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BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20230023-GU

Petition for rate increase by Peoples  
Gas Systems, Inc.

\_\_\_\_\_/

DOCKET NO. 20220219-GU

Petition for approval of 2022 depreciation  
study by Peoples Gas Systems, Inc.

\_\_\_\_\_/

DOCKET NO. 20220212-GU

Petition for approval of depreciation rate  
and subaccount for renewable natural gas  
facilities leased to others by Peoples  
Gas Systems, Inc.

\_\_\_\_\_/

VOLUME 4 - PAGES 531 - 773

PROCEEDINGS: HEARING

COMMISSIONERS  
PARTICIPATING: CHAIRMAN ANDREW GILES FAY  
COMMISSIONER ART GRAHAM  
COMMISSIONER GARY F. CLARK  
COMMISSIONER MIKE LA ROSA  
COMMISSIONER GABRIELLA PASSIDOMO

DATE: Wednesday, September 13, 2023

TIME: Commenced: 9:00 a.m.  
Concluded: 6:35 p.m.

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

REPORTED BY: DEBRA R. KRICK  
Court Reporter

APPEARANCES: (As heretofore noted.)

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## I N D E X

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1 P R O C E E D I N G S

2 (Transcript follows in sequence from Volume  
3 3.)

4 CHAIRMAN FAY: All right. We are going to get  
5 back and get going. Let's make sure we've got -- I  
6 think we tested everything out. Mr. Watson, you  
7 can hear us, we can hear you, you can give us a  
8 confirmation?

9 MR. WATSON: Yes, I can hear you.

10 CHAIRMAN FAY: All right. All right. With  
11 that, Mr. Means, when you are ready.

12 MR. MEANS: I think Mr. Moyle has a  
13 preliminary matter.

14 CHAIRMAN FAY: Oh, okay. Sorry.

15 MR. MOYLE: Yeah. That's okay.

16 We had discussed FIPUG providing an exhibit  
17 that has that ROE, the rate case decision on return  
18 on equity that would be a separate exhibit, and I  
19 have provided everyone a copy --

20 CHAIRMAN FAY: Okay.

21 MR. MOYLE: -- of that, with a cover page, and  
22 we just need an exhibit number on it and admit it  
23 into evidence, if we could.

24 CHAIRMAN FAY: So we would mark that 185.

25 (Whereupon, Exhibit No. 185 was marked for

1 identification.)

2 CHAIRMAN FAY: And showing no objections, we  
3 will enter that into the record.

4 MR. MOYLE: Thank you.

5 CHAIRMAN FAY: Okay.

6 (Whereupon, Exhibit No. 185 was received into  
7 evidence.)

8 MR. MOYLE: And thank the parties for that.

9 CHAIRMAN FAY: Sure.

10 All right. Mr. Means, are you ready?

11 MR. MEANS: Yes, Mr. Chairman. Peoples call  
12 Mr. Dane Watson, and I do not believe he has been  
13 sworn yet.

14 CHAIRMAN FAY: Mr. Watson, I am going to swear  
15 you in briefly, and just raise your right hand.

16 Whereupon,

17 DANE WATSON

18 was called as a witness, having been first duly sworn to  
19 speak the truth, the whole truth, and nothing but the  
20 truth, was examined and testified as follows:

21 THE WITNESS: I do.

22 CHAIRMAN FAY: Okay. Thank you.

23 Mr. Means.

24 MR. MEANS: Okay. Thank you, Mr. Chairman.

25 EXAMINATION

1 BY MR. MEANS:

2 Q Mr. Watson, can you please state your full  
3 name for the record?

4 A Dane A. Watson.

5 Q And were you just sworn?

6 A Yes, I was.

7 Q Who is your current employer and what is your  
8 business address?

9 A Alliance Consulting Group. And the business  
10 address is 101 East Park Boulevard, Suite 220, Plano,  
11 Texas, 75074.

12 Q And did you prepare and cause to be filed in  
13 this docket on April 4th, 2023, prepared direct  
14 testimony consisting of 35 pages?

15 A Yes.

16 Q And did you prepare and cause to be filed in  
17 this docket on July 23, 2023, prepared rebuttal  
18 testimony consisting of 51 pages?

19 A Yes.

20 Q Do you have any additions or corrections to  
21 your prepared direct or rebuttal testimony?

22 A To my direct only, as there were a few changes  
23 in my exhibit, which was the depreciation study, the  
24 original study that was filed with the direct testimony.  
25 The updated study was filed with my rebuttal testimony.

1 So only any changes that would come from those minor  
2 changes in the study itself are the own things that I  
3 would have in my direct.

4 Q Okay. Well, other than those, do you have any  
5 -- I am sorry, other than those, if I were to ask you  
6 the questions contained in your direct and rebuttal  
7 testimony today, would your answers be the same?

8 A Yes, they would.

9 MR. MEANS: Mr. Chairman, Peoples requests  
10 that the prepared direct and rebuttal testimony of  
11 Mr. Watson be inserted into the record as though  
12 read.

13 CHAIRMAN FAY: Okay. Show the direct and  
14 rebuttal inserted as though read.

15 (Whereupon, prefiled direct of Dane A. Watson  
16 testimony was inserted.)

17

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20

21

22

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24

25

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  
DANE A. WATSON

ON BEHALF OF PEOPLES GAS SYSTEM, INC.



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**PREPARED DIRECT TESTIMONY AND EXHIBIT**

**OF**

**DANE A. WATSON**

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1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                                   **PREPARED DIRECT TESTIMONY**

3                                   **OF**

4                                   **DANE A. WATSON**

5                                   **ON BEHALF OF PEOPLES GAS SYSTEM, INC.**

6  
7           **I.     POSITION, QUALIFICATION, AND PURPOSE**

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

9  
10          **A.**    My name is Dane A. Watson. My business address is 101 E.  
11                   Park Blvd, Suite 220, Plano, Texas 75074. I am employed by  
12                   Alliance Consulting Group.

13  
14          **Q.**    Please describe your duties and responsibilities in that  
15                   position.

16  
17          **A.**    I am the Managing Partner in Alliance Consulting Group  
18                   ("Alliance"). As the Managing Partner of Alliance, I am  
19                   responsible for performing and defending depreciation  
20                   studies across the United States in a variety of regulatory  
21                   proceedings. My duties include the assembly and analysis  
22                   of historical and simulated data, conducting field reviews,  
23                   estimating service life and net salvage estimates,  
24                   calculating annual depreciation, presenting recommended  
25                   depreciation rates to utility management, and supporting

1 such rates before regulatory bodies. I have performed more  
2 than 300 depreciation studies in my career, appeared in  
3 more than 200 cases, and testified before 35 regulatory  
4 bodies as an expert witness on the subject of depreciation.

5

6 **Q.** Please provide a brief outline of your business experience.

7

8 **A.** Since graduating from college in 1985, I have worked in the  
9 areas of depreciation and valuation. I founded Alliance in  
10 2004, and I am responsible for conducting depreciation,  
11 valuation, and certain other accounting-related studies for  
12 utilities in various regulated industries. My prior  
13 employment from 1985 to 2004 was the Texas Utilities and  
14 successor companies ("TXU"). During my tenure with TXU, I  
15 was responsible for, among other things, conducting  
16 valuation and depreciation studies for the domestic TXU  
17 Companies. During that time, in addition to my depreciation  
18 responsibilities, I also served as Manager of Property  
19 Accounting Services and Records Management.

20

21 **Q.** What is your educational background?

22

23 **A.** I hold a Bachelor of Science degree in Engineering from the  
24 University of Arkansas at Fayetteville and a Master's  
25 Degree in Business Administration from Amberton University.

1 I am a registered Professional Engineer in the State of  
2 Texas.

3

4 **Q.** Do you hold any special certification as a depreciation  
5 expert?

6

7 **A.** Yes. The Society of Depreciation Professionals (the  
8 "Society") has established national standards for  
9 depreciation professionals. The Society administers an  
10 examination and has certain required qualifications to  
11 become certified in this field. I met all the requirements  
12 and have become a Certified Depreciation Professional  
13 ("CDP").

14

15 **Q.** Please describe your other professional activities.

16

17 **A.** I have twice served as Chair of the Edison Electric  
18 Institute ("EEI") Property Accounting and Valuation  
19 Committee and have been Chairman of EEI's Depreciation and  
20 Economic Issues Subcommittee. I am a Senior Member of the  
21 Institute of Electrical and Electronics Engineers ("IEEE")  
22 and have held numerous offices on the Executive Board of  
23 the Dallas Section of IEEE as well as National and Worldwide  
24 offices. I have also served twice as the President of the  
25 Society of Depreciation Professionals.

1 Q. Have you previously testified before state and/or  
2 regulatory commissions?

3

4 A. Yes. I have testified before numerous state and federal  
5 agencies in my 38-year career in performing depreciation  
6 studies. I have conducted depreciation studies, filed  
7 written testimony, and/or testified before the Commissions  
8 identified in my Exhibit No. DAW-1, Document No. 1.

9

10 Q. What is your responsibility and participation in the  
11 preparation of the Updated Depreciation Study for Peoples  
12 Gas System, Inc. ("Peoples" or the "company")?

13

14 A. I was personally responsible for, participated in, and  
15 directed all aspects of the work performed by Alliance  
16 resulting in the recommendations contained in my Exhibit  
17 No. DAW-1, Document No. 2, the Updated Depreciation Study.

18

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

21

22 A. The purposes of my direct testimony are to (1) discuss the  
23 Updated Depreciation Study conducted from Peoples' gas  
24 depreciable assets based on actual historical data as of  
25 December 31, 2021 and the forecasted plant and reserve

1 balances as of December 31, 2024, and (2) support and  
2 justify the recommended depreciation rates for the  
3 company's assets.

4  
5 **Q.** Did you prepare an Exhibit in support of your prepared  
6 direct testimony?

7  
8 **A.** Yes. Exhibit No. DAW-1 consisting of three Documents  
9 prepared under my direction and supervision.

10 Document No. 1 Testimony Experience of Dane A. Watson

11 Document No. 2 Updated Depreciation Study

12 Document No. 3 Functional Summary Comparison of  
13 Depreciation Expense - Schedules 1-3

14  
15 To the best of my knowledge, the information contained in  
16 my exhibit is true and correct.

