

**BEFORE THE**

**FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 20230023-GU**

**IN RE: PETITION FOR RATE INCREASE**

**BY PEOPLES GAS SYSTEM, INC.**

**PREPARED DIRECT TESTIMONY AND EXHIBIT**

**OF**

**RACHEL B. PARSONS**

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**PREPARED DIRECT TESTIMONY**

**OF**

**RACHEL B. PARSONS**

POSITION, QUALIFICATIONS, AND PURPOSE

**Q.** Please state your name, address, occupation and employer.

**A.** My name is Rachel B. Parsons. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed as the Vice President, Finance and Planning of Peoples Gas System, Inc. (“Peoples” or the “company”).

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

**A.** I am responsible for maintaining the financial books and records of the company and for determining and implementing accounting policies and practices for Peoples, which includes general accounting, regulatory accounting, and financial reporting. I am also responsible for budgeting and forecasting activities within the company, which includes business planning and financial analytics.

**Q.** Please provide a brief outline of your educational background and business experience.

**A.** I graduated from the University of South Florida in 2003 with a Bachelor of Accounting degree and in 2005 with a Master of Accountancy degree. Prior to joining TECO Energy, Inc. (“TECO Energy”), I worked for Seminole Electric Cooperative, Inc. In 2006, I joined TECO Energy and have held various roles with increasing responsibility including the Director, Business Planning for Peoples. I am a Certified Public Accountant in the State of Florida, and I have served in my current position as Vice President, Finance and Planning of Peoples since June 2021.

**Q.** What are the purposes of your prepared direct testimony in this proceeding?

**A.** The purposes of my prepared direct testimony are to:

(1) Support the company’s proposal to use the 2024 projected test year for ratemaking purposes.

 (2) Support the calculation and adjustments used in determining the company's test year revenue requirement. I present the calculation of the test year revenue deficiency and explain the primary factors since Peoples’ last general base rate proceeding necessitating a base rate increase.

 (3) Support the methodology for transferring Cast Iron / Bare Steel Replacement (“CI/BSR”) rider revenue requirements to base rates.

 (4) Discuss the company’s budget process used to develop the financial projections for the test year.

 (5) Support the calculation, accounting treatments and adjustments used in determining the company's test year net operating income. I describe provisions from the company’s Stipulation and Settlement Agreement approved by the Florida Public Service Commission (“Commission”) in Order No. PSC-2020-0485-FOF-GU, issued December 10, 2020, in Docket Nos. 20200051-GU, 20200166-GU, and 20200178-GU (“2020 Agreement”), included as Document No. 10 of my exhibit, and discuss the company’s proposals to continue abiding by those provisions in this general base rate proceeding, including:

 (a) regulatory accounting treatments and adjustments impacting Peoples’ revenue requirement calculation, including a proposed increase to the company’s annual storm expense accrual; and

 (b) the mechanism for addressing potential changes in corporate income tax rates.

 (6) Discuss the company’s base revenue forecasts.

 (7) Discuss the company’s Operations and Maintenance (“O&M”) expense. I discuss how inflation and customer growth are reflected in the company’s O&M expense budget and for computing the Commission’s O&M Benchmark. I discuss affiliate transactions and the reasonableness of costs allocated from affiliates. I discuss trending factors impacting O&M expense as well as expense drivers not trended. I support the reasonableness of the 2024 projected test year O&M expense.

 (8) Support the calculation and adjustments used in determining the company's 2024 projected test year rate base.

 (9) Discuss the company’s capital structure, cost-of-capital and income taxes.

 (10) Explain Peoples’ proposed true up mechanism to incorporate the company’s actual cost of its inaugural long-term debt issuances into a one-time true up of its approved revenue requirements and base rates through a limited proceeding.

**Q.** Please describe your exhibit supporting your prepared direct testimony.

**A.** Exhibit No. RBP-1 was prepared under my direction and supervision. The contents of my exhibit were derived from the business records of the company and are true and correct to the best of my information and belief. My exhibit consists of 10 documents, as follows:

 Document No. 1 List of MFR schedules Sponsored or Co- Sponsored by Rachel B. Parsons

 Document No. 2 CI/BSR Revenue Requirements Transferred to Base Rates

 Document No. 3 Revenue Summary

 Document No. 4 Operations & Maintenance Expense Summary

 Document No. 5 2024 O&M Benchmark Comparison by Function

 Document No. 6 2023 and 2024 Capital Budget

 Document No. 7 Storm Reserve Analysis and 2022 Study

 Document No. 8 Calculation of Internal Revenue Code Required Deferred Income Tax Adjustment

 Document No. 9 2024 projected test year Reconciliation of Capital Structure to Rate Base

 Document No. 10 2020 Agreement

**Q.** Are you sponsoring any of Peoples’ Minimum Filing Requirement (“MFR”) Schedules?

**A.** Yes. I am sponsoring or co-sponsoring the MFR schedules listed in Document No. 1 of my exhibit. The contents of these MFR schedules were based on the business records of the company maintained in the ordinary course of business and are true and correct to the best of my information and belief.

PROJECTED TEST YEAR

**Q.** What test year does the company propose to use in this proceeding?

**A.** The company has selected the twelve-month period ending December 31, 2024, as the projected test year for Peoples’ petition to modify its base rates and charges**.** Calendar year 2024 is appropriate for use as the test year since it is representative of Peoples’ projected revenues and projected cost of service, capital structure and rate base required to provide safe, reliable, and cost-effective service to its customers during the period when the company’s new rates will be in effect. The company’s proposed 2024 projected test year is more representative of the company’s operations when its proposed rate will be in effect than a historic test year.

**Q.** When does the company propose that its new base rates be effective?

**A.** Peoples proposes the new base rates should be effective for the first billing cycle of January 2024.

**Q.** What is the historic base year in this proceeding?

**A.** The historic base year is the 12-months ended December 31, 2022. All data related to this historical base year is historical data taken from the books and records of the company, which are kept in the regular course of the company’s business in accordance with Generally Accepted Accounting Principles (“GAAP”) and provisions of the Federal Energy Regulatory Commission (“FERC”) Uniform System of Accounts prescribed by the Commission.

2024 REVENUE REQUIREMENT

**Q.** What is the base revenue increase requested by Peoples?

**A.** The company seeks a net incremental base revenue increase of $127.7 million. Additionally, the company seeks to transfer approximately $11.6 million of revenue requirements related to CI/BSR investments into base rates and to reset the CI/BSR surcharge, as discussed later in my testimony. The total $139.3 million revenue increase is necessary to allow Peoples to: (i) continue to provide safe and reliable natural gas distribution service at customer service levels the company’s customers have come to expect from Peoples; (ii) maintain the company’s financial integrity and access to reasonably priced debt capital while funding the company's future investments to serve customers; and (iii) have the opportunity to earn a fair return on its investment. The company’s proposed revenue increase is based on a midpoint return on equity of 11.00 percent, with an overall return of 7.42 percent on its 2024 average rate base of approximately $2,366.8 million.

**Q.** Why is Peoples seeking rate relief at this time?

**A.** By 2024, the company’s existing base rates will not generate sufficient revenues to allow the company to safely and reliably serve its customers and provide an opportunity to achieve a reasonable return on its capital investments.

**Q.** What was Peoples’ earned return on equity (“ROE”) for 2022 and what is its projected ROE for 2023?

**A.** The ROE reflected on the company’s December 2022 Earnings Surveillance Report was 9.25 percent and its projected ROE for 2023 is 7.83 percent, which is below the 8.90 percent bottom of the company’s Commission-authorized ROE range. Company witness Helen J. Wesley explains how the company has prepared its 2023 budget and is managing its operations in her prepared direct testimony.

**Q.** What is Peoples’ projected ROE in the 2024 projected test year without rate relief?

**A.** If the CI/BSR revenue requirement is not transferred from the CI/BSR rider to base rates, the company projects to earn a ROE of 2.53 percent in 2024. However, with the proposed transfer of the CI/BSR revenue requirement, the company projects an ROE of 1.85 percent. These returns are far below both the Commission’s approved 9.90 percent midpoint ROE from the company’s last general base rate proceeding and the company’s proposed 11.00 percent ROE for this proceeding, as supported in the direct testimony of company witness Dylan W. D’Ascendis.

**Q.** Can you explain the calculation for determining the December 31, 2024, projected test year revenue requirement and revenue deficiency?

**A.** Yes. The derivation of the company’s projected 2024 revenue deficiency is summarized in MFR schedule G-5. The 2024 revenue deficiency is determined by multiplying the projected test year rate base by the proposed overall rate of return to arrive at the net operating income (“NOI”) required. The difference between the required NOI and the forecasted projected test year NOI results in the NOI deficiency. The NOI deficiency is then multiplied by the NOI Multiplier, which accounts for income tax gross ups, bad debt expense, and regulatory assessment fees, to determine the forecasted base revenue deficiency.

**Q.** What is the NOI Multiplier being used to determine the revenue deficiency?

**A.** The NOI Multiplier proposed in this case is 1.3500 as shown on MFR schedule G-4. The NOI Multiplier reflects the corporate federal income tax rate of 21.0 percent and the Florida corporate tax rate of 5.5 percent. In addition, the NOI Multiplier incorporates a bad debt rate of 0.2805 percent and the regulatory assessment fee rate of 0.5 percent.

**Q.** What are the primary drivers of the revenue deficiency in the 2024 projected test year relative to 2021, the test year used for setting current base rates?

**A.** The primary causes of the revenue deficiency are summarized as follows:

(1) capital investments supporting customer and associated system growth, maintaining, and enhancing system reliability, safety, and customer service;

 (2) growth in O&M expenses;

 (3) the change in weighted average cost of capital;

 (4) taxes and other items; and

 (5) revenue growth being outpaced by the increase in revenue requirements.

 These causes include CI/BSR revenue requirements being transferred from rider to base rates.

