1935 as revised 1967, Iowa State University Engineering Publications and Communications Services, pp. 102-106; Robley Winfrey, *Bulletin 155: Depreciation of Group Properties*, 1942, Iowa State University Engineering Publications and Communications Services, pp. 124-127.

Projection Life 30 Years	
Age	Remaining Life
9.5	20.52
9.7	*X*
10.5	19.54

$$(9.7-9.5)/ (10.5-9.5) = (X-20.52)/ (19.54-20.52)$$

$$0.2/1 = (X-20.52)/-0.98$$

$$X-20.52 = -0.196$$

$$X = 20.52 - 0.196$$

$$X = 20.324 \text{ rounded to 20 years}$$

VI. DEPRECIATION STUDY CONCLUSIONS

Q. Based on the Study, what conclusions do you reach?

A. I conclude that:

- FCG's current approved life and salvage parameters should be revised as set forth in the workbook on amended Exhibit PSL-2, Schedules A and B, which are sponsored by me.
- Proposed accounts for Intangible Plant for software systems should be approved with the proposed amortization periods set forth in the Study Narrative and workbook, amended Exhibit PSL-2.
- New subaccounts for General Plant are proposed to be consistent across all CUC gas distribution business units. Additionally, the proposed amortization/depreciation periods for the general plant amortizable accounts set forth in the workbook on amended Exhibit PSL-2, Schedules should be approved.

- The proposed reserve transfers identified in Study Narrative and workbook, amended Exhibit PSL-2, Schedules A and E-3, should be approved.
- A 2-year amortization of the calculated net reserve surplus of $19.2 million identified on amended Exhibit PSL-2, Schedules E-2 should be approved.
- The depreciation rates in the Study will result in a decrease in the annual depreciation expense of approximately $10.7 million. This amount was determined by comparing the depreciation expenses based on the currently prescribed depreciation rates to expenses based on the proposed rates using January 1, 2025, investments.

Q. **Are the life, salvage value, and curve shapes you propose in in your amended Exhibit PSL-2, FCG's 2025 Depreciation Study, supported by sound depreciation analysis and techniques?**

A. Yes.

VII. CHANGES IN DEPRECIATION EXPENSE AS A RESULT OF THE PROPOSED DEPRECIATION RATES

Q. What is the purpose of this section of your direct testimony?

A. This section of my direct testimony discusses the change in depreciation expenses resulting from the proposed depreciation rates, amortizations, and components. I specifically detail the major changes in depreciation expense.

Q. Please summarize the Depreciation Study results with respect to changes in depreciation expense.

A. The depreciation rates based on the recommended life, salvage, and corrected reserve levels, reflect a decrease in annual depreciation expenses of about $10.7 million. These expenses are based on January 1, 2025 investments. amended Exhibit PSL-2, Schedule

D, shows the major decrease in expenses is due to the proposed amortization of the bottom-line net reserve surplus. Other decreases are primarily found in the distribution plant accounts, specifically Account 3801, Plastic Services, Account 3810, Meters, and Account 3812, Meters-ERTs.

VIII. CONCLUSION

Q. Do you have any concluding remarks?

A. Yes. The amended depreciation study and analysis performed under my supervision fully supports the proposed depreciation rates indicated in my testimony and underlying depreciation study. The amended depreciation study describes the analysis performed and the depreciation rates and amortizations that are appropriate for FCG's property. The proposed depreciation rates and amortizations should be approved to allow recovery of the Company's investment in property over the estimated remaining life of the associated assets and to correct the calculated reserve surplus as fast as economically practicable.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Approval of Florida City Gas's 2025 Depreciation Study and for Approval to Amortize Reserve Imbalance.	) Docket No.: 20250035-GU)) Filed: December 11, 2025)

Errata to the Amended Direct Testimony of Patricia S. Lee (November 4, 2025)

Page 30, line 8: Change "or" to "over"

Errata to Amended PSL-2 of Patricia S. Lee (November 4, 2025)

Page 20, second full paragraph, strike last two sentences and insert: The Company proposes a net salvage factor of 0%.

Respectfully submitted this 11th day of December, 2025.

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BY MS. KEATING:

Q Ms. Lee, did you also cause to be prepared and filed exhibits PSL-1, PSL-2, PSL-3 and PSL-4 on October 3rd?

A Correct.

Q And did you then cause to be filed an amended PSL-2 on November 4th?

A Yes.

Q Do you have any changes or corrections to your exhibits beyond those reflected in the errata?

A No.

MS. KEATING: Okay. Mr. Chair, I believe that Ms. Lee's exhibits have already been marked for the record as Exhibits 2 through 5.

CHAIRMAN LA ROSA: Okay.

BY MS. KEATING:

Q Ms. Lee, do you have a summary of your amended direct testimony?

A I do.

Q Would you please go ahead and present that?

A Thank you.

Good morning, Mr. Chairman and Commissioners. Thank you for the opportunity to speak to you this morning. The purpose of my testimony is to present and support the 2025 depreciation study for Florida City

Gas.

Current depreciation rates were approved in Docket 20220069 effective January 1st, 2023, when FCG was owned by FPL. CUC, or Chesapeake, purchased FCG in December 2023. Ownership changes, operational and accounting changes, as well as changes in investments and reserves, indicate a need to revise depreciation rates. A January 1st, 2025, implementation date for a revised depreciation rates and amortizations is proposed, all investment and reserve have been brought forward to that date.

With depreciation studies, it is not uncommon that study refinements and revisions are needed throughout the review process. The original 2025 study was filed on February 24th. The October 3rd revised filing and the November 4th amended filing made additional adjustments to the study and the study workbook.

Specifically, one, reserve adjustments were made for prior years to reflect misclassified assets that were discovered in a review of the reclassifications to CUC's chart of accounts specifications.

Two, mortality dispersions or curve shapes for plastic and steel mains accounts were revised to depict future retirement expectations. This, in turn, revised the average remaining lives for these accounts. The recommended average remaining life for transportation like trucks was also corrected due to a mathematical mistake.

And, four, during the course of developing discovery responses pertaining to vintage of certain assets, it became apparent that five accounts did not reflect the accurate average age as of January 1st, 2025. This was due to miscoded investments and hard coded or static formulas used in the average age calculations for the surviving investments. These changes necessitated revisions to the associated account average remaining lives, as well as the revised net reserve imbalance of 19.2 million.

The depreciation study reflects recommended life and salvage values based on my analysis of FCG's current approved lives and salvage values, a review of the statistical live analysis result of historical data presented in the 2022 Gannett Fleming depreciation study, activities since the 2022 proceeding, input from FCG personnel, including field engineers and managers, the January 1st, 2025, average age of surviving investments for each account, and the lives and salvage values prescribed for other Florida regulated gas companies.

Because we are estimating future lives and salvage values, more weight was given to company input and the lives and salvage values of other Florida Gas companies then historical data.

As part of the depreciation study, a theoretical reserve was calculated indicating a reserve surplus. In other words, more has been accrued to date through depreciation expense than needed based on current life and salvage expectations. The reserve surplus can be corrected either through reserve transfers between accounts, or over the composite average remaining life, which for FCG is about 40 years, or over a period shorter than the average remaining live.

In this case, I am recommending the combination of reserve transfers and correction of the remaining surplus over a period of two years through a credit or decrease in depreciation expenses.

If FCG's depositions rates and reserve surplus amortization are approved, depreciation expenses would decrease annually about $10.7 million compared to existing depreciation rates and expenses for two years. After that time, the decrease to current depreciation expenses would be about $1 million.

In conclusion, the life and salvage parameters I am recommending comply with the Commission's depreciation rule requirements and should be approved. The resulting depreciation rates and amortizations will allow FCG to recover its investments appropriately through depreciation rates and expenses while correcting the reserve imbalance in a very timely manner.

This concludes the summary of my amended testimony, and thank you for your time.

Q Thank you, Ms. Lee.

MS. KEATING: Mr. Chairman, the witness is tendered for cross.

CHAIRMAN LA ROSA: Great. Thank you.

OPC, you are second.

MR. REHWINKEL: Thank you, Mr. Chairman.

EXAMINATION

BY MR. REHWINKEL:

Q Good morning, Ms. Lee.

A Good morning.

Q I think you did spend a number of years at the Commission as a depreciation subject matter expert, right?

A I am sorry, would you repeat that?

Q Yes. You did spend a number of years at the Commission, this commission, as the depreciation subject

matter expert, right?

A That is correct.

Q And for decades, you and Mark Wilkerson were the staff that the Commission relied on to determine the proper depreciation parameters for the utilities that the Commission regulates, right?

A That's really going back in the day, but, yes, you are correct.

Q And you -- I think you also served on the staff subcommittee on depreciation, I think it has a longer name than that, right?

A Correct.

Q And my recollection was, back in the day, that you were chair of that committee at some point, right?

A At some point, yes, I was.

Q Okay. And it would be fair to say that while serving on the committee, you had a major role in the preparation of the Public Utility Depreciation Practices Manual issued in 1996, right?

A I was one of the co-authors of that book, yes.

Q If I could get the Case Lines to turn to C2-83, which is your CV.

A Page 83?

Q Okay.

CHAIRMAN LA ROSA: It will appear on your

screen in front of you, and then you will have access to it.

BY MR. REHWINKEL:

Q In your CV, it shows that besides this case, you worked on five Florida depreciation studies for Chesapeake, correct?

A Correct.

Q And that's shown in the second bullet, and the third and sixth subbullets, right?

A It's shown in the first, the second, the third --

Q The second bullet, and then the third subbullet and the sixth subbullet?

A Correct.

Q Okay. And two of these studies were for the consolidated gas company, and three were for FPUC's electric company, right?

A Correct.

Q And would it be fair to say that you began working on behalf of Chesapeake possibly as early as 2014 given the 2015 earliest date on this CV?

A Possibly.

Q Okay. And you started working on this case sometime in the second half of 2024, is that right?

A I believe I started working on this case --

the Florida City Gas case --

Q Yes.

A -- in October of 2024.

Q Now, you would agree that the Commission's depreciation rules require electric utilities to file depreciation studies no less than every four years, and gas companies no less than every five years --

A Yes.

Q -- absent a waiver, right?

A That is the way the rules read at this time, yes.

Q Okay. And you would also agree that the filing dates of these five studies in your CV generally demonstrate the four- and five-year spacing called for by the rule, right?

A That is correct.

Q And even though we cannot see from your CV, the study filing dates before the 2015 electric study, you would agree, subject to check, that the Commission orders reflect the electric company for the FP -- the Chesapeake electric company, the previous studies were filed in 2011 and 2007, or four years apart?

A I am sure the dates were in the orders for those studies.

Q Okay. And are you generally aware that they

would have been four years spaced for those companies too, as reflected in the orders?

A Generally, yes.

Q Okay. And even though we cannot see in your CV the study filing dates before the 2018 gas study filed in March of 2019 after an authorized two-month delayed, you would agree, subject to check, that the Commission orders reflect that for the consolidated gas company, that the previous study was filed in 2014, or after five years?

A I will agree, subject to check.

Q Okay. And wouldn't you also agree, subject to check, that the Commission orders reflect that the 2014 gas study was actually due for Chesapeake division in 2012, and for FPUC and Indiantown in 2013, but that the company sought a waiver for 2014 because it was consolidating the depreciation rates of several companies included in the new -- including the newly acquired City of Fort Meade system?

A As I recall, that is correct.

Q Okay. And wouldn't you also agree, subject to check, that the various gas systems had filed their previous depreciation studies on the following dates: Chesapeake in May 17th of 2007, FPUC in March -- March 21st, 2008, Indiantown, December 10, 2008, and Fort

Meade, since it was previously a municipal system, no date, would you agree, subject to check, for those dates, for the individual systems that were ultimately consolidated?

A I will agree subject to check.

Q Thank you.

And would you also agree that the orders of the Commission reflect, subject to check, that in October 2009, Chesapeake and FPUC merged, and Chesapeake's then next study was due on May 17, 2012?

A Would you repeat that?

Q Yes.

Would you agree that the Commission orders reflect that in October of 2009, Chesapeake and FPUC, Florida Public Utilities Company, merged and the combined Chesapeake's then next study was due on May 17, 2012?

A I will agree subject to check.

Q Okay. I -- let me strike that question, and I apologize.

I meant to ask you if, even though the companies merged, was Chesapeake individual system's next study due at that time, after the merger, on May 17, 2012, subject to check?

A I don't really recall, but I will agree subject to check.

Q Okay. And that after the merger, FPUC's then next study was due by May 30th, 2013, subject to check?

A That would be the five-year interval, correct.

Q Okay. And that Indiantown's then next study was due by December 10, 2013, would you agree with that, subject to check?

A Subject to check, yes.

Q And then after -- would you agree that the Commission's orders, subject to check, reflect that after a meeting with staff, the Commission agreed to a January 15, 2014, filing date for all of these consolidated gas systems?

A I am not familiar with that.

Q Okay.

A I don't recall.

Q But if it's reflected in the order, the order --

A If it's reflected in the order, I will agree, subject to check.

Q Thank you.

So you would agree, would you not, that except for the delayed 2014 gas company filing, subject to check, that the company's recent history is to file on the schedule of the depreciation rules?

A I will agree with that. Can I follow up with a comment, please?

Q Sure.

A And what is I will agree that up to this time, they have been filing every five years. But the depreciation rule does not prohibit a company coming in earl -- sooner than that, earlier than that. That was the whole purpose of the rule, was to give the companies the opportunity that when they saw a need to revise depreciation rates, they brought forward a depreciation study whether or not it was at five years. I mean, they had to file every five years, but they could come in shorter than that.

Q But until this year, FPUC and Chesapeake had filed at or later than the established four- and five-year periods, right?

A Subject to check, yes.

Q And wouldn't you agree that the filing of a comprehensive and complete depreciation study is a large undertaking if it is performed correctly?

A Yes.

Q And you would agree that there is expense incurred in preparing a depreciation study, right?

A Yes, there is.

Q And you would agree that no utility has the

time or money to spend extra -- to spend on doing extra depreciation studies, right?

MS. KEATING: Mr. Chair, I think this has gone a little far afield of Ms. Lee's testimony. She's testifying on behalf of Florida City Gas, not other utilities.

CHAIRMAN LA ROSA: Can we keep the questions towards the company? I know sometimes we are skewing a little bit outside, but --

MR. REHWINKEL: Well, if I may be heard on this, Mr. Chairman.

CHAIRMAN LA ROSA: Sure.

MR. REHWINKEL: I started off -- you know, and I have known Ms. Lee for a long time. I am aware of her reputation and her experience with the Commission, and I think I laid a little bit of a predicate that she's -- she's got familiarity with the industry, and I am just asking her knowledge because when the utility and the depreciation experts of this commission have cases, they talk a lot, and they are aware of what's going on in the company.

So I am -- I think it's a fair question to ask to compare to this situation about whether people can just cavalierly do extra depreciation studies, and I think she has the knowledge to answer that question based on her background.

CHAIRMAN LA ROSA: Okay. Let's -- let's continue.

BY MR. REHWINKEL:

Q So do you understand my question?

A Would you repeat it, please?

Q Yes.

You would agree that no utility has -- generally has the time or money to spend doing extra depreciation studies?

A That's very difficult for me to answer because I think that conducting depreciation studies is expensive and it is time-consuming. Now, whether a company has the ability or the time, the effort to conduct more frequent depreciation studies would be up to the company.

Q Okay. Now, if they do -- well, depreciation study is generally recoverable from the customers, the cost of one, is it not, based on your understanding and knowledge?

A Based on my understanding, yes, but I am not a rates person.

Q Okay. And you would agree that no utility has the inclination to do extra or unnecessary depreciation

studies if they are going to disrupt the operations of the company by doing interviews and whatnot, right, interviews of company personnel?

MR. REHWINKEL: I will withdraw the question, Mr. Chairman.

BY MR. REHWINKEL:

Q You would agree that doing a depreciation study involves time and expense and the need to interview company personnel to put the schedule -- the study together correctly, right?

A That is correct. One comment. When you say interview, that interview can be by way of simply verbal discussions with company personnel.

Q But there is a need to do a study right to interview subject matter experts within the company about operations?

A Yes, by way of -- when you say interview, discussions, yes.

Q It's something that might divert them from their regular daily operations of running the utility, right?

A Correct.

Q Okay. You would agree also, subject to check, that the Commission's orders would reflect that for the 2014 consolidated Chesapeake gas company, there was no

accelerated filing of any of the studies in that consolidation, right?

A When you say accelerated, I am assuming you mean shorter than the five years?

Q Yes, ma'am.

A Yes.

Q And I think, just to confirm, you would agree that, subject to check, there were only delays in the filing for each of these utilities that were consolidated, right?

A I am going to say correct, with the understanding that these companies filed a depreciation study when they had a need to revise depreciation rates. Some of them went the -- most of them went to five years. But if there was a need to change depreciation rates in the interim, they certainly, in my opinion, would have filed.

Q But that's speculation on your part, right?

A It certainly is.

Q Instead of being deliberate and asking for additional time to prepare a study, or even consolidate the FCG depreciation study into the next Chesapeake study -- let me withdraw that question.

You would agree that the next depreciation study for FCG was not required until May 31, 2027?

A That would have been the five-year cycle, correct -- at least by then.

Q Right.

Okay. Let's turn to cost of removal subject. Isn't it true that the mains-plastic is the largest account in your depreciation study?

A Correct.

Q Okay. And let's look at, if we could go to master number C2-203. And this is -- while we are pulling it up, this is -- you might need to rotate that. This is your amended Schedule L, which is page 92 of your Composite Exhibit PSL-2 --

A Correct.

Q -- do you see that?

A Yes, I do.

Q Now, for this largest account, which is mains-plastic, isn't it true that the year -- in the year 2021, the cost of removal -- or if I say COR, do you know what I mean?

A Cost of removal?

Q Yeah. Okay.

A Yes.

Q The amount was $254,777?

A Correct, that is what was reported.

Q Okay. And on this same schedule, it shows

that in 2022, the cost of removal in this account, this same mains-plastic account, was $233,384?
A I am sorry, I am trying to find you.
Q Okay.
A For which year?
Q 2022.
A 233,000?
Q Yes, ma'am.
A Yes.
Q Okay. And that in 2023, the cost of removal amount in this account was $103,925?
A Correct.
Q Okay. Now, if we look at the year 2004, isn't it true that your study claims that the cost of removal amount in the mains-plastic account was zero?
A That is what was recorded, yes.
Q Okay. Now, in 2024, the total retirement column shows that facilities were retired in 2024 in this account, is that right?
A That is correct.
Q And isn't it true that actual utility have to do work to retire a plastic main?
A There is labor and travel involved going out and cutting and capping the main, correct.
Q Okay. So they would have to go out and dig

holes, they might have to cut pipes, they might have to purge gas from the mains to be retired, fill in the holes, cap the pipes, et cetera?

A The main is spanning the place, it would take the time and the effort and the labor to do the digging down to the main, cut and cap it and then restore the property.

Q Okay.

A However, with the relocation program, that cost is getting lower, the labor I am saying.

Q Okay. But in 2024, the retirements there were not done at no cost, right?

A I am sure they were not, but that is what was booked, yes.

Q Okay. And the costs of the tasks that you described earlier, those are properly recorded to COR, right, if they occur?

A To my knowledge, yes.