17  
18 **Q.** Is the Updated Depreciation Study included as Document No.  
19 2 to this testimony the same document that you prepared in  
20 the company's filing on December 28, 2022?

21  
22 **A.** No. After the books were closed for 2022 year-end activity,  
23 the company updated its forecast data to include 2022  
24 actuals and revised forecasts for 2023 and 2024. Those  
25 updates produced changes in forecast plant balances and

1 accumulated depreciation. Using these updated inputs, I  
2 prepared the Updated Study using the same approach and  
3 depreciation system used to prepare the Depreciation Study  
4 filed on December 28, 2022. This testimony refers to the  
5 Updated Depreciation Study included in Document No. 2 of my  
6 exhibit as the "Updated Study". The updates did not make  
7 any changes to the average service life and net salvage  
8 parameters presented in the Depreciation Study, filed on  
9 December 28, 2022.

10  
11 **Q.** Does the Updated Study represent a material change in the  
12 company's proposed 2024 test year depreciation expense from  
13 the study filed in December 2022?

14  
15 **A.** No. The best point of comparison is the annual status  
16 report for 2024, included as Appendix F in both versions of  
17 the Depreciation Study, which shows the implementation of  
18 new depreciation rates. The resulting 2024 test year  
19 depreciation expense amounts shown below are in the 2024  
20 reserve walkforward schedules, Appendix F-2.

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**PEOPLES GAS DEPRECIATION STUDY COMPARISON**

	Updated	December	
	Study	Study	Difference
<b>Proposed</b>			
<b>Rates</b>	\$91,223,370	\$91,161,211	\$62,159

The increase of \$62 thousand is .07 percent of the total from the December 2022 Study.

**II. TESTIMONY STRUCTURE, DEPRECIATION DEFINITION, AND STUDY PURPOSE**

**Q.** How is your direct testimony structured?

**A.** My direct testimony has five sections. The first two are introductory in nature.

In Section III, I explain the property included in the Updated Study; the four-phase approach I used to conduct the Updated Study; and the depreciation system I used for the Updated Study.

In Section IV, I explain how depreciation rates are determined, including identifying the formula for depreciation rates. This portion of my direct testimony



1 also explains and fully discusses each portion of the  
2 depreciation rate formula that is supported by the Updated  
3 Study. Section IV is broken into the following subparts,  
4 which align with the components of the depreciation rate  
5 formula that the Updated Study supports: (A) Depreciation  
6 Rate Formula; B) Life Estimation; (C) Theoretical Reserve;  
7 (D) Net Salvage Amounts and Percentages; (E) Remaining Life  
8 Analysis; and (F) Depreciation Accrual and Rates.

9  
10 In Section V, I discuss the change in depreciation expense  
11 as a result of the proposed depreciation rates.  
12 Specifically, I explain why Peoples' depreciation expense  
13 is increasing.

14  
15 **Q.** What definition of depreciation have you used for the  
16 purposes of conducting a depreciation study and preparing  
17 your direct testimony?

18  
19 **A.** The term "depreciation," as used herein, is considered in  
20 the accounting sense—that is, a system of accounting that  
21 distributes the cost of assets, less net salvage (if any),  
22 over the estimated useful life of the assets in a systematic  
23 and rational manner. Depreciation is a process of  
24 allocation, not valuation. In other words, depreciation  
25 expense allocates the cost of the asset, including any

1 estimated net salvage (the negative of this is also known  
2 as net removal) necessary to remove the asset, as an ongoing  
3 cost of operations over the economic life of the asset.  
4 However, the amount allocated to any one accounting period  
5 does not necessarily represent an actual loss or decrease  
6 in value that will occur during that particular period. The  
7 company accrues depreciation on the basis of the original  
8 cost of all depreciable property included in each  
9 functional property group. On retirement, the full cost of  
10 depreciable property, less the net salvage value, is  
11 charged to the depreciation reserve.

12  
13 **Q.** Please generally describe the purpose of the updated Study.

14  
15 **A.** The key functions of the Updated Study are to: (1) determine  
16 the average service lives for Distribution and General  
17 Plant; (2) determine the net salvage percentages for  
18 Distribution and General Plant; (3) calculate the  
19 theoretical reserve of each property group based on the  
20 remaining life of the group, the total life of the group  
21 and the estimated net salvage; (4) develop depreciation  
22 rates, including an annual depreciation accrual; and (5)  
23 develop depreciation rates for plant that Peoples will add  
24 to its rate base that currently are not currently  
25 capitalized on its books.

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

2

3 A. I conclude that the depreciation rates developed for  
4 Peoples' utility accounts as set forth in the Updated Study,  
5 which is sponsored by me and included as Document No. 2 of  
6 my exhibit, encompass the best and most recent information  
7 for calculating Peoples' depreciation expense associated  
8 with these assets and are reasonable and appropriate for  
9 use in recovering the cost of Peoples' assets and net  
10 salvage.

11

12 Based on life and net salvage parameters developed and  
13 applied to forecast plant assets and depreciation reserve  
14 balances as of December 31, 2024, the depreciation rates in  
15 the Updated Study will result in an increase in the annual  
16 depreciation expense of approximately \$9.0 million per  
17 year. This amount was determined by comparing the  
18 depreciation expense difference between the current  
19 depreciation rates and the proposed depreciation rates as  
20 of December 31, 2024. A functional summary comparison of  
21 depreciation expense is shown in Document No. 3, Schedule  
22 1, of my exhibit, and a more detailed comparison is shown  
23 in Document No. 2, Appendix B of my exhibit.

24

25 **III. PEOPLES' DEPRECIATION RATE STUDY**

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

3

4 A. In this section of my direct testimony, I describe the  
5 property included in the Updated Study; the four-phase  
6 approach I used to conduct the December Study and the  
7 Updated Study; and the depreciation system (straight-line  
8 method, Average Life Group procedure, remaining-life  
9 technique) used for the Updated Study.

10

11 Q. Did the company give you any specific information for  
12 conducting the Updated Study?

13

14 A. Yes. The company gave me the following information for the  
15 Updated Study:

16 a. Historical data to analyze for life and net salvage to  
17 assist in making recommendations for Distribution and  
18 General Plant assets based on actual historical data as of  
19 December 31, 2021.

20 b. Plant and reserve balances to calculate the  
21 theoretical reserves and the recommended whole life and  
22 remaining life depreciation rates, including the annual  
23 depreciation expense accrual, on forecast plant and reserve  
24 balances as of December 31, 2024.

25 c. Information related to the operations, conditions,  
D11-714

1 plans and programs was communicated to me from company  
2 subject matter experts and recorded in my interview notes.  
3 d. Information regarding the new assets recently added or  
4 projected to be added during the forecast period in the  
5 gathering plant, and Liquefied Natural Gas ("LNG") plant  
6 function, as well as the company's planned use of those  
7 assets.

8  
9 **Q.** Can you describe the new asset groups (i.e., LNG and  
10 Renewable Natural Gas ("RNG")) included in this study?

11  
12 **A.** Yes. Two of the new categories of plant have previously  
13 been addressed in the prior depreciation study. Accounts  
14 33600 and 36400 utilize the same depreciation parameters  
15 approved in the existing rates. The third category of plant  
16 is similar to Account 33600 but involves a contractual  
17 agreement with Brightmark for an RNG facility and is given  
18 the designation Account 33601.

19  
20 **Q.** Please discuss Account 33601, RNG Plant Leased - 15 Years.

21  
22 **A.** The Brightmark project is described in greater detail in  
23 the Direct Testimony of Peoples' witness Lew Rutkin, Jr.  
24 In short, the company entered into an agreement with  
25 Brightmark for Peoples to own and operate the RNG facility.

1 After 15 years, the Company will retire the facility off  
2 its books, transfer ownership to Brightmark, and Brightmark  
3 will then cover all ongoing operations and maintenance  
4 cost, and well as any removal obligations for the facility.  
5 To match the structure of the contract, the company will  
6 depreciate the facility over the 15-year contract but will  
7 not need to reflect any removal cost in the depreciation  
8 rate. The depreciation rate in this study for this account  
9 follows that concept.

10  
11 **Q.** What property is included in the Updated Study?

12  
13 **A.** There are two general classes, or functional groups, of  
14 depreciable property that are analyzed in the Updated  
15 Study: (1) Distribution Plant and (2) General Plant  
16 property. The Distribution Plant functional group  
17 primarily consists of pipe, numerous general and city gate  
18 stations, meters and associated facilities used to  
19 distribute gas to customers of Peoples. General Plant  
20 property is plant (such as office buildings) used to support  
21 Peoples' overall operations.

22  
23 **Q.** Please describe your depreciation study approach.

24  
25 **A.** With the assistance of my staff, I conducted the Updated

1 Study in four phases as described in Document No. 2 of my  
2 exhibit. The four phases are: Data Collection, Analysis,  
3 Evaluation, and Calculation. During the initial phase of  
4 the Study, I collected historical data through December 31,  
5 2021, to be used in the analysis. After the data was  
6 assembled, I performed analyses to determine the life and  
7 net salvage percentage for the different property groups  
8 being studied. As part of this process, I conferred with  
9 field personnel, engineers, and managers responsible for  
10 the installation, operation, and removal of the assets to  
11 gain their input into the operation, maintenance, and  
12 salvage of the assets. This information combined with the  
13 Study results, was then evaluated to determine how the  
14 results of the historical asset activity analysis, in  
15 conjunction with the company's expected future plans,  
16 should be applied. The final phase is the calculation of  
17 depreciation rates and the theoretical reserve.

18  
19 The authoritative treatise on depreciation studies, titled  
20 "Depreciation Systems," documents the following stages of  
21 a depreciation study: "statistical analysis, evaluation of  
22 statistical analysis, discussions with management, forecast  
23 assumptions, and document recommendations."<sup>1</sup> My approach

---

<sup>1</sup> W.C. Fitch and F.K. Wolf, *Depreciation Systems*, at page 289 (Iowa State Press, 1994) D11-717

1 mirrors this process, and following this approach ensures  
2 that Alliance comprehensively and thoroughly projects the  
3 future expectations for the company's assets. Document No.  
4 2 of my exhibit shows Figure 2, which demonstrates the four  
5 phases of the Updated Study conducted for Peoples.

6  
7 **Q.** What depreciation system did you use for the Updated Study?