 The dollar amount associated with these causes are summarized as follows:

IncreasedCapital Revenue Requirements $92.9 million

Increased O&M Expense $35.3 million

 Change in Weighted Average Cost of Capital $35.2 million

 Taxes and Other $21.6 million Growth in Revenue ($45.7)million

 Total $139.3 million

 Less:

 Transfer of CI/BSR Revenue Requirements ($11.6)million

 Total $127.7 million

**Q.** Please explain how the $92.9 million of Increased Capital Revenue Requirements was calculated.

**A.** The $92.9 million Increased Capital Revenue Requirements includes three components: (i) rate base return of $49.2 million ($830.0 million increase in average adjusted rate base multiplied by the 5.93 percent cost of capital approved by the Commission in 2021); (ii) depreciation expense of $33.1 million (includes impact of new depreciation rates of $7.8 million); and (iii) higher property taxes of $10.6 million. The $830.0 million increase in average adjusted rate base is the increase from the 2021 Commission-approved amount of $1,536.8 million to the $2,366.8 million in the projected 2024 projected test year.

**Q.** Please explain how the $35.3 million of increased O&M expense was calculated.

**A.** This amount was calculated as the difference between the company’s 2021 adjusted O&M expense from $115.5 million, as reported in the company’s December 2021 Earnings Surveillance Report, and the projected 2024 O&M expense total of $150.8 million as shown on MFR schedule G-2, page 1. I used the December 2021 Earnings Surveillance Report adjusted O&M expense of $115.5 million in this calculation, because the 2020 Agreement only specified the approved 2021 required return and not the components included in determining the 2021 adjusted NOI.

**Q.** Please explain how the $35.2 million of Change in Weighted Average Cost of Capital was calculated.

**A.** This amount was calculated as the company’s 2024 13-month average adjusted rate base of $2,366.8 million multiplied by 1.49 percent, which is the difference between the 5.93 percent overall rate of return in the cost of capital in the 2020 Agreement and the company’s proposed overall rate of return of 7.42 percent for the 2024 projected test year.

**Q.** Please explain how the $21.6 million in the Taxes and Other categorywas calculated.

**A.** The $21.6 million in the Taxes and Other category includes four components: (i) a reduction of $16.1 million adjusted income taxes; (ii) an increase of $36.1 million to the NOI multiplier; (iii) a $2.9 million increase in taxes other than income excluding property tax; and (iv) other changes ($1.3 million reduction).

 The $16.1 million reduction in the adjusted income taxes is the difference between the adjusted current and deferred income taxes in the company’s December 2021 Earnings Surveillance Report ($19.2 million) and the comparable amount in the 2024 projected test year ($3.1 million as shown on MFR schedule G-2, page 1).

 The $36.1 million increase to the NOI multiplier is the difference between the NOI Deficiency ($103.2 million) and the Revenue Deficiency ($139.3 million) shown on MFR schedule G-5.

 The $2.9 million increase in taxes other than income is the difference between the adjusted taxes other than income amount in 2021 ($18.2 million) and the comparable amount in the 2024 projected test year ($31.7 million as shown on MFR schedule G-2, page 1), less the $10.6 million increase in property taxes mentioned above.

 The other changes reduction of $1.3 million includes changes in gains and losses on disposition of plant or property included in adjusted NOI, and the difference in the December 2021 Earnings Surveillance report and the approved required return included in the 2020 Agreement.

**Q.** Please explain how the $45.7 million Growth in Revenuewas calculated.

**A.** This was calculated as the difference between adjusted Operating Revenues of $300.4 million in the company’s December 2021 Earnings Surveillance Report and adjusted Operating Revenues of $346.1 million in the projected 2024 projected test year (as shown on MFR schedule G-2, page 1). Further detail regarding the 2021 and 2024 adjusted Operating Revenues are shown on Document No. 3 of my exhibit. This $45.7 million of revenue growth will not be sufficient to keep pace with the other factors increasing the company’s revenue requirement.

CAST IRON/ BARE STEEL REPLACEMENT RIDER PROPOSAL

**Q.** Does the company propose to transfer the projected 2024 CI/BSR revenue requirements to base rates?

**A.** Yes. The company proposes using the same methodology approved by the Commission in the 2020 Agreement. Effective January 1, 2024, the company has reflected the transfer of gross plant, accumulated depreciation, and construction work in progress to rate base for the amounts related to the cumulative CI/BSR eligible investments made from January 1, 2021 (the reset date from the company’s prior rate proceeding) through December 31, 2023. The net book value of the CI/BSR investments accumulated in the rider during that period is projected to be approximately $93.3 million. In addition, effective January 1, 2024, the company included the related depreciation, property tax expense, and return on the rate base in the calculation of the 2024 projected test year base rate revenue requirement. As shown in Document No. 2 of my exhibit, the amount of CI/BSR transferred revenue requirements to base rates is $11.6 million.

**Q.** Does the company’s CI/BSR proposal in this case change the basic operation of the CI/BSR program?

**A.** No. Although the company proposes to reset the CI/BSR surcharge to zero, the CI/BSR program will continue until all eligible infrastructure replacements have been made. Therefore, eligible pipe replacement investments budgeted for 2024 and their related costs have been reflected as recoverable through the reset CI/BSR in 2024. Consistent with the terms of Commission Order No. PSC-2012-0476-TRF-GU, issued on September 18, 2012, which established the program for accelerating replacement of cast iron bare steel pipe, the company has excluded the first $1.0 million of capital expenditures for replacements in 2024 from recovery through the CI/BSR surcharge. Therefore, the first $1.0 million has been included in rate base for the 2024 projected test year.

**Q.** Does the company propose to maintain the true up process articulated in the 2020 Agreement related to the transferred CI/BSR revenue requirements?

**A.** Yes. Consistent with the Commission approved process in the in the 2020 Agreement, the company proposes that any true up be included in the company’s subsequent normal CI/BSR annual true-up filing in September 2024.

BUDGET PROCESS

**Q.** How did the company prepare the 2024 projected test year financial data?

**A.** Peoples’ 2024 projected test year was developed using the same process used to develop the company’s annual budgets, including capital expenditure and income statement forecasts. The generation of the budget is an integrated process that results in a complete set of budgeted financial statements, including income statement, balance sheet and statement of cash flows. The 2024 balance sheet was budgeted by starting with the December 31, 2022, actual balances. Balance sheet accounts were then budgeted by either forecasting monthly balances based on past trends or using the forecasted monthly income statement activity, depending on the type of account. Once the balance sheet and income statement were constructed, the company generated a statement of cash flows. This statement determined the company’s capital structure funding requirements by showing its needs from short-term debt draws, long-term debt issuances and equity infusions.

**Q.** What are the major components of the projected 2024 budgeted balance sheet?

**A.** The largest component of the 2024 budgeted balance sheet is the net utility plant. Net plant balances reflect the property, plant and equipment already invested as well as the capital expenditures included in the company’s 2023 and 2024 capital budget. The other major components of the 2024 balance sheet and rate base are the accumulated provision for depreciation of plant-in-service and the accounts that make up the allowance for working capital. I will discuss rate base and how these components make up the company’s 2024 projected test year rate base later in my direct testimony.

**Q.** What are the major components of the company’s projected 2024 budgeted income statement and what testimony supports these budgeted components?

**A.** The major components of the income statement include revenues, as well as O&M expense, depreciation, property tax and income tax expenses.

 The 2024 base revenues are primarily supported by input provided by company witnesses Lew Rutkin Jr. and Eric Fox. I explain how these inputs were used to calculate base revenues. Witness Rutkin and I describe expected revenues related to new Renewable Natural Gas (“RNG”) facilities. Witness Rutkin also supports the 2024 off-system sales margin. My direct testimony summarizes total operating revenues included in the 2024 projected test year NOI.

 The components of the company’s 2024 O&M expenses are supported by my direct testimony and the direct testimony of company witnesses Timothy O’Connor, Christian C. Richard, Donna L. Bluestone, and Karen K. Sparkman. My direct testimony summarizes the total 2024 O&M expense.

 I also explain how the company incorporated recommendations from company witness Dane A. Watson’s depreciation study in determining the projected 2024 projected test year depreciation expense.

 Finally, I discuss how property tax expense and income taxes were budgeted.

**Q.** How was the 2024 budgeted income statement developed?

**A.** The 2024 budgeted income statement was prepared by Peoples’ Finance department under my direction and supervision. The Finance department assembled forecasted data prepared by numerous team members and consultants who specialize in different areas of operations. The company applied the same accounting principles, methods and practices that the company employs for its historical data to its forecasted data to prepare the 2024 budgeted income statement.

 The 2024 forecasted income statement was developed using all forecasted revenues and other types of income, largely base revenues and the revenues from the cost recovery clauses. The 2024 income statement also contains projections for off-system sales and other operating revenues such as miscellaneous service revenues and revenue related to Compressed Natural Gas (“CNG”) stations and RNG facilities.

 To complete the income statement, all operating expenses were accumulated including O&M expense, depreciation expense and property taxes. Interest expense and interest income, as well as all below-the-line items were also considered. Once all pre-tax components were determined, income taxes were calculated to determine final net income. The company’s Board of Directors approved Peoples’ 2024 budget in March 2023.

**Q.** How did the company prepare the 2024 projected test year O&M expense budget?

**A.** The company developed its 2024 projected test year O&M expense budget using its detailed cost center level approach, which covers all operational areas, corporate departments, and intercompany O&M expense charges for shared services provided by Tampa Electric Company (“Tampa Electric”) and Emera Incorporated. (“Emera”). The company budgeted O&M expenses by resource type (payroll, benefits, materials and supplies, outside services, etc.). The company budgeted payroll expenses by position and allocated those payroll costs between O&M, capital expenditures, clause recoverable and charges to affiliates as appropriate. The company budgeted other resource types by cost center based on projected activity levels and requirements. To project O&M expense for 2024, the company applied a salary and wages increase to payroll costs and a general inflation rate to other resource types as appropriate along with expected customer growth. I describe these trending factors later in my direct testimony. As discussed in witness Bluestone’s direct testimony, the 2024 cost projections for actuarial based items such as the company’s pension and post-retirement benefits expense were provided by the company’s external actuarial firm, Mercer.

