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**OPC's Responses to Staff's Third Set of  
Interrogatories, Nos. 17-18**

### **INTERROGATORIES**

17. Please refer to page 36 of witness Smith's direct testimony and Exhibit RCS-2 Schedule C-11, page 1 of 2, attached to his testimony wherein he calculated a parent debt adjustment.

- a. Please explain why witness Smith made his parent debt adjustment calculation using the parent company debt ratio of 41.50 percent on Line No. 4, and the parent company cost of debt of 4.52 percent on Line No. 6 (Information from Value Line).

**OPC Response:**

**The Value Line report was provided to witness Smith by OPC's cost of capital witness Garrett for use in the calculation of the parent debt interest adjustment as being representative of the portion of FPUC gas utility common equity that was supported by debt at the parent company level.**

- b. Please explain why witness Smith did not use the forecasted parent company debt ratio of 44.90 percent as filed by FPUC on MFR Schedule G-3 Consolidated, page 2 of 11.

**OPC Response:**

**The forecasted parent company debt ratio of 44.90 percent as filed by FPUC on MFR Schedule G-3 Consolidated, page 2 of 11 was not used because OPC's cost of capital witness Garrett provided the parent company debt ratio contained in the Value Line report for use in the parent debt interest adjustment as being representative of the portion of FPUC gas utility common equity that was supported by debt at the parent company level.**

- c. Please explain why witness Smith did not use the forecasted parent company debt cost rates as filed by FPUC on MFR Schedule G-3 Consolidated, page 2 of 11.

**OPC Response:**

**The forecasted parent company debt cost rates as filed by FPUC on MFR Schedule G-3 Consolidated, page 2 of 11 was not used because OPC's cost of capital witness Garrett provided the parent company debt rate, per the Value Line report, as being representative of the cost rate applicable to parent company debt.**

- d. Please explain why witness Smith did not use FPUC's effective Federal income tax rate of 19.6993 percent as filed on MFR Schedule G-4 Consolidated, page 1 of 1, on Line No. 8, of witness Smith's Schedule C-11.

OPC Response:

**The 19.6993% federal income tax rate shown on MFR Schedule G-4 is for purposes of calculating the gross revenue conversion factor (GRCF), also known as the net operating income multiplier. Thus, the GRCF rate is reflective of impacts other than the federal corporate income tax deduction for interest which reduces federal income taxes, such as the regulatory assessment rate, bad debt rate, and state income tax rate, in addition to the 21% statutory federal corporate income tax rate. The statutory federal corporate income tax rate of 21% was used to compute the impact on federal income tax expense for the parent debt adjustment shown on Schedule C-11, page 1. The parent debt adjustment was to federal income tax expense, not to state income taxes; consequently, no deduction for state income taxes, such as was shown on MFR Schedule G-4 for derivation for the GRCF, was reflected in deriving the impact of the parent debt adjustment on federal income tax expense.**

18. Please refer to Exhibit RCS-2 Schedule C-11, page 2 of 2, attached to witness Smith's direct testimony.
  - a. Please explain the purpose for the Parent Company Debt Adjustment on page 2 of 2 of Schedule C-11 considering witness Smith used the result of \$679,973 to make his adjustment to reduce income tax expense on Schedule C-1 in Exhibit RCS-2.

OPC Response:

**The purpose of the parent debt adjustment is to reflect an interest deduction and associated reduction to federal income tax expense based on the proportion of utility common equity that is effectively financed with long-term debt at the parent company level.**

- b. Please explain the difference between the Parent Company Debt Adjustment on page 1 and on page 2 of Schedule C-11.

OPC Response:

**Schedule C-11, page 1, shows the reduction to federal income tax expense based on the recommended Parent Company Debt Adjustment.**

**Schedule C-11, page 2, presents for informational purposes only an alternative calculation that utilized information from the Company's MFR Schedules C-26, which produced a consolidated interest deduction of about \$1.4 million related to parent company debt as shown on lines 10 through 14 of that schedule, and MFR Schedule G-2 Consolidated, page 29 of 31, line 5, which showed that a zero amount for the impact of a Parent Debt Adjustment on income tax expense was reflected in the Company's calculation of income tax expense.**

AFFIDAVIT

STATE OF Michigan  
COUNTY OF Wayne

BEFORE ME, the undersigned authority, personally appeared Ralph C. Smith,  
who deposed and stated that he/she provided the answers to interrogatories Staff Third Set  
(Nos. 17-18) served on 9/23/2022 by Staff on OPC

and that the responses are true and correct to the best of his/her information and belief.

DATED at Livonia, Michigan, this 10<sup>th</sup> day of October,  
2022.

Sworn to and subscribed before me this 10 day of October,  
2022.

Hugh Larkin Jr  
NOTARY PUBLIC

State of Michigan at Large

My Commission Expires: September 13, 2026

HUGH LARKIN JR  
NOTARY PUBLIC, STATE OF MI  
COUNTY OF WAYNE  
MY COMMISSION EXPIRES Sep 13, 2026  
ACTING IN COUNTY OF