8  
9 **A.** The straight-line (method), the Average Life Group ("ALG")  
10 (procedure), remaining-life (technique) depreciation  
11 system was used for this Study. This is the same  
12 methodology used by Peoples and approved by this Commission  
13 for the existing depreciation rates established in Docket  
14 No. 20200166-GU, which was consolidated with the 20200051-  
15 GU Rate Case.

16  
17 **Q.** What is a survivor curve?

18  
19 **A.** A survivor curve represents the percentage of property  
20 remaining in service at various age intervals. The Iowa  
21 Curves, the predominantly used survivor curve method in the  
22 utility industry, are the result of an extensive  
23 investigation of life characteristics of physical property  
24 made at Iowa State College Engineering Experiment Station  
25 in the first half of the prior century. Through common



1 usage, revalidation and regulatory acceptance, the Iowa  
2 Curves have become a descriptive standard for the life  
3 characteristics of industrial property. For more detail on  
4 survivor curves see Document 2 of my exhibit.

5  
6 **Q.** How are survivor curves used in this study?

7  
8 **A.** Most property groups can be closely fitted to one Iowa Curve  
9 with a unique average service life. The blending of  
10 judgment concerning current conditions and future trends  
11 along with the matching of historical data permits a  
12 depreciation analyst to make an informed selection of an  
13 account's average service life and survivor curve. When  
14 selecting an average service life, a survivor curve is also  
15 selected. When recommending depreciation rates, a  
16 depreciation analyst selects the average service life and  
17 survivor curve that are used to compute remaining life and  
18 theoretical reserve.

19  
20 **IV. DETERMINATION OF THE DEPRECIATION RATES**

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

23  
24 **A.** In this section, I explain how depreciation rates are  
25 determined, including identifying the formula for

1 depreciation rates. This portion of my direct testimony  
2 also explains and fully discusses each portion of the  
3 depreciation rate formula that is supported by my Updated  
4 Study. Section IV is broken into the following subparts,  
5 which aligns with the components of the depreciation rate  
6 formula that the Updated Study supports: (A) The  
7 Depreciation Rate Formula; (B) Life Estimation;  
8 (C) Theoretical Reserve; (D) Net Salvage Amounts or  
9 Percentages; (E) Remaining Life; and (F) Depreciation  
10 Accrual and Rates.

11  
12 **(A) THE DEPRECIATION RATE FORMULA**

13 **Q.** How are the depreciation rates determined?

14  
15 **A.** The formula used to derive depreciation rates calculates  
16 annual depreciation accrual amounts for each group by  
17 dividing the original cost of the asset (gross plant), less  
18 book depreciation reserve, less estimated net salvage, by  
19 the group's respective remaining life. The resulting  
20 annual accrual amounts for all depreciable property within  
21 an account are accumulated, and the total is divided by the  
22 original cost (gross plant) of all depreciable property  
23 within the account to determine the depreciation rate.

24  
25 **Q.** What portion of the formula used to derive depreciation

1 rates is supported by the Updated Study?

2

3 **A.** The Updated Study determines several pieces of the overall  
4 formula used to derive depreciation rates. The portions of  
5 the formula derived by the Updated Study are:

6 a. Plant and Depreciation Reserve Balance: The  
7 depreciation reserve was provided by the company with the  
8 projected gross plant balance amounts and the projected  
9 depreciation reserve as of December 31, 2024. The Updated  
10 Study depreciation reserve balance is subtracted from gross  
11 plant.

12 b. Life Estimation: The Updated Study describes the  
13 analytical tools used to estimate the appropriate average  
14 service lives and retirement survivor curve for each  
15 depreciable account.

16 c. Theoretical Reserve: The theoretical reserve  
17 represents the portion of a property group's cost that would  
18 have been accrued as depreciation reserve if current  
19 expectations were used throughout the life of the property  
20 group for future depreciation accruals. The theoretical  
21 reserve for the asset group serves as a point of comparison  
22 to the book reserve to determine if the unrecovered  
23 investment of the asset and its removal cost are over or  
24 under-accrued.

25 d. Net Salvage Amounts or Percentages: The Updated Study

1 supports the overall net salvage percentages. The Updated  
2 Study calculates and recommends the net salvage percentages  
3 for Distribution and General Plant accounts. For these  
4 plant accounts, salvage and removal cost percentages are  
5 calculated by dividing the current cost of salvage or  
6 removal, as supported by the Updated Study, by the original  
7 installed cost of the retired asset.

8 e. Remaining Life: The Updated Study supports the  
9 remaining life calculation by determining the appropriate  
10 average service lives and retirement survivor curve for  
11 each account.

12 f. Resulting Annual Depreciation Accrual and Depreciation  
13 Rates: As discussed above, the Updated Study calculates  
14 the depreciation rates and the annual accrual amounts are  
15 then derived from these rates. The computation of the  
16 annual depreciation rates and annual accrual amounts is  
17 shown in Appendix A of Exhibit DAW-1, Document No. 2.

18  
19 **(B.) LIFE ESTIMATION**

20 **Q.** What method does the study use to analyze historical data  
21 for Distribution and General plant to estimate life  
22 characteristics?

23  
24 **A.** I analyzed all Distribution and General Plant accounts  
25 using the actuarial analysis (retirement rate method) to

1 estimate the life of the property in each account.  
2 Depreciation analysts use models of property mortality  
3 characteristics that have been validated in research and  
4 empirical applications in much the same manner as human  
5 mortality is analyzed by actuaries.

6

7 **Q.** How did you determine the average service lives for  
8 Distribution and General plant?

9

10 **A.** As noted above, I used actuarial analysis and judgment to  
11 determine the appropriate average service lives for each  
12 account in the Distribution and General functions. Graphs  
13 and tables supporting the analysis and the chosen Iowa  
14 Curves used to determine the average service lives for  
15 analyzed accounts are found in the Determination of the  
16 Lives and Net Salvage section of Document No. 2 of my  
17 exhibit, Appendix D. A summary comparison of the approved  
18 and proposed depreciable lives is shown in Document No. 3,  
19 Schedule 3 and Document No. 2, Appendix C of my exhibit.

20

21 **Q.** Please describe some of the changes in the average service  
22 lives for the various Distribution and General accounts.

23

24 **A.** For Distribution and General Accounts, there are 7 accounts  
25 with increasing lives; one account with decreasing lives;

1 and 28 accounts where there is no change. Examples of some  
2 of the changes in average service lives for Distribution  
3 and General Plant are as follows:

4 a. The two accounts with the largest life increases,  
5 which each increased by 3 years, were: (1) Distribution  
6 Account 38700 Other Equipment; and (2) Distribution Account  
7 39204 Trailers and Other.

8 b. All the accounts (6 out of 36) with increasing lives  
9 have increases of 3 years or less. Further discussion of  
10 the increases is detailed for each account in the Updated  
11 Study report.

12 c. General Account 39201 Vehicles up to ½ ton decreased in  
13 life by 1 year.

14  
15 Further discussion of the decreases is detailed for each  
16 account in the Updated Study report.

17  
18 **Q.** What method did you use in the Updated Study to predict the  
19 life characteristics of assets that will be added during  
20 the forecast period which currently are not part of the  
21 company's plant-in service assets or were recently added to  
22 the company's plant-in service assets?

23  
24 **A.** Since no historical data was available for those assets, I  
25 reviewed information provided by company personnel and

1 reviewed the life parameters used by other natural gas  
2 utilities across the nation. The proposed lives for these  
3 accounts are shown in Appendix C of the Updated Study and  
4 are discussed in Document No. 2 of my exhibit.

5  
6 **(C.) THEORETICAL RESERVE**

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

9  
10 **A.** The theoretical reserve represents the portion of a  
11 property group's cost that would have been accrued as  
12 depreciation reserve if current life and net salvage  
13 expectations were used and achieved throughout the life of  
14 the property group for depreciation accruals. The  
15 theoretical reserve for the asset group serves as a point  
16 of comparison to the book reserve to determine if the  
17 unrecovered investment of the asset and its removal cost  
18 are over or under-accrued.

19  
20 **Q.** How did you determine the theoretical reserve reflected in  
21 the Updated Study?

22  
23 **A.** I computed the theoretical reserves in the Updated Study  
24 based on projected plant balances as of December 31, 2024.  
25 The theoretical reserve was calculated using a reserve

1 model that relies on a prospective concept relating future  
2 retirement and accrual patterns for property, given current  
3 life and salvage estimates. More specifically, the  
4 theoretical reserve of a property group was determined from  
5 the estimated remaining life of the group, the total life  
6 of the group, and estimated net salvage. This computation  
7 for the straight-line, remaining-life theoretical reserve  
8 ratio, which I describe in more detail in Document No. 2 of  
9 my exhibit, involved multiplying the vintage balances  
10 within the property group by the theoretical reserve ratio  
11 for each vintage.

12  
13 **Q.** Is it desirable for the depreciation reserve to conform to  
14 the theoretical reserve?

15  
16 **A.** Yes. It is desirable for the depreciation reserve to conform  
17 as closely as possible to the theoretical reserve. When  
18 remaining life rates are used, the theoretical reserve  
19 provides the basis for any over-accrual or under-accrual in  
20 setting the depreciation rates at the appropriate level  
21 based on current parameters and expectations.

22  
23 **Q.** How do the book and theoretical reserve compare in this  
24 study?

25



1     **A.**   As shown in Document No. 2 of my exhibit, Appendix E, the  
2           theoretical reserve is lower than the book reserve,  
3           creating a surplus that is netted over the remaining life  
4           of the account and has the effect of decreasing the  
5           depreciation rate. Rates by account for Distribution and  
6           General are shown in Document No. 2 of my exhibit, Appendix  
7           B.

8  
9           Overall, the Updated Study found a surplus of \$119.6 million  
10          at December 31, 2024 based on the recommended life and net  
11          salvage parameters. The depreciation rates are designed to  
12          eliminate that surplus over the remaining life of the  
13          distribution depreciable assets and the average remaining  
14          life for the accounts where the company is proposing general  
15          plant amortization.

16  
17     **Q.**   How was the difference between the book and theoretical  
18          reserve handled in the Peoples' last depreciation study?

19  
20     **A.**   The Florida Public Service Commission ("Commission")  
21          approved the use of remaining life to amortize that amount  
22          in Docket No. 20200166-GU. This Updated Study proposes the  
23          same methodology.