 Prior to finalizing the 2024 O&M budget, Peoples’ senior management team reviewed all new labor positions and non-labor resource additions being proposed for alignment with overall company objectives and strategic initiatives.

**Q.** Is the company proposing new depreciation rates in this proceeding to be effective in the 2024 projected test year?

**A.** Yes, the 2020 Agreement directed the company to file a depreciation study no more than one year nor less than 90 days before the filing of its next general rate proceeding, such that the proposed depreciation rates can be considered contemporaneously with the company’s next general rate proceeding. Peoples filed a depreciation study with the Commission on December 28, 2022, in Docket No. 20220219-GU and proposed the new depreciation rates be effective as of January 1, 2024. The proposed new depreciation rates are supported by the direct testimony of witness Watson.

**Q.** Were there any updates to the proposed rates in the Depreciation Study filed on December 28, 2022?

**A.** Yes, as discussed in witness Watson’s direct testimony, the proposed depreciation rates included in the Depreciation Study filed in December 2022 were subsequently updated to reflect actual plant in service, retirements, and accumulated depreciation balances as of December 31, 2022, and revised forecast for 2023 and 2024 as reflected in the company’s MFR’s (“Updated Study”). The Updated Study was necessary to align the plant and accumulated depreciation balances in the study with the 2024 projected test year rate base in this rate proceeding. The difference between the 2024 projected test year depreciation expense included in the company’s MFR schedules and the 2024 depreciation expense calculated using the rates in the December 28 filing is approximately $60,000, which is small compared to the company’s total proposed 2024 depreciation and amortization expense of $91.2 million.

**Q.** How did the company forecast depreciation expense for the 2024 projected test year?

**A.** The company calculated the test year depreciation expense by applying the Updated Study’s new proposed depreciation rates to the 2024 monthly balances of plant-in-service.

**Q.** Please discuss how 2024 property tax expense was budgeted.

**A.** Property tax expense represents payments made by the company to county governments for ad valorem taxes. The projected expense is a function of forecasted tax rates and the projected values that will be used by the counties to assess the company's plant assets. As investment in assets grows, property tax expense also grows. As a result, the company projects that ad valorem property taxes in its base rate revenue requirements will grow from $13.9 million in 2021 (actual) to roughly $24.5 million in 2024.

**Q.** Please discuss how income taxes were budgeted.

**A.** Income tax expense for the test year was computed on a stand-alone basis consistent with the company's last general base rate proceeding and long-standing Commission practice. Projected total income tax expense is a function of forecasted taxable income coupled with the Internal Revenue Service (“IRS”) and Florida state tax rules expected to be in place during the test year. As discussed later in my direct testimony, all NOI and capital structure amounts reflect reasonable budget projections, consistent regulatory treatments, and compliance with the normalization requirements of the Internal Revenue Code (“IRC”).

NET OPERATING INCOME

**Q.** What is the company’s projected test year 2024 NOI without rate relief?

**A.** As shown on MFR schedule G-2, page 1, the company projects its 2024 adjusted NOI to be approximately $72.3 million.

**Q.** What accounting treatments or adjustments to the budgeted income statement were made to determine the 2024 projected test year NOI?

**A.** The company made adjustments consistent with the Commission’s rules and previous Commission directives and policies from Peoples’ prior base rate proceedings, including the 2020 Agreement.

**Q.** Please describe the 2020 Agreement accounting treatments and adjustments the company believes continue to be fair to customers and should be consistently applied to determine the company’s 2024 projected test year NOI.

**A.** First, the company agreed to a parent debt adjustment to its income tax expense in the amount of $2,099,000, which was based on the capital structure of Emera. The company proposes to follow the same methodology in the 2024 projected test year. As reflected in MFR schedule C-26, the proposed parent debt adjustment for 2024 projected test year is $3,084,000.

 Second, the company increased its Manufactured Gas Plant (“MGP”) environmental remediation annual amortization expense to $1.0 million. The $1.0 million was determined to be an appropriate amount to be included in annual revenue requirements to accommodate the remaining environmental remediation costs and related costs already expended but not recovered from customers in base rates. As of January 1, 2024, the expected balance of the MGP related regulatory assets is $18.2 million and the company proposes to continue the inclusion of $1.0 million of MGP amortization expense in its 2024 revenue requirements.

 Third, the company increased its annual storm reserve accrual to $380,000, which was based on a 10-year history of actual storm costs under the Incremental Cost and Capitalization Approach (“ICCA”) methodology. Although the accrual was increased in 2021, the ICCA storm costs related to Hurricane Ian and Hurricane Nicole have exhausted the company’s storm reserve. As of December 31, 2022, the storm reserve is reflected on the company’s books as a regulatory asset balance of $746,638. In lieu of requesting Commission approval for a storm surcharge, as the company did with Hurricane Michael, the company proposes to increase its annual storm reserve accrual in this general rate proceeding to $500,000.

 Fourth, the company was allowed to use reserve accounting for its Transmission Integrity Management Program (“TIMP”) spending and record a levelized annual expense in the amount of $1,437,475. Any difference between the actual cumulative spending and cumulative expense accrual was to be reflected as a regulatory asset or liability, as appropriate. The basis for this adjustment was the projected volatility in annual TIMP related spending from year to year depending on timing of required transmission pipeline inspections. By January 1, 2024, the company projects that a regulatory asset of $683,712 will be recorded on Peoples’ books in accordance with the 2020 Agreement, reflecting cumulative TIMP costs from 2021 to 2023 of $4,996,137 and cumulative accruals during that period of $4,312,425.

 With TIMP spending volatility projected to continue, the company proposes to continue reserve accounting treatment and accrue a levelized TIMP expense, with any difference between the actual cumulative spending and cumulative expense accrual continuing to be reflected as a regulatory asset or liability. Summing the $2,312,000 of projected TIMP costs over the 2024-2026 period and the projected regulatory asset balance of $683,712 as of January 1, 2024, results in a total of $2,995,712. Using the total of $2,995,712 spread over a three-year period, the company proposes a levelized accrual expense of $998,571 starting in the 2024 projected test year revenue requirements, which is a decrease of $438,904 from the 2020 Agreement.

 Fifth, the company was allowed to record non-capitalizable software implementation costs as a regulatory asset and amortize the costs over a five-year period. As of December 31, 2022, the actual amount of non-capitalizable software implementation costs recorded as a regulatory asset is $468,318. The projected cumulative amount of non-capitalizable software implementation costs through 2024 is $773,018. In the 2024 projected test year, the company proposes to continue the accounting treatment for non-capitalizable software implementation costs and amortize the associated regulatory asset over a five-year period. The 2024 projected test year reflects $154,604 ($773,018 over five years) of annual amortization of the regulatory asset associated with non-capitalizable software implementation costs.

 Sixth, the company was required to amortize its rate case expense over a three-year period. In determining the 2024 projected test year NOI, the company also proposes to use a three-year amortization period of rate case expense.

**Q**. Is an annual storm expense accrual of $500,000 reasonable?

**A.** Yes. The proposed increase in the annual accrual to $500,000 is based on (i) a 10-year history of ICCA storm costs updated through 2022 as shown in Document No. 7 of my exhibit, which is the same methodology used in determining the storm reserve accrual included in the 2020 Agreement, and (ii) the 2022 Storm Damage Self-Insurance Reserve Study filed with the Commission in 2022 (“2022 Study”), which is also included in Document No. 7 to my exhibit.

 The 2022 Study assumed the current annual reserve accrual of $380,000 and determined Peoples expected annual storm cost to be $364,000 with a 22 percent chance of exceeding $400,000 in any year. After completion of the 2022 Study, Peoples distribution system was impacted by Hurricane Ian on September 28, 2022, and Hurricane Nicole on November 10, 2022. The 10-year analysis included in Document No. 7 of my exhibit includes the 2022 ICCA cost of Hurricane Ian and Nicole that are still under review.

**Q.** What level of rate case expense and amortization does the company propose in this case?

**A.** As reflected in MFR schedule C-13,the company has projected $3.25 million of rate case expense. Using a proposed three-year amortization period results in $1,082,603 of annual amortization expense. The estimated $3.25 million of rate costs reflects the assumption that the full general rate proceeding process will be conducted, whereas in the company’s prior general rate proceeding a settlement was reached before the Commission hearing, which saved the company considerable rate case expense. The company believes that this level of rate case expense is reasonable given the size of the company, the complexity of this case, its need for support from outside attorneys and consultants, and the current legal uncertainty surrounding whether and how contested cases can be settled and approved by the Commission.

**Q.** Please describe the Tax Reform provisions in the 2020 Agreement.

**A.** The 2020 Agreement included a provision to address potential changes in the rate of taxation of corporate income - increases or decreases – by federal or state taxing authorities (“Tax Reform”). Section 8, paragraphs (a)-(f) of the 2020 Agreement set forth processes that would go into effect should Tax Reform be enacted that address: (1) quantifying the impact of such Tax Reform on the company’s NOI; (2) impacts from a tax rate decrease; (3) impacts from a tax rate increase; and (4) the treatment of excess accumulated deferred income taxes (“ADIT”).

**Q.** Is thecompany proposing to continue the Tax Reform provisions of the 2020 Agreement as part of this base rate proceeding?

**A.** Yes. The company proposes that the Commission approve, as part of this proceeding, the continued use of the Tax Reform provisions contained in Section 8, paragraphs (a)-(f), of the 2020 Agreement. While the company does not have a specific expectation that Tax Reform will occur after this proceeding is complete, the company believes the processes outlined in these provisions will allow the company and the Commission to efficiently address Tax Reform should it occur and believes that these provisions continue to be in the best interest of the customers and the company.