Q Is it your claim that in 2024, the workers who were digging the holes and performing the other activities required to retire the plastic mains did so at no pay with no pension or insurance or medical benefits?

A No, that's not my claim. My claim is that that is what the recorded amount was.

Q Okay. Let's go to E5021, please.
A Hold on a minute, I am trying to find it.
Q Okay. Yeah. There is a little bit of a latency here. It should show up on your screen.
A Oh, how about that.
Q Do you see that?
A Yes, I do.
Q Okay. So this is your response to OPC Interrogatory No. 39 from the fifth set, do you see that?
A Mine says Interrogatory 40.
Q Okay. That's because I used the wrong number. Let's go -- scroll up to -- I think we go to 5015.
A I have --
Q Oh, I apologize. No. I am sorry, Mr. Chairman, I will get this right.
I want to go to 39(b), which is, I think on 5016. See -- are you there now?
A 39(b)?
Q Yes.
A Yes.
Q Okay. So you would agree that in response to this question, you answered yes when you were asked: Looking at the Schedule G's and the amended FCG Exhibit PSL-2 for the years 2021 through 2024, is it correct

that in each of the years '21 -- 2021 through 2023, there was a cost of removal amount other than zero in accounts 3761 mains-plastic, would you agree your answer to that was yes?

A Yes.

Q Okay. And if we go to the next page, which is 5017, you answered yes to the interrogatory question: Is it correct that Schedule G 2024 amended shows zero for cost of removal in the year 2024 in accounts 3761 mains-plastic?

A That is correct.

Q And then if we just scroll down to 5018, which is the question and answer for (d), 39(d), we asked: Is it FCG's claim that for all the retirements that occurred in the year 2024 in account 3761 mains-plastic, there was no cost of removal?

And you said: Yes. While no removal costs were recorded in 2024, they were in all probability recorded in 2025 due to a lag in reporting from the field?

A That is what it says.

Q Let me see if we can get this one right. Let's go to E5027.

MR. REHWINKEL: I don't know what happened. My numbers got off. I think it should be E5021, Mr. Chairman.

CHAIRMAN LA ROSA: Does that look right?

MR. REHWINKEL: Yes. This is (g).

BY MR. REHWINKEL:

Q Are you there? Do you see that?

A I am.

Q So we asked in subsection -- in 39(g) the following: Is it FCG's claim that for all the retirements that FC -- that occurred in the year 2024 in account 38 services-steel, there was no cost of removal?

And your response was: No. The retirements booked in 2024, there were -- for the requirements booked in 2024, there were no removal costs recorded. However, there may be some removal costs recorded in 2025 associated with the 2024 retirements?

A That is correct. And again, it was that there was no cost of removal that was booked. And, yes, there could have been a lag in reporting.

Q So if we turn to C2-203, and this is Schedule L amended, page 92, is that right?

A Yes. Yes, I think so.

Q Okay. We don't see the year 2025 numbers on your Schedule L. Would you agree that they are not there?

A Yes, because the study was as of the end of

'24 --

Q Okay.

A -- so '25 would not be in there.

Q So it would be correct, then, that whatever cost of removal amounts are recorded in 2025 are not included in your depreciation study?

A Of course.

Q Okay. Would you generally agree that it is important that the depreciation professionals should combine reliance on current operational insight with relevant professional judgment in depreciation -- judgment in depreciation in developing recommended future life and salvage expectations?

A Absolutely.

Q Is it fair to say that with your current operational insight and relevant professional judgment in depreciation, you were aware that the actual cost of removal in 2024 was not zero?

A I will answer that as perhaps, but that is what is booked. That is what was booked, and that's the data that I had to work with.

Q Okay. So even though you were perhaps aware, you still used zero in your study for cost of removal --

A Yes --

Q -- for those accounts --

A I am sorry.

Q -- for those years -- for that year?

A Yes, because that is what was recorded.

Q Okay.

A What account is this? This is mains-plastic, is that right?

Q I asked about mains-plastic, and then I asked about services-steel 3802.

A Can you give me just a minute, please?

Q Sure.

A All right. If you go to Schedule Q, I am not sure what page that's on, but it is Schedule Q of the workbook to the amended filing.

Q I don't know that I know where I could find that. I don't have that.

A My only point is that Schedule Q gives the complete history of the cost of removal for mains -- for every account. And for your mains-plastic account -- let me make sure I have this, yes -- for the plastic-mains account, the cost of removal has decreased steadily since 2019.

Q But it's not zero?

A No, it's not zero, but it has gone from a negative 308 percent to a negative 28 percent in 2023, and then zero was booked in 2024. No, it is not zero.

Q Okay. So let's go back to C2-203, and -- I think we are there now -- and looking at the 2021 net salvage cost of removal column. Do you see that?
A I do. Which account are we looking at now?
Q Well, I am just looking at the column right now.
A Okay.
Q Okay. Isn't it true that in 2021, there was a cost of removal greater than zero in eight counts -- eight accounts for that year in the net salvage?
A I don't see the entire table to count that, but --
Q Well, it shows on this page C2-203?
A Mine only goes to account 382 -- 3802.
Q Okay. But just to be clear --
A Just a minute. Hold on. Maybe it's this. Oh, there we go. Well, now I messed up. I am trying to find the page again.
Q Okay. This should be on page 92 of Schedule L amended C --
A There it is.
Q -- 2-203 --
A Okay. Hold on. I am trying to bring them --
Q -- and I am looking for 2021.
A I will agree that, subject to check, I can't

come down far enough to see the bottom of it.

MR. REHWINKEL: Can we just take a break --

CHAIRMAN LA ROSA: Yeah --

MR. REHWINKEL: I --

CHAIRMAN LA ROSA: Yeah, let's get this clarified.

MR. REHWINKEL: -- for a second.

(Discussion off the record.)

CHAIRMAN LA ROSA: Let's go back on the record.

MR. REHWINKEL: Okay. Thank you. Thank you, Mr. Chairman, for the break.

BY MR. REHWINKEL:

Q Okay. So back on the record, I think we are now logistically better off.

So did you understand my question I was asking, that if in the net salvage cost of removal column for 2021, there were eight accounts greater than zero, cost of removal?

A Correct. Correct.

Q Okay. And for the years 2022 and 2023, the same eight accounts have a positive cost of removal?

A Correct.

Q Okay. Looking at the 2024 data that you used, isn't it also correct that you only show a cost of

removal amount greater than zero in two accounts for the year 2024?

A That is correct.

Q Okay. So for all of these counts -- accounts for which the workers in prior years got paid for the activities required to retire the facilities, is it your claim that in the year 2024, the workers who were performing those activities required to retire the facilities agreed to do so at no pay and with no pension benefits and no insurance benefits, et cetera?

A That is not my claim. My claim is this is what was recorded by the company. This is what they booked.

I will also say that in my discussions with the company that that the procedures they have in place at this time, it takes less time for them to go out in the field and do the cut and capping than they have in the past. They are more efficient. Maybe that's a better way of saying it.

Q But they didn't tell you that the costs had gone away. They just might be less?

A Correct.

Q So if the Commission were to dismiss the study in this case and require a new depreciation study to be filed as a part of the company's coming general rate

case, would it be possible for you or others working for the company to determine what the actual cost of removal were for those -- that were incurred in the year 2024 and to then incorporate that correct data into the new study?

A I don't know what the implementation date would be of the new study. Assuming it would be January 1st, 2026, perhaps, they would have another full year of data, so, yes, they would have that. I have the data as of the end of '24.

Q Okay. Let's go back to -- well, let's stay on C2-203, which is page 92 of your exhibit. This shows that in 2024, in account 3802, services-steel, the company had recorded a cost of removal every year prior, but it shows zero in the year 2024?

A For services-steel?

Q Yes.

A And can you repeat that question again, please? Sorry.

Q Yes.

For services-steel on this page for the years that are shown here, other than 2024, you had a positive number, a number greater than zero for cost of removal for that account, right?

A I am sorry, I was looking at the wrong account. Correct.

Q Okay.

A But if you look at mains, mains-steel, it was zero across the board.

Q So -- but for 3802, I think we already --

A 3802.

Q Yeah, that we had -- we discussed earlier, that in your answer to 39(g), which we can go back and look at, you said that for -- well, let's go look at 5021, E5021.

So your answer there was that for retirements booked in 2024, there were no removal costs recorded, right?

A Correct.

Q Okay. And you speculated that there may be some costs recorded in 2025 associated with the 2024 retirements?

A That is correct.

Q Okay. Do you know or is that just a guess --

A I wouldn't --

Q -- about 2025?

A I do not know for sure, and I wouldn't consider it a guess. I would consider it my judgment.

Q Okay. Isn't it true that one thing that is different about the year 2024 is that the prior owner

owned FCG until November of 2023?
A The prior owner did own FCG. I think the acquisition was December 1st, 2023.
Q Okay. So 2024 was while FCG was being absorbed into the Chesapeake system, right?
A I am not sure how that worked --
Q Okay.
A -- but I will --
Q So -- but in any event, 2024 is the first full year the accounting would be under F -- the Chesapeake chart of accounts, right?
A And the billing systems and everything else, correct.
Q Okay. Let's go to C2-181, please. And while we are getting there, this is page 70 of your Composite Exhibit PSL-2, which is Schedule G in your notes, would you agree with that?
A It is -- yes --
Q Okay.
A -- it is 2024 notes.
Q Right.
Isn't it true that the people doing the FCG accounting and recordkeeping had to restate account numbers based on Chesapeake's other natural gas chart of accounts?

A For consolidation purposes, I believe that was the company's procedure, yes.

Q And they also had to reclassify steels -- steel mains from account 3761 to the newly proposed account 3762?

A I wouldn't say that they proposed. It was the fact that to get all of the CUC business units using the same accounts -- accounting system.

Q Well, doesn't it use the word proposed under explanation on the --

A Yes --

Q -- third line down?

A -- based on CUC's natural gas chart of accounts.

Q Okay. And those same folks working on this had to reclassify plastic mains from account 3762 to the newly proposed account 3761, as it says there?

A That is correct.

Q And had to reclassify steel services from account 3801 to the newly proposed 3802?

A That is correct.

Q And had to reclassify plastic services from account 3802 to the newly proposed account 3801?

A That is correct.

Q And they would have also had to assumedly do

other activities related to the acquisition with respect to accounting?

A I am -- repeat that one more time.

Q I will withdraw that question.

A Okay. Good.

Q Is it possible that one reason that the people doing the FCG accounting and recordkeeping put off recording the cost of removal accounts, which were incurred in the year 2024, until the year 2025 is because they were dealing with activities such as restated accounting numbers based on Chesapeake's other natural gas chart of accounts?

A I do not know the answer to that, but I will say this, the restated account numbers was simply a matter of what was in 3762 is now in 3761.

Q And did you have a discussion with them about that, other than what's reflected in your notes?

A I talked to accounting about it, yes.

Q And your notes reflect what they told you?

A It reflects what we were told by accounting, yes.

Q Okay. Let's go to your testimony at C2-50, and I want you to look at lines eight additional through 12.

So in response to the question when did FCG

file its last depreciation study, you say: FCG filed its last depreciated in Docket No. 20220069-GU. In addition to that depreciation study, FCG proposed an alternate mechanism that applied alternative -- that applied different depreciation parameters and resulting depreciation rates than those reflected in the filed depreciation study. Do you see that?

A I do.

Q And it also says: These depreciation parameters resulted in a significant reserve surplus. Do you see that?

A I do.

Q You would agree that the company, FCG, proposed depreciation parameters that were borrowed from a stipulation -- a stipulated set of parameters included in a settlement of a litigated Peoples Gas case where two experts presented competing testimony?

A From what I read in the order, the parameters were taken from Peoples Gas, yes --

Q Okay.

A -- but the parameters that were taken were the average service life.

Q But the parameters that were taken were also stipulated set of parameters, right?

A I am not aware of that. I don't know -- I don't know the answer.

Q Subject to check, if the order says that, you would agree, otherwise, you wouldn't have knowledge?

A Pardon me?

Q Otherwise you would be without knowledge if it's not in the order?

A Of course.

Q Okay. Now, isn't it true that those alternate parameters were offered by Florida City Gas solely for the purpose of creating an artificial surplus?

A I was not part of that case. All I can tell you is what I read from the order. I was not party to that case. I don't know.

Q Okay. On lines 14 through 15, you say: The Commission also approved FCG's proposal for correcting a portion of the calculated reserve surplus, is that right?

A That is correct.

Q You would agree that that surplus was intentionally created so that an RSAM mechanism could be used?

MS. KEATING: Mr. Chairman, I have to object. Ms. Lee has already indicated that she is not aware of the intent and was not involved in the prior proceeding.

CHAIRMAN LA ROSA: She has -- go ahead, Mr. Rehwinkel.

MR. REHWINKEL: Well, I mean, this is in her testimony, and I am entitled to explore the basis for this. She purports to say in here that there was a corrected surplus, and I am asking her if she knows that that surplus was intentionally created so that it could be corrected. That's my question.

CHAIRMAN LA ROSA: I will go to my staff to advise on where the question lies.

MS. HELTON: I think he can ask her if she knows, but I think she said she doesn't know.

CHAIRMAN LA ROSA: Agreed. So if you can state the question again, if the witness knows the answer. I think the answer was no previous, but let's keep it there.

BY MR. REHWINKEL:

Q So I asked you if you could tell me what you mean by the sentence that reads: The Commission also approved FCG's proposal for correcting a portion of the calculated reserve surplus.

A That was taken from the order in that case.

Q And just so I understand what your testimony is here, you are saying you don't know whether that surplus was intentionally created so that it could be

used for this RSAM mechanism?

A That is correct. I do not think that it was intentional -- that the purpose of using those parameters was simply to create a reserve surplus, I do not think that. But I was not party to that case, so I am not for sure.

Q Okay. So if the word -- if the order says that's what happened, then that would control over your knowledge, right?

A I don't remember the order saying that, but I believe the order to say what it says.

Q Okay. Fair enough.

You are familiar with the circumstances of the 2009 Florida Power & Light rate case as it relates to the $894 million depreciation surplus that was amortized over four years?

A I am familiar with that, yes. But you are going back a long time, so it's stretching my memory, but yes.

Q Okay. But you cite that order in some of your responses to discovery, do you not?

A Correct.

Q And you would agree that the amortization of the $894 million of surplus was the $223 million or so, that that one-fourth amortization amount was included in

the revenue requirement calculation for that case, right?

A As I recall it was. It was a rate case and a depreciation study in one, yes. Oh, and a dismantlement study.

MR. REHWINKEL: Okay. Mr. Chairman, if I could have just a minute, I may be finished on Ms. --

CHAIRMAN LA ROSA: Sure, let's take --

MR. REHWINKEL: -- Lee's direct?

CHAIRMAN LA ROSA: Let's take a two-minute recess.

MR. REHWINKEL: Thank you.

(Brief recess.)

CHAIRMAN LA ROSA: All right. It looks like we are getting ready to be able to restart, so we took a quick break, OPC --

MR. REHWINKEL: Thank you for the break. It helped me eliminate any residual questions, so I am finished. And thank you, Ms. Lee, for your testimony.

THE WITNESS: Thank you.

THE COURT: Great. Let's move to staff.

MR. SPARKS: Thank you, Mr. Chair. Staff has a few questions.

CHAIRMAN LA ROSA: Sure.

EXAMINATION

BY MR. SPARKS:

Q Good morning, Ms. Lee.

A Good morning.

Q The amended 2025 depreciation study includes plant retirement data by plant account and age, correct?

A There is a section in there that -- yes, there is the age retirements for the last, I think, three or four years.

Q Is it also correct that this amended study does not include the data of plants' exposure by age interval for each account?

A Correct. I did not perform statistical analysis that would show that.

Q Is there any impediment to FCG being able to collect the data of plants' exposure by age interval for each account?

A I am not sure how long that would take them to conduct that.

Q Would time be the only impediment, then, that you can think of?

A And money, the expense of it.

Q Is it correct that you used GTE-ING's Iowa curve life projection tables in determining your curve

proposals for certain accounts?

A I used those life tables, the GTE life tables with the average service life and the age to determine what approximate the average retirement rates that I was looking at.

Q And did you also use Frank Wolf and Chester Fitch's brook titled Depreciation Systems to support your testimony on the retirement dates -- or retirement rates, I am sorry?

A Retirement rates, I used -- yes, that is correct. I wouldn't say relied on it to support the retirement rates. I relied on it as far as what Fitch and Wolf were saying, just like the NARUC book says, that retirement -- that if you have over 70 percent surviving, or 50 percent surviving, that you could have multiple curves fitting that data. There is not one best fit.

Q Is it correct that the life tables discussed in that book, and in the depreciation analysis generally, are constructed by using age intervals?

A Correct.

Q I would like to turn now to page seven of the amended depreciation study, which should be master page number C2-91. And if you scroll down a little bit, I believe the final full paragraph on that page starts

with in sum. And then the last sentence of that paragraph reads: This will have the effect of reducing depreciation expenses for the amortization period with the added benefit of further delaying the expense of a rate proceeding. Did I read that correctly?

A I believe so, yes.

Q Is it correct that the utility now plans to file its next rate proceeding by no later than the third quarter of 2026?

A I have no idea when the company plans to file its next rate proceeding. I was not involved in that.

Q Well, if the utility were to file for a rate proceeding within a year from now, can you explain how FCG's reserve surplus amortization proposal will be providing the benefit of delaying the expense of a rate proceeding as stated in the sentence that I read?

A I am not a rate expert. What I was saying there in that paragraph was that the added benefit of delaying a rate case would be the added benefits of delaying the costs of the incurred with a rate case. I don't know when the company plans to file a rate case, so I really can't answer your question.

Q From the date of FCG's petition filing in this docket to today, has FCG operated under the belief that its next rate case would be limited to just FCG, rather

than a consolidation of FPUC's statewide gas operations?

MS. KEATING: Mr. Chairman, I really hate to object to a staff question, but Ms. Lee is here as a depreciation expert. When and how FCG plans to file its next rate case is outside the scope of her testimony.

MR. SPARKS: I will withdraw the question.

CHAIRMAN LA ROSA: Sure.

MR. SPARKS: Thank you.

BY MR. SPARKS:

Q Ms. Lee, in the future, if the company experiences significantly higher costs of removal than are reflected in the current depreciation study and files a depreciation study that reflects those higher costs, all else equal, that will result in a deficit in the company's depreciation reserve, correct?

A It depends.

Q Can you tell me what it depends on?

A It depends on what life is being projected at that time. It also depends on how long a period those increased cost of removal have been and the reasons for those costs.

MR. SPARKS: Thank you, Mr. Chairman. Those are all of staff's questions.

CHAIRMAN LA ROSA: Great. Thank you.

Commissioners, questions?

Commissioner Passidomo Smith.

COMMISSIONER PASSIDOMO SMITH: Thank you, Mr. Chair.

Hi, Ms. Lee. I just have a quick question regarding net salvage percentage for the account 3802, the services and plastics. Its currently approved amount is 68 percent, is that correct?

THE WITNESS: I believe so.

COMMISSIONER PASSIDOMO SMITH: And then there is -- FCG is proposing to change that amount to 40 percent?

THE WITNESS: Yes. Correct.

COMMISSIONER PASSIDOMO SMITH: Could you just explain why FCG is proposing to change that?

THE WITNESS: Tell me again the account.

COMMISSIONER PASSIDOMO SMITH: 3801.