24  
25     **(D.) NET SALVAGE AMOUNTS OR PERCENTAGES**

1 Q. What is net salvage as determined for all the company's  
2 plant assets?

3

4 A. While discussed more fully in the Updated Study itself, net  
5 salvage is the difference between the gross salvage (what  
6 the asset was sold for) and the cost of removal (cost to  
7 remove and dispose of the asset) ("COR"). If the COR  
8 exceeds gross salvage, net salvage is negative. Some plant  
9 assets can experience significant negative removal cost  
10 percentages due to the amount of removal cost and the timing  
11 of any capital additions versus the retirement.

12

13 Salvage and removal cost percentages are calculated by  
14 dividing the current cost of salvage or removal by the  
15 original installed cost of the assets retired.

16

17 Q. How did you determine the net salvage percentages for each  
18 asset group in Distribution and General plant?

19

20 A. I started by using an industry-standard method that divides  
21 the current cost of removal and salvage by the original  
22 installed cost of the assets retired. However, I also  
23 applied judgment to select a net salvage percentage that  
24 represents the future expectations for each account. The  
25 recommended lives and net salvage parameters remain the

1 same in the Study filed December 28, 2022 and the Updated  
2 Study. In applying this judgment, I compiled and considered  
3 historical salvage and removal data by account to determine  
4 values and trends in gross salvage and removal cost. The  
5 account data for retirements, gross salvage, and COR  
6 covered the period from 1983 - 2021 and is detailed in the  
7 Updated Study. I calculated moving averages with this data,  
8 with the intent to remove timing differences between  
9 retirement and salvage and removal cost; I analyzed those  
10 moving averages over varying periods up to 10 years. These  
11 calculations are shown in Document No. 2, Appendix D of my  
12 exhibit.

13  
14 **Q.** Is it sufficient to only analyze historical data to form  
15 your life and net salvage estimates?  
16

17 **A.** No. Historic life and salvage data are the primary factors  
18 to consider in making life and net salvage recommendations,  
19 but it is crucial to incorporate future trends, changes in  
20 equipment and company-specific operational information  
21 before finally making life and net salvage recommendations.  
22 Once all the calculations and data are prepared, I applied  
23 professional judgment, considered company expectations and  
24 trends, and evaluated the magnitude of the potential change  
25 to determine the appropriate net salvage percentages. A

1 comparison of the approved and proposed net salvage  
2 percentages is shown in Document No. 3, Schedule 2 and in  
3 Document No. 2, Appendix C of my exhibit.  
4

5 **Q.** Please describe the major changes in the net salvage  
6 percentages for the various accounts.  
7

8 **A.** The detailed analysis of each account is described fully in  
9 Document No. 2 of my exhibit. Net salvage is trending  
10 toward more negative net salvage due to the increased costs  
11 of labor, safety, and environmental compliance associated  
12 with retiring utility assets and the longer lives being  
13 experienced for many assets. For Peoples, net salvage in  
14 nine accounts decreased (became more negative) while three  
15 increased (became less negative or more positive), there  
16 was one account where no comparison could be made and  
17 twenty-one accounts were unchanged. Examples of some of  
18 the changes in net salvage are:

19 a. The most significant changes of 10 percent or more  
20 (more negative) in net salvage percentages were in:  
21 Distribution Account 37600, Steel Mains, which decreased  
22 from negative 50 to negative 60 percent; Account 37800  
23 Measuring and Regulating Stations General which decreased  
24 from negative 10 to negative 20 percent; and Account 37900  
25 Measuring and Regulating Stations City Gas which decreased

1 from negative 10 to negative 20 percent.

2 b. The most significant increases in net salvage  
3 percentage were for General Plant Account 39204 Trailers  
4 and Others which increased from a positive 15 percent to  
5 positive 20 percent net salvage and Account 39205 Vehicles  
6 Over 1 Ton which increased from a positive 4 percent to  
7 positive 7 percent net salvage.

8  
9 In addition to the account specific detail, general factors  
10 impacting removal costs are discussed in the Updated Study.  
11 See Document No. 2 of my exhibit.

12  
13 **Q.** How did you determine the net salvage percentages for  
14 accounts where no history exists?

15  
16 **A.** I used the existing net salvage parameters for Account 33600  
17 RNG and 36400 LNG. The company also has a new category of  
18 assets in Account 33601 RNG Plant Leased -15 Years. As  
19 mentioned above, the company has entered into a contract  
20 for a large portion of the RNG assets. Contract terms  
21 specify no net salvage, so no net salvage is proposed for  
22 those assets. The net salvage parameter for Account 33601  
23 was requested in a separate Commission docket filed  
24 December 15, 2022. The company will review these proposals  
25 in future depreciation studies and as the company gains

1 actual experience with these assets.

2

3 **Q.** How do the life and net salvage parameters compare between  
4 the Depreciation Study filed on December 28, 2022, and the  
5 Updated Study?

6

7 **A.** There was no change in the proposed life and net salvage  
8 parameters for each plant account between the original  
9 Depreciation Study and Updated Study. The items that  
10 changed were forecast plant balances and accumulated  
11 depreciation amounts at December 31, 2024.

12

13 **(E.) REMAINING LIFE**

14 **Q.** Having determined the theoretical reserve, the book  
15 reserve, and calculated net salvage, please describe how  
16 you used the remaining life for each account to calculate  
17 the depreciation rates and annual depreciation accrual  
18 expense.

19

20 **A.** I used a three-step process to determine the remaining life  
21 for each account. First, I used historic data through  
22 December 31, 2021 and applied judgment to estimate life and  
23 net salvage parameters. Then, I developed the vintage  
24 balances and reserves as of December 31, 2024.

25

1 Using those inputs, I estimated the remaining life for each  
2 vintage in the group by applying the proposed average life  
3 and dispersion curve by vintage and computing the direct  
4 weighting remaining life for each plant account.

5  
6 **(F.) DEPRECIATION ACCRUAL RATES**

7 **Q.** Please describe the final steps in calculating the  
8 depreciation rates and annual depreciation accrual expense.

9  
10 **A.** I used a two-step process to calculate the depreciation  
11 rates. In the first step, as discussed earlier, I  
12 used historical data through December 31, 2021, company  
13 information, and judgment to estimate life and net salvage  
14 parameters. I then used the vintage balances and reserves  
15 as of December 31, 2024 to compute the proposed depreciation  
16 accrual expense and rates using the estimated life and net  
17 salvage parameters.

18  
19 In the Updated Study, I calculated the depreciation accrual  
20 rates using the same methodology as was used in developing  
21 the depreciation rates approved by the Commission in Docket  
22 No. 20200166-GU, Order No. PSC-2020-0485-FOF-GU. More  
23 discussion on the computation of accrual rates is found in  
24 the Updated Study and the calculations are shown in Document  
25 No. 2, Appendix A of my exhibit.

1 **V. CHANGE IN DEPRECIATION EXPENSE AS A RESULT**

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

4  
5 **A.** In this section of my direct testimony, I discuss the change  
6 in depreciation expense as a result of the proposed  
7 depreciation rates. Specifically, I describe the changes  
8 in depreciation expense and explain why Peoples'  
9 depreciation expense is increasing.

10  
11 **Q.** Please summarize the Updated Study results with respect to  
12 changes in depreciation expense.

13  
14 **A.** Based on the depreciation rates indicated in the Updated  
15 Study, as applied to forecasted plant balances as of  
16 December 31, 2024, the overall change in annual  
17 depreciation expense is an increase of approximately \$9.0  
18 million for currently existing asset classes. Document No.  
19 3, Schedule 1 of my exhibit, reflects an increase of \$8.3  
20 million in Distribution, an increase of \$0.7 million in  
21 General and no change for intangible property. There is  
22 also a decrease of \$16,000 for RNG and LNG assets which  
23 will be added in the forecast period.

24  
25 There are two asset types, Mains (376) and Services (380),



1 in the Distribution function that are driving the increase.  
2 Account 37600 Steel Mains, Account 37602 Plastic Mains,  
3 Account 38000 Steel Services, and Account 38002 Plastic  
4 Services all retained the same average service lives and  
5 dispersion, with more negative net salvage. Since these  
6 are the company's largest accounts, the impact is an  
7 increase in depreciation expense compared to the existing  
8 rates.

9  
10 **Q.** Have you proposed depreciation rates for certain expected  
11 plant additions?

12  
13 **A.** Yes. In the Updated Study we are updating the depreciation  
14 rates including a proposed life, net salvage and resulting  
15 depreciation rate for the company's gathering and LNG plant  
16 additions which include: Account 33600 RNG and Account  
17 36400 LNG plant. On December 15, 2022, the company made a  
18 separate filing for depreciation accrual rates, lives and  
19 net salvage parameters for Account 33601 RNG Plant Leased  
20 - 15 years. The same rate included in the separate December  
21 filing is proposed in this Updated Study. Accounts 33600  
22 and 36400 use the same life and net salvage parameters  
23 approved in the company's prior docket. The depreciation  
24 expense on these assets added through 2024 is proposed to  
25 be \$3.0 million annually.

1 **VI. CONCLUSION**

2 **Q.** Based on the Updated Study, what are the appropriate  
3 depreciation parameters (e.g., service life, remaining  
4 life, net salvage percentage, and reserve percentage) and  
5 resulting depreciation rate for each distribution and  
6 general plant account?

7  
8 **A.** The appropriate depreciation parameters and rate components  
9 are set out in the Updated Study submitted as Exhibit DAW-  
10 1, Document 2 to my direct testimony.

11  
12 **Q.** Based on the application of the depreciation parameters in  
13 the Updated Study, and a comparison of the theoretical  
14 reserves to the book reserves, what are the resulting  
15 imbalances, if any?

16  
17 **A.** Overall, the Updated Study found a surplus of \$119.6 million  
18 at December 31, 2024 based on the recommended life and net  
19 salvage parameters.

20  
21 **Q.** What, if any, corrective depreciation reserve measures  
22 should be taken with respect to any imbalances identified?

23  
24 **A.** The proposed depreciation rates are designed to eliminate  
25 that surplus over the remaining life of the distribution

1           depreciable assets and the average remaining life for the  
2           accounts where the company is proposing general plant  
3           amortization.