**Q.** Was Tax Reform enacted following Commission approval of the 2020 Agreement?

**A.** Yes. The Florida corporate income tax rate changed from 4.458 percent to 3.535 percent for 2021 and then back to 5.5 percent for taxable years beginning on or after January 1, 2022 (the “State Tax Rate Change”). Peoples used the 2021 and 2022 Forecasted Earnings Surveillance Reports to calculate the impact of the tax rate change and petitioned the Commission to allow the adjusted NOI impacts on annual revenue requirements to be offset and addressed in the company’s CI/BSR. In Order No. PSC-2022-0134-PAA-GU (“2022 State Tax Order”) issued on April 11, 2022 in Docket No. 20220018-GU, the Commission approved the company’s proposal to pass a net revenue requirement increase of $253,079 through the CI/BSR.

**Q.** Howdid the State Tax Rate Change impact the company in 2023?

**A.** For 2023, the NOI and revenue requirement is impacted by the same tax rate increase that impacted its 2022 NOI. This tax rate increase triggers Section (8), paragraph (d) of the 2020 Agreement, which requires the company to “defer the revenue requirement impacts to a regulatory asset.” Accordingly, the company recorded a regulatory asset of approximately $1.2 million for the 2023 revenue requirement impacts and is seeking recovery of this regulatory asset in this general base rate proceeding. The company’s calculation of the 2023 NOI impact is consistent with the 2021 and 2022 NOI impact calculations contained within the 2022 State Tax Order.

**Q.** Over what period is the company proposing to amortize the $1.2 million regulatory asset related to the 2023 NOI impact?

**A.** The company proposes to amortize the $1.2 million regulatory asset over a three-year period, resulting in a 2024 projected test year revenue requirement increase of approximately $400,000. Section 8, paragraph (d) of the 2020 Agreement provides that such regulatory asset may be considered for “prospective recovery” in the company’s next base rate proceeding, and the proposed three-year recovery period is consistent with the length of term of the 2020 Agreement.

**Q.** Howdid the State Tax Rate Change impact the company’s ADIT?

**A.** As a result of the 5.5 percent state tax rate increase, and in accordance with Rule 25-14.013(4), Florida Administrative Code, the company performed the required revaluation of its ADIT. This reevaluation created deficient deferred taxes of approximately $4.6 million, which Peoples recorded as a credit to ADIT with a corresponding debit to a regulatory asset. Establishing a regulatory asset related to the tax reform revaluation of ADIT and resulting “Excess or Deficient Deferred Taxes” conforms with Section 8 of the 2020 Agreement.

**Q.** Does the company seek to recover the $4.6 million regulatory asset related to the deficient deferred taxes in this base rate proceeding?

**A.** Yes. Section 8, paragraph (e) of the 2020 Agreement provides that “if the cumulative net regulatory asset or liability is less than $10 million, the flow-back period will be five years.” Thus, the company seeks recovery of the $4.6 million regulatory asset over a five-year period in conformity with the 2020 Agreement. The 2024 projected test year revenue requirement is increased by approximately $900,000 due to the flow back to customers of the deficient deferred tax.

**Q.** What impact does the proposed depreciation rates in the Updated Study supported by Watson have on the 2024 projected test year depreciation expense?

**A.** The company proposes that its new depreciation rates be placed in effect as of January 1, 2024, consistent with its proposal for the effective date of the new customer rates and charges resulting from this case. Based on this proposal, the impact of the new depreciation rates on the 2024 projected test year NOI is an increase in depreciation expense of approximately $7.8 million. This amount excludes the impact of vehicle related depreciation that is charged through a transportation cost allocation to O&M expense and capital expenditures, which is an additional $0.8 million.

**Q.** Has the company had any gains or losses on the disposition of plant or property that is being amortized in the 2024 projected test year?

**A.** Yes. As shown on MFR schedule C-16, the company had three transactions resulting in a net gain on disposition of plant or property. As shown on MFR schedule G-2, page 1, the company has included $495,917 of amortized net gain on sale in the 2024 projected test year. The net gain on sale of plant or property is being amortized over a four-year period in accordance with page 7 of Commission Order No. 2003-0038-FOF-GU, issued on January 6, 2003, in Docket No. 20020384-GU.

**Q.** What amount of off-system sales margin did the company include in the 2024 projected test year to determine NOI?

**A.** As supported by company witness Rutkin, the company has budgeted approximately $2.5 million of off-system sales (“OSS”) net revenues in 2024. This assumes retaining the sharing mechanism that has been in place since its 2008 base rate proceeding, with 25 percent of OSS net revenues being retained by the company and 75 percent going to offset expenses recovered through the Purchased Gas Adjustment (“PGA”) clause.

**Q.** Does the company have any other new sources of operating revenue included in the 2024 projected test year?

**A.** Yes. As explained in the direct testimony of witness Rutkin, Peoples has invested in the Alliance Dairies RNG project that creates environmental credits that can be sold to third parties. The projected environmental credits of $5.7 million from the Alliance Dairies RNG project have been included as a source of Other Revenue for the company and are included in MFR schedule G-2, page 8, line number 256. In addition, the Alliance Dairies RNG project assets have been included in the projected 2024 projected test year rate base and the related operating expenses have been included in the determination of NOI.

**Q.** Does the company expect that the Alliance Dairies RNG project operating revenues will support the related revenue requirements?

**A.** Yes. The Alliance Dairies RNG project related operating revenues included in the 2024 projected test year do support the related 2024 revenue requirements.

**Q.** Are there any other RNG facility related revenues included in Other Revenue in MFR schedule G-2, page 8?

**A.** Yes. There is approximately $4.0 million of RNG tariff revenue included in Other Revenue on MFR schedule G-2, page 8 that is related to the Brightmark RNG facility, which is discussed in the direct testimony of witness Rutkin. This RNG facility is effectively being leased to Brightmark under the company’s RNG tariff over a 15-year term starting in 2023 and the related revenues are being recorded in FERC Account 412, Revenues from gas plant leased to others. On December 15, 2022, the company petitioned the Commission to establish a depreciation rate with a 15-year life for the Brightmark assets. That petition was assigned Docket No. 20220212-GU. Witness Watson explains why the company’s proposed depreciation rate for the Brightmark assets is reasonable in his prepared direct testimony.

BASE REVENUE

**Q.** How did the company develop the 2024 base revenue forecasts for residential and small commercial customer classes?

**A.** The base revenues were developed using a model with inputs from witness Fox. The inputs to this model were:

1. The most recent approved tariff rate schedules of customer charges and per-therm distribution charges;

 2. Forecasted customers from the regression models discussed in witness Fox’s prepared direct testimony;

 3. Forecasted therms-per-customer from the regression models discussed in witness Fox’s prepared direct testimony;

 4. Forecasted customers and therms from non-regression techniques discussed in witness Fox’s prepared direct testimony; and

 5. Billing determinate allocation factors.

 The revenue model inputs one through four are discussed further in witness Fox’s direct testimony. The fifth input, the billing determinant factors, represent the percentage of customers and therms to allocate to each rate schedules.

 The Residential class has 10 rates schedules: Residential Service (RS) 1-3; Residential General Service (RGS) 1-3; Natural Choice Transportation Residential General Service (GST) 1-3; and Residential Standby Generator (RS-SG). The Small Commercial class has eight rates schedules: Small General Service (SGS); Natural Choice Transportation Small General Service (SGTS); General Service (GS) 1-3; and Natural Choice Transportation General Service (GST) 1-3.

 Once the customers and therm consumption were allocated to all the rate schedules, the customer charges and distribution per-therm charges were applied and totaled to arrive at base revenues.

**Q.** How did the company develop billing determinant allocation factors for each service area?

**A.** The first step was to calculate the historical factors (e.g., the percentage of total residential class customers that are in the RS1 rate schedule, RS2, etc.).

 Next, the trend in these percentages was analyzed for each rate schedule in each service area. The trend was extended into the future based on average change rates. For example, if the historical trend was declining percentages, the projected year continued the decline based on the historical rate of change.

**Q.** How did the company develop the 2024 base revenue forecasts for larger commercial and industrial classes?

**A.** Revenues for the larger commercial and industrial classes were forecasted at the customer level as discussed in witness Rutkin’s prepared direct testimony.

**Q.** What are total base revenues in the 2024 projected test year based on current rates?

**A.** Based on current rates, base revenues are expected to be approximately $325.0 million in the 2024 projected test year. Document No. 3 of my exhibit shows base revenues by customer class, OSS margin and other operating revenues included in adjusted NOI for years 2021 through 2024.

**Q.** Are the company’s forecasts of 2024 base revenues are appropriate and reasonable?

**A.** Yes. The customer and therm forecasts for residential and small commercial customers are reasonable as discussed in witness Fox’s prepared direct testimony. The residential and small commercial billing determinates are reasonable and the tariff rates are accurately applied in the revenue model. The customer specific usage and revenue forecasts for the larger commercial and industrial customers are based on customer specific evaluations and are reasonable. Therefore, the forecasts of base revenues in the 2024 projected test year are appropriate and reasonable.

OPERATIONS & MAINTENANCE EXPENSE

**Q.** What functions comprise Peoples’ O&M expense and what witnesses are supporting the company’s O&M expense?

**A.** Peoples classifies its O&M expense into FERC designated functions including Distribution, Customer Accounts, Sales and Administrative and General (“A&G”) Expense. In addition, the company has O&M expenses related to FERC accounts 413 and 407 that the company designates as “Other” O&M expense.

 Peoples’ Distribution and other O&M expense related to its leased CNG station and Alliance Dairies RNG project plus a portion of A&G expenses are supported by direct testimony from witnesses O’Connor and Richard.

 Customer Accounts and Sales O&M expense is supported by direct testimony from witness Sparkman.

 A&G costs classified in FERC account 926 (Employee pension and benefits) and FERC Account 920 (Administrative & General Salaries) are supported by witness Bluestone in her direct testimony.

 My direct testimony primarily supports the company’s remaining A&G O&M expenses (including affiliate charges), bad debt expense and FERC account 407 regulatory debits and credits.

**Q.** Has Peoples analyzed overall O&M expense since the last general base rate proceeding in comparison to the 2022 historical base year?