THE WITNESS: Okay. Thank you.

A number -- there were a number of reasons why it lowered the cost of removal, and part of that was the company's SAFE Program and relocation program. I was told by the operations people that it's easier to -- easier to cut and cap those services and abandon them now that they have done the relocation from the rear of the property to the front of the property.

COMMISSIONER PASSIDOMO SMITH: And then do you know what the average net salvage percentage for the company is for the last five years?

THE WITNESS: The last five years, no, but I can figure it out. I don't have my calculator.

COMMISSIONER PASSIDOMO SMITH: That's okay. That's okay.

THE WITNESS: Sorry.

COMMISSIONER PASSIDOMO SMITH: No, that's okay. I was wondering if you had that in front of you. It -- I, obviously, am a lawyer. I couldn't do that math off the top of my head either.

And okay. And then I have similar questions for account 3762, the mains-steel. What is -- so the -- for the net salvage value, what is the currently approved amount for that account? I will repeat, it's 3762.

THE WITNESS: That would be steel-mains, 3762?

COMMISSIONER PASSIDOMO SMITH: Yes, ma'am.

THE WITNESS: Okay. And the same question?

COMMISSIONER PASSIDOMO SMITH: Yes, what -- the net -- the currently approved net salvage percentage.

THE WITNESS: The currently approved net

salvage is, with 3762, is negative 50 percent, and
I am proposing a negative 40 percent.
COMMISSIONER PASSIDOMO SMITH: Could you
explain why for that adjustment?
THE WITNESS: Yes. For 3762, we have net
salvage from, in a downward trend, from negative
178 percent down to negative one percent; negative
778 percent in 2020 down to 2024 reducing to
negative one percent.
And again, this is because of the relocation
program that they have of relocating the mains from
the rear to the front of the property. It's easier
accessible. It's going to lower -- or it should
lower the labor costs involved with cutting and
capping.
COMMISSIONER PASSIDOMO SMITH: Okay. And then
if I could ask you, I did have the same question
about the average net salvage percentage for this
account for the last five years. So for both of
those accounts, would you mind -- not now,
obviously, but when you do have a calculator,
calculating those and then bringing those numbers
back for rebuttal?
THE WITNESS: Absolutely, I can do that.
COMMISSIONER PASSIDOMO SMITH: Thank you.

Mr. Chair, that's all my questions.
CHAIRMAN LA ROSA: Great. Thank you.
Okay. Let's move to redirect, FCG.
MS. KEATING: Thank you, Mr. Chair. We have no redirect.
CHAIRMAN LA ROSA: Okay. Excellent. Great.
Well, thank you, Ms. Lee. Obviously, we will see you a little bit later. And when you are gathered, you may be dismissed.
Is there anything that needs to be moved into the record?
MS. KEATING: FCG would move Exhibits 2 through 5.
CHAIRMAN LA ROSA: Okay. Objection? Seeing none, so moved.
(Whereupon, Exhibit Nos. 2-5 were received into evidence.)
CHAIRMAN LA ROSA: OPC, anything into the record?
MR. REHWINKEL: No.
CHAIRMAN LA ROSA: Staff? Excellent.
Thank you very much, Ms. Lee.
You can go ahead and call your next witness.
MS. KEATING: Thank you, Mr. Chairman. FCG calls Matt Everngam to the stand.

CHAIRMAN LA ROSA: While Mr. Everngam comes to the stand, it's about a few minutes after 11 o'clock, so we will try to break around the noon hour. Obviously, we will continue to monitor, as questioning continues, to be as efficient as possible.

Unfortunately, I don't have any more housekeeping notes to comment on as our witness is --

MR. REHWINKEL: Mr. Chairman, while he is getting situated, I just wanted to make sure I understand the discovery and all of the exhibits that were moved in when 2 through 49 were moved, that will obviate the need for us to enter those documents through cross-examination, we can count on those already being in the record?

CHAIRMAN LA ROSA: I would go to staff and double check.

MS. HELTON: Exhibits 26 through 49 that I think the staff had put together on the CEL, those are all now officially in the record, and you may rely on them for purposes of going forward.

MR. REHWINKEL: Thank you. That's the reason -- and I assumed that. That's the reason I didn't have any to admit, but I just wanted to double

check before it got too far down the road.
Thank you.
CHAIRMAN LA ROSA: Great. Thank you.
Seeing Mr. Everngam in the witness box, just as a reminder, he is doing both and direct and rebuttal.
MS. KEATING: Thank you, Mr. Chair, for that reminder.
Whereupon,
MATTHEW EVERNGAM
was called as a witness, having been first duly sworn to speak the truth, the whole truth, and nothing but the truth, was examined and testified as follows:
EXAMINATION
BY MS. KEATING:
Q Good morning, Mr. Everngam.
A Good morning.
Q Would you please state your name and business address for the record?
A My name is Matthew Everngam. My business address is 500 Energy Lane, Dover, Delaware.
Q By whom are you employed, and in what capacity?
A Chesapeake Utilities Corporation. I am the Assistant Vice-President of Regulatory Affairs.

Q And did you cause to be prepared and filed in this proceeding eight pages of direct testimony on October 3rd, 2025?

A Yes, I did.

Q Okay. Do you have any changes or corrections to your direct testimony?

A I do not.

MS. KEATING: Mr. Chair, we would ask that Mr. Everngam's direct testimony be entered into the record as though read.

CHAIRMAN LA ROSA: So moved.

(Whereupon, prefiled direct testimony of Matthew Everngam was inserted.)

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE PETITION FOR)
APPROVAL OF 2025 DEPRECIATION STUDY) Docket No. 20250035-GU
AND FOR ARROVAL TO AMORTIZE RESERVE)
IMBALANCE, BY FLORIDA CITY GAS)

DIRECT TESTIMONY

OF MATTHEW EVERNGAM

ON BEHALF OF

FLORIDA CITY GAS

October 3, 2025

TABLE OF CONTENTS

C1-3

I. INTRODUCTION & STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Matthew Everngam. My business address is 500 Energy Lane, Dover, DE 19901.

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

A. I am employed by Chesapeake Utilities Corporation ("CUC" or "Chesapeake") as the Assistant Vice President of Regulatory Affairs. In this capacity, I am responsible for overseeing the CUC's regulatory proceedings in Florida, Maryland, Delaware, Ohio, and at the Federal Energy Regulatory Commission ("FERC").

Q. Describe the scope of your responsibilities.

A. My responsibilities include directing the preparation of regulatory strategic planning, development of rates, programs and filings for the Company's distribution entities in Florida, Maryland, Delaware, and Ohio. I also oversee the preparation of both routine and non-recurring filings for the Corporation and its business units at the Federal Energy Regulatory Commission (FERC). My department also assists in the management of tariffs and rate design for CUC's state and federally-regulated business units.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science degree in Business Administration with a concentration in Management and a Master of Business Administration from Salisbury University in Salisbury, MD. I was initially hired by Chesapeake as a Regulatory Analyst II in October 2010. Prior to joining Chesapeake, I was employed by Edward Jones Investments as a Financial Advisor. My duties at Edward Jones included investment portfolio construction, financial filings analysis and economic trend monitoring. In this position I held Series 7 and Series 66 licenses with the National Association of Securities Dealers ("NASD").

Q. Have you previously testified before any state and/or federal regulatory commissions?

A. Yes, I have previously testified for CUC before the Public Service Commissions of Florida, Maryland, and Delaware. My most recent testimony before the Florida Public Service Commission was in Docket No. 20220067-GU, Florida Public Utilities Company's ("FPUC") Petition for a base rate increase.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to further explain Florida City Gas's ("FCG" or "Company") depreciation study decisions, associated proposal to address amortization of the reserve imbalance, and potential implications to FCG's earnings and the Company's rate case processes.

Q. Are you sponsoring any exhibits?

A. No.

II. DEPRECIATION STUDY RESULTS, PROPOSALS, AND IMPLICATIONS

Q. Can you explain why the Company chose to perform and file the Depreciation Study in this Docket?

A. Yes, multiple factors influenced FCG's decision to file its Depreciation Study in this Docket. Chesapeake Utilities Corporation acquired Florida City Gas in late 2023 and FCG's most recent rate case was in 2022, prior to the acquisition. In order to establish lives, net salvage values, and reserve balances of FCG's assets which most accurately reflect FCG's current operating environment under CUC ownership, the Company commissioned and filed this new Depreciation Study. Ultimately, a consolidated FCG and FPUC is likely, but until that takes place, updated depreciation parameters for FCG under CUC ownership will allow the Company to more effectively evaluate a potential future consolidated depreciation study or rate case. It was also important to proceed with this depreciation study to ensure that recent capital investments for new construction by FCG, which has taken place under its new ownership by CUC, are accurately depreciated based upon updated lives and salvage values that align with those of FPUC and other, similarly-situated CUC affiliates.

Q. Did the Company initiate a new depreciation study as a means to delay a rate case?

A. No. That was not the purpose or design for the depreciation study when we hired Ms. Lee to assist FCG with a completing a new study. As the study neared completion, it became apparent that a surplus reserve imbalance of some magnitude would likely be the result of the study. As such, we discussed different options with Ms. Lee for addressing the surplus. A 2-year amortization of the surplus was determined to be the most appropriate timeframe and methodology to resolve the reserve imbalance.

Q. Why did the Company propose the more traditional amortization method to address the reserve imbalance rather that the previously approved Reserve Surplus Amortization Mechanism ("RSAM")?

A. Given that the prior rate case and the establishment of an RSAM remains on appeal before the Supreme Court, the Company proposed amortization of the net reserve surplus in a manner that aligns more directly with traditional commission practice and precedent. The Company does not oppose establishment of an RSAM-type mechanism, but in this instance, straight amortization of the imbalance seemed to be the simpler, more practical approach.

Q. How may the results of the depreciation study and a 2-year amortization of the reserve imbalance provide a benefit to customers and impact a future rate case?

A. While FCG's depreciation study and resulting lives, rates, and imbalances, stand on their own merits, the outcome of the study may also impact the Company's returns and future rate case considerations beyond the potential to support FCG's earnings pending the filing of the rate case. For instance, any amortization of the excess reserve included in the Company's historic test year in its next base rate case would put downward pressure on interim rates resulting from the amortization. Additionally, any depreciation expense reduction, consistent with that reflected in FCG's study, would put downward pressure on both interim and final rates in the next rate case. Current FCG customers would benefit in both instances.

Furthermore, as the Commission has stated previously "the matching principle argues for a quick correction of any surplus; the quicker the better so that the ratepayers who may have overpaid would have a chance of benefitting". As there is a potential for future consolidation of FCG and FPU, it is advantageous in this case to proceed with a 2-year amortization period so that current FCG customers receive the benefit. This would avoid potential future intergenerational or intercompany inequities.

Q. Would amortization of the reserve surplus allow FCG to delay a rate case for two years?

A. No. At this point, it would not.

Q. Why would amortization of a surplus consistent with that shown in FCG's depreciation study no longer enable FCG to delay its next rate case?

A. In hindsight, had FCG known that this depreciation study would take longer than anticipated to be resolved, it would have likely filed a rate case in 2025. As evidenced by its most recent twelve months ended June 2025 earnings surveillance report and its pro-forma 2024 year-end report, FCG is currently operating at an earned rate of return that falls well below the low-end range of its authorized rate of return. While numerous factors impact a company's earnings, in recent years FCG has experienced expense increases which were not contemplated in the 2022 rate case and over which the Company had no control.

Q. In addition to the previously mentioned customer benefit of FCG's depreciation study, would amortization of the surplus reflected in the study provide any additional benefits?

A. Yes. To the extent that any amortization of the reserve imbalance brings FCG's earnings back up into its authorized ROR range, that amortization would be acting as a bridge to provide FCG the ability to earn at or nearer its approved ROR until the required rate case documentation can be prepared for filing with the Commission. While, as previously discussed, this would not allow FCG to stay out for an extended period of time, it may still provide some delay to FCG's next case filing and the associated rate increase impacts to customers.

III. CONCLUSION

Q. Do you have any concluding remarks?

A. The Company's depreciation study produces accurate and updated depreciation rates reflective of the lives, net salvage values, and reserve balances of FCG's assets, as set forth in the testimony of FCG Witness Patricia Lee. This depreciation update was necessary given the updates to FCG's operations, investments and ownership structure since its last depreciation study. The best way to address the resulting reserve imbalance in a manner that benefits both the Company and its customers is to amortize the surplus over a period of two years. This ensures that a correction occurs for the generation of rate payers most responsible for the imbalance, and not drawn out over a longer period of time.

Q. Does this conclude your direct testimony?

A. Yes, it does.

C1-9

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Approval of Florida City Gas's 2025 Depreciation Study and for Approval to Amortize Reserve Imbalance.	) Docket No.: 20250035-GU)) Filed: December 12, 2025)

Errata to the Rebuttal Testimony of Matthew Everngam (November 20, 2025)

Page 3, line 2, change $22 million to $19 million
Page 8, line 13, change $22.3 million to $19.2 million.

Respectfully submitted this 11th day of December, 2025.

Beth Keating
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Tallahassee, FL 32301-1804
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bkeating@gunster.com
For Florida City Gas

BY MS. KEATING:

Q Did you also cause to be prepared and filed 10 pages of rebuttal testimony on November 20th, '25?

A Yes, I did.

Q And do you have any changes to your rebuttal testimony other than those reflected on the errata sheet that provided to the parties earlier?

A No, I do not.

MS. KEATING: Mr. Chair, we would ask that Mr. Everngam's rebuttal testimony also be entered into the record as though read.

CHAIRMAN LA ROSA: So moved.

(Whereupon, prefiled rebuttal testimony of Matthew Everngam was inserted.)

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE PETITION FOR)	
APPROVAL OF 2025 DEPRECIATION STUDY)	Docket No. 20250035-GU
AND FOR APPROVAL TO AMORTIZE RESERVE)	
IMBALANCE, BY FLORIDA CITY GAS)	

REBUTTAL TESTIMONY
OF MATTHEW EVERNGAM

ON BEHALF OF
FLORIDA CITY GAS

November 20, 2025

Q. Please state your name and business address.

A. My name is Matthew Everngam. My business address is 500 Energy Lane, Dover, DE 19901.

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

A. I am employed by Chesapeake Utilities Corporation ("CUC" or "Chesapeake") as the Assistant Vice President of Regulatory Affairs. In this capacity, I am responsible for overseeing the CUC's regulatory proceedings in Florida, Maryland, Delaware, Ohio, and at the Federal Energy Regulatory Commission ("FERC"), including those involving Florida City Gas ("FCG" or "Company").

Q. Did you file direct testimony in this proceeding on behalf of FCG?

A. Yes, on October 3, 2025.

Q. Has your employment status and job responsibilities remained the same since discussed in your previous testimony?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address certain statements made by William Dunkel in his direct testimony filed on November 5, 2025, on behalf of the Office of Public Counsel ("OPC").

Q. On page 5 of his direct testimony, Witness Dunkel asserts FCG is proposing to "take $22 million out of the depreciation reserve and give it to the owners". Is this an accurate representation of FCG's proposal?

A. No, this is a mischaracterization of FCG's proposal to amortize the excess reserve imbalance that has been identified from this depreciation study. As discussed in Company Witness Patricia Lee's Direct and Rebuttal Testimonies, correction of reserve imbalances is a common outcome from a depreciation study and the Commission has approved a wide range of amortization periods from several years to remaining life. The Company's proposal to amortize the reserve imbalance is more in line with traditional correction of reserve surpluses than the mechanism approved in FCG's last rate case.

Q. At page 6 of his direct testimony, Witness Dunkel testifies that FCG's proposal to remove the depreciation reserve imbalance is the same as a bank owner stealing $10,000 from your retirement account. Is this analogy accurate?

A. No, this analogy is not accurate. Utility base rates are neither itemized, nor charged, to the customer by individual categories such as return, depreciation, operations & maintenance expense, property tax, etc. It is important to understand that base rates aren't charged for itemized or specific components of the cost to serve, but are recovered from customers in order to pay for the overall cost to serve and provide the Company with a reasonable opportunity to earn its authorized rate of return.

The Commission, through quarterly surveillance reports, monitors a company's earnings and, if that company were to over-earn, the Commission has methods by which such earnings can be addressed. As discussed later in my rebuttal testimony, FCG is currently earning far below its authorized rate of return. meaning that FCG customers are not paying rates that are sufficient to allow the Company to cover operating expenses and earn an appropriate return on its investments. FCG is not therefore over-charging for service, let alone stealing from customers.

The assertion that customers, through their monthly bills, are paying into a fund like a retirement account by which they are saving money for future withdrawals is a bad analogy.

Q. On page 6 of his direct testimony, Witness Dunkel states that the Company's proposed two-year amortization of the reserve imbalance would "go to the owners as earnings". Would the amortization of the reserve imbalance impact earnings and how should any earning impact the Company be viewed?

A. Yes. But it is important to remember that it is just one of many factors that will impact a company's earnings. Even so, that does not equate to enabling shareholders to pocket a dividend; rather, it would enable the Company to earn closer to, or within, its allowable range. The impact on the Company's earnings, would, of course, be transparent to the Commission through the Company's earnings surveillance reports; moreover, given the Company's intent to file a rate case in the near future, the Commission will have a forthcoming opportunity to review the Company's earnings, plant and expenses.

FCG's most recent Surveillance Report, filed with the PSC on 10/02/2025, for the twelve months ended 06/30/2025, reflects that the Company is under-earning on its cost to serve (at the mid-point ROR) by over $10.81 million, as seen in the following table:

6/30/2025 Earnings Surveillance Report	
Net Operating Income	$ 29,382,040
Average Rate Base	$ 525,338,368
Average Rate of Return	5.59%
Required Rates of Return	
Low	7.18%
Midpoint	7.65%
High	8.12%
Over/(Under) Earnings	
Low	$ (8,337,255)
Midpoint	$ (10,806,345)
High	$ (13,275,435)

Customers are currently receiving a significant benefit by underpaying for service, of which depreciation is just one of the components, in the amount of approximately $10.81 million annually (at the Company's mid-point target). Furthermore, FCG's filed projected pro-forma calendar year 2025 surveillance report, filed with the PSC on 03/06/2025, anticipates an even greater under-earning at the approved midpoint by year end.

Any impact to earnings would simply allow the Company a more reasonable opportunity to recover its cost to serve and to earn within its authorized rate of return range. Under FCG's proposal, at no time will the Company earn a return above its authorized, fair rate of return.

Q. On Page 6, Witness Dunkel offers another analogy, proposing that "if for some reason you overpaid your dentist, the dentist would not take that overpayment out of your account and put it in his or her pocket. The dentist would use it as a

credit to reduce your future charges". How does that analogy align with the fact that FCG is underearning?

A. Witness Dunkel's analogy implies, again, that customers are overpaying for service (whether that be a dentist's services or those of a utility company) and would be due a refund because of that. His view is, however, limited to depreciation expense, which consequently, makes his analogy inapplicable. While an imbalance surplus indicates that customers have paid a fair share of depreciation expense, that does not correlate to the need for a refund, because, again, the Company is not over-earning, and again, the rates that customers pay are not compartmentalized by individual component. Instead, it calls for a correction to that depreciation imbalance and amortization of the imbalance in a prompt fashion, as Witness Lee further discusses.