4  
5           **Q.** What should be the implementation date for revised  
6           depreciation rates and amortization schedules?

7  
8           **A.** The implementation date should be January 1, 2024 as  
9           proposed by the company.

10  
11          **Q.** Mr. Watson, do you have any concluding remarks?

12  
13          **A.** Yes. The Updated Study and analysis performed under my  
14          supervision fully supports setting depreciation rates at  
15          the level I have indicated in my direct testimony. The  
16          company should continue to periodically review the annual  
17          depreciation rates for its property. In this way, the  
18          company's depreciation expense will more accurately reflect  
19          its cost of operations and the rates for all customers will  
20          include an appropriate share of the capital expended for  
21          their benefit.

22  
23          The Updated Study analysis for Peoples' depreciable  
24          property for actual plant assets as of December 31, 2021  
25          describes the extensive analysis performed. The forecast

1 plant balances and reserves at December 31, 2024 result in  
2 rates that are now appropriate for company property.

3

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

5

6 **A.** Yes, it does.

7

8

9

10

11

12

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14

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25

1                   (Whereupon, prefiled rebuttal testimony of  
2   Dane A. Watson was inserted.)

3

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BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20230023-GU

PETITION FOR RATE INCREASE  
BY PEOPLES GAS SYSTEM, INC.

REBUTTAL TESTIMONY AND EXHIBIT

OF

DANE A. WATSON

ON BEHALF OF PEOPLES GAS SYSTEM, INC.

1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2   **REBUTTAL TESTIMONY**

3   **OF**

4   **DANE A. WATSON**

5  
6   **Q.**   Please state your name, address, occupation and employer.

7  
8   **A.**   My name is Dane A. Watson. My business address is 101 E.  
9           Park Blvd, Suite 220, Plano, TX 75704. I am a Partner with  
10           Alliance Consulting Group.

11  
12   **Q.**   Are you the same Dane A. Watson who filed direct testimony  
13           in this proceeding?

14  
15   **A.**   Yes, I am.

16  
17   **Q.**   What is the purpose of your rebuttal testimony?

18  
19   **A.**   The purpose of my rebuttal testimony is to describe and  
20           explain the company's revised depreciation study ("July  
21           2023 Study"), and to address errors and shortcomings  
22           related to depreciation recommendations in the prepared  
23           direct testimony of witness David J. Garrett, testifying on  
24           behalf of the Florida Office of Public Counsel ("OPC").

1 Q. Please explain how your rebuttal testimony is organized.

2

3 A. I will first explain the changes captured in the July 2023  
4 study. Then, I will address OPC witness Garrett's  
5 recommendations for selected life parameters which produce  
6 lower depreciation rates than those I recommend and explain  
7 the issues with those recommendations.

8

9 Q. Have you prepared an exhibit supporting your rebuttal  
10 testimony?

11

12 A. Yes. I have prepared an exhibit entitled "DAW-2 - Rebuttal  
13 Exhibit of Dane A. Watson" that consists of three documents.  
14 Document No. 1 to my rebuttal exhibit contains the endnotes  
15 referenced in my testimony. Document No. 2 is the revised  
16 July 2023 Study. Document No. 3 to my rebuttal exhibit  
17 shows the computation of proposed depreciation rates using  
18 a year-end 2023 study date. My computation of depreciation  
19 rates using activity ending December 31, 2023, differs from  
20 the depreciation rates determined by witness Garrett on his  
21 Exhibit DJG-26, pages 1 and 2, that use the same December  
22 31, 2023 study date and my unadjusted parameters. Later in  
23 my testimony I will discuss the main drivers of the  
24 differences. In witness Rachel Parsons' Rebuttal Testimony  
25 (see Exhibit RBP-2, Document No. 6), she has calculated the



1 difference in the 2024 test year depreciation and  
2 amortization expense that results from using my December  
3 31, 2023 based depreciation rates as compared to witness  
4 Garrett's.

5  
6 **The July 2023 Depreciation Study**

7 **Q.** Have you recently revised the rates in your updated  
8 depreciation study?

9  
10 **A.** Yes. I recently filed a new version of the depreciation  
11 study as a supplemental response to Staff's Interrogatory  
12 No. 99. I refer to this study as the "July 2023 Study."

13  
14 **Q.** Why was a revised depreciation study necessary?

15  
16 **A.** In the process of preparing the response to Staff's  
17 Interrogatory No. 99, we realized that the \$34 million  
18 amortization of excess depreciation reserve was reflected  
19 both in Account 376.00 Mains Steel and again across all  
20 distribution accounts under my proposed treatment of the  
21 reserve. In effect, the \$34 million had been removed twice.  
22 The July 2023 Study corrects that issue and updates some of  
23 the tables in the narrative of the depreciation study.

24  
25 **Q.** Are there any other changes reflected in the July 2023

1 Study?

2

3 **A.** Yes. I also corrected a version error related to the  
 4 December 31, 2024 book reserve amounts. As a result of  
 5 this correction, my proposed depreciation rates for four  
 6 accounts have been revised as shown in the table below.

7

Account	April 2023 Study Proposed Rate	July 2023 Study Proposed Rate
391.00 Office Furniture	6.3%	5.1%
391.01 Computer Equipment	8.1%	8.0%
391.02 Office Equipment	6.2%	6.1%
392.05 Vehicles over 1 Ton	5.6%	5.5%

8  
9  
10

11 **Q.** Did these adjustments make a large difference in the  
 12 recommended 2024 test year depreciation expense?

13

14 **A.** No. As shown in the table below, the change in the 2024  
 15 test year depreciation expense from the April 2023 study  
 16 filed with my direct testimony and the July 2023 Study is  
 17 a decrease of approximately \$36,000. Although these  
 18 adjustments had only a small impact on the 2024 depreciation  
 19 expense, the July 2023 Study correction also increased the  
 20 theoretical reserve difference compared to the book reserve  
 21 ("Reserve Surplus") as of December 31, 2024 by  
 22 approximately \$34.0 million (see table below) as a result  
 23 of the correction to account 376.00 Mains Steel. Due to  
 24 the Florida Public Service Commission's ("FPSC" or  
 25 "Commission") practice of rounding to one decimal place in

1 determining proposed depreciation rates, the \$34 million  
2 correction did not impact the proposed rate for account  
3 376.00. The July 2023 Study is also included as Exhibit  
4 DAW-2, Document No. 2 to this testimony.

5  
6 **PEOPLES GAS DEPRECIATION STUDY COMPARISON**

7 Study	July 2023	April 2023	Difference
8 <b>2024 Expense</b>	\$91,187,078	\$91,223,370	(\$36,292)
9 <b>Reserve Surplus</b>	\$153,602,413	\$119,634,198	\$33,968,215

10  
11 **OPC Witness Garrett's Testimony**

12 **Q.** Please summarize the key concerns and disagreements you  
13 have regarding the substance of witness Garrett's  
14 testimony.

15  
16 **A.** My key disagreements are:

- 17 1. The five life parameter changes recommended by OPC  
18 witness Garrett are inappropriate and based on flawed  
19 analysis
- 20 2. OPC's recommendation to return the entirety of the  
21 theoretical reserve surplus compared to the book  
22 reserve over 10 years is a dramatic departure from  
23 witness Garrett's prior testimony before this  
24 Commission. It further contradicts sound depreciation  
25 theory.

1 **PROPOSED LIFE PARAMETERS**

2 **Q.** What recommendations does witness Garrett make with regard  
3 to various account service lives?

4  
5 **A.** Witness Garrett suggests that the proposed service lives  
6 for five distribution accounts should be extended.<sup>1</sup>

7  
8 **Q.** How do witness Garrett's proposed lives and survivor curves  
9 for the five accounts at issue compare with those currently  
10 approved for Peoples Gas System, Inc. ("Peoples" or the  
11 "company") and your proposals?

12  
13 **A.** Table 1 below compares my proposals to witness Garrett's  
14 proposals for the existing life and survivor parameters for  
15 the five accounts at issue.

16  
17  
18  
19  
20  
21  
22  
23  
24  
25

**TABLE 1**

Peoples Gas

Comparison of Depreciation Parameters

	Company	
Current	Proposed	OPC Proposed

Account Number	Account Title	Average		Average		Average	
		Service Life	Curve Type	Service Life	Curve Type	Service Life	Curve Type

		(yrs)		(yrs)		(yrs)	
37600	Mains Steel	65	R1.5	65	R1.5	70	R1.5
37602	Mains Plastic	75	R2	75	R2	82	R2
37900	Meas & Reg Station Eqp City	50	R2.5	52	R2	60	R2
38002	Services Plastic	55	R1.5	55	R2.5	62	R2
38200	Meter Installations	44	R1	45	R1.5	55	R0.5

16 **Q.** Do you agree with witness Garrett's recommendations?

17  
18 **A.** No. Witness Garrett's proposed service lives for the five  
19 distribution mass property accounts are unreasonable and  
20 are not based on sound depreciation practices. Witness  
21 Garrett's recommendations should be rejected, and my  
22 proposed service lives should be adopted.

23  
24 **Q.** Would you elaborate on your disagreement with witness  
25 Garrett's life selections?

1     **A.**    Yes.  There are a number of global and systematic errors in  
2           witness Garrett's analysis which lead to inappropriate life  
3           recommendations.  I will address those in this section.  
4           Later, I will discuss account-specific issues with witness  
5           Garrett's five life recommendations.

6  
7     **Q.**    Is witness Garrett consistent in the placement and  
8           experience bands he relies on for his recommendations?

9  
10    **A.**    No.  Over the course of three cases for Peoples where  
11          witness Garrett made life recommendations, he has used  
12          different placement and experience bands in each proceeding  
13          with varying justification in each instance.

14          • In the 2017 case, witness Garrett did not specifically  
15           state the placement experience band used for each  
16           account, but it appears the placement band is the longest  
17           experience available from his Exhibits and workpapers.<sup>2</sup>

18           I assume he used all retirement data available which  
19           would produce an experience band of 1983-2015.

20          • In the 2020 case, witness Garrett used a non-existent  
21           experience band that included 12 or more years with no  
22           retirements as his only band.<sup>3</sup>  This skewed his analytical  
23           results and ultimately his recommendations.

24          • In this case, witness Garrett relied on placement and  
25           experience bands of 1983-2021 for his recommendations.