**A.** Yes, we have analyzed the company’s 2022 historical base year O&M expense using the “O&M benchmark” approach the Commission uses to analyze the growth of adjusted O&M expense as compared to customer-growth and the CPI inflationary measures published by the U.S. Bureau of Labor Statistics.

 The adjusted O&M expense for the 2022 historic base year was $122.4 million, which is $18.2 million below a calculated benchmark of $140.6 million. The favorable variance amounts by functional area are detailed on MFR schedule C-34. The favorable variance compared to the benchmark reflects the company’s efforts in 2022 to contain costs and slow the decline of its ROE in an environment that included 40-year high inflation and strong demand for natural gas service with customer growth at nearly 5 percent. I demonstrate that the company’s proposed 2024 O&M expense levels are below the 2024 benchmark later in my direct testimony.

**Q.** How did Peoples develop its 2023 and 2024 O&M expense budget?

**A.** The company prepared its 2023 and 2024 O&M expense budgets using the detailed annual income statement budget process I described earlier in my direct testimony. In addition to its detailed O&M expense budget, and as shown in MFR schedule G-2, pages 12 through 19, the company calculated 2023 and 2024 O&M expenses by FERC account using the “trending methodology” prescribed by the Commission, adjusting for certain items where trend factors did not capture the projected changes in O&M expense. The comparison of the two O&M methodologies is shown on Document No. 4 of my exhibit.

**Q.** How does the detailed 2023 and 2024 O&M budget compare with the trended FERC O&M budget data on MFR schedule G-2, pages 12-19?

**A.** There are only small differences. As shown in Document No. 4 of my exhibit, the difference or unreconciled amount between the detailed 2023 and 2024 O&M budgets and the 2023 and 2024 FERC O&M budget data on MFR schedule G-2, page 18b is approximately $48,000 and $11,000, respectively. Relative to total 2024 O&M expense of $151.0 million, this is a difference of less than 0.1 percent. The differences are reflected as a line item labeled “Unreconciled budget items” in FERC Account 930.2 on MFR schedule G-2, page 18a. As a result of reflecting the small unreconciled budget items in FERC account 930.2, the total FERC O&M calculated using trending on MFR schedule G-2 for 2023 and 2024 equals the detailed 2023 and 2024 O&M budgets, or approximately $130.0 million for 2023 and $151.0 million for 2024.

**Q.** What trending factors were used in Schedule G-2, pages 12-19 to develop the 2023 and 2024 O&M expense amounts?

**A.** Consistent with the company’s prior rate proceedings, Peoples used the trending factors of payroll only, customer-growth plus inflation, and inflation only. For inflation, the company used Moody’s Analytics 2023 and 2024 forecast for the CPI-U, which was 2.8 percent and 2.2 percent for 2023 and 2024, respectively, as compared to the 40-year high inflation rate experienced in 2022 of 8.0 percent as shown on MFR schedule C-37. In addition, as discussed in the direct testimony of company witness Dr. Richard K. Harper, inflation has been persistently high, and the labor market has remained very tight despite the Federal Reserve’s efforts to moderate them by raising interest rates. The company used a 5.0 percent annual increase for 2023 and 2024 payroll or labor cost trending, which is supported by the direct testimony of witness Bluestone.

**Q.** What inflation assumptions were used to forecast O&M expenses for 2023 and 2024?

**A.** The company used Moody’s inflation forecast of 2.8 percent and 2.2 percent for 2023 and 2024, respectively.

**Q.** Did Moody’s change its inflation forecast for 2023 and 2024 since Peoples prepared its 2023 and 2024 budgets?

**A.** Yes. Moody’s most recent projections for CPI-U for 2023 and 2024 have increased to 3.6 percent and 2.4 percent, respectively. Consistent with Moody’s recent increase in its CPI-U forecast, the State’s National Economic Estimating Conference recently increased their 2023 and 2024 CPI-U forecast from 3.3 percent and 1.9 percent (July 2022) to 4.0 percent and 2.3 percent (February 2023), respectively. Peoples has not updated its 2023 and 2024 O&M expense budgets to reflect these higher inflation indices, so the lower inflation indices used by Peoples for 2023 and 2024, and the expense levels trended using the lower indices, can be considered conservative.

**Q.** Does Peoples’ 2023 and 2024 O&M expenses include affiliate charges from Tampa Electric and Emera?

**A.** Yes. Peoples’ O&M expense includes charges for various shared services provided by Tampa Electric. These shared service costs are included in A&G FERC account 930.2 on MFR schedule G-2, page 18a. The services received are primarily corporate shared services consisting of information technology, telecommunications, payroll processing, team member benefits, treasury, tax support, legal services, risk management, real estate, regulatory support, procurement, facility services and rent. Expenses are charged to Peoples at cost pursuant to the TECO Energy Cost Allocation Manual.

 Costs are either charged as direct costs charged to an affiliate (“Direct Charges”); indirect costs for services assessed to more than one affiliate using one or more formulas for assessment (“Assessed Charges”); or allocated to multiple affiliates (“Allocated Charges”) using a variant of the Modified Massachusetts Method (“MMM”). This MMM for Allocated Charges has been consistently applied since Peoples became part of TECO Energy in 1997 and is consistent with the methodology employed during the company’s last several base rate proceedings. No cost is allocated or assessed twice to any affiliate. The methodology for allocating the costs for shared services to Peoples in the 2023 and 2024 budgets is consistent with the methodology used in 2022 actual costs.

**Q.** What are the amounts of MMM Allocated Charges received by Peoples in the 2022 historical base year and 2024 budget?

**A.** As shown in Document No. 4 of my exhibit, Peoples received $4.06 million of MMM Allocated Charges in 2022, as compared to $4.18 million MMM Allocated Charges budgeted for 2024, which is an increase reflecting the company’s 2023 and 2024 budget inflation assumptions discussed earlier in my direct testimony. The 2024 amount is a small increase over the 2022 amount and is reasonable.

**Q.** Are there any other charges received from Tampa Electric?

**A.** Yes. Peoples is charged a fee related to the depreciation expense allocated from Tampa Electric for usage of shared software systems. The charge is reflected in the accounting records of Peoples as an O&M “asset-usage fee”.

 The largest asset usage fee received from Tampa Electric is the company’s shared SAP customer relationship management and billing system (“CRMB”). Although the CRMB system is shared with Tampa Electric, all of the asset is recorded on Tampa Electric’s books and Peoples is charged an asset-usage fee for using the system to manage Peoples’ customer accounts. Peoples’ portion of the depreciation expenses is based on the approximate ratio of Peoples customers to the total Peoples and Tampa Electric combined customers.

 The asset-usage fee related to the CRMB system is charged to FERC account 903. The CRMB asset-usage fee was approximately $2.2 million in 2022 and is budgeted to be approximately $2.3 million in 2024. Asset-usage fees related to shared systems other than CRMB are charged to A&G FERC account 930.2 and are projected to increase from $0.9 million in 2022 to $1.2 million in 2024. The asset usage fees for 2024 from Tampa Electric are only slightly higher than the actual amounts in 2022 and are reasonable.

**Q.** Does the company receive charges from its indirect owner, Emera?

**A.** Yes. The company directly receives Assessed Charges from Emera for certain corporate and strategic support services, shared subscriptions, shared software license fees, and charges for certain Emera executives’ participation on the company’s Board of Directors. The corporate support includes Sarbanes-Oxley compliance oversight, safety oversight, cyber & general security oversight, environmental policy and programs governance, and corporate-wide human resource and health promotion initiatives. In addition to the direct Assessed Charges from Emera, Peoples receives Allocated Charges from Emera for corporate governance and strategic support. Charges are also received from Emera for seconded team members working directly for Peoples.

**Q.** What are the total Assessed Charges and Allocated Charges received from Emera in the 2022 historical base year and the 2024 projected test year?

**A.** The amount of Assessed Charges and Allocated Charges from Emera is approximately $0.7 million in both the 2022 historical base year and the 2024 projected test year. All costs received by Peoples from Emera are included in A&G FERC account 930.2 on MFR schedule G-2, page 18a. The 2024 projected amount is reasonable.

**Q.** Will the 2023 Transaction described in the direct testimony of witness Wesley have a material impact on the level of affiliate and parent costs allocated or otherwise assigned to Peoples in the 2024 projected test year?

**A.** Except for a slight increase in independent auditor expenses, Peoples does not expect the 2023 Transaction to have a material impact on the level of affiliate and parent costs allocated or otherwise assigned to Peoples in the 2024 projected test year.

**Q.** Did Peoples make an adjustment to allocate Peoples’ A&G expenses for 2024 between the utility and any non-utility affiliates?

**A.** Yes. Consistent with the company’s prior base rate proceeding, Peoples charges a portion of its corporate A&G expenses to its non-utility affiliates. The A&G charges from Peoples to the non-utility affiliates are based on budgeted expense for the year and are determined based on an allocation methodology using net revenues, payroll, and gross plant in service, in order to calculate a weighted average allocation factor for each entity. Because the A&G charges to the non-utility affiliates are reflected as credits in the actual per-books expenses, no further adjustment is required. MFR schedule C-6 shows the amount of A&G (and other) expenses that have been allocated.

**Q.** You mentioned that certain O&M expense items were not projected using the trending factors. How are those items reflected on Schedule G-2, pages 12-19?

**A.** Replacement of vacant positions and adding new positions are reflected on “Payroll not trended” lines on MFR schedule G-2, pages 12-19. In addition, certain non-payroll related O&M expense items do not follow the inflation and customer growth trend factors. In those cases, the company used the “Other not trended” lines on MFR schedule G-2, pages 12-19 to reflect O&M expense amounts for items that were not calculated using a trending factor.