Q. Beginning on page 8 of his direct testimony, Witness Dunkel asserts that the Company's proposed correction of the reserve imbalance would harm ratepayers. What is your response to these statements?

A. While Ms. Lee will address this assertion more specifically, I believe Witness Dunkel is incorrect. My understanding is that correcting the reserve imbalance based on results from this depreciation study represents the action necessary to recognize an accurate depreciation reserve and rate base on the Company's books.

Witness Dunkel included charts as Figure 1 and 2 in his testimony, which he stated show the impact to rates that would result from correcting the reserve imbalance. Based on that same logic, the chart below illustrates an actual current underpayment in rates from customers due to a net rate base that is currently understated by the reserve imbalance surplus.

Current Net Plant per 6/30/2025 ESR	
Plant in Service	$ 685,672,614
Accum Depr & Amort	$ (212,749,295)
Net Plant in Service	$ 472,923,319
Add Back Depreciation Reserve	
Plant in Service	$ 685,672,614
Accum Depr & Amort	$ (212,749,295)
Reserve Surplus	$ 19,244,380
Net Plant in Service	$ 492,167,699
Reduced Rate Base	**$ (19,244,380)**
Rate of Return	6.44%
Required NOI	$ (1,239,338)
Revenue Expansion Factor	1.3527
Underpayment from surplus	**$ (1,676,453)**

The Company's annual under-earning of $10.81 million, based on 06/30/2025 as noted in the previous question's response, is based on a rate base that has not been corrected for the reserve imbalance. Applying Witness Dunkel's rationale, the Company is not recovering its fair rate of return on the actual understated rate base is approximately $1.67 million annually. Thus, the overall current benefit to customers on an annual basis is approximately $12.48 million. See table below:

Annual Under-Recovery as of 06/30/2025		
Earnings Below Mid-Point	Reduced Rate Base Recovery	Total
$ (10,806,345)	$ (1,676,453)	$ (12,482,798)

Again, I point back to Witness Dunkel's analogy in which he framed the Company's depreciation study proposal as akin to overpaying your dentist. In this case, the opposite is true of what customers are paying in rates versus FCG's cost to serve.

As discussed in my direct testimony, had FCG known that this depreciation study would take longer than anticipated to be resolved, it would have likely filed a rate case in 2025. FCG is currently operating at an earned rate of return that falls well below the low-end range of its authorized rate of return.

As I have highlighted in this testimony, the annual under-payment benefit to customers is approximately $12.48 million as of 06/30/2025 (and potential even greater when looking at FCG's filed projected pro-forma calendar year 2025 surveillance). Therefore, when looked at as an average monthly amount ($12.48 million / 12 months = $1.04 million), for every month that FCG has delayed filing, and may continue to delay, the customers have received a benefit of approximately $1 million dollars. Customers are not overpaying the utility or the hypothetical dentist.

Q. At pages 8-11 of his direct testimony, Mr. Dunkel asserts that ratepayers are harmed by removing the $22.3 million imbalance from the depreciation reserve because the depreciation reserve is a deduction to net rate base amount. Do you agree?

A. No. While it is true that the understated rate base will be corrected, it is a correction that needs to be made. What Mr. Dunkel fails to acknowledge is that at some point, under any imbalance scenario, the depreciation reserve imbalance will be corrected (thereby increasing rate base) and that FCG's proposed 2-year amortization of the imbalance aligns more closely with the matching principle of ratemaking. As the Commission has stated previously "the matching principle argues for a quick correction of any imbalance; the quicker the better so that the ratepayers who may have overpaid would have a chance of benefitting". By aligning the benefits derived from an asset to the payment of the cost of that asset, the matching principle promotes generational equity in ratemaking. If the Commission were to establish a longer amortization of the imbalance, generational equity would suffer.

Note that the removal of the depreciation reserve imbalance is required under any scenario and the current rate base is understated by the reserve imbalance; the only question is the length of the amortization period that will be approved by the Commission.

Q. At page 49 of his direct testimony, Witness Dunkel asserts that the 2025 Depreciation Study should be rejected and FCG should be required to file a new depreciation study in conjunction with its next rate case so that base rates are changed at the same time as depreciation rates. Is that necessary?

A. No. As Witness Lee testifies, the depreciation study filed by FCG in this proceeding is complete, complies with the Commission's Rule, and proposes the correct changes in service lives and depreciation rates. Furthermore, as Witness. Dunkel noted at page 22 of his direct testimony, Rule 25-7.045(4)(a), F.A.C. requires that regulated gas companies file a depreciation study at least once every five years – measured from the submission date of the previous depreciation study. There is no requirement that depreciation studies be filed in conjunction with a rate case. Witness Dunkel also notes that FCG's depreciation study is not due until May 31, 2027, which clearly is not tied to the filing of a rate case. However, his testimony reflects that he is also aware that FCG anticipates filing a rate case well before that date. Moreover, irrespective of when FCG files its depreciation study, ratepayers are protected from the Company overearning because of the guardrails placed around the Company's earned rate of return. If FCG under-earns because of a change to depreciation rates, it may file for recovery, and if it over-earns, the Company may be required to refund any excess earnings. This is true of any change in expense; depreciation is only one of many factors in the Company's cost to serve customers. Earnings are monitored on a quarterly basis through surveillance reports; allowing the staff to periodically review and ensure the Company is not over earning.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BY MS. KEATING:

Q And, Mr. Everngam, did you have any exhibits? With your direct or rebuttal testimony?

A No, I did not.

Q Did you prepare a summary of your testimony?

A Yes.

Q Please go ahead and present that.

A Good morning, Chairman and Commissioners. Again, my name is Matt Everngam, and I am the Assistant Vice-President of Regulatory Affairs for Chesapeake Utilities Corporation, the parent company of Florida City Gas. I appreciate the opportunity to address you today.

The purpose of my direct testimony is to explain Florida City Gas' depreciation study decisions, the company's proposal to address amortization of the reserve imbalance and the associated implications to Florida City Gas' rate case decisions.

My rebuttal testimony addresses certain arguments made by Office of Public Counsel witness Dunkel to which I disagree.

In my direct testimony filed on October 3rd, 2025, I explained why under -- why FCG undertook this depreciation study. The company acquired Florida City Gas in late 2023 in an order to have an accurate up-to-date view of depreciation parameters under new ownership and to determine whether any potential reserve imbalance exists, Florida City Gas commissioned this study. This would give Chesapeake an understanding of the depreciation parameters prior to any upcoming rate case decisions and any potential future consolidation with FPU.

In addition to identifying lives and net salvage values, which would provide a depreciation expense savings for customers if approved, the study did identify a surplus reserve imbalance which was similar in scope to that in FCG's previously approved depreciation parameters.

To correct this imbalance, Florida City Gas has proposed amortizing the surplus over two years, which we believe provides a fair balance between current ongoing benefit of a delayed rate case filing and associated delayed rate increase for our customers, promptly corrects the reserve imbalance and allows the company a better opportunity to earn near its approved rate of return range.

In my rebuttal testimony, I respond to statements made by OPC witness Dunkel. Mr. Dunkel made several analogies in which he likened the depreciation imbalance to both a retirement account and to overpaying your dentist for services.

As noted in my testimony, and as evidenced by the quarterly surveillance reports filed with the PSC, Florida City Gas is earning well below the minimum band of its authorized rage of return. The reality is that Witness Dunkel's dentist analogy is the opposite of what is currently occurring. There is no overpayment for service, nor are there excess funds being set aside in a retirement like account.

For reasons discussed further in my rebuttal testimony, these analogies are both misleading and inconsistent with the impact of the company's proposal. If there were an overpayment for goods or services, this would be evident in the company's filed surveillance reports, and the Commission would have the opportunity to address that.

Contrary to Witness Dunkel's assertions, the company's proposed correction of the reserve imbalance is not a harm to ratepayers. Florida City Gas customers have been and are currently receiving significant monthly benefits of a delayed rate case. Promptly and accurately correcting an imbalance and associated impacts to rate base are not a harm, they are the right thing to do.

The company's depreciation study produces accurate and updated depreciation rates reflective of the lives, net salvage values and the reserve balances of Florida City Gas' assets and should be approved. Approval of the company's proposed amortization period will promptly correct the reserve imbalance and recognizes the benefits customers have received and will continue to receive from the current rate case delay.

Thank you.

Q Thank you, Mr. Everngam.

MS. KEATING: Mr. Chair, the witness is tendered for cross on his direct and rebuttal.

CHAIRMAN LA ROSA: Great. Thank you.

OPC, you are recognized.

MR. REHWINKEL: Thank you.

EXAMINATION

BY MR. REHWINKEL:

Q Good morning, Mr. Everngam.

A Good morning, Mr. Rehwinkel.

Q You are based in the Delaware office of Chesapeake, right?

A Yes, sir. That's correct.

Q Can you give the Commission an idea about your position in the executive leadership of Chesapeake, such as who you report up to and in what organization you are?

A I report currently to Cheryl Martin, the Senior Vice-President of External Affairs.

Q And who does she report to?

A I believe she reports to James Moriarty, Executive Counsel.

Q Thank you.

How long have you had the responsibility related to the Florida operations of Chesapeake and FPUC?

A Several years. I have been the Assistant Vice-President for about a year how now, but I have been Director for Regulatory Affairs for several years before that. So I have been involved in Florida regulatory procedures -- proceedings for five to eight years now, I would say. I forget the first.

Q Okay. So when you went from Director to AVP, your scope of states increased, but you always had Florida for most of that period?

A Under Director, I had Florida as well. Yes, that's correct.

Q Okay. And your only other previous testimony that you mentioned and this testimony, you filed testimony in the last FPUC with the gas case, 0067 case?

A Yes.

Q And I think there, you testified about, in

part, about interim rates and earnings deficiency using MFRs, right?

A Yes.

Q And you would agree that those MFRs were subject to discovery and some vetting by the staff and intervenor review, right?

A Yes.

Q You are not an accountant, right?

A That is correct.

Q But with your finance degree and your job responsibilities and experience, it would be fair to say that you have a basic or working understanding of regulatory accounting and the way revenue requirements are determined?

A That is accurate.

Q And you are responsible for the regulatory affairs filings made to the Commission for the Florida Gas operations, is that right?

A Yes.

Q Can you tell the Commission what functions in the regulatory affairs department report up to you?

A All functions in the regulatory affairs department report up to me.

Q Okay. So would it also be accurate -- would it be accurate to say that you had regulatory affairs

responsibility for the Florida Gas, not FCG but the Florida Gas populations of Chesapeake for all of 2023?

A Yes, that didn't report directly -- all of it did not report directly to me in 2023. As I was Director, I had partial responsibility in 2023, but I would not say all in 2023.

Q Well, what partial? What is the partial that you are referring to?

A In 2023, I did have responsibility for FPU. Florida City Gas, we had not -- had Florida City Gas come on in 2023, and I had minimal dealings with our electric department --

Q Okay.

A -- at that point.

Q But for the -- for Chesapeake's gas operations in Florida, you had full regulatory affairs responsibility putting aside FCG?

A I was part of the team. At that point, Mike Cassel was the AVP of Regulatory Affairs, and the full team reported up to Mike.

Q Okay.

A Uh-huh.

Q I understand. Thank you.

A Uh-huh.

Q You are familiar with the Earnings

Surveillance Report, or ESR that is filed on a quarterly basis in Florida with this commission?

A I am familiar. Yes.

Q And I think Michelle Napier is the Director of Regulatory Affairs here in Florida, or at least for Florida, and she is the one who signs those reports?

A That is correct.

Q Okay. And is it fair to say she reports up through the organization to you?

A That is fair to say at this point in time.

Q And with regard to the Earnings Surveillance Report, in fact, you cite that type of filing in your direct testimony, right?

A Yes.

Q Okay. And is it fair to say that you provide testimony here that you want the Commission to consider in this case?

A I am providing testimony that I would like to the Commission to consider in this case.

Q Okay. Including Earnings Surveillance Report information?

A We did give an example of the Earnings Surveillance Report. Yes, that is correct.

Q Okay. So where you say -- if we could go to C1-8. And on lines five through 11, you testify: As

evidenced by its most recent 12 months ended June 2025 Earnings Surveillance Report and its proforma 2024 year-end report, FCG is currently operating at an earned rate of return that falls well below the low end range of its authorized rate of return. While numerous factors impact a company's Earnings, in recent years FCG has experienced expense increases which were not contemplated in the 2022 rate case and over which the company had no control. Did I read that accurately?

A Yes.

Q So in this provision of your testi -- portion of your testimony, you make several significant assertions that you want the Commission to rely on, is that fair?

A I want the Commission to rely on those assertions that are in my testimony, correct.

Q Okay. And so you point to the June 2025 quarterly ESR as evidence of the company's Earnings, is at that right?

A That is correct.

Q And you point to the December '24 proforma year-end report as evidence of the company's Earnings, is that right?

A As projected evidence. That's correct.

Q So when you say -- what do you -- what exactly

are you talking about with respect to a December '24 proforma year-end report?

A What we were discussing there was the projected '25 report that's filed in March, I believe, is when that's filed.

Q Okay. So it's -- even though it says December '24 proforma year-end report, it's the March filing of your projected Earnings for the year '25?

A That's correct.

Q Okay. Now, did you file that forecast '25 ESR in this case?

A Excuse me?

Q Did you file that in this case?

A I believe we have provided that as a data request response in this case.

Q Okay. And that was filed confidentially?

A I believe that is correct.

Q You allege that the company is currently operating well below the low end of the authorized range, which is 8.5 percent on ROE, right?

A That is correct.

Q And you point the Commission to a trend of experiencing expense increases in recent years, is that in your testimony?

A That is correct.

Q And you assert that these recent years expense increases were not contemplated in the 2022 rate case, is that right?
A Some of them, yes.
Q Okay. And you assert that the company had no control over these expenses?
A Some, yes.
Q Okay. Is it fair to say that you expect the Commission to consider each of these assertions in deciding that is appropriate to require the customers to hand over the surplus that they have paid for?
A No. I do not agree with the framing of the question.
Q Okay. So are you -- let me ask it a different way.
Are you asking the Commission to rely on these assertions that I just went through as support for amortizing whatever surplus is determined in this case for '25 and '26?
A Yes. I believe the assertions here are a part of the overall picture that the Commission could rely on in their decision.
Q And you agree that if the Commission finds a surplus exists, that it would be indicative of the customers overpaying for depreciation?

A I would say that it's indicative of an over-accrual, but, no, I would not say it's indicative of an overpayment. They are two different things.

Q Okay. And it's not overpayment because they were not -- may or may not have been included in rates?

A When we talk about depreciation accrual, you look at that as an accounting function, but when you talk about what's paid, it's really a revenue driven function, and I don't believe there was a look at the revenue driven function in order to say overpayment.

Q Okay. Do you agree that as long as the company is earning within the 200-basis-point range established by the Commission, that they are recovering their costs?

A In general, yes.

Q On the same page of your testimony, at lines 12 through 16, you testify as follows: To the extent that any amortization of the reserve imbalance brings FCG's Earnings back up to -- up into its authorized ROR range, that amortization would be acting as a bridge to provide FCG the ability to earn at or nearer its approved ROR until the required rate case documentation can be prepared for filing with the Commission. Did I read that right?

A Yes, you did.

Q Didn't FCG tell the Commission in the 2022 rate case that if the Commission produced a surplus using another company's stipulated parameters and allowed FCG to create an RSAM, that FCG would be able to stay out for four years and manage its Earnings to earn at at least the midpoint ROE?

A I was not a part of that rate case, but I do believe that there was a witness that made that assumption.

Q Okay. And FCG is who you work for today, right?

A Yes.

Q You are appearing on behalf of FCG?

A Yes.

Q And FCG made that representation to the Commission in the 2022 case, is that right?

A I believe that to be an accurate statement.

Q Let's go, if we can, to F1-110?

MR. REHWINKEL: Mr. Chairman, I have put this order in the Case Center just for ease of discussion. I am not going to offer this into evidence because the Commission can take notice of its own orders.

CHAIRMAN LA ROSA: Sure.

MR. REHWINKEL: This is just for convenience.

CHAIRMAN LA ROSA: Understood.

BY MR. REHWINKEL:

Q So as AVP of Regulatory Affairs, you are very familiar with this order, would that be fair? This is the -- this is -- I should -- I should -- let me -- let me hold that question and ask this: This is Order No. PSC-2023-0177, issued June 9, 2023, in Docket 20220069.

A I am familiar with the order.

Q Okay. This is the current rate case, the most recent rate case order for Florida City Gas, right?

A Yes.

Q Let's go, if we can, to F1-125, please. Do you see -- is that on your screen?

A Yes, it is.

Q Okay. Turning to that page, which is page 16 of the order. In the fifth paragraph, do you see the sentence -- the paragraph that starts: We also -- we also recognize that there was competing testimony about whether the RSAM should be approved in this case and whether it will benefit customers. We are persuaded by the testimony that the RSAM would allow FCG to manage its day-to-day fluctuations, as well as take on the risk of both actual current as well as potential future increases in interest rates and inflation. FCG proposes having a reserve surplus amount of $25 million available

for managing these daily fluctuations in revenues and expenses, but FCG did not propose any treatment for the remaining reserve surplus of 27.1 million. Therefore, that remaining surplus would remain on FCG's books and records until the company files its next depreciation study. Did I read that right?

A Yes.

Q Okay. And you are familiar with that provision --

A Yes.

Q -- of the order?

Let's go, if we can, to F1-114, which is page five of the order. And I want you to direct your attention to the last paragraph under the heading Four-year Rate Plan, and subheading Parties' Arguments, do you see that?

A Yes, I do.

Q Okay. And you would agree that it says: FCG argued that its requested four-year rate plan would provide rate stability and benefits to customers that would not be available with a singular -- a single year rate plan. FCG argued that disapproval of the company's proposed four-year rate plan would cost customers more. Additionally, FCG argued that if we approved the four-year plan, our final order would be both binding

and enforceable against all parties in this docket, and thus FCG would be obligated to comply with the requirements and limitations of the four-year plan. Do you see that?

A Yes.

Q Let's go to the next page, which is page six of the order, and we can just scroll to F1-115.

Do you see in the last paragraph on that page, a little beyond halfway down, there is a sentence that starts, for these reasons?

A Yes.

Q Okay. And it reads: For these reasons, we acknowledge FCG's commitment while also noting that approval of FCG's plan, either in part or its entirety, would not prohibit future proceedings on these matters over the next four years. Do you see that?

A Yes.

Q I think you cited that in your testimony somewhere, right?

A I believe it's been cited.

Q Okay.

A I forget if it's in testimony or if it was in discovery --

Q Okay.

A -- yes.

Q Now, you would agree that FCG, the very same company that is here today, made a commitment to use no more than $25 million in the surplus to stay out for four years?

A I believe that was part of the original discussion in the case with, as the conclusion states, that there was no commitment, either in part or in its entirety, to prohibit future proceedings.

Q Okay. But the Commission accepted that commitment, did they not, the four-year stay-out?

A (Witness nods head in the affirmative.)

Q Was that a yes?

A Yes.

Q Okay. Isn't the company acting contrary to that commitment by asking for rate relief in the form of the amortization here?

A I would not say it's acting contrary to that conclusion. Events changed and obviously expenses have increased that the company hasn't had control of, and so, you know, in -- in agreement with the conclusion, we were coming in for a proceeding over the next four years.

Q Let's go to your testimony at C1-8, please.