1           Witness Garrett offers that he reviewed multiple  
2           placement and experience bands, but he only presents one  
3           band in his Exhibits and workpapers. Witness Garrett  
4           states:

5  
6           This time period strikes a good balance between  
7           considering a sufficient amount of data and  
8           considering relatively newer data. In this  
9           particular case, most of the accounts discussed  
10          below have been affected by asset replacement  
11          programs in which relatively newer assets may  
12          have different life characteristics than older  
13          assets. Thus, it can be instructive to focus on  
14          relatively newer vintage years when conducting  
15          analyses.<sup>4</sup>

16  
17       **Q.** Do you agree with witness Garrett's decision to use only  
18       one placement and experience band?

19  
20       **A.** No. The erroneous experience band was discussed above.  
21       Witness Garrett's use of only one placement and experience  
22       band is an additional issue that does not follow sound  
23       depreciation practice or guidance, and in my expert  
24       opinion, does not lead to accurate results in this case.  
25       NARUC's *Public Utility Depreciation Practices* advocates the

1 use of multiple bands:

2

3 Banding is compositing a number of years of data  
4 in order to merge them into a single data set  
5 for further analysis. Often, several bands are  
6 analyzed. By making determinations of the life  
7 and retirement dispersion in successive bands,  
8 the analyst can get a clear indication of whether  
9 there is a trend in either the life of the plant  
10 or in the dispersion of the retirements.<sup>5</sup>

11

12 Another learned treatise, *Depreciation Systems*, offers  
13 similar guidance:

14

15 The analyst must use good judgment when  
16 determining band widths. Many empirical  
17 procedures governing this choice have been  
18 developed. These include the selection bands of  
19 fixed width, often 3, 5, or 10 years; rolling  
20 bands, in which one band overlaps the next; and  
21 shrinking bands, in which the width of the band  
22 systematically decreases.

23 A preferred approach is to select the bands based  
24 on the history and the activities that occurred  
25 during the period defined by the bands. Because



1 placement bands are often used to describe  
2 property of a particular technology, a band could  
3 be chosen that will be wide enough to include all  
4 property of a similar technology. Experience  
5 bands may be chosen to include the calendar years  
6 during which a single force of retirement was of  
7 particular interest.

8 Bands may be chosen to detect change in the  
9 survivor characteristics.<sup>6</sup>

10

11 Witness Garrett does not explain why he has decided not to  
12 follow this guidance and instead choose only one placement  
13 and experience band.

14

15 **Q.** What placement and experience bands did you use for purposes  
16 of your Study?

17

18 **A.** I used five or more placement/experience bands for each  
19 account at issue in this proceeding where sufficient  
20 retirement data exists. I ran an overall placement band  
21 with two experience bands: the overall experience band,  
22 1983-2021, and 1997-2021 to isolate experience in those  
23 transaction years. I also ran the 1983-2021 placement band  
24 with the 1983-2018 and 1997-2021 experience bands. If  
25 sufficient data existed for life analysis, I also ran an

1 overall band of 1997-2021.

2

3 **Q.** Would you describe the global errors in witness Garrett's  
4 analysis?

5

6 **A.** Yes. Witness Garrett's analysis:

- 7 • Violated the principles behind actuarial analysis by only  
8 using one placement and experience band (thereby not  
9 analyzing trends in life through time). Further he  
10 relied on longer bands in the prior cases. In this case  
11 he presents placement experience band 1983-2021 as the  
12 only period. For the accounts where we have different  
13 positions he relies on a very short stub.

14

Account	Description	% Surviving Oldest Point
37600	Steel Mains	85.49%
37602	Plastic Mains	86.87%
37900	City Gate	92.36%
38002	Plastic Services	84.84%
38200	Meter Installations	76.23%

15

16

17

18

19

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21

- 22 • Discarded relevant data in analyzing his single band by  
23 using a novel (non-industry standard) approach that cut  
24 off and ignored Company-specific experience.
- 25 • Ignored both company-specific operational information

1           and reasonable engineering expectations for the life of  
2           assets.

3  
4   **Q.**    You stated earlier that witness Garrett did not incorporate  
5           information from company subject-matter experts ("SMEs") in  
6           his recommendations. Why do you take issue with this?

7  
8   **A.**    Witness Garrett makes no indication in his testimony,  
9           exhibits, or workpapers that he reviewed or incorporated  
10          any information from Company experts in his life  
11          recommendations. Information provided by SMEs on the  
12          specific plant and equipment being studied is of critical  
13          importance in the depreciation study process. In its 1996  
14          edition of the publication *Public Utility Depreciation*  
15          *Practices*, NARUC advises against strict reliance on  
16          historical data and fitting, stating:

17  
18                Depreciation analysts should avoid becoming  
19                ensnared in the historical life study and relying  
20                solely on mathematical solutions. The reason for  
21                making an historic life analysis is to develop a  
22                sufficient understanding of history in order to  
23                evaluate whether it is a reasonable predictor of  
24                the future. The importance of being aware of  
25                circumstances having direct bearing on the

1           reason for making an historical life analysis  
2           cannot be understated. The analyst should become  
3           familiar with the physical plant under study and  
4           its operating environment, including talking  
5           with the field people who use the equipment being  
6           studied.<sup>7</sup>

7  
8           For instance, witness Garrett ignores important information  
9           for Account 379-City Gate Equipment. In talking with  
10          Company experts, they gave a range of lives for different  
11          equipment in this account. "Company experts estimate  
12          different lives for different equipment: YZ odorizers may  
13          last 40-50 years, heaters may last 20-30 years, and  
14          regulators may last 30 years or more."<sup>8</sup> None of the company  
15          SMEs estimated a component life for this account  
16          approaching Witness Garrett's recommendation of 60 years.

17  
18          **REASONABLENESS TEST**

19          **Q.** You stated above that witness Garrett did not consider the  
20          life characteristics that would be normal or expected for  
21          similar assets found across North America. Why is this  
22          problematic?

23  
24          **A.** The lives witness Garrett selected for the five accounts at  
25          issue are beyond what would reasonably be expected for the

1 mix and types of assets within these accounts. Witness  
2 Garrett fails to take into account the shorter life  
3 expectations for individual retirement units (assets)  
4 within each account as compared to his recommendations. If  
5 the majority of the dollars in a particular account are  
6 associated with assets that have projected lives between 20  
7 and 40 years, an overall life for the account of 60 years  
8 for that account will not be reasonable. This is true even  
9 if mathematical curve matching on historical data for that  
10 account over the last 80 years mechanically produces a 60-  
11 year overall life. Simply recommending the output of a  
12 statistical model without validating against operational  
13 realities or reasonable norms is not an accurate way to set  
14 asset lives.

15  
16 **ACCOUNT LEVEL DISCUSSION**

17 **Account 376 - Mains Steel**

18 **Q.** Please describe you and witness Garrett's recommendations  
19 for Account 376- Mains Steel?

20  
21 **A.** I recommend retaining the existing service life for Account  
22 376 Mains Steel, which is currently 65 R1.5. Witness  
23 Garrett proposes 70 R1.5, which is an increase of 5 years  
24 over the existing life and my recommendation. At December  
25 31, 2021, the average age of survivors in this account is

1 13.47 years and the average age of retirements in this  
2 account is 27.89 years. This information demonstrates that  
3 this is a young account with little retirement experience  
4 for the majority of the assets.

5  
6 **Q.** Do you agree with witness Garrett's basis for proposing a  
7 70 R1.5 Curve?

8  
9 **A.** No. There are a number of reasons I disagree with witness  
10 Garrett on the life for this account. First, witness  
11 Garrett does not appear to factor in the life expectations  
12 for specific assets in this account as communicated by  
13 Company SMEs. My interview notes on this account indicate  
14 the following factors that influence the life of this  
15 account:

16  
17 All steel are coated and wrapped and have  
18 replaced most of the cast iron/bare steel. They  
19 have an aggressive CP protection program. CI/BS  
20 replacement program started ramping up in 2012.  
21 They were replacing CI/BS (which are from 30's  
22 through 60's). Would expect the short-term life  
23 to be longer due to those retirements. The  
24 cathodic protection and AC mitigation is getting  
25 better in some pipe. Capacity is driving steel

1 retirements (originally built in a less "gas  
2 demanding" world). Steel program pipe is old  
3 when retired and is, if anything, lengthening  
4 the life seen in the analysis as compared to the  
5 plastic. Steel is affected by more forces of  
6 retirement than plastic. Some steel has not been  
7 cathodically protected for its full life. If  
8 plastic is scratched, it won't corrode but steel  
9 will.

10

11 Second, witness Garrett's life analysis does not have an  
12 observed life table that is long enough to meet criteria  
13 recommended by authoritative texts that he quotes in  
14 Appendix C of his direct testimony.<sup>9</sup>

15

16 Third, as also discussed earlier, witness Garrett only  
17 examines one band for his proposal. In contrast, I used  
18 five different placement and experience bands as shown in  
19 my workpapers. As stated in NARUC's *Public Utility*  
20 *Depreciation Practices*, it is important to look at  
21 different placement bands and experience bands:

22

23 "Placement bands may be used to show the effects  
24 and technological and material changes, whereas  
25 experience bands are used to show the effects