**Q.** What is the impact on 2023 and 2024 O&M expenses from adding replacement and new payroll positions at Peoples?

**A.** As shown on MFR schedule G-2, page 18b, the “Payroll not trended” total O&M expense that reflects the replacement and added PGS payroll positions in 2023 and 2024 is approximately $1.55 million and $7.66 million, respectively. As reflected in the detail by FERC account on MFR schedule G-2, pages 19c-19e, this represents 90 positions to be filled by the end of 2023, largely in November, and another 64 positions to be filled in 2024. The payroll costs for many of these positions are not all charged to O&M expense and the O&M expense impact per headcount added can vary greatly depending on the position. These positions are discussed further by the witnesses indicated on MFR schedule G-2, pages 19c-19e.

**Q.** Does filling some of these payroll positions at Peoples have any offsetting reductions in 2024 O&M expense levels?

**A.** Yes. As an example, the new supply chain related positions at Peoples replace some of the procurement services previously provided by Tampa Electric. In the 2024 projected test year, the procurement allocation from Tampa Electric is budgeted to decrease by over $450,000 from 2022 historical base year costs, which is reflected in the Other not trended amount for FERC account 930.2 and discussed in direct testimony of witness Richard. In addition, in the distribution operations area, some of the new positions added will offset contractor costs, which is reflected in the Other not trended amount for FERC account 874 and discussed in direct testimony of witness O’Connor.

**Q.** Has the company included a listing of the “Other not trended” items included in MFR schedule G-2, pages 12-19?

**A.** Yes. Consistent with the listing of Payroll not trended items, the company has included a listing of the Other not trended items by account in MFR schedule G-2, page 19b. The name of the witnesses supporting each Other not trended item in direct testimony is indicated on MFR schedule G-2, page 19b.

**Q.** Please summarize the components of the O&M expense increase from the adjusted 2022 base year to 2024 projected test year reflected on MFR schedule G-2, pages 12-19.

**A.** The primary components of the $28.4 million increase in O&M expense from the adjusted 2022 base year to the 2024 projected test year on MFR schedule G-2, pages 12-19 are as follows:

 Payroll

 (trended 5.0 percent/5.0 percent) $4.6 million

 Inflation

 (trended 2.80 percent/2.20 percent) 2.5 million

 Customer Growth

 (trended 3.81 percent/3.23 percent) 2.0 million

 Position replacements and additions 7.7 million

 Alliance RNG Project (direct budget) 4.0 million

 Other not trended (direct budget) 7.5 million

 Total $28.4 million

**Q.** Please explain the “not trended” O&M expense items on MFR schedule G-2, pages 19b-19e that are assigned to you.

**A.** Below is a description by FERC account of the not trended O&M expense items I am supporting.

 FERC Account 904 – Uncollectible Accounts – The 2024 bad debt expense of approximately $1.6 million was based on the four-year average write-off percentage. This approach is consistent with that used in the company’s last general base rate proceedings.

 FERC Account 912 – Demonstrating and Selling Expenses – The Other not-trended amount reflects the cost of marketing services provided to Peoples by its subsidiary TECO Partners, Inc.

 UFERC Account 920 – Administrative and General Salaries – As shown on MFR schedule G-2, page 19e, eight positions and approximately $770,000 of O&M expense are related to additional labor resources needed in the finance area. Three of the eight positions fill vacancies. The Treasury Analyst position is needed to support new requirements related to Peoples’ independent financings that are discussed in witness Kenneth D. McOnie’s direct testimony. The Manager, Commercial Investments and Analyst positions are needed to provide financial and project evaluation support to the opportunities being explored by the company’s Gas Supply and Development team to add large customers to the system and increase RNG and LNG related revenues. The two Co-Op positions provide the company a potential pipeline of talent for filling entry level finance positions and developing future leaders.

U FERC Account 921 – Office Supplies and Expense – The not trended increases in this account from 2022 to the 2024 projected test year of approximately $1.15 million is related to expected increases in team member expenses and office supplies expense related to the additional positions listed on MFR schedule G-2, page 19c-19e.

U FERC Account 922 – Administrative expense transferred – The budgeted amount of A&G expense transferred to construction costs in 2024 is equal to the $11.0 million transferred in 2022.

 FERC Account 923 – Outside Service Employed – The Other not trended decrease in this account from 2022 to 2024 of about $270,000 is primarily driven by $772,000 of legal expenses incurred in 2022 that are not expected to be incurred in 2024 and lower strategy consulting costs in 2024 compared to 2022. These decreases are partially offset by increased financial statement audit fees associated with Peoples’ independent financing efforts discussed in witness McOnie’s direct testimony, and higher information technology (“IT”) contractor costs in 2024 related to Peoples’ work and asset management system discussed in witness Richard’s direct testimony.

U FERC Account 924 – Property Insurance – The Other not trended for this account includes the expense recognition for storm costs. As discussed earlier in my direct testimony, the company is proposing to increase the annual accrual for the storm reserve from $380,000 to $500,000 in the 2024 projected test year.

 UFERC Account 925 – Injuries and Damages – Injuries and Damages (“I&D”) expense includes the liability insurance premium costs and the self-insured or deductible component of legal claims, including adjustments to the I&D reserve for the self-insured portion of claims incurred but not paid. Legal fees related to claims and a portion of the company’s damage prevention efforts are also included in FERC account 925. Regarding general-liability exposure, the company maintains a $1 million self-insurance or deductible limit.

 To determine the claims and related legal expenses in the 2023 and 2024 budgets, the company factored in the past five years’ actual I&D-related expense activity included in FERC account 925. Over this period, the dollar value of claims incurred, legal expenses and I&D reserve adjustments have fluctuated significantly, so an approximate average over the five-year period was determined. The 2024 budget for I&D-related expense is approximately $0.5 million lower than 2022 actuals due to a higher-than-average amount of expense recognition in 2022, which was primarily due to settlement of I&D claims recognized in legal expenses are offset by associated reductions in the I&D reserve.

 The 2024 budgeted insurance costs included in FERC account 925 were based on premium estimates from the company’s outside insurance broker, Marsh. Marsh’s estimates reflect continued increases in insurance premiums due to tight insurance market conditions resulting from deteriorating industry claims experience and Peoples’ own claims experience. In December 2021, the company increased its total liability insurance limits of coverage from $355 million to $400 million. This increase and other prior increases in coverage limits have been made in response to the higher frequency of severe industry loss events. Marsh’s estimates for total insurance premiums and fees reflects an increase from approximately $6.0 million in 2022 to $7.0 million and $7.9 million in 2023 and 2024, respectively.

 FERC Account 928 – Regulatory Commission Expense – The non-trended increases in this account from 2022 to the 2024 projected test year of approximately $0.7 million is related to the higher rate case expense projected for this general base rate proceeding as compared to the lower amount related to the settled prior base rate proceeding, which I discussed earlier in my direct testimony.

U U FERC Account 930.2 – Miscellaneous General Expense – This account includes the cost of labor and expenses incurred in connection with the general management of the utility not provided for elsewhere, including general expenses which apply to the utility as a whole. As previously mentioned, this includes shared services and overhead allocations from Tampa Electric and Emera.

 The increase in account 930.2 Other not trended of approximately $4.6 million is primarily due to the addition of $4.0 million of O&M expense related to the Alliance Dairies RNG project discussed in the direct testimony of witness O’Connor, and higher software maintenance costs discussed in witness Richard’s direct testimony. The remaining Other not trended increases from 2022 to 2024 relate to (i) increased financial credit rating fees associated with Peoples’ independent financing efforts discussed in direct testimony of witness McOnie, (ii) amortization of the previously discussed non-capitalizable software implementation cost related regulatory asset authorized by the Commission in the 2020 Agreement, and (iii) higher non-CRMB asset usage fees. These increases are partially offset by lower legal expenses expected in 2024 as compared to 2022 and decreases in procurement shared services costs from Tampa Electric, which witness Richard also explains in his direct testimony.

 FERC Account 407 – Regulatory Debits and Credits – As discussed earlier in my direct testimony, the state Tax Reform impacted Peoples’ NOI in 2022 and 2023. The company used account 407.4 Regulatory Credits in those years to neutralize the state Tax Reform impacts on NOI. Starting in 2024, the company proposes to recover the approximate $1.2 million regulatory asset related to 2023. The NOI impact of the state Tax Reform over three years is reflected in account 407.3 Regulatory Debits. The FERC account 407 amounts related to state Tax Reform are reflected as an “Other Expense” in O&M and are included in determining the company’s NOI.

**Q.** Have you performed any analysis to support the reasonableness of the 2024 projected test year O&M expense?

**A.** Yes. As shown in Document No. 5 of my exhibit, I have calculated an O&M benchmark comparison by function for 2024 using the Commissions methodology applied on MFR schedules C-34 and C-37 that consider customer growth and inflation. In other words, I performed the same calculations as those MFR schedules, but I did so through 2024 using the company’s 2023 and 2024 budget assumptions for customer growth and inflation. The resulting O&M compound multiplier through 2024 is 1.4792 and the 2024 O&M benchmark is $158.4 million, which is $7.4 million higher than the company’s 2024 adjusted O&M of $151.0 million. This supports that the company’s 2024 O&M expense levels are reasonable.

RATE BASE

**Q.** What is the company’s 2024 projected test year 13-month average adjusted rate base?

**A.** Peoples’ 13-month average adjusted rate base for the 2024 projected test year is projected to be $2,366.8 million as detailed on page 1 of MFR schedule G-1. This amount reflects the transfer of approximately $93.3 million of projected net CI/BSR investments as of December 31, 2023, into rate base effective January 1, 2024.

**Q.** How did the company forecast the 2024 projected test year balances for utility plant and CWIP?

**A.** The company began with December 31, 2022 actual balances and projected forward using the company’s detailed 2023 and 2024 capital expenditures budget. The company forecasted plant retirements and removal costs were projected based on historical trends.

**Q.** Please explain how Peoples determines its capital expenditure budgets.

**A.** Peoples generally separates its capital into two categories: (1) specific major projects and (2) recurring expenditures. Normal recurring expenditures are those routine capital costs required to provide service to new customers as well as costs associated with the replacement and/or relocation of existing facilities and equipment. Specific projects generally represent major projects with costs in excess of $500,000.