MR. SCHULTZ: Eight?

MR. REHWINKEL: Yes, eight.

BY MR. REHWINKEL:

Q And I want to direct you to line four. You state there, starting on-line four: In hindsight, had FCG known that this depreciation study would take longer than anticipated to be resolved, it would have likely filed a rate case in 2025. Do you see that?

A Yes.

Q Okay. And would you agree that that statement is inconsistent with the commitment that FCG made to the Commission in the 2022 rate case?

A I would say that in the 2022 rate case, that FCG believed it would be able to stay out for a four-year period, and in hindsight, that has of proven not to be able to happen based on current situation.

Q Doesn't this filing and the original request made in this case to use the remaining $27 million in that surplus violate at least the spirit, if not the letter, of the same commitment to stay out using no more than $25 million of the reserve amount created using the Peoples Gas parameters?

A No, the filing of this depreciation study was attempt to get the depreciation parameters correct and accurate. I do not believe that to be a violation of that at all. But again, once we have determined that the imbalance existed, the current nature of the state of the company in the market drove our decision to ask for a two-year amortization of the reserve imbalance.

Q You would agree that Chesapeake did not ask the Commission's permission to buy or operate FCG, did they?

A Correct.

Q You only provided a notification to the Commission about the purchase, is that right?

A Yes, I believe that to be the requirement.

Q And the Commission did not approve the transaction, did they?

A Yes, I believe the Commission does not have to approve that transaction in Florida.

Q Okay. Is it your assertion here today that the purchase of FCG by Chesapeake was a changed circumstance or condition that was not contemplated by the FCG commitment to stay out for four years?

A Could you repeat that?

Q Is it your assertion that the purchase by Chesapeake of FCG from NextEra, FPL, was a changed circumstance that was not contemplated by FCG when they made their four-year stay-out commitment?

A Yes, I would believe that's an accurate statement.

Q Are you -- should the Commission take that

changed circumstance into consideration in evaluating whether FCG is in violation of that commitment?

A Could you repeat that question?

Q Should the Commission take that changed circumstance into consideration if they are to determine whether FCG has failed to meet its commitment to stay out for four years?

A I think the Commission, in making any decision, can take all the facts into account.

Q My question is to you, are you asking the Commission to take the purchase by Chesapeake of this system into consideration in determining whether FCG has lived up to the four-year stay-out commitment?

A No.

Q Okay. Would you agree that as far as the Commission is concerned, the FCG that is here today is the same one that was discussed in the commitments and acceptances that we reviewed in the 2023 FCG rate order?

A I would agree it's the same. I would state that obviously there are operating differences when you have different companies, but it is the same company, yes.

Q Now, the operating differences that you mention, they have not been reviewed by the Commission for any prudence in a proceeding since the 2023 rate

case, is that right?

A That's correct. Well, can I revise that?

I -- we have had several cases insofar as gas cases are in stride, we have had cases before the Commission under the new ownership, but we have not had a rate case, if that's what you are asking.

Q Well, I am sorry, I didn't understand what cases are you saying since the last case, are you talking about clauses?

A I just mean that the company has certainly made filings under the new ownership before the Commission, but there has not been a base rate case, if that's what you are referring to.

Q Fair clarification. You haven't had a comprehensive review of prudence in activities that one might get in a general base rate case?

A That's an accurate proceeding.

Q And I appreciate the clarification.

A Uh-huh.

Q Would you agree that Chesapeake stands in FPL's shoes as far as the commitments and obligations that were made under the 2023 rate order?

A I don't know if I would frame it as stands in FPL's shoes.

Q Well, it's clear that the -- that F -- that

Chesapeake, in its operations and accounting reporting, used the $25 million reserve amount that was ordered in the rate case, is that right?

A They continued to utilize the RSAM of the $25 million once it took ownership of Florida City Gas, that's correct.

Q Okay. You are not saying that FCG can pick and choose, or cherrypick portions of the order they like and then just -- and ignore parts that they don't?

A No, certainly must abide by the order.

Q Okay. Let's look at OPC Exhibit 6, and this is F1-245, if we could go there.

I am going to represent to you that what is in this exhibit is a faithful reproduction of the year-end for December 12, 20 -- excuse me, December 31 Earnings Surveillance Report for FCG for the years '08, 2018 through 2024, and then the two most recent quarterly reports, ESRs for the company. Will you accept that representation?

A Yes.

Q Okay. Now, I understand that you and Ms. Napier were not responsible for the filing of ESRs before ownership changed hands, but you are generally familiar with the accounting that goes into these ESRs, not only for the period you have had it, but for the

feeder that FPL did?
A Generally familiar.
Q Okay. And the reports, since December of '23, are signed by Ms. Napier, right, who reports up to you?
A That's correct.
Q Now, if we could go to -- I think I wanted to go to -- I'm sorry -- the December 31, 2024, ESR shows an achieved ROE of 9.28 percent, is that right?
A That is accurate.
Q Okay. Now, let's go, if we can, to F1-249, please. Are you familiar with this document here?
A Yeah, F1-249?
Q Yes.
A Okay, I see the document. Yes.
Q And are you familiar with it?
A In general, yes.
Q This is an exhibit attached to the December 31, 2024, ESR for FCG?
A Correct.
Q Okay. And what this shows is the use of the reserve amount under the RSAM that was approved in the 2022 FCG rate case, would you agree with that?
A I would agree with that.
Q Okay. And just for nomenclature reasons, some people call RSAM the mechanism as well as the dollars,

but I am talking about the reserve amount, which is the portion of the depreciation reserve surplus that is amortizable under the RSAM mechanism, is that how you understand it?

A Could you repeat that one more time?

Q When I say reserve amount, that's the portion of the depreciation reserve surplus that is amortizable using the RSAM?

A Yes.

Q Okay. And if we look on in this exhibits, on the left-hand side above the dates, we see reserve amount May 2023, do you see that?

A Yes.

Q It's $25 million, so that's the starting balance of reserve amount before any amortization occurred, right?

A Correct.

Q And I think we established that that order was issued on June 9, 2023. In that same month, FPL took the first slug of the reserve amount to income in the amount of 6,301,154. Would you agree with that?

A I would agree that the first amount appears to be have been booked in June of 2023 under FPL.

Q Okay. And in September through November, FPL made two more transfers totaling about $1.3 million from

the reserve amount to the income statement by reducing depreciation expense, would you agree with that?

A Yes.

Q Okay. And in November of 2023, FPL debited depreciation expense and restored, or credited about $3.2 million back to the reserve amount, would you agree with that?

A I would agree that that's what that shows.

Q Okay. And would you also agree that was the last RSAM transaction on FCG's books that were made by FPL as reported in the ESRs?

A Yes.

Q Okay. And that's because FPL sold the company to you on November 30, 2023, right?

A Correct.

Q Now, since Chesapeake, or CUC, as new owners stood in FPL's shoes as owner, they were authorized to continue with the amortization of the reserve amount, is that right?

A That's correct.

Q So when CUC took over, only 4.414,123 million of the $25 million reserve amount had been effectively used, is that right?

A That is accurate.

Q So on December 1, under CUC ownership, FCG had

$20,585,877 of reserve amount, or more than 75 percent of the original amount to get it through the next 36 months under the stay-out commitment FCG had made, is that right?

A Subject to check, that's an accurate amount.

Q Okay. F -- Chesapeake has not asked the Commission to modify the 2023 rate order since you bought the company, right?

A Correct.

Q And certainly since -- given that FCG was continuing to use the reserve amount in the RSAM mechanism, CUC was not cherrypicking the 2023 order by taking the surplussed Earnings but abandoning the obligation that the company made to the Commission and that the Commission acknowledged, is that right?

A Can you repeat that question, please?

Q Since -- given that FCG continued to use the reserve amount an the RSAM mechanism since purchase, it can't be said that Chesapeake was cherrypicking the 2023 order by taking the surplus to Earnings but abandoning their obligation that the company had made to the Commission and that the Commission had acknowledged, right?

A Chesapeake was utilizing the RSAM as authorized through the remainder of 2024. That is accurate.

Q Okay. Would you agree that the $4.414,123 million number that is shown in the cumulative column next to November is a number that was explicitly recognized in the stock purchase agreement, or SPA, between Chesapeake and FPL?

A I am not familiar with all the specifics of the SPA between Chesapeake and F -- if it's in there, I would say that that's accurate, but I am not familiar with the specifics.

Q Okay. But you are familiar with that SPA, are you not?

A I am familiar of it, but not all of the terms of it.

Q Okay. You would agree that Mr. Moriarty was involved in that agreement, right?

A I believe he would have been, but I wouldn't have been dealing with him on his -- on a daily basis of his involvement.

Q Okay. But you were Director of Regulatory in Florida for all of 2023, right?

A I did have authority in Florida in 2023.

Q And that would have been the period over which -- during which this agreement was negotiated and signed, right?

A It would be, but as Director, I wouldn't have been very involved in that.

Q But you were involved to some degree, right?

A I was involved in the fact that when we were acquiring and bringing Florida City Gas onboard after the acquisition, but not the purchase agreement.

Q Okay. Let's look at OPC Exhibit 10 at F1-581, if we can.

MR. REHWINKEL: Mr. Chairman, I am thinking that I printed out a copy of this document, but it doesn't jive.

CHAIRMAN LA ROSA: Okay.

MR. REHWINKEL: That's the document I am looking for, F1-583.

BY MR. REHWINKEL:

Q Okay. So this is the Form 8-K that's shared with the investing world, the SPA, is that your understanding?

A It's my understanding, but it's not a form I am involved with.

Q Okay. And if we could scroll down a little bit more. There we go. Right there. There is a description of the completion of acquisition or disposition of assets, and it shows the date of purchase -- well, it shows the purchase price of 923.4 million in

cash. Do you see that?

A Now, what page are we looking at?

MR. SCHULTZ: It's center of the first page.

THE WITNESS: What's that? Oh, center of the first page.

BY MR. REHWINKEL:

Q This is now 583.

A Yes, I have it now.

Q Okay. Do you see that 923.4 million?

A 923 -- yes.

Q Okay. If we could go to F1-605 -- maybe it's 607 since it looks like I am two off.

Okay. Do you see under 2.2, closing payment. It says: In consideration for the shares, the closing -- at closing -- at the closing, purchasers shall deliver to seller or one or more of seller's designees in cash an aggregate of, (a), 923,407,031, plus the estimated working capital adjustment amount, if any, minus (c), the amount, if any, of indebtedness of the company as of the closing as set forth in the estimated closing statement, minus (d), the RSAM shortfall, the amount in (b), (c) and (d) together with the closing payment adjustments. Do you see that?

A I do see it.

Q I kind of botched the reading of it, but --

If we turn back to F1-602, and the definition of RSAM shortfall says: Shall mean any RSAM amount utilized by the company in excess of 4,414,128 as of the closing. Do you see that?

A I see that.

Q Okay. So you would agree that when FC -- when Chesapeake bought FCG, they also bought, in so many words, the right to use the $25 million in the reserve amount?

A I was not engaged in any of the purchase negotiations nor the contracts, and so I agree with you with what it says here, but my -- I wouldn't interpret it.

Q Okay. Let's go back to F1-249, if we can. This is the history of the R -- the reserve amount amortization.

You would agree that as of December 31, 2024, and just 13 months into ownership, FCG has used up, at this point, all of $25 million that was supposed to last four years, would you agree with that?

A I would agree that the amortization of the 25 million was completed -- was in December of 2024. That's an accurate same statement.

Q Okay. I mean, there might be $2 left, but it's effectively zero, right?

A I agree, yes, there was -- it's effectively zero as of December 2024.

Q Okay. If we could go to F1-254.

Would you agree that in columns six, seven and eight, the respective amounts of jurisdictional net plant, working capital and rate base are approximately 441.7 million, 15.2 million and $457 million, respectively?

A Yes.

Q It's at the very bottom line there, where it says, proforma adjusted.

And if the purchase price shown in the SPA that we just looked at, and these -- this range of values related to working capital are approximately accurate as shown on this 254, you would agree that the acquisition adjustment being carried on the books, somewhere on the books of Chesapeake would be about $466 million?

A Subject to check.

Q Okay. So effectively, FCG, or Chesapeake paid about double net book value for FCG, subject to check?

A Uh-huh. Yes.

Q Okay. This would mean that there is significant pressure on Chesapeake to recover as much of this purchase premium as possible, right?

MS. KEATING: Mr. Chairman.
CHAIRMAN LA ROSA: Go ahead.
MS. KEATING: I hate to object, but this has gone pretty far afield of Mr. Everngam's direct or rebuttal testimony. He has not addressed anything about the purchase of FCG, the acquisition purchase price.
CHAIRMAN LA ROSA: Okay. Mr. Rehwinkel.
MR. REHWINKEL: If I may respond to that, Mr. Chairman.
CHAIRMAN LA ROSA: Please.
MR. REHWINKEL: The -- part of our case, our theory of the case is that there is a motive by the company to maximize recovery of costs, and I have further cross-examination on the ESRs that the company put into evidence that I intend to explore, including how this transaction is recorded on the ESRs. So I am laying a foundation for this, and I believe, and assert strongly, that this is squarely within the ambit of the issues that are at stake today.
CHAIRMAN LA ROSA: Staff?
MR. REHWINKEL: Mr. Chairman, it's noon. If this is a good time to break, it's a good time for me. I mean, I have more questions. I am not

trying to change your scheduling whatsoever.
CHAIRMAN LA ROSA: No. No. And that's not -- that's staying consistent with where we are on scheduling. After this -- I mean, it sounds like you have quite a few more questions.
MR. REHWINKEL: I do. Yes, sir.
CHAIRMAN LA ROSA: Okay. Let's go ahead and let's break. After we break, I will come back with a decision from the --
MR. REHWINKEL: And just for the record, before we break, I understand, is there a relevance objection? Is that what we are --
MS. HELTON: Mr. Chairman, after Ms. Keating speaks, if I could maybe --
CHAIRMAN LA ROSA: Please.
MS. HELTON: -- kind of --
CHAIRMAN LA ROSA: Maybe we will figure it out before we go to lunch.
Go ahead, Ms. Keating.
MS. KEATING: First and foremost, that it's beyond the scope of Mr. Everngam's testimony. Second, certainly relevance would be a question, but more so that it's not within the scope of his testimony.
CHAIRMAN LA ROSA: Ms. Helton.

MS. HELTON: And, Mr. Chairman, that was kind of where I was going as well. If Mr. Rehwinkel can have the witness point us to where he discusses this information in his testimony, we can see that it is within the scope of his testimony, then I think it's appropriate to go forward, but if it's not within the scope, then I think you have the discretion to say that you -- to not allow the testimony.

MR. REHWINKEL: So for the record --

CHAIRMAN LA ROSA: Sure.

MR. REHWINKEL: -- if we will look at Mr. Everngam's testimony, let's just go to his rebuttal first. Page five, there is a table that says what the Earnings are. Now, I have been doing this for 40 years. I am not required to accept their numbers. I can test their numbers and ask what goes into them, whether the numbers that are in there should be there, whether the numbers that are in there should be -- are nonrecurring or improperly there. So I am laying a foundation to do that. That's one place.

And I think we already discussed in his direct testimony that he has puts the Earnings Surveillance Report and the forecast at issue in this case.

So it's not just accept that number or not. It's explore whether the number is accurate and should be accepted by you, the Commission, for purposes of giving the relief that's requested. So I think this is squarely within the scope of his testimony.

CHAIRMAN LA ROSA: Okay.

MS. KEATING: Mr. Chair, may I respond just briefly?

CHAIRMAN LA ROSA: Sure.

MS. KEATING: We are not objecting to OPC's ability to ask the witness about the Earnings, the Earnings Surveillance Reports. The path Mr. Rehwinkel was going down, however, had to do with the amortization of Florida City Gas, the purchase price, and presumably whether that's reflected as an acquisition adjustment on the books.

CHAIRMAN LA ROSA: Okay. So I will allow the questions based on the reference of the testimony that you have pointed out. We will continue questioning after the lunch break. Obviously, we will continue to monitor if the question starts to wean off away from testimony, and if there is an objection, or if I feel like there is one that's necessary for me to interject, I will.

Mr. Rehwinkel.

MR. REHWINKEL: Thank you, Mr. Chairman. That is imminently fair and I appreciate your approach to that. Thank you.

CHAIRMAN LA ROSA: Excellent. Thank you.

It's 1205. Let's be back here at five minutes after one o'clock.

MR. REHWINKEL: Thank you.

CHAIRMAN LA ROSA: Thank you.

(Lunch recess.)

CHAIRMAN LA ROSA: All right. I think we can pick back up.

Mr. Rehwinkel, you were in questioning. I know there has been some confidential information passed out. We, of course, have it here, as Commissioners, in front of us, and will allow you to continue with the questioning.

MR. REHWINKEL: Thank you, Mr. Chairman.

BY MR. REHWINKEL:

Q Mr. Everngam, am I saying that right?

A Yes, you are.

Q Let's turn to OPC 6. My first page, I think, is F1-237, is that it? Okay.

All right. So we are back on this exhibit

here, and what I would like to do is take you back to the December 2023 Earnings Surveillance Report, which starts at F1-253.

All right. And so this report has one month of results that -- roughly one month of results that were reported under Chesapeake ownership, is that accurate?

A I believe that to be accurate.

Q I know there is a 13-month average convention in here, but by and large, there is a month of FCG ownership reflected in here --

A By and large --

Q -- on that basis?

A -- that would be accurate.

Q Okay. All right. So on F1-254, if we could go to that page. You would agree that on the top line of reporting there in column one, plant in service, it shows an amount of $700.1 million, right?

A The top per books plant in service line, yes.

Q All right. And if we back up one month to the 2022 report, which is at F1-261. This is the same Schedule 2, page one of two, Schedule 2, do you see that? Do you see the plant in service amount of, in column one, of about $576 million?

A Yes, I see that.

Q So between December of '22 and December of '23, this shows that plant in service increased significantly, would you agree with that?
A It shows, I believe, about 120 million or so, give or take.
Q All right. And now let's go to the December 2024 surveillance report at F1-246, the Schedule 1, page one of two, if we can look at that.
So do you see in column one on the per books plant in service, that number is 1,161,902,177?
A Yes, I see that.
Q Okay. Now, would you agree that that reflects the recording of the purchase price of FCG on the books of FCG?
A I would agree the 1.16 includes that, and two lines down, it's removed --
Q Okay.
A -- in line two, but, yes, I would agree with you, that the per books includes that, yes.
Q Okay. So there is an adjustment there, remove goodwill --
A Yes.
Q -- and it's 460,867,994, right?
A Yes.
Q Okay. But putatively, that should offset the

recording of the purchase price on the FCG books, right?

A It would be an accounting adjustment for the goodwill that the accounting department has put on the books.

Q Okay. Now, a goodwill adjustment is not one that the Commission ordered in the last rate case, is that right?

A Can you make that statement again?

Q Well, before you bought FCG, goodwill, there was not a line for a goodwill adjustment that you would show where -- see, it sees FPSC adjustments?

A Yes.

Q All right. So that's not one of the -- and that normally is on the surveillance report is a reflection of the accounting adjustments that the Commission ordered in a prior case, is that your understanding?

A Yes, a Commission order or Commission precedent.

Q Okay. So -- well, if we went back to that page at the end of 2023, F1-254, we would see that 700.1 million also has an offset of remove goodwill of $35.8 million, you agree with that, for the December '23 report?