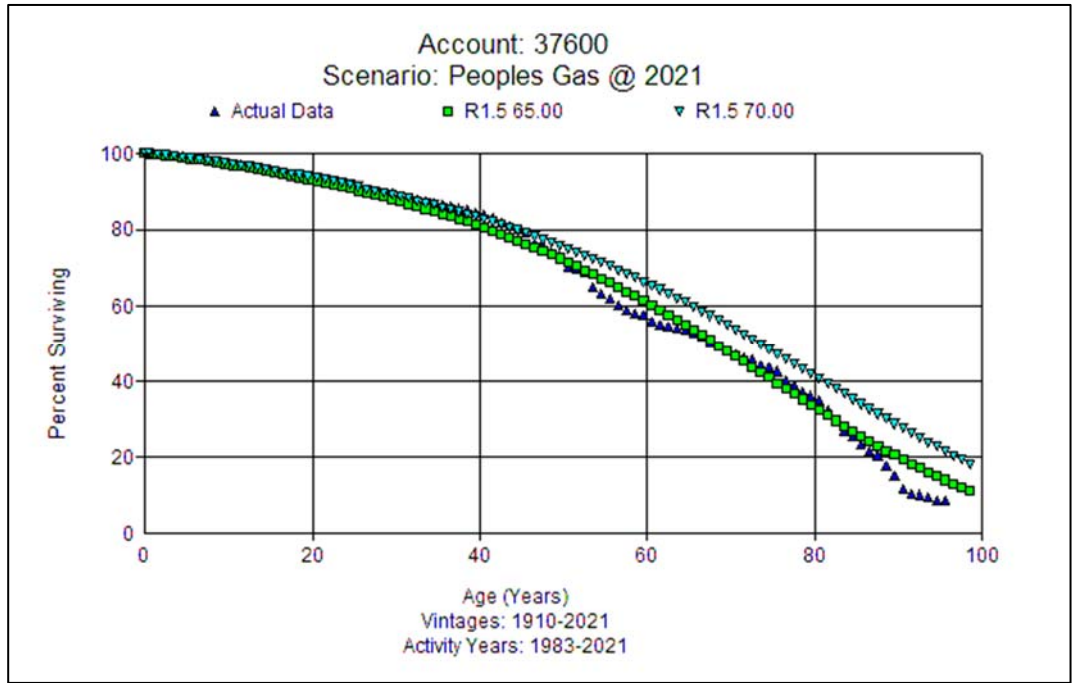
1 of business and operational changes. Such  
2 banding is necessary because the analyst does  
3 not have access to a database wherein each factor  
4 (e.g., change in materials/technology or  
5 operational environment) is held constant.”<sup>10</sup>  
6

7 **Q.** What does a visual comparison over multiple bands show when  
8 correcting the previously discussed errors in witness  
9 Garrett’s analysis?  
10

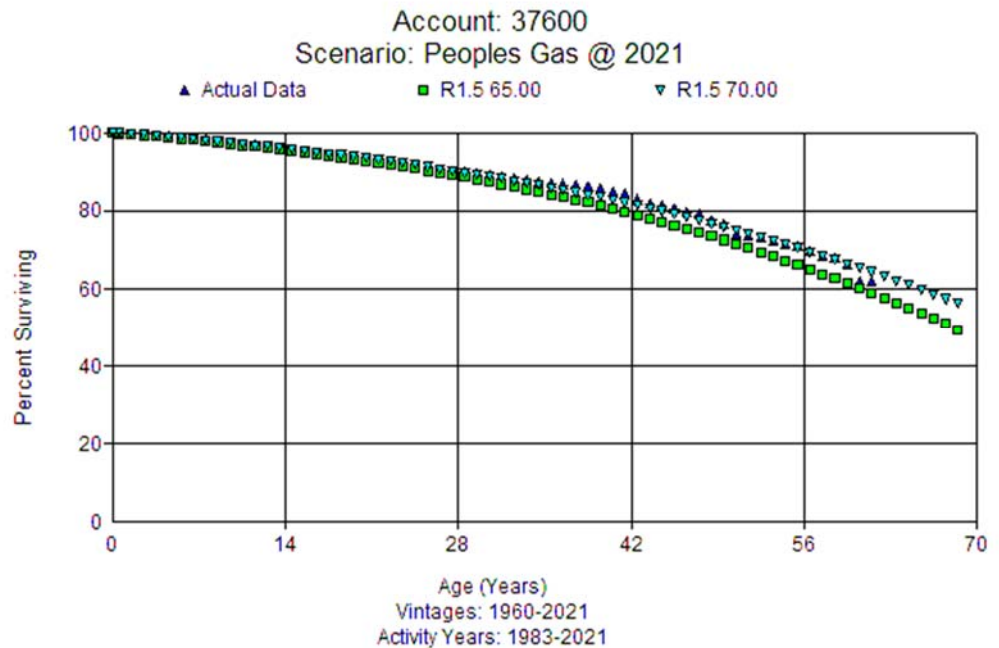
11 **A.** Below are graphs over various placement and experience  
12 bands. The blue triangles represent the observed life  
13 table, the green rectangles represent the Company’s  
14 proposal, and the aqua slanted triangles show witness  
15 Garrett’s proposal. The first graph shows the period 1910-  
16 2021 for the placement and 1983-2021 experience band with  
17 both my recommendation and that of witness Garrett. My  
18 recommendation is clearly a better match.  
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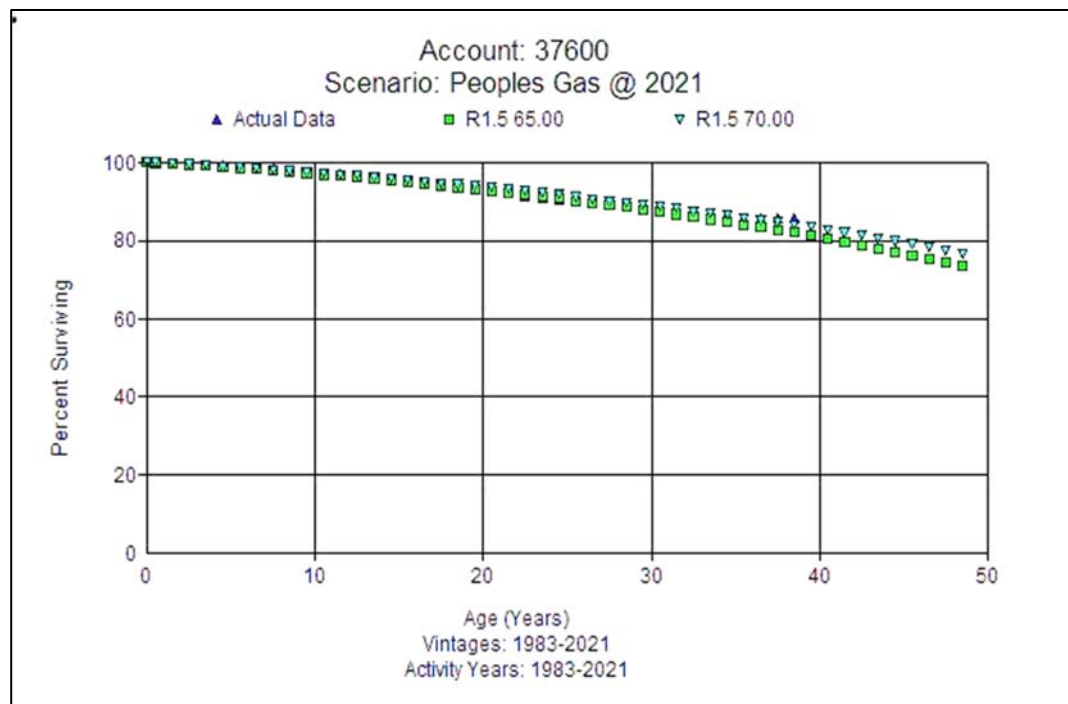


A change in the placement band to 1960-2021 with the experience band of 1983-2021 again shows the Company's proposal is a better visual match.



1 The next graph shows the period 1983-2021 for the placement  
 2 and 1983-2021 experience band with both my recommendation  
 3 and that of witness Garrett. My recommendation is clearly  
 4 a better match.

5  
 6 A change in the placement band to 1983-2021 with the  
 7 experience band of 1983-2021 shows the competing proposals  
 8 are difficult to distinguish. This is the band witness  
 9 Garrett uses to support his recommendation.<sup>11</sup> A graph for  
 10 than band is shown below.



22 Note that the observed life table ends at approximately 85  
 23 percent; on a graph with an axis from 0 to 100 percent, it  
 24 is hard to separate the recommendations.

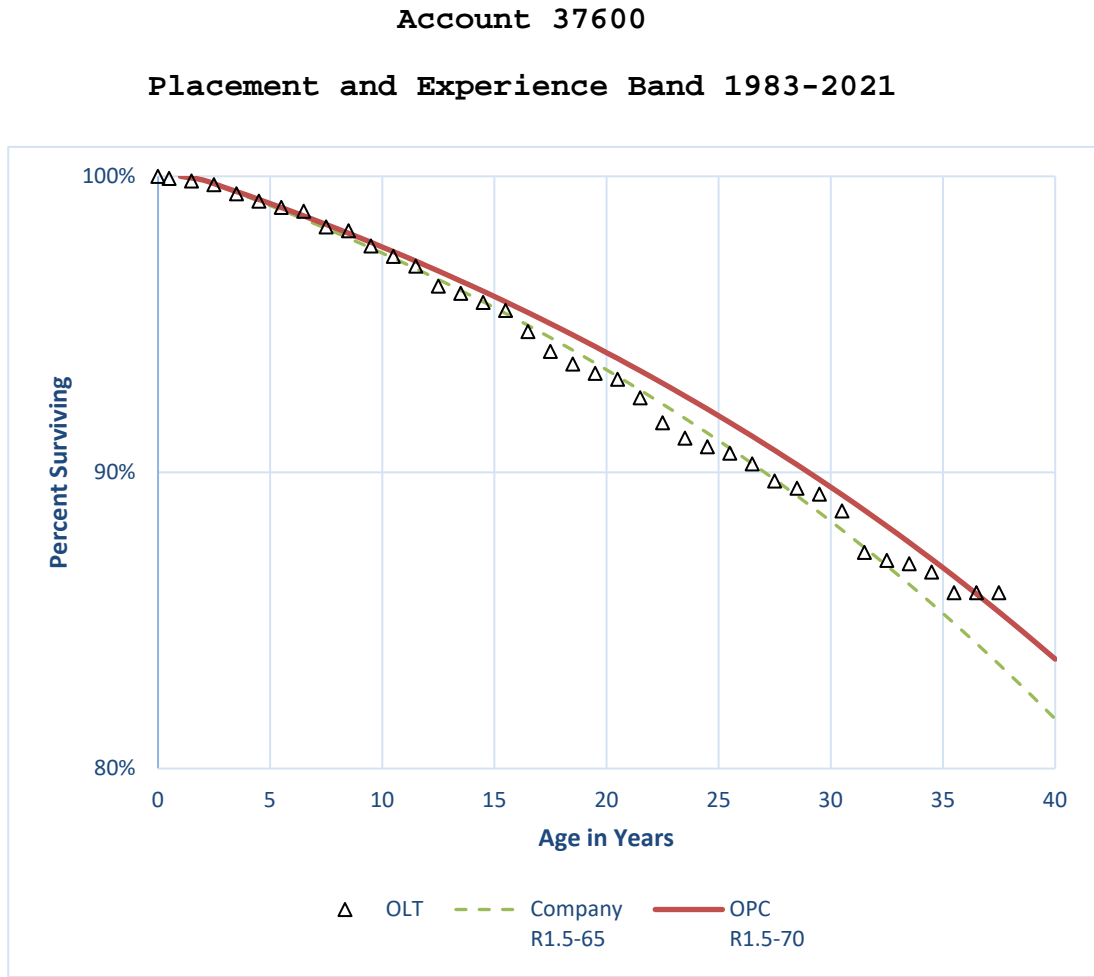
25 The authoritative treatises witness Garrett references have  
 E7-253

1 specific guidance about how much data to include in the  
2 various bands. NARUC's *Public Utility Practices* recommends  
3 that the stub curve go to at least 50% for reliability.<sup>12</sup>  
4 Depreciation Systems recommends an even longer stub for  
5 reliability, stating: "Often the middle section of the curve  
6 (that section ranging from approximately 80% to 20%  
7 surviving) is given more weight than the first and last  
8 sections. The middle section is relatively straight and is  
9 the portion of the curve that often best characterizes the  
10 survivor curve."<sup>13</sup> Given the short stub curve, it is  
11 difficult to differentiate the two curves with a y axis  
12 that goes from 0 to 100 percent.