 As discussed in the direct testimony of witness Richard, recurring capital expenditures related to adding customers to the system are budgeted based on projected customer growth and recent cost per unit trends. This includes projected capital spending for items such as new revenue mains, meter sets and services lines. Recurring capital expenditures for routine maintenance capital and recurring general plant additions are trended using recent actual spending data.

**Q.** Does the company classify the capital spending based on the objective?

**A.** Yes. Peoples classifies capital spending as (1) growth, (2) reliability, resiliency, and efficiency (“RRE”), or (3) legacy integrity projects. In addition, with the approval by the Commission to accrue Allowance for Funds Used During Construction (“AFUDC”) starting in 2019, the company also identifies AFUDC-eligible projects.

**Q.** Did the company’s Board of Directors approve the capital expenditure budgets?

**A.** Yes. The company’s 2023 and 2024 capital budgets were approved by the company’s Board of Directors in March 2023.

**Q.** What is the amount of the company’s 2023 and 2024 capital budgets used to produce the 2024 projected test year rate base?

**A.** The $397.1 million 2023 capital budget is reflected on MFR schedule G-1, page 23, as the sum of the total Construction Costs of $384.1 million and Cost of Removal of $13.0 million.

 The $362.4 million 2024 capital budget is reflected on MFR schedule G-1, page 26, as the sum of the total Construction Costs of $349.4 million and Cost of Removal of $13.0 million.

 A summary of the 2023 and 2024 capital budgets is shown in Document No. 6 of my exhibit. These capital budgets are explained and supported in the direct testimony witnesses O’Connor, Richard, Rutkin and Sparkman. Including the 2022 base year capital investment of approximately $325 million and the 2023 and 2024 capital budgets, Peoples expects to make over $1.0 billion in capital expenditures since its last general rate proceeding in 2020.

**Q.** Have there been any major changes in large projects since the 2023 and 2024 capital expenditure budgets were prepared?

**A.** Yes. When the budget was prepared there was uncertainty around timing of the FGT to Jacksonville Export Facility project, which was budgeted to be under construction starting in 2023 and going into service in 2025. As discussed in direct testimony of witness Rutkin, this complex project will not be constructed as described above. As shown on Document No. 6 of my exhibit, this very large project is AFUDC eligible. Since it is AFUDC eligible and will go into service after the 2024 projected test year, this project is not included in adjusted rate base, as discussed later in my direct testimony, and does not impact our projected 2024 adjusted NOI.

**Q.** How did the company project the test year balances for accumulated depreciation in 2023 and 2024?

**A.** The company started with the actual accumulated provision for depreciation balances as of December 31, 2022. The projected provision for depreciation expense was added and projected retirements and costs of removal were subtracted from the starting accumulated provision for depreciation balances. The projected provision for depreciation expense through December 31, 2023, is based on the company's current depreciation rates approved by the Commission in the 2020 Agreement. The projected provision for depreciation expense from January 1, 2024 through December 31, 2024 is based on the company's proposed depreciation rates determined in the updated depreciation study supported by company witness Watson. The projected retirements from plant-in-service, and costs of removal are based on the forecast amount for 2023 and 2024 based on historical trends. The test year accumulated depreciation reflects recognition of $34 million of theoretical excess depreciation reserves as permitted by the 2020 Agreement. In 2022, the company recognized $14.4 million as a credit and the remaining $19.6 million is projected to be credited in 2023.

**Q.** What amount of working capital allowance did the company include in rate base for the 2024 projected test year?

**A.** As shown on MFR schedule G-1, Page 1, the company request a net negative $28.0 million in working capital allowance for the 2024 projected test year.

**Q.** What methodology did the company use to calculate this level of working capital?

**A.** Working capital was developed using the balance sheet method which has been accepted by the Commission for many years. The various components that make up working capital were projected using a variety of methods described in MFR schedule G-6, pages 2 and 3.

**Q.** Please describe how the company prepared the 2024 projected test year balance sheet.

**A.** The company employed the same process used in developing its annual budgeted balance sheet. These methods are described on an account-by-account basis in MFR schedule G-6. The company began with actual December 31, 2022, account balances and projected individual line items through the projected test year. The company trended balance sheet accounts, including Accounts Receivable, Accounts Payable, and Unbilled Revenues, using known patterns of activity that occur in the normal course of business.

**Q.** How did the company forecast regulatory clause accounts - Unrecovered Gas Costs, CI/BSR, and Conservation Cost Recovery – for the 2024 projected test year?

**A.** The company forecasted the 2024 13-month average balances by rolling forward the detailed projections for the 2023 balances and targeting near zero balances by year-end 2024. The 2023 detailed projections reflect the company’s updated cost projections and Commission approved rates.

**Q.** How did the company treat clause over/under recoveries in calculating the projected 2024 allowance for working capital?

**A.** The company’s energy conservation cost recovery clause and competitive rate adjustment are projected to be under-recovered during 2024. In accordance with Commission guidelines, the under-recovery was deducted from working capital as an adjustment. The company’s PGA clause and CI/BSR were projected to have no under or over-recovery in the test year.

**Q.** Are there any other noteworthy adjustments being made to the company’s balance sheet to determine adjusted rate base?

**A.** Yes. The company has removed from rate base CWIP balances that earn AFUDC.

CAPITAL STRUCTURE, COST-OF-CAPITAL AND INCOME TAXES

**Q.** What are the components of the company's capital structure?

**A.** The components of the company’s total capital structure are equity, short- and long-term debt, customer deposits, ADIT, and investment tax credits (“ITC”). As discussed later in my direct testimony, beginning in 2023, ITCs are a new component of the company’s capital structure because the company has invested in a qualified RNG facility.

**Q.** What is the company’s 2024 proposed cost-of-capital?

**A.** As detailed in MFR schedule G-3, page 2, the company's proposed cost-of-capital is 7.42 percent. The 7.42 percent proposed cost-of-capital is based on a return on equity of 11.00 percent, which is supported by witness D’Ascendis and investor sources’ capital structure ratio of 54.7 percent equity and 45.3 percent total debt. The proposed cost-of-capital reflects short-term debt costs of 4.85 percent and long-term debt costs of 5.54 percent, which are supported by company witness McOnie. The proposed cost-of-capital also includes customer deposits at a cost of 2.53 percent, ADIT at zero cost and ITC at weighted cost of investor sources of capital of 8.49 percent.

**Q.** How does the company’s proposed 54.7 percent equity ratio compare with the allowed capital structure in Peoples’ last general base rate proceeding?

**A.** The proposed capital structure equity ratio of 54.7 percent from investor sources is consistent with the Commission approved capital structure in Peoples last general base rate proceeding in 2020. The company proposes to continue the terms of the 2020 Agreement stating that a 54.7 percent equity ratio (investor sources with any difference to actual equity ratio spread ratably over long-term and short-term debt) shall be used for all purposes, including cost recovery clauses, earnings surveillance reporting, and the calculation of the company’s AFUDC rate and associated amounts of AFUDC.

**Q.** Given the company’s proposed capital structure of 54.7 percent equity, what equity infusions from TECO Energy will be necessary in 2023 and 2024?

**A.** The company’s 2023 and 2024 budgeted equity infusions are $135.0 million and $140.0 million, respectively. These equity infusions are the result of the company’s planned capital structure needs based on its expenditures and business requirements and maintaining the targeted equity ratio of 54.7 percent, as discussed in witness McOnie’s direct testimony.

**Q.** What debt issuances are forecasted to occur in 2023 and 2024?

**A.** As discussed in witness McOnie’s direct testimony, the company’s forecasted debt issuances are $825 million and $100 million for 2023 and 2024, respectively. In addition to issuing its first independent long-term debt, the 2023 budget assumes Peoples will establish its own short-term revolving credit facility on September 30, 2023. With the debt issuance and new credit facility, Peoples forecasts that it will repay the intercompany debt with Tampa Electric that is discussed in witness McOnie’s direct testimony. The intercompany debt agreement with Tampa Electric was entered into on January 1, 2023, with interest rates based on the same rates included in the $570 million allocation of Tampa Electric long-term debt as of December 31, 2022 (including unamortized discounts) and Tampa Electric’s prevailing short-term debt interest rates during 2023. Peoples’ accounting for the components of the intercompany debt with Tampa Electric will be recorded in FERC account 223 Advances from Associated Companies, account 226 Unamortized Discount on Long-Term Debt, and account 233 Notes Payable to Associated Companies.

**Q.** How did the company reconcile the 2024 projected test year capital structure to 2024 projected test year rate base?

**A.** The reconciliation of the 2024 projected test year rate base to the 2024 projected test year capital structure is shown on Document No. 9 of my exhibit. Rate base adjustments discussed earlier require associated adjustments to capital structure to keep the two in sync.

 First, the company adjusted certain rate base items to specific capital structure items to which they are specifically related. These “specific adjustments” include property held for future use, investments in subsidiaries and non-utility adjustments to rate base (each a specific adjustment to equity).

 Second, some items were first specifically adjusted to ADIT for direct impacts and the remainder were adjusted over investor sources of capital or pro-rata over all sources of capital. Specific adjustments to ADIT were made for the competitive rate adjustment receivable and unamortized rate case expense due to their immediate deferred income tax impacts. The company used the same approach for CI/BSR assets because the replacement of legacy pipe is a deductible repair and maintenance cost when placed in service under IRC Section 162.

 Third, the under-recovery balance related to energy conservation was removed from short-term debt because this is the component of the capital structure that is impacted by the shortfall between the conservation expense incurred and the conservation revenues collected.

 Fourth, the CWIP on projects deemed eligible to accrue AFUDC was excluded from rate base and was adjusted on a pro-rata basis over all sources of capital.

 Finally, the remaining items were adjusted on a pro-rata basis over investor sources.

**Q.** Did the company make any capital structure adjustment to Deferred Taxes to comply with the Internal Revenue Code (“IRC”)?