A Yes, I do see that.

Q And if I multiplied 35.8 times 13, would you accept, subject to check that, I would get roughly 465.6 million?

A Subject to check.

Q Okay. And so what this likely shows is that there is 113th, or one month's worth of purchase price in line one, and one month worth of goodwill offset in line 11?

A Yes. I am not an accountant, but I would believe that's an accurate statement.

Q Okay. So now let's go to the 2025 second quarter Earnings Surveillance Report at F1-238. Do you see that?

A I am still waiting for that to come up.

Q Okay.

A Okay. It's up.

Q Okay. So we see on the per books, column one, line one, plant in service, 1,186,314,200, do you see that?

A Yes, I do.

Q Okay. But then on line two, remove goodwill, we see 454,891,017. Do you see that?

A Yes, I do.

Q So that's about $12 million less than -- well, that's less than the goodwill offset that was on the

'23 -- I mean, the '24 year-end surveillance report, right?

A Subject to check.

Q Okay. Does this reflect that there is a -- there is a reduction in the goodwill offset over time?

A It would reflect that it was different than the previous report, but I couldn't give you an exact statement to the difference between. I would need to discuss with the accounting department.

Q Okay. So let me ask you a ESR type of question. If you book the purchase price or the acquisition -- the purchase price in the books for surveillance purposes and you have an offset for goodwill that diminishes over time, won't that, over time, increase rate base, all other things being equal?

A It would dependent on if rate base was being moved to the head of goodwill associated with it.

Q You mean plant in service?

A Plant in service, that's correct.

Q Well, does plant in service usually, is that amortized?

A Plant in service is usually -- is depreciated.

Q Okay. So you -- but the plant in service amount stays the same for a given asset, and then you reduce it by -- you have an offsetted depreciation

reserve, but the booked amount of plant stays --

A Yes.

Q -- firm, right?

A Yes, as long as the plant stays on the books of the company and is then transferred to a different company --

Q Okay.

A -- yes.

Q So is there evidence that the company has provided to the Commission and its staff that shows that there is no revenue requirement associated with the purchase price that's reflected in the Earnings Surveillance Report? Purchase price meaning the purchase from FPL.

A Can you repeat that statement?

Q Yeah. That's fair.

Have you provided any evidence to the Commission or staff that shows that there is zero impact of the recording of the acquisition premium in the plant in service line on line one of your most recent surveillance report, column one?

A I do not believe we have discussed that with staff with the filing of this surveillance report.

Q Okay. Is -- so if, you know, we go back and we look at 18 months prior, where we look at the

December 2024 surveillance report on F1-246, and we look at that, keeping in mind that the number, the goodwill offset is 454.89 in June of '25. If, in December of 24, at the end of last year, that number is 460.8, doesn't that show roughly a $6 million reduction in the goodwill offset?

A That is a $6 million difference --

Q Okay.

A -- as in that statement.

Q And if it's a half a year's worth, that would mean it would be reasonable to assume that over a 12-month period, that that offset would be $12 million lower than we saw at the end of 2024?

A No, I believe the difference is the transfer of an asset where the per books plant in service would go out as well, but there is not a monthly decline that's associated with revenues collected from customers. That's drawing down the goodwill.

Q Well --

A I would need to verify with the accounting department that that is an accurate statement, but I believe that is the reason for the difference, not a drawdown, as you are talking about, that would be a monthly $1 million reduction --

Q Okay.

A -- but that would be subject to verification with the accounting department.

Q Okay. But 12 million divided into 466 million, would you accept subject to check, that that's about 39 or 40 years?

A I am not following that logic, if you wouldn't mind repeating that.

Q Well, if you were to have a goodwill offset that was to be changing over time over an amortization period of about 40 years, that would be about $12 million, right?

A Hypothetically --

Q Okay.

A -- but that's not occurring.

Q Is there any evidence on the surveillance report that shows that there is a corresponding reduction to plant in service that corresponds to the $12 million reduction in the goodwill offset that's shown on this surveillance report?

A I believe it was $6 million, but --

Q Six million half-year?

A No. What you have here are the details.

Q Okay. So can you say with certainty that there is not, let's say, a million-and-a-half-dollar revenue requirement associated with the purchase of FCG

included in this case on a rate base return?

A I can say I believe there is not. Again, I would have to verify with the accounting department, but I can definitively say I believe there is not.

Q And what makes you say that?

A Because I believe there was a transfer of assets.

Q What do you mean by transfer of assets?

A That would mean that the plant in service is lower, just as you would remove the goodwill.

Q Okay. So what are the assets being transferred to?

A I do not know the specifics. I would have to talk to our accounting department on that.

Q Okay. So are -- would -- wouldn't a corresponding reduction in plant in service be reflected in column two accumulated depreciation and amortization, if you were reducing it ratably?

A Yes, the plant and the accumulated depreciation were both transferred if you transfer that asset.

Q But to reduce plant in service balance, which usually is fixed, other than additions or retirements, how would you reduce that per books line one amount to have a dollar-for-dollar offset to the change in the

goodwill adjustment?

A Can you repeat that one more time?

Q Yes. So how -- what would the mechanism be to reduce the plant in service per books amount so that it was offsetting the reduction in the goodwill offset?

A Probably have to defer to the accounting department for more details on that.

Q Okay. But we don't have anybody here?

A That is correct.

Q Okay. But you would agree that at some point between purchase and today, the company has recorded the purchase price in its books and reflected them on the surveillance report, right?

A That is correct.

Q Okay. But there is nothing that you have provided that indicates that the customers are held harmless from a rate of return deficiency standpoint with the way you have accounted for that transaction, is that right?

A Not on the surveillance report. That's correct.

Q Okay. Is there anything that's been provided in this case that shows that?

A I do not believe there has been a discussion of that in this case.

Q Okay. Would you agree that it would be improper for the transaction to the purchase from FPL to show that -- would it be improper for that transaction to be recorded above the line until the Commission had an opportunity to review it in a rate case?

A Yes. I believe that's what we have done here by removing the goodwill.

Q Okay. So you agree it should not be above the line?

A Yes.

Q Okay. Would you agree that -- going back to the attachment on the 2024 year-end surveillance report that shows the use of the RSAM, would you agree that spending that RSAM down over 18 months would provide a better justification for accessing the other $27 million that was identified in the 2022 rate case of depreciation surplus -- reserve surplus?

A Can you state that one more time?

Q All right. So let's go to F1-249.

This shows, does it not, that since you bought the company -- Chesapeake bought the company at the end of November of '23, they reduced the RSAM, or the reserve amount by the remaining $20.5 million?

A Yes, it shows that.

Q Okay. And it shows that in March, in May and

September to have pretty much fairly even amortization of the remaining amount for those three-quarters, and then followed by the $6.6 million amortization to clean out the reserve amount account in December, right?

A The numbers are the numbers. It's accurate.

Q Okay. So drawing that reserve amount down to $2 would provide an opportunity for the company to show the Commission that they had -- they needed more money because they didn't have access to any more of the reserve amount, that would support your request for the amortization of the surplus, is that fair?

A I would say that it shows that the revenues weren't sufficient to meet the rate of return ban, so they were utilized as such.

Q Okay. Did you look at FPL's earnings results while they had access to the RSAM?

A I did not.

Q Okay. You are not familiar with what their reported earnings were?

A I am not.

Q Okay. Did you look at discovery in this case that indicated that they were earning, at times, up to the top, or 10.5 percent of the range?

A I believe I have seen that, but I am not familiar with specific details.

Q Okay. You are -- FPL didn't mismanage FCG when they owned it, did they?

A I have no commentary on how they managed FCG.

Q Okay. Well, you didn't get a company that was delapidated, did you?

A I have no commentary. I certainly believe we bought a company that we thought was an appropriate acquisition, but I have no commentary on the way that they ran the company.

Q And you would agree that at the time the Commission issued its last rate order in your case, they said the customer service was adequate --

A I believe --

Q -- subject to check?

A -- subject to check, I believe that's accurate.

Q Okay. So FCG had its rates established in June of 2023, right?

A I believe that to be accurate.

Q So they would have gone into effect maybe July 1 of 2023, in that ballpark?

A Subject to check, yes.

Q So between that time of, let's say, July 1 of 2023 and December 31st of 2024, you are saying that FCG's operations were such that their earnings went from

potentially as high as the top of the range to as far below the range as you are presenting in your testimony?

A As far as exactly how FPL's earnings compared to Florida City Gas' and their usage of RSAM or other mechanisms, I couldn't speak to that.

Q Okay. So when you testify -- strike that question.

MR. REHWINKEL: Mr. Chairman, I have jumped ahead because, just to resolve some of the issues we had before --

CHAIRMAN LA ROSA: Sure.

MR. REHWINKEL: -- I went and did those, so Mr. Everngam testimony has been very helpful to eliminate a lot of questions, so --

CHAIRMAN LA ROSA: Okay. Take your time.

MR. REHWINKEL: -- I am zipping through this.

BY MR. REHWINKEL:

Q All right. Isn't there another acquisition -- let's -- I am going to leave the FPL acquisition now and I want to ask you now about the AGL acquisition adjustment, do you know what I am talking about there?

A I am familiar with it, but I don't know the deep specifics of it.

Q Okay. So generally what happened is that when Southern Company bought Florida City Gas from Atlanta

Gas & Light, they paid a premium, there was an acquisition adjustment that was recognized by the Commission in the last case, including an unamortized amount and an annual amortization expense. Is that generally what you understand?

A I will trust your description of it.

Q All right. And would you -- is it also your understanding that in addition to the RSAM issue at the Florida Supreme Court, there is the issue about the acquisition adjustment before that court, right?

A I don't know the specific details of it, but I will trust your statement on that.

Q Okay. But you are aware, there is -- there are two issues, the RSAM and the acquisition adjustment before the Court?

A But not the specific details of them.

Q Understood.

Would you accept, subject to check, that the Commission authorized the inclusion of $8.2 million in unamortized premium, and a $700,000 in annual amortization expense in the 2023 order?

A Subject to check, yes.

Q Okay. Why don't we just go look at F1-135. On page 26 of the order, you can see in the -- under the acquisition adjustment, parties argument, there is a

description in the lower part of that paragraph that has some of the numbers that we just discussed?

A Is that under the parties arguments?

Q Yes, sir.

A Yes. Uh-huh. Yes, I see that.

Q Okay. So you see the 27.7 million, which is the whole acquisition adjustment. Unamortized amount is 13-and-a-half -- no, the amortized amount is 13-and-a-half, the unamortized is 8.2 million, and then the amortization expense is 700,000, right?

A Yes, I see that.

Q So would you accept, subject to check, that the revenue -- and you don't have an adjustment to remove this acquisition adjustment in your Earnings Surveillance Report that we have been discussing, have you?

A I would have to double check that.

Q Okay. But if you looked at -- if we go to, I guess -- make sure I have my numbers lined up. Sorry. If we go to F1-238 and 239. Let's start with 238.

When we look at this page of the June 25 quarterly ESR, we don't see in the Commission adjustments an adjustment to the acquisition adjustment, do we?

A I do not see anything highlighted that calls out the AGL.

Q Okay. And the same would be, if we go to the next page, 239, there is no adjustment to remove the $700,000 amortization, right?

A I don't see something called out. I would have to double check on that.

Q Okay. So it would be pretty fair to reasonably conclude that the revenue requirement associated with the AGL acquisition is included in the earnings results reported in June of 2025?

A Until I do a further review of that, I wouldn't state one way or the other.

Q Okay. All right. But if it is in there, the -- while this case is pending at the Supreme Court, do you think it would be appropriate to use a part of an amortized depreciation surplus to offset that revenue requirement if it's there?

A I would have to look into that further before I could comment.

Q Okay. Would you accept, subject to check, given the relative magnitude of these numbers that we discussed about the AGL adjustment, that the revenue requirement associated with that would be somewhere in the neighborhood of just a little bit less than $1 million?

A Subject to check.

Q Okay. Let's go to OPC Exhibit 14 at F1-941, please. I think this is going to be at F1-943. Since I prepared my cross, these numbers jumped a couple, the master numbers.

Okay. So instead of going through and flyspecking all these years of earnings reports for a trend, we took certain numbers off the earnings surveillance report and put them in spreadsheet form for plant and expense. Would you accept, subject to check, that these are numbers are accurately pulled from for surveillance reports for the period that's in this surveillance report exhibit?

A Subject to check, I would believe you pulled them accurately.

Q Okay. Thank you.

Let's go to the -- F1-944. And what we have done here is tried to reflect accurately the O&M other expense, the depreciation expense, taxes other than income, DOTI, income tax provision and then total expense in the columns that are one through 17 with a between 2019 on delta between the two, the prior period. Do you see that?

A I am scrolling to the next page. Yes, I see that.

Q Okay. So in the other -- O&M other for December '18 to '19, we show an $11.2 million delta, or difference between the prior year and 2019, do you see that?

A Yes, I do.

Q Okay. So that's the spirit in which this tabulation of numbers is prepared, and I just want to ask you a few questions, since you had this discussion in your testimony about recent years and earnings and expenses.

So when I look at O&M expense other over the recent years, you would agree that for the order that we have been talking about, the '23 -- the '22 rate case order, the test year was 2023, is that your understanding?

A Could you say that one more time?

Q This 2022 FCG rate case order, you would agree that the test year for setting rates for FCG was 2023?

A Subject to check.

Q Okay. And if we look on this exhibit, you would agree that for the years 2018 through 2023, the expenses increase, except for 2019, 40 to 50 million, 47 million, 46 million, 49 million and then 51 million in 2023?

A I would agree that's what the numbers show, yes.

Q Okay. Now, from 2023 through the second quarter of 2025, or that 18-month or so period, you would agree the number went up to 55 million, and then 58 million in the first quarter of this year, and now 66 million in the second quarter total expenses, right?

A I would say that's an accurate number, yes.

Q Okay. And then if we go back over to the O&M other category, we see that other than in December of 2019, the O&M other expenses were in the -- they were less than $30 million, they were in the 20s?

A From 2018 to 2022, they were in the 20s, that's accurate.

Q Except to 2019, which is 31 points --

A Except for the jump in 2019, correct.

Q Okay. But then the 32 million is the test year O&M, or O&M other expense, and then after -- and that includes one month of Chesapeake operation of the company right?

A December '23 would include that. That's an accurate statement.

Q Okay. And then after you took over in December of '24, that number goes to 39 million, and it stays sort of at that level for the next two reports, first quarter and second quarter of this year?

A Correct numbers, yes.
Q Okay. Also with regard to the surveillance reports -- and we could go back to the page before on this Exhibit 14, the balance sheet kind of accounts on F1-943.
Would you agree that this document, or the accumulated depreciation column here reflects the amortization of -- the amortization activity, credits and debits, of the RSAM in the amounts that would be in this accumulated depreciation column?
A I would want to look at the details more before I would say one way or another on that.
Q Okay. So -- well, if you are going to amort-- the reserve amount, you agreed, is part of whatever balance is in the reserve amount is booked and recorded in the depreciation reserve, right?
A Yes.
Q Okay. So just hypothetically, if you amortize five million to income statement or offset depreciation expense, for that period, depreciation reserve is going to be $5 million less?
A Correct.
Q All right. So given that we have already established that all but $2 of the 25 million has been amortized, you would agree that in the first quarter of

2025, given that the 25 million was zeroed out, that this $215 million number in line 14 for first quarter of 2025 is $25 million higher than it would have been had you not amortized that 25 million?

A In a vacuum, yes.

Q Okay. And that $25 million difference in line 14, it persists in line 16, right?

A Yes.

Q Let's go, if we can, to -- and I think you can use the unredacted version of Exhibit 15C. So if we could go to -- I don't know, bring up -- yeah, so -- and this is at F1-945.

Do you have some general familiarity with these documents we received in a production of documents?

A General familiarity.

Q Okay. I would assume that you are not responsible for producing these documents?

A That's accurate.

Q Okay. And what this -- when you talk about a variance report, the variance report generally is, when it's actual to budget, it looks at actual results versus what you budgeted or forecast, is that correct?

A That's generally correct, yes.

Q By granul -- some level of granularity?

A Correct.

Q Okay. And what these documents are, are for the months of, you can see, on F1-945, the variance summary, it doesn't have a date on it, but on F1-946, it says March of '24. And then the third page says April of '24. Do you see that?

A It's a little slower here, but as I scroll through, yes. Uh-huh.

Q Okay. And I don't know and can't represent to you what 945 says. Do you have an idea what period that covers?

A 945 -- I do not know off the top of my head. No.

Q Okay. But I want to look at -- and these are some high level variance report, right?

A Yes, I believe these are high level.

Q Okay. Is this -- is that because the acquisition of FCG was so new, that some of the budgeting and accounting information systems hadn't been fully developed such that you could provide the granular budge -- variance reports?

A I think you do various levels of variance reports, sometimes you don't want to get into a 15-page variance. There is a significant amount of different line items you could look at --

Q Okay.
A -- so I don't know if I would say that that was the reason why. I think there is -- this could be a very reasonable report for who it was produced for with the detail that they needed.
Q Okay. So looking on F1-946, do you see in the second half of that document, there is -- on the left-hand side, it says, total shared services, total corporate services and total corporate overhead?
A Yes, I do.
Q And would you agree that those three numbers there roughly add up to $347,000?
A Those three line items, shared services overhead and corporate services?
Q Yes.
A Subject to check, yes.
Q And the description of the variances have budget description says: Corporate cost increase, corporate cost increase, corporate cost increase, or corp cost increase for those three lines?
A That is the descriptor.
Q Okay. So does that show that relative to the budget, these corporate cost charges allocations are $347,000 higher than was budgeted?
A That's an accurate description.

Q Okay. And would it be true that these increases in costs are, in all likelihood, because of the acquisition of FCG from FPL?

A No, I cannot speak to that at all.

Q Okay. You don't know whether there is an increase in corporate costs related to the acquisition?

A No. Those line items, the report was not prepared for me, nor did I get a briefing on the report, so, no, I cannot speak to what that refers to.

Q Okay. Can you assure the Commission that an increase in costs that are represented by these items here are not included in the surveillance report for 2024?

A No, I cannot say they wouldn't be included. I think all costs that we believe were prudently incurred would be included.

Q Okay.

A But the reason for those costs, again, I can't state to you exactly what it is, just like every other line item that's on a positive level.

Q Okay. Can you tell me, based on your role in the company and your familiarity with the surveillance report reporting to the Commission whether you are aware of whether integration or acquisition costs associated with concluding the purchase of FCG from FPL are

included above the line in the surveillance reports?

A I can say there is certainly some transitional costs that we have where we utilized the previous owner's services while we were getting our customers, or our employees up to speed to be able to run the company are included, and then as those fall off, we bring in additional resources to fill that.

So if that's what you mean, then they are there, certainly, but what's needed to run the business, and as we were paying the transition, we were backfilling that with the company employees to be able to handle those activities, and so all of that would be included.

Q Okay. So would it be fair to say that there is some fluidity in the types and levels of costs that you are incurring and recording in this -- in a transitional period where you are weaning the company off of certain systems and processes of old owners and putting them onto the new processes and services of the new owners?

A I would say fluidity with who is providing the activity, but the costs themselves would generally be incurred whether you had one group doing it or a group in another company doing it.

Q Would you agree that in the process of

transition, there would be costs that are not necessarily recurring in nature?