**A.** Yes. The company adjusted deferred income taxes in the capital structure to reflect the IRC normalization adjustment required when a utility taxpayer uses a projected test period for ratemaking purposes. This adjustment reduced ADIT with an offset applied to investor sources of capital on a pro-rata basis. This adjustment is necessary to state the projected 2024 ADIT balance, which is treated as a zero-cost capital source, at the level required to comply with the forecast test period requirements as set forth in U.S. Treasury Regulation Section 1.167(1)-1.

The ADIT balances on MFR schedule G-1, page 8 are based on a 13-month average of projected balances. However, the IRC requirements in this situation require a specific computation to determine the maximum amount of ADIT to be treated as zero- cost capital in the cost of capital calculation. The specific computation is shown on Document No. 8 of my exhibit as a reduction to deferred taxes in the amount of $2,619,279, which is included in the specific adjustment on MFR schedule G-3, page 2. This adjustment is only required for accumulated deferred income taxes recorded in Account 282, net of the FAS 109 component, because this account includes the deferred taxes governed by the IRS normalization rules.

**Q.** Please explain the new ITC element of the company’s 2023 and 2024 capital structure.

**A.** The Inflation Reduction Act of 2022 (“IRA”) was signed into law on August 16, 2022. The IRA expanded the definition of qualified energy property to include, among others, qualified biogas property. Peoples’ investment in the Alliance Dairies RNG project meets the definition of a qualified biogas property so it is eligible for a 30 percent ITC. The dollar amount of the ITC projected for 2023 when the project goes in service is approximately $3.3 million. Generally, the ITC would be amortized over the regulatory life of the asset, however, due to the company’s projected taxable loss positions in 2023 and 2024, and under the IRS normalization rules, the ITC amortization is deferred until the company can offset its tax payable with the credit.

**Q.** Do these adjustments to rate base and capital structure impact NOI?

**A.** Yes. After all these adjustments were made, income tax expense was adjusted to reflect the appropriate amount of interest expense based on the amount and cost of debt in the capital structure that was synchronized to the rate base. This interest synchronization adjustment is shown on Document No. 9 of my exhibit.

**Q.** Please explain how the company calculated income tax expense and deferred taxes for the 2024 projected test year.

**A.** Consistent with the company’s prior rate proceedings and long-standing Commission precedent, the company computed its 2024 projected test year income tax expense on a stand-alone basis. Peoples projected total income tax expense was based on its projected taxable income and the federal and state income tax laws, regulations, and rules expected to be in place during the 2024 projected test year.

 As shown in MFR schedule G-2, page 30, income tax expense was calculated using the federal and state rates expected to be in effect for the 2024 projected test year of 21 percent and 5.5 percent, respectively. As previously discussed**,** we computed all NOI and capital structure amounts using consistent regulatory treatments and in compliance with the normalization requirements of the IRC.

 The company computed deferred taxes and the related accumulated deferred income tax based on the projected book-tax temporary differences for the 2024 forecasted period. We also included the forecasted flow back of excess and deficient deferred taxes in our tax expense calculation and calculated the flow-back period consistent with the company’s last general base rate proceeding and the terms of the 2020 Agreement.

**Q.** Does Peoples file a consolidated United States income tax return with other Emera companies?

**A.** Yes. Peoples Gas System, Inc. is a wholly owned subsidiary of TECO Gas Operations, Inc., which is a wholly owned subsidiary of TECO Energy, Inc., which is a wholly owned subsidiary of Emera United States Holdings, Inc. (“EUSHI”), which is a wholly owned subsidiary of Emera Incorporated. Peoples and other TECO Energy companies file United States income tax returns on a consolidated basis with EUSHI. Peoples does not expect being included in a consolidated tax return will cause any benefit or detriment to Peoples or its customers in the 2024 projected test year.

**Q.** Did Peoples make a parent company debt adjustment in determining its 2024 revenue requirement as contemplated in Rule 25-14.004 (F.A.C.)?

**A.** Yes. As shown in MFR schedule C-26, Peoples calculated a parent debt adjustment of approximately $3.1 million using the capital structure of Emera. The company calculated this adjustment consistent with the methodology used in the 2020 Agreement. This adjustment decreased the company’s 2024 revenue requirement.

LONG-TERM DEBT RATE TRUE-UP MECHANISM

**Q.** Please summarize the Long-Term Debt Rate True-Up (“LTDR True-Up”) mechanism being proposed by the company.

**A.** As discussed in the direct testimony of witness McOnie, Peoples will be seeking its own financing based on its own business risk profile and credit rating. Subject to market conditions and the credit rating process, the timing of the inaugural long-term financings is expected to occur in 2023 but may be completed after the Commission has rendered its decision on this general rate proceeding. With the potential uncertainty surrounding the cost of Peoples’ inaugural long-term debt and the significance it has in determining the test-year required rate of return, the company proposes a true-up mechanism to allow for a one-time adjustment to base rates reflecting its actual inaugural long-term debt cost in determining the 2024 projected test year revenue requirements. If needed, this mechanism would provide assurance that the new 2024 base rates would be adjusted to reflect the appropriate required rate of return, which is fair to both customers and the company. For example, if interest rates end up being lower, then this mechanism would allow for a prompt and efficient reduction to customers’ bills.

**Q.** How would the LTDR True-Up be calculated?

**A.** First, if Peoples completes its expected inaugural long-term financings (“Inaugural Debt Issuance”) prior to the final hearing in this case, the company will be able to update its proposed debt rate with the actual. If the Inaugural Debt Issuance occurs after the final hearing, then a new 13-month average long-term cost rate would be calculated as shown in MFR schedule G-3, page 3. As shown on MFR schedule G-3, page 3, Peoples budget projects that the Inaugural Debt Issuance will be an $825 million issuance on September 30, 2023. The new calculation of 2024 projected test year average long-term debt cost rate would be updated to reflect the Inaugural Debt Issuance principal and components of annual cost. Any change in the Inaugural Debt Issuance principal amount assumed in the Commission approved cost of long-term debt would be offset by an adjustment to the assumed Commission approved 2024 debt issuance such that the 2024 total 13-month average principal amount does not change.

 Second, an adjustment would be made to replace the Commission approved long-term debt cost rate used in determining the company’s approved weighted cost of capital (as calculated in MFR schedule G-3, page 2) with the new weighted average long-term cost rate factoring in the known Inaugural Debt Issuance principal and cost components. The resulting adjusted weighted cost of capital (also referred to as required rate of return) would then be carried over to update the Commission approved calculation of the test year revenue deficiency, as calculated in MFR schedule G-5. Finally, the resulting adjusted revenue deficiency would be compared to the Commission approved revenue deficiency. The decrease or increase in the revenue deficiency would be passed on to customers through a limited-proceeding filing.

**Q.** How soon after the Inaugural Debt Issuance would the one-time LTDR True-Up adjustment to base rates be applied?

**A.** Peoples would quantify the LTDR True-Up impact to revenue requirements as described above and neutralize the impact through a one-time adjustment to base rates within 120 days after the company completes the Inaugural Debt Issuance. For the time period between Commission approved new base rates going into effect (first billing cycle in January 2024) and implementation of the LTDR True-Up adjusted base rates, the company will defer the impact of the LTDR True-Up to the balance sheet for refund or collection through the CI/BSR in the subsequent year.

**Q.** After determining the amount of the LTDR True-Up, how does the company propose to change base rates?

**A.** The company proposes to ratably change base rates across all customer classes consistent with the method approved by the Commission in Order No. PSC-2018-0501-S-GU, issued on October 18, 2018 in Docket No. 20180044-GU, which changed Peoples’ base rates due to impacts of the Tax Cuts and Jobs Act of 2017.

**Q.** If the LTDR True-Up is not a significant amount, does the company have an alternative proposal for flowing the change to customers?

**A.** Yes, if the annual amount of the LTDR True-Up is less than $500,000, then the company will defer the impact of the LTDR True-Up to the balance sheet for collection or refund through the CI/BSR in the subsequent year and will continue that process annually until the company’s next subsequent base rate proceeding or other base rate adjustment being made through a limited proceeding.

SUMMARY

**Q.** Please summarize your prepared direct testimony.

**A.** I have discussed the company’s decision to use a 2024 projected test year. I presented the calculation and adjustments used in determining the company's 2024 projected test year revenue requirement, as well as the methodology for transferring CI/BSR revenue requirements to base rates. I discussed the 2023 and 2024 budgeting process used to develop the operating and capital expenditures necessary to safely and reliably serve Peoples’ customers. I supported and discussed the company’s Net Operating Income, Base Revenue, O&M Expense, Rate Base, Capital Structure, Cost-Of-Capital and Income Taxes. I also explained Peoples’ proposed true up mechanism to incorporate the company’s actual cost of its inaugural long-term debt issuances. In explaining the calculation of the company’s 2024 projected test year revenue requirements, I discussed the adjustments and regulatory accounting treatments being carried forward from the 2020 Agreement and prior rate proceedings.

 There is a significant revenue deficiency in the 2024 projected test year due to projected revenue levels, combined with a 40-year high inflation environment, continued investments in the gas distribution system to respond to statewide growth and construction as well as to maintain reliability, resiliency and meet strong demand for natural gas, and the expiring ability under the 2020 Agreement to defer depreciation costs.

 Without rate relief, the company's ROE and financial integrity will weaken to unsustainable levels. For 2024, without rate relief the company’s ROE would be 1.85 percent. This is significantly below the bottom of Peoples’ current allowed ROE range.

 Therefore, Peoples is requesting a base revenue increase of $139.3 million or an incremental amount of $127.7 million after considering the transfer of $11.6 million related to CI/BSR. The financial basis for this revenue requirement is a weighted average cost-of-capital of 7.42 percent, which includes an 11.00 percent ROE and a financial equity ratio of 54.7 percent. The requested base revenue increase is critically important to enable the company to maintain its financial integrity and support the growth of Florida while continuing to provide safe, reliable, responsible, and efficient service and to meet customer expectations.

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

**A.** Yes, it does.

# EXHIBIT

**OF**

**RACHEL B. PARSONS**

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