A There may be.

Q Okay. And not necessarily -- also that there would be costs that are not necessarily recurring in amount or level?

A There may be.

Q Okay. Now, when you prepare your surveillance report for submitting to the Commission, unless there is a Commission order dictating to the contrary, you record your costs, or your expenses, as incurred in the normal course of business, right?

A I would agree with that statement. I believe we could make an adjustment there, but I believe in general that's an accurate statement.

Q Okay. Would you also agree that if you were to want to record differently than recording a business-as-usual in the income statement for an expense, that you would have to take an alternative measure which would be to defer the cost for recovery in a future period under ASC 980, or what used to be called FAS 71?

A Can you repeat the first part of that question?

Q Sure. That's fair.

Let's say you had -- I am just going to make up a number -- $100,000 of one-time consultant costs to help you integrate the company, but it was only going to be one time related to the merger. If you wanted to spread that cost against some sort of -- well, if you wanted to defer that cost, you would have to set up an asset, a deferred asset account, and then ask for permission to amortize that in a future period?

A That is a avenue that you are able to go down to be able to recover non-reoccurring costs in certain circumstances.

Q Okay. Now, would you agree with me that nothing reflected in your ESRs shows that you have come to the Commission and asked for a deferral under ASC 980 for future recovery of nonrecurring transition acquisition costs?

A Yes, I do not believe we have come to the Commission for that.

Q Okay. So if there were costs include -- incurred in the surveillance report reporting periods related to acquisition and mergers that are not subject of a petition for deferral, then those costs, we can assume, would be recorded above the line and offsetting earnings in the surveillance report?

A Can you repeat that question one more time?

Q Yes. You know when I am off my script and I am --

A I am trying to follow you.

Q I understand. I totally --

A I am trying to make sure I give you that answer.

Q It's fair. It's fair.

So absent a petition to defer expenses related to the acquisition transition related to the merger, you -- it would be reasonable to assume that any costs were booked as incurred, and if so, are reducing earnings, all other things being equal, in the ESR?

A Yes, I would believe that we have not requested any of that, so those items would be booked as expense, and they would show as an impact on our next one --

Q Okay.

A -- yes.

Q So would the Commission have an opportunity to understand if the level of -- whether there were nonrecurring costs associated with the acquisition of FCG included in the surveillance report, and to what degree?

A If they wanted to look at that, they would certainly be able to look at that.

Q Okay. Is this case an opportunity for them to have done that?

A That is not something that's been looked at in this case.

Q Okay. A merger the size of the one we have discussed at times today is not an everyday occurrence, would you agree with that?

A I would agree with that.

Q Okay. So it would be ream to assume that to the extent the company is recovering through -- or recording in the ESRs non -- transition integration acquisition costs, those would not be considered recoverable -- no, they would not be considered recurring, given that you are not going to do a merger like this every year, or even every five years, right?

A Many of the transition costs are something that will be recurring because whether the old owners are providing those to the new owners, or it's been phased out and you have your new, you know, you have your new employees from the acquired company coming in and doing the work, it would be recurring. And many of the acquisition activities occur at a corporate level, not on the regulated utility level.

Q Okay. So you wouldn't pay -- in general, a utility would not acquire another utility and then pay

twice net book value if they did not expect to receive synergies, would you agree with that?

A I believe we are always looking for synergies. I can't say that that would be the primary driver of the level of acquisition premium that would be purchased or not. I wasn't involved in the dollars and cents of how you would bid on a company for acquisition.

Q Okay. So would it be reasonable for the Commission to expect that you would be providing lower overall cost to serve all of your customers in Florida by virtue of acquiring FCG and paying what you did?

A I think we always look to maximize what we are able to do with costs, but I don't know that it has any necessary bearing on how much was paid or not paid --

Q Okay.

A -- just out of my expertise.

Q You would agree that the RSAM -- the use of the RSAM was something within your discretion, right?

A Yes, to an extent.

Q Okay. You could have amortized the RSAM to just make sure you were reporting at the bottom of the range, right?

A I believe there was discretion on how that could be used.

Q Okay. And you would agree that if you use,

hypothetically, $3 million of RSAM and it brought you to 10 basis points above the bottom of the range, you would agree that you would be earning within your range and recovering your costs?

A You would be earning within your range, and you would be recovering your costs. I think that's an accurate statement.

Q Okay. There was no requirement in this 2022 rate order -- rate case order that required you to amortize the RSAM, right?

A I would have to look at the order for the specifics of what the language was, to be honest. I don't have that in front of me right now.

Q Okay. I mean, we could go look at the order, but it's not your understanding you had to use it, is it?

A My understanding, we had the discretion to utilize it as necessary.

Q Okay. To the extent you had nonrecurring costs in 2024 when you -- well, from December of 2023 through December of 2024, that 13-month period, to the extent you had nonrecurring costs, weren't those costs, at least in part, offset by the credits to depreciation expense through the RSAM?

A I would say yes. I mean, every year you have nonrecurring costs, and every year, in the next year, you don't have -- you have other costs that were not recurring, so you have both nonrecurring costs that hit you one year and nonrecurring costs that happened the previous year that fall off that year, so I would say it's an accurate statement.

Q Okay. But you don't merge a company the size of FCG every year, right?

A No, you do not.

Q Okay. Let's go to --

MR. REHWINKEL: Now, Commissioners, I want to go to Confidential Exhibit 4C, if we can.

BY MR. REHWINKEL:

Q So I don't -- yeah, so on the screen is the redacted version of that. I think we could probably leave it up there, that's at F1-208, but I have a series of questions to ask you about this document, and when we looked at the variance report summary earlier, would it be fair to say that this is a more granular version -- well, let me step back.

What I have included here are a month-to-date, order-to-date and year-to-date variance report for each quarter ending June 2024, September 2024 and December 2024, you accept that?

A Can I ask you real quickly, are we on OPC 15C or 4C?

Q This is -- this is 4C --

MR. SCHULTZ: Charles, I think the cover sheets got flipped.

MR. REHWINKEL: I think it's mislabeled.

MR. SCHULTZ: C is the small one now, and it's labeled as the big one now --

MR. REHWINKEL: Yeah, okay. So do we --

MR. SCHULTZ: -- is labeled as the big one.

MR. REHWINKEL: So do we need to use 15C?

MR. SCHULTZ: The one -- the hard copy labeled 15C is the larger one.

MR. REHWINKEL: Okay.

MR. SCHULTZ: The one hard copy labeled 4C is the one we were just looking, it's labeled the way you have it. I think the covers -- the hard covers just got switched around on this.

MR. REHWINKEL: Okay. So we should assume that this is 4C even though the label says 15?

MR. SCHULTZ: Yeah. It looks like this correlates with the 4C that's in Case Center --

MR. REHWINKEL: Okay.

MR. SCHULTZ: -- if you agree, I think these cover sheets just got flipped around on them.

MR. REHWINKEL: Thank you. Thank you, Mr.

Chairman.

CHAIRMAN LA ROSA: Yep. Sure.

MR. REHWINKEL: I apologize for the confusion there. So thank you for bringing that to my attention.

BY MR. REHWINKEL:

Q So when we go and look at these quarterly variance reports --

A Yes.

Q -- if you will, you are generally familiar with these at some level?

A I am familiar that we do them. It's more an accounting exercise, but I am familiar with them.

Q Okay. All right. So I put a Bates number on these since they are not in the Case Center system, and I would like to turn to exhibit -- I mean, Bates 6. Do you see the Bates number, OPC EXH, and then it's got the -- in the lower right?

A Yes, I think so.

Q Okay. So I am going to ask you -- this appears to be, if you look at Bates five, the year-to-date AVB, which is actual versus budget, I believe, right?

A Correct.

Q Okay, for June of '24. So what I want to ask

you -- and I am going to ask you questions in the yellow, some in the yellow and some not, but I am going to be very, very careful to ask it as vaguely and as generally as possible, and then I want to see how much you can answer of that without vocalizing any information that you think is confidential. I do not want to tread there.

A Okay.

Q Are we good?

A Yes.

Q Okay. Thank you.

All right. So -- and would you agree that if there is for any particular month or quarter in these variance reports, if there is a description of an expense and, to some level, a description of a variance, that that's a reasonable indicator that that cost -- that type of cost and that level of cost is recorded in the books and reflected in the ESR for that period?

A Subject to check, I would believe that. As far as -- can you repeat the first half of that question?

Q So my -- what I am trying to get at is if we see an expense description here, and maybe even a level of expense or a level of variance, it would be an indicator that that type of expense at that magnitude is

likely recorded on the books and reflected in the ESR above the line?

A I would say, subject to check, that's an accurate statement.

Q Okay. Thank you.

So what -- the first thing I want to ask you about is not a confidential question but is, if you look in the middle there, there is a total vehicle expense, a 322 K, or 322,000 unfavorable vehicle maintenance. Do you see that?

A Yes, I do.

Q Now, generally, what that would mean is that for this -- for the year -- the six-month leading up to June of '24, you incurred $322,000 of vehicle maintenance above what was originally budgeted, is that fair?

A Above what was budgeted, that would be an accurate statement.

Q Okay. And then I go look on facilities and operating systems. We see 576,000 facilities maintenance. That's an unfavorable variance, which means that it's more than you anticipated in the budget, right?

A Yeah. And I would say these are the notes of our accountants. I wouldn't say that they have been audited or double checked, but it's their working papers.

Q Fair enough. Yes.

And so what -- my question to you is this looks like about $900,000 of unfavorable variance from the budget for maintenance. Do you see that? I mean, would you agree with that, for these two categories?

A Point me to the 900, if you don't mind.

Q So I am sorry. Yeah, if I add 322 and 576, that's $898,000 of negative variance.

A If you just put those two numbers --

Q Just those two.

A -- out of all the numbers on here --

Q Yes, sir?

A -- that's correct.

Q Yeah. So what I am trying to get at and understand is was there deferred maintenance that you discovered when you acquired FCG from the prior owner?

A I wouldn't be able to speak to that and answer that --

Q Okay.

A -- these are, like I said, just notes from an accountant who was trying to put a rough estimate on, you know, what they thought they saw.

Q All right. So if one were to assume

hypothetically that there was deferred maintenance in this amount for the first half of 2024 when you acquired a company, you discover that there is maintenance that needs to be done that wasn't done, wasn't anticipated, would that be something that could be nonrecurring in an amount?

A In a silo, that could be a thing that could happen.

Q Okay.

A Many, many actions that could happen here, so --

Q Okay. But would it be --

A -- I couldn't speak to that.

Q Okay. Would it be reasonable for the Commission and intervenors in a rate case to question whether the level of maintenance that you had for these two categories, just to pick two, were recurring in an amount?

A Yeah, in a rate case, all of that could be reviewed.

Q Okay.

A That's an accurate statement.

Q All right. So let's look here on the yellow below what we just talked about. And since outside services to the left is not in yellow, we can at least

say these are variances that are being discussed in outside services cost category, right?

A Yes --

Q Okay.

A -- I believe so.

Q All right.

A Again, not my work product, so we would just be assuming.

Q Okay. If you see on the line that has a number in parenthesis that starts with a five, that description there, can you tell me the type of cost publicly, can you say the type of cost that this is describing, say, like, the last four words in that descriptor?

A I wouldn't be able to tell what you those costs are publicly or privately. I am not aware specifically of what --

Q I was wondering if you could read aloud, that's what I am asking, is the last four words that has the name of your company in it, can that be read aloud just a general high level descriptor of the type of costs that is in this variance report?

A I believe it should be able to be read aloud, incurred for FCG's acquisition.

Q Okay. So this would indicate that there was

-- it's a descriptor by somebody in the -- who prepares these reports, of variance related to FCG's acquisition?

A Of some way, shape or form.

Q Okay.

A I do not know any of the specifics.

Q And we can see the magnitude of the amount there, and I am not going to ask you to read that amount unless you feel like it's not confidential. I am not trying to get you to say that out loud.

A I don't know one way or the other, so I will probably just defer to --

Q That's the right thing to do. Thank you.

All right. And would you agree -- would it be fair to say that the next line with the amount that's shown in parentheses that has a two, that that is related to -- it's a similar type of cost in this, is it related to acquisition and merger or not, is it fair to say that is one of those type of costs related to your acquiring FCG?

A I do not know the specifics of the line item, so I can't -- I can't say.

Q Okay. The initials that begin with an F there, can you read -- and I am just asking you if you can. I am not asking you to read it, but can you read publicly that -- those initials and then the next three

words?

A FCG premerger filing.

Q Okay. So that would sound like something related to acquisition?

A I would not be able to say exactly what it refers to.

Q Okay. All right. So between the two yellow lines there, we do see in the -- an $80,000 number related to transition integration cost that's not in yellow, right?

A The 80,000?

Q Yes.

A Yes. Uh-huh.

Q Okay. So it says, regarding the company's various web portals, that would be something that would probably be nonrecurring, right, that type of cost?

A I don't know that I could say that. I would have to understand it deeper. What were they actually doing there? Is that a cost that I spoke to you earlier about where one company is doing it and then it transitions to the other company and is recurring. I wouldn't be able to speculate there.

Q Okay. Let's go to Bates 8. And I think this is getting at the September -- month-to-date September on the prior page.

So when I look at the top line here, and I guess we have to go back to the prior page. It doesn't say what category that is in. And can you read, after the number on the very top page, just the type of cost that's here without saying the number?

A Are we on seven?

Q Eight. I am sorry.

A Eight.

Q I could -- yeah.

A And please repeat again which area we are on.

Q All right. You see the very -- in the yellow, the very top descriptor, it has a dollar amount, and then it has two words after it?

A Temp services.

Q Yes.

A Yes.

Q Okay. Is that a cost that is related to acquiring FCG, if you could say publicly?

A I could not say one way or another. Again, temp services could be one that temporarily you are filling it and need to fill it with full-time services ongoing. I could not say.

Q Okay. You see there looks like an account reference that starts with an M?

A Yes, I see that.

Q Okay. Is -- do you know what that account is?
A I do not.
Q Okay. And then if you go down to facilities and operating systems in the yellow, you see a non-yellow number that says 65,643, do you see that?
A Are we in the middle of the page?
Q Yes, sir.
A Yes. Uh-huh.
Q All right. So you do see that same, looks like an account number, that starts with an M?
A I see several account numbers. I am looking --
Q It's right under the word other that's got a line under it.
A On the line item at the very end reads: Related to warehouse security?
Q Well, do you see the 6,435 -- 65,643?
A Yes.
Q All right. So just go to the right, and then you see the word other with the line under it?
A Yes, I do.
Q And then right underneath that, you see the account number that's got an M, starts with an M?
A Yes, and then it has the line item that ends: Related to warehouse security?

Q Yes, sir. Okay.

A Yes. Yes, I see that.

Q Okay.

A I say that because I don't know if I -- just safety on the first --

Q Absolutely.

A -- part of that was confidentiality or not.

Q Okay. So the word that begins with a D right after the account number, is that --

A Yes.

Q -- is that a code word for the merger?

A I do not know.

Q Okay. All right. So now let's go to 11. Well, actually, we can skip that. I am sorry, let's go to 13. If you look a little bit below halfway down the yellow box there, you see there is a three-letter acronym?

A I am sorry, which -- which area down by number, like, first, second, third, fourth?

Q It's about a little past halfway down the yellow box there, you see a three letter acronym that starts with an I?

A Yes, I do.

Q Okay. Can you say aloud, without saying the number, what that is?

A IPP accrued.

Q It what does -- what is that?

A It's related to bonus but specifics --

Q Incentive compensation?

A Specifics on that, I couldn't tell you.

Q Okay. Do you know whether there is any incentive compensation included in the earnings surveillance report for the 2024 that is related to obligations that the company has under the merger, or the SPA?

A I could not specifically say the details on any of that.

Q Okay. Let's look, if we can, at the SPA -- I forget what number I gave that one -- OPC 10, and let's go to F1-651.

Under 6.1 compensation and employee benefits, do you see about four lines down -- well, let's see -- let me just read it and see if I can get you -- your understanding of how this relates to the earnings surveillance report.

It says: (a), compensation and benefit -- benefits comparability. Prior to the closing date and subject to Section 6.5, seller and its affiliates shall take such actions as necessary to ensure that, as of the closing date all current business employees are employed by the company and only individuals whose primary work functions are in support of the business are employees of the company for a period commencing with the closing date and expiring on the earlier of the first anniversary of the closing date and December 31, 2024, the continuation period. Purchaser will provide to each business employee who becomes an employee of the purchaser or its affiliates, including through continued employment with the company after closing, (a), continuing employee, for so long as such continuing employee remains employed with the purchaser and its affiliates during the continuation period: (x) base pay that is no less than what was provided to such continuing employee immediately prior to the closing, (y) target its incentive compensation range that is substantially comparable to the target incentive compensation range that was provided to the continuing employee immediately prior to the closing.

Would you agree that this agreement requires for a year for you to compensate former -- or FPL era employees at the level and incentive comp that they were earning before you bought the company?

MS. KEATING: Mr. Chair, this is -- this is way beyond the pale of Mr. Everngam's testimony and beyond OPC's indication that we are talking about impacts on earnings.

CHAIRMAN LA ROSA: Mr. Rehwinkel?

MR. REHWINKEL: If I could be heard? What I just asked him about was whether there is a nonrecurring level of compensation that they have to pay former employees. There is other information in here that says that after this year, they can pay them at a different level. But if in '24, for that period, which is what we are talking about here, if they are paying a spike in compensation, then that would impact whether their earnings are of a going level. That's all I am asking about.

And the second element of that that's relevant is that if they are asking for credits from the depreciation reserve to be flowed to the income statement, they would be offsetting this bump and customers would be paying this incentive. So it's a merger cost, without a doubt, and that's what this says.

CHAIRMAN LA ROSA: I am assuming that's your follow-up question to what you are about to ask.

So I will allow the question, if it's within the framework of if the witness knows the answer, but I don't want this to expand outside of the testimony.

MR. REHWINKEL: Yes.

CHAIRMAN LA ROSA: I understand the angle you are trying to present.

MR. REHWINKEL: Thank you.

BY MR. REHWINKEL:

Q So are you -- first of all, did you have any prior familiarity with this provision?

A Not speci -- not in-depth. I will share with you my knowledge of this is that I believe we were not supposed to harm the employees by cutting their pay or cutting their bonus when they came onboard, and it was just to make sure that the Florida City Gas employees were made whole.

That's my understanding of this, but I am not going to say I am the subject matter expert on this, but I believe it's just to make sure those employees were treated appropriately and fairly --

Q Okay.

A -- and didn't have their salaries or their incentive pay cut when they came over, but that's just my interpretation, my belief.

Q Okay. Would you agree that if you go down about, I don't know, 10 lines, there is -- to the left-hand side, it says, to the closing. Do you see

that phrase after -- a little bit under where we were reading?

A Yes.

Q And after the comment, it says: It being understood that the provision of this sentence shall cease to apply with respect to a continuing employee upon termination of such continuing employee.

My question to you is whether the company has an ongoing obligation to pay at the former level after the end of the 12-month period?

A I can't speak to the exact obligations we have here.

Q Okay. And if that obligation meant a lower level of compensation or incentive compensation than what they were earning under FPL, it would indicate that these payments during 2024 could be nonrecurring and level, is that right?

A In a hypothetical scenario. I don't believe anyone has had their benefits or pay cut after a year, but I cannot say I am an expert on that.

Q Okay. But you are entitled to put the former employees, after a year, on the FCG -- I mean, the Chesapeake compensation plan, right?

A I am going to leave that to someone with a little bit more experience than myself.

Q Okay. That would be better looked at in a rate case, right?

A And with someone who has a little bit more background on what we are entitled to do on the HR level with payments.

Q Okay. Do you know whether in '24 there were higher accruals for bonuses or incentive compensation because of the merger?

A I cannot say one way or the other, no.

Q Okay. Let's go, if we can -- this would be the last in this area. I think we don't need to beat this horse any more, but on page 21.

A Yes, I am there.

Q Okay. So I am going to ask you questions in the white non-yellow area here, total vehicle expense to the right of that, and it's -- I guess it's total -- it's either under total department expense or total vehicle expense, but we see next to the 840,623 --

A Yes.

Q -- is it you see 535,000 unfavorable vehicle maintenance, $816,000 spend versus a $263,000 budget. Do you see that?

A Yes, I do see that.

Q And then 277,000 unfavorable fuel costs, 464 K spend, versus 194 K budget. Do you see that?

A Yes, I do.

Q And then under driven unfavorable by, it says: Facilities maintenance, 891,000, parenthesis, 903 K spend versus 11,000 budget. Do you see that?

A I do, yes.

Q Okay. So if you added up 535 on the maintenance side, 535 and 891, and then underneath that one I asked you about, it says equipment and hardware maintenance, 885 K, if you add those up, that would be about a million-and-a-half dollars, would you agree?

A I mean, I would agree with that math. I can see $1 million the other way three line items above, but, yes, the math is accurate.

Q But when there is a -- if there was maintenance that was deferred from the prior owners, would that indicate that there could be nonrecurring costs included in '24 related to the budget -- the merger?

A In a vacuum, but I have no knowledge one way or the other with that.

Q Okay. All right. We can put this away.

MS. HELTON: Mr. Chairman, just to make sure the -- I am sorry -- the record is right, the exhibit that we have -- Mr. Rehwinkel has been using for the last little bit is actually the 2024 variance reports quarterly, and so that is what's been labeled by -- as Exhibit 53.

MR. REHWINKEL: Thank you. I appreciate that.

CHAIRMAN LA ROSA: Okay.

MS. HELTON: I just want to make sure the record reflects it correctly.

CHAIRMAN LA ROSA: Great. Thank you.

MR. REHWINKEL: And this is -- when you say 53, is this the confidential version?

MS. HELTON: Yes, 15 -- it's what you labeled as OPC 15C.

MR. REHWINKEL: Okay. But for purposes of the record, we probably should stay --

MS. HELTON: I am sorry, what you labeled as OPC 4C. I have confused myself.

MR. REHWINKEL: Yeah, I think maybe it would be better if we made this a new exhibit since it's different from the redacted one. We talked about redacted information.

MS. HELTON: I think we could leave it as 53, because you have labeled it as 4C, which in my mind means that it's confidential.

MR. REHWINKEL: Well -- but it's redacted 4C. I am not always sure what the ground rules are for Case Center. What we put on Case Center, because I think we were required to put a redacted version of after confidential exhibit so your numbering is right.

So this is different than the redacted words one. It has different words and information no on it. So it -- I think Ms. Helton's point is a good one, even if she didn't intend it exactly the way I am hearing, is it ought to have a new number because this is the confidential version of it.

MS. HELTON: Mr. Chairman, so we don't take time up during the hearing, let's -- if we could mark that, then, as Exhibit 67, the confidential version, and then Mr. Rehwinkel and I afterwards can have a conversation about going forward what is the best way to do this.

CHAIRMAN LA ROSA: Okay. Yeah.

MR. REHWINKEL: Thank you. And this is the only confidential version we are going to move into the record.

CHAIRMAN LA ROSA: Okay.

(Whereupon, Exhibit No. 67 was marked for identification.)

MS. KEATING: So could I get clarification, then, on which confidential version you are moving in?

MR. REHWINKEL: Well, I will ask for this exhibit, the confidential version of 53, which is our 4C, to go into the record, since it's different than 53, I would ask for it to have another number.

MS. KEATING: Okay.

MR. REHWINKEL: Mr. Chairman, if I could have a couple of minutes, I might be able to eliminate the rest of my questions.

CHAIRMAN LA ROSA: Sure. I wanted to get close to taking a break to give our court reporter a few minutes, so let's go ahead and let's take a seven-minute break, that, I think, will do us all good. Let's go ahead and take a seven-minute break. Thank you.

(Brief recess.)

CHAIRMAN LA ROSA: All right. How are we doing, Mr. Rehwinkel?

MR. REHWINKEL: I have a few questions, but vastly less than I had before the break --

CHAIRMAN LA ROSA: Okay.

MR. REHWINKEL: -- so I appreciate that.

CHAIRMAN LA ROSA: Sure. Yeah. Let's go ahead, then, and pick up when you are ready.

MR. REHWINKEL: Okay.

BY MR. REHWINKEL:

Q Let's turn to hearing Exhibit 29 and E156. Do you have this in front of you?

A Yes, I do.

Q All right. So your response to staff Interrogatory 66 is here, right?

A Yes, it appears to be, yes.

Q Okay. And this refers to FCG's last rate case, and I also may have to refer you to the FCG order, which is OPC 3, but we will see.

Staff asked you: Does FCG agree that, all other things equal, a full amortization of the company's calculated $19.2 million surplus would increase FCG's rate base by the same amount; do you see that?

A Yes.

Q And part of your answer was, at the next page, 157, at the bottom there, it says: However, in response to A, yes, rate base would increase to the appropriate level of rate base.

Were you agreeing that there would be a 19 -- an increase in rate base if that amortization occurred?

A All things being equal in a vacuum, yes. Again, there would be a timing, a bit of a timing difference when you do it over several years, so it wouldn't equal out exactly, but in a vacuum, high level, yes.

Q Okay. And if we can go to F1-185, which is the page 76 of the last rate case order. Are you familiar with this page to some degree?

A I am familiar with what I see here in general to some degree, yes.

Q Okay. In the Commission column, the accumulated provision for depreciation is shown as a deduction from the rate base number, it's a deduction that contributes to the bottom line, 487,257,875, right?

A Yes.

Q Okay. Now, isn't it mathematically correct that everything else being the same, if the dollar amount of the accumulated provision for depreciation was $19 million less approximately accumulated provision for depreciation deduction of $202 million, then the number shown -- then the total rate base figure at the bottom of the page would be $19 million higher than the number that is shown?

A All things being equal, yes.

Q Okay. Let's go to E157. And this is part B of that same interrogatory, 66. Do you see that?

A E157?

Q Yes, sir.

A Yes.

Q Okay. So 66(b), the staff asked you:

Assuming a future approved rate of return of 6.44 percent similar to what was approved in FCG's last rate case, and all other things being equal, does FCG agree with the statement below, and if not, please provide calculations showing why not. And the statement is: FCG's required net operating income would be approximately $1.2 million higher per year, 19 million times 6.44 percent equals 1.2 million if a two-year amortization is utilized to address the $19.2 million reserve surplus instead of the remaining life technique.

And do you agree -- I think you said in your response: In response to (b) and (c), yes, the NOI would be appropriately higher with some explanations?

A Yes.

Q All right. So let's go back and look at F1-190, and in the Commission column we see the $487 million rate base on the top line is the same as that $487 million rate base that we looked at on page 76, or F185, right?

A Correct.

Q Okay. Isn't it mathematically correct that in this example, everything else being the same, if the dollar amount of the $487 million rate base has been $19 million more than the numbers shown, then the requirement -- the required NOI would have been

approximately $1.2 million prior higher than the numbers shown?

A All else equal, that's mathematically correct, yes.

Q All right. So looking at on E157, which is back on 66C.

A Yes, they have it up here.

Q Okay. Is it mathematically correct that everything else being the same, if the dollar amount of the $487 million rate base was $19 million more than the numbers shown, then the revenue deficiency would be approximately $1.7 million higher than the numbers shown?

A That is mathematically correct, yes.

Q Okay. Let's look at OPC Exhibit 3 at F -- I am sorry. Let's look at E107. I apologize. This is staff Interrogatory 52.

MR. SCHULTZ: 107 or 170?

MR. REHWINKEL: 107.

MR. SCHULTZ: 107.

BY MR. REHWINKEL:

Q Do you see that?

A It's still -- it's still loading.

Q Okay. Sorry?

A Okay, it's up.

Q All right. So after an introduction, the staff asked the following: If the requested two-year amortization of FCG's calculated reserve surplus is approved does the company have an estimation of when FCG will file its next base rate case? Do you see that question?

A Yes, I do.

Q And your response was: The company anticipates the need to file its next base rate case within the next year. Do you see that?

A Yes, I do.

Q So would it be fair to say that even if the FCG filing in this case is approved as filed, or not as modified, that the company still anticipates the need to file its next base rate case within a year?

A Yes. We have stated as such.

Q So let's go to E51, please. And this is the response -- or staff's Interrogatory 20 with the response. Do you see that?

A Yes, I do.

Q All right. Staff asks: Does FCG believe that a consideration of its earnings should be part of the Commission's standard review and processing of depreciation studies. Do you see that question?

A Yes, I do.

Q And your response was: No, nor is that FCG's request in this proceeding. Do you see that?

A Yes, I do.

Q Okay. So on E4987, if we could go there. This is your response to OPC 28. Do you see that?

A Yes, I do.

Q So after an introduction, the request asks: Since FCG stated that it's not requesting a review of its earnings in this case, how can FCG now properly ask the Commission to use the FCG claims regarding earnings as a basis for the relief they request in this case?

As a part of that answer, would you agree that you state, it looks like about seven or eight lines from the bottom: Thus, while -- do see that? Seven lines or eight lines up from the bottom on the right-hand side, there is a sentence starts, thus --

A Yeah --

Q -- while the company.

A Yes. Uh-huh.

Q Okay.

A Yep.

Q So it says: Thus, while the company was not seeking an earnings review, particularly since it will be filing a rate case in the near future, it does believe that the Commission deserves to have a more

complete picture. Do you see that?

A Yes, I do.

Q Okay. With regard to that complete picture, let's go, if we can, to A2, which is the OEP order. I'm not going to ask you for any legal advice about the interpretation of this order, but on A5 of this order, which appears to be page four of the order, starting at the bottom, it says: Unless subsequently modified by the Prehearing Officer, the following shall apply: Interrogatories, including, all subparts, shall be limited to 200. Requests for production of documents, including all subparts, shall be limited to 200. Requests for admissions, including all subparts, shall limited to 100. Do you see that?

A Yes, I do.

Q Based on your experience in Florida and regulation in other states, do you agree that the discovery limits are much smaller than they would have to be if the Commission expected OPC staff and any other intervenors to investigate FCG's earnings level adequately above and beyond what's needed --

A I feel like I have been in rate cases that had fewer interrogatories than that, so I don't know that I could comment on if that is enough for you to review it sufficiently or not, to be honest with you.

Q Okay. And my question was intended to be above and beyond what was already needed just for the depreciation in this case, but you are saying other places you have seen more?

A Fewer.

Q Fewer, yes. Okay. All right.

A I couldn't really answer definitively one way or the other.

Q Okay. Mr. Everngam --

A It trips everyone up. Don't feel bad.

Q I appreciate your time and your patience with my ranging -- far ranging questions, but that's all I have. Thank you.

A Thank you.

Q It's good to see you again.

A You too.

CHAIRMAN LA ROSA: Thank you.

Let's go to staff.

MR. IMIG: Thank you.

EXAMINATION

BY MR. IMIG:

Q Good afternoon.

A Good afternoon.

Q Thank you for being here today. I have just a few questions for you.

From the date of FCG's petition filing in this docket to today, has FCG operated under the belief that its next rate case would be limited to just FCG rather than a consolidation of Chesapeake statewide gas operations?

A No, there have been considerations on whether it could be one or the other since, I think, we filed in February of last year, so it's not definitive one way or the other as far as since February.

Q Thank you.

At this time, does FCG have an estimated timeline for filing of a base rate case wherein it would request the Commission to recognize the consolidation of its various Florida Gas divisions?

A We do not have a specific timeline for requesting consolidation at this time.

Q Presuming the various Florida Gas divisions now operating under Chesapeake Utilities Corporation request a consolidated rate case in the future, would the utilities be submitting a single consolidated depreciation study across all divisions?

A That's something we would have to make a decision on at the time. That decision hasn't been made.

Q All right. Is it true that in the revised

depreciation study presented in this docket, FCG has determined that there is a theoretical depreciation reserve surplus of approximately $19.2 million?

A That is correct.

Q Okay. FCG is proposing to amortize the approximately $19.2 million surplus over two years, is that correct?

A Yes.

Q All right. What is the benefit to FCG's customers by amortizing the 19 point million -- 19.2 million over two years?

A As we noted, we have been in a rate case hold since we filed this. I believe in our responses we noted that to be about $1 million of benefit per month to customers as we are going through this case, additional benefit. What we are trying to do is hopefully take care of any reserve imbalance before any potential consultation so that there is not a issue with one company and another company and a reserve imbalance sitting out there over a long 43-year remaining life. So getting the books correct and accurate and getting that taken care of in a short period of time we believe is a benefit to the customers.

Q And these benefits to the customers come from that two-year amortization?

A Yes, they do.

Q Now, what is the benefit to the company for amortizing over the two years?

A Benefit to the company is correcting the depreciation lives and rates. Benefit to the company is the enhanced ability to be able to meet its authorized rate of return. Benefit to the company is be able to plan appropriately should we have a consolidated case in the future.

Q Thank you.

Does the 19.2 million reserve surplus represent dollars that customers have paid in excess of the actual depreciation that has occurred up to the current depreciation study date?

A It represents a surplus that has been accrued on the books higher than what this study shows should be, but a reconciliation of revenues versus accrual are two different things.

Q Is it true that amortizing the 19.2 million surplus as requested would be a transfer of this value from the customers to the stockholders?

A No. It's a correction of the reserve imbalance so that the plant and the lives are accurate. The customers are getting benefits that I stated in my previous statements.

Q Are you aware of any other instance where this commission has authorized a utility in a depreciation study docket to transfer depreciation reserves for the purposes of supporting company earnings?

A I would defer potentially to Ms. Lee for her understanding of depreciation dockets, as she has much more experience than I do over the years.

Q Thank you. I have no more questions.

CHAIRMAN LA ROSA: Great. Thank you.

Commissioners, any questions?

All right. Back to FCG for redirect.

MS. KEATING: Thank you, Mr. Chairman.

FURTHER EXAMINATION

BY MS. KEATING:

Q Mr. Everngam, earlier in the day, Mr. Rehwinkel asked you some questions about the prior rate proceeding and the four-year stay-out plan. Do you recall that?

A Yes, I do.

Q Could we go to F115, please? Are you there?

A It's loading. Yes, it is up now.

Q Okay. It's F115, not F15.

A Okay.

MR. SCHULTZ: So you are saying F1-115?

MS. KEATING: Yes. Sorry.

MR. SCHULTZ: Okay.

THE WITNESS: All right. We have it loaded on my end.

BY MS. KEATING:

Q Okay. Could you look at the bottom of that page in the paragraph numbered three, Conclusion?

A Yes, I have it pulled up.

Q And you may recall that Mr. Rehwinkel was discussing the four-year rate plan and the stay-out commitment?

A Yes, I do.

Q Could you look down on the fourth line of that paragraph and read the two sentences that begin with the word "accordingly"?

A Accordingly, while we have resolved base rate cases in previous years that include multiyear increases to rates, and in settlement agreements we have approved stay-out provisions, we continue to recognize our obligation to monitor utility earnings and, if circumstances warrant, require additional proceedings. For these reasons, we acknowledge FCG's commitment while also noting that approval of FCG's plan, either in part or in its entity, would not prohibit future proceedings on these matters over the next four years.

Q Thank you.

Staying on this exhibit, I believe Mr. Rehwinkel also asked you about the prior AGL acquisition adjustment. So could we go to F1-136?

A Okay, I have that up on my end.

Q Okay. Could you again look in paragraph numbered three, Conclusion?

A Yes.

Q And read that sentence?

A We are persuaded by the testimony of FCG's witnesses and find that the amortization of the acquisition adjustment shall continue until the next general rate case, at which time FCG will have to support its further continuance under the five factors this Commission has historically reviewed when considering acquisition adjustments for natural gas utilities.

Q And is it your understanding that that means that it can be reflected above the line?

A Yes, that would be my understanding reading that.

Q And are you aware of whether or not this order has been stayed pending appeal?

A I am not aware that it has.

Q Mr. Rehwinkel also asked you a number of questions about Exhibits 53 and 64, and what is now new

marked Exhibit 67. He numbered -- he identified a number of costs?

A Yes.

Q Are you certain as to whether any of those costs are recurring or nonrecurring costs?

A No, I am not certain as to -- that any of those costs are nonrecurring or recurring.

Q Okay. Let's go, then, to E177. And I hope I am describing that correctly. Thank you.

Now, the exhibits that Mr. Rehwinkel was referring you to were primarily focused on calendar year 2024, correct?

A Yes. That is correct.

Q And what do you see on E177? Can you tell us what that is?

A That is the 12 months projected ending December 31st, 2025.

Q And what is the projected earnings for that period?

A The projected ROE is 4.07.

Q And what is your understanding of the bottom of FCG's currently approved earnings range?

A The bottom of the currently approved range, I believe, is 8.5.

Q Okay. Mr. Rehwinkel and staff also asked you

a number of questions about the amortization of the reserve imbalance and the impact on rate base.

A Yes.

Q So on the flip side, approval of this depreciation study, what impact will it have on depreciation expense?

A As we noted, I think as Ms. Lee noted, there is a $1 million reduction in depreciation expense from the lives in this case and the rates to the benefit of customers.

Q And in a vacuum, would that have a downward pressure on rates?

A In a vacuum, that would have a downward pressure on rates.

Q Thank you, Mr. Everngam.

MS. KEATING: That concludes my redirect, Mr. Chair.

CHAIRMAN LA ROSA: Great.

MS. KEATING: And we would ask if it's possible for Mr. Everngam to go ahead and be excused.

CHAIRMAN LA ROSA: Sure. You may be excused. Thank you.

THE WITNESS: Thank you.

CHAIRMAN LA ROSA: Thank you for your

testimony today.

(Witness excused.)

CHAIRMAN LA ROSA: Is there anything that needs to be moved into the record?

MR. REHWINKEL: Yes. The Public Counsel would move Exhibits 53, 55, 59, 63, 64 and 67.

CHAIRMAN LA ROSA: Is there objections to those?

MS. KEATING: No objection.

CHAIRMAN LA ROSA: Okay. And then I am just going to go to staff. Does that clarify the issue we had, Ms. Helton?

MS. HELTON: Yes, sir.

CHAIRMAN LA ROSA: Okay.

MS. HELTON: I am good for this -- purposes of this proceeding.

CHAIRMAN LA ROSA: Okay. All right. Perfect. Then so moved, show them entered.

(Whereupon, Exhibit Nos. 53, 55, 59, 63, 64 & 67 were received into evidence.)

(Transcript continues in sequence in Volume 2.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 26th day of December, 2025.

Debbie R Krick

DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH575054
EXPIRES AUGUST 13, 2028