13  
14 If I change the axis on witness Garrett's graphs to magnify  
15 the y axis from 80 to 100 percent, then one can distinguish  
16 which curve is a better match.

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A change in the placement band to 1969-2021 with the experience band of 1983-2021 again shows the Company's proposal is a better visual match.

By selecting only one band (and having the errors discussed earlier), witness Garrett's analysis doesn't fully analyze or accurately represent the Company's historical experience.

I believe the Company's curve is a better match for this

1 and all other bands.

2

3 **Q.** Are there other aspects that you considered in your 65 R1.5  
4 recommendation?

5

6 **A.** Yes. The fit I selected was one of 16 different fits across  
7 multiple placement and experience bands, which can be found  
8 in my workpapers. There are a variety of assets with a mix  
9 of lives recorded in this account and my retention of a 65-  
10 year life is reasonable.

11

12 **Q.** Do you have any additional comments on the life  
13 recommendation for this account?

14

15 **A.** Yes. My life recommendation of 65-R1.5 recognizes both the  
16 indications in the life analysis and the Company-specific  
17 information from the SMEs. SMEs recommended retention of  
18 the existing life. To move the life another five years  
19 from my recommendation is excessive.

20 In Docket 20160159-GU for Peoples Gas, witness Garrett  
21 recommended a 55 R2 life for this account. In Docket  
22 20200059-GU for Peoples Gas, witness Garrett recommended a  
23 65 R1.5 life for this account. It does not seem logical  
24 that that three years later, these same assets would last  
25 7.7 percent<sup>14</sup> longer than witness Garrett's recommendation

1 than he supported less than three years ago - especially  
2 when he does not speak to any operational reason for the  
3 change.

4

5 **Account 376 - Mains Plastic**

6 **Q.** Please describe your and witness Garrett's recommendations  
7 for Account 376 Mains- Plastic?

8

9 **A.** I recommend retaining the existing service life for Account  
10 376- Mains Plastic Steel, which is currently 75 R2. Witness  
11 Garrett proposes 82 R2, which is an increase of seven years  
12 over the existing life and my recommendation. At December  
13 31, 2021, the average age of survivors in this account is  
14 11.23 years and the average age of retirements in this  
15 account is 21.32 years. This information demonstrates the  
16 account is more mature with assets that are replaced on an  
17 ongoing basis.

18

19 **Q.** Do you agree with witness Garrett's basis for proposing an  
20 82 R2 Curve?

21

22 **A.** No. There are a number of reasons I disagree with witness  
23 Garrett on the life for this account. First, witness  
24 Garrett does not appear to factor in the life expectations  
25 for specific assets in this account as communicated by

1 Company SMEs. My interview notes on this account indicate  
2 the following factors that influence the life of this  
3 account:  
4

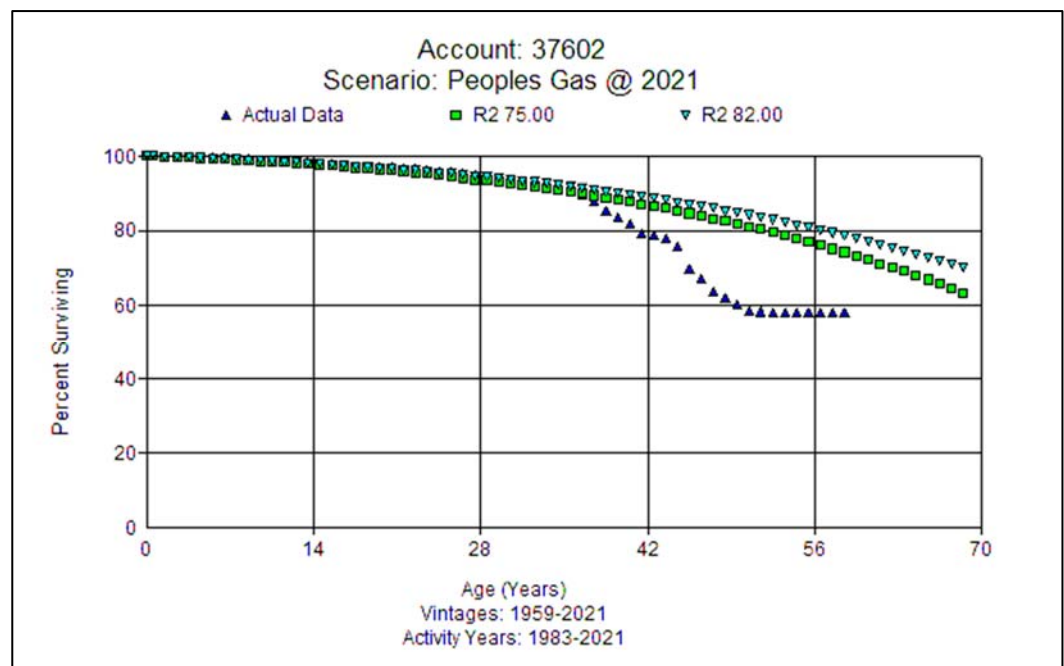
5 PPP (Problematic Plastic Pipe) program started  
6 ramping up around 2017. The retirements would  
7 be focusing on pre-1984 pipe. Outside of the  
8 PPP, there is little retirement in plastic  
9 (relocations and dig ins are drivers). The  
10 newer polyethylene pipe is likely to last 75  
11 years. Aldyl-A was produced up to 1983.  
12 Operationally, there is no driver other than  
13 PPP that would change the life from that  
14 currently approved.<sup>15</sup>  
15

16 Second and third, as discussed earlier, witness Garrett's  
17 life analysis is flawed, and he only examines one band for  
18 his proposal. In contrast, I used seven different placement  
19 experience bands as shown in my workpapers. As stated  
20 earlier, NARUC's *Public Utility Depreciation Practices*  
21 notes that it is important to look at different placement  
22 bands and experience bands: "Placement bands may be used to  
23 show the effects and technological and material changes,  
24 whereas experience bands are used the show the effects of  
25 business and operational changes. Such banding is

1 necessary because the analyst does not have access to a  
2 database wherein each factor (e.g., change in  
3 materials/technology or operational environment) is held  
4 constant.”<sup>16</sup>

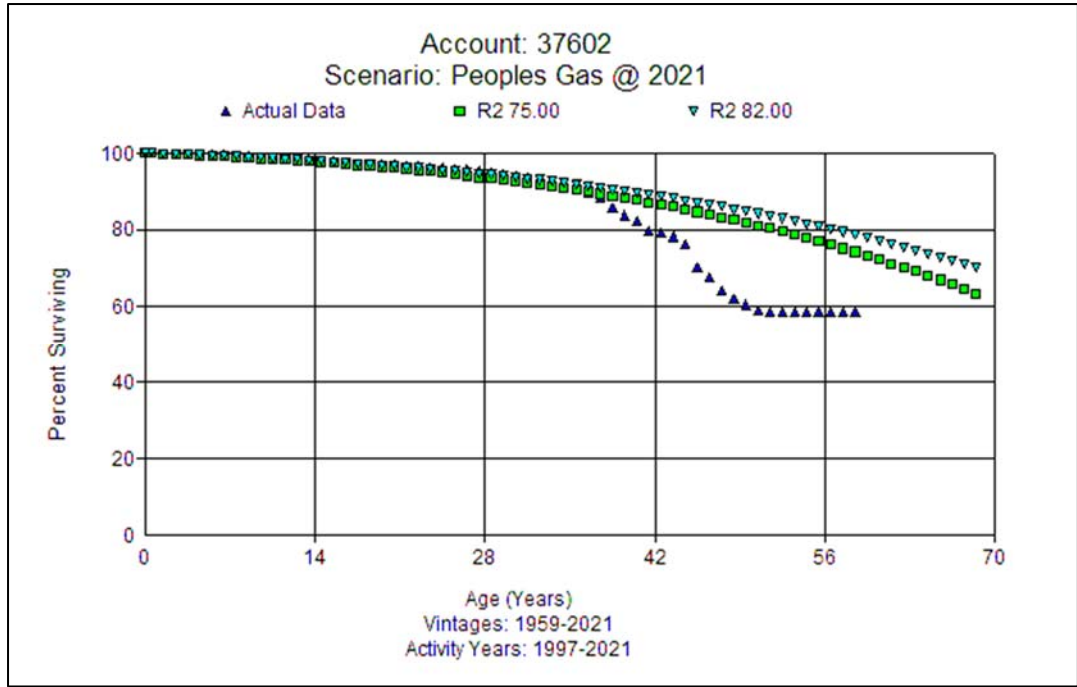
5  
6 **Q.** What does a visual comparison over multiple bands show?

7  
8 **A.** Below are graphs over various placement and experience  
9 bands. The blue triangles represent the observed life  
10 table, the green rectangles represent the Company's  
11 proposal, and the aqua slanted triangles show witness  
12 Garrett's proposal. The graph below shows our competing  
13 selections for the period 1959-2021 for the placement band  
14 and 1983-2021 experience band. My recommendation is  
15 clearly a superior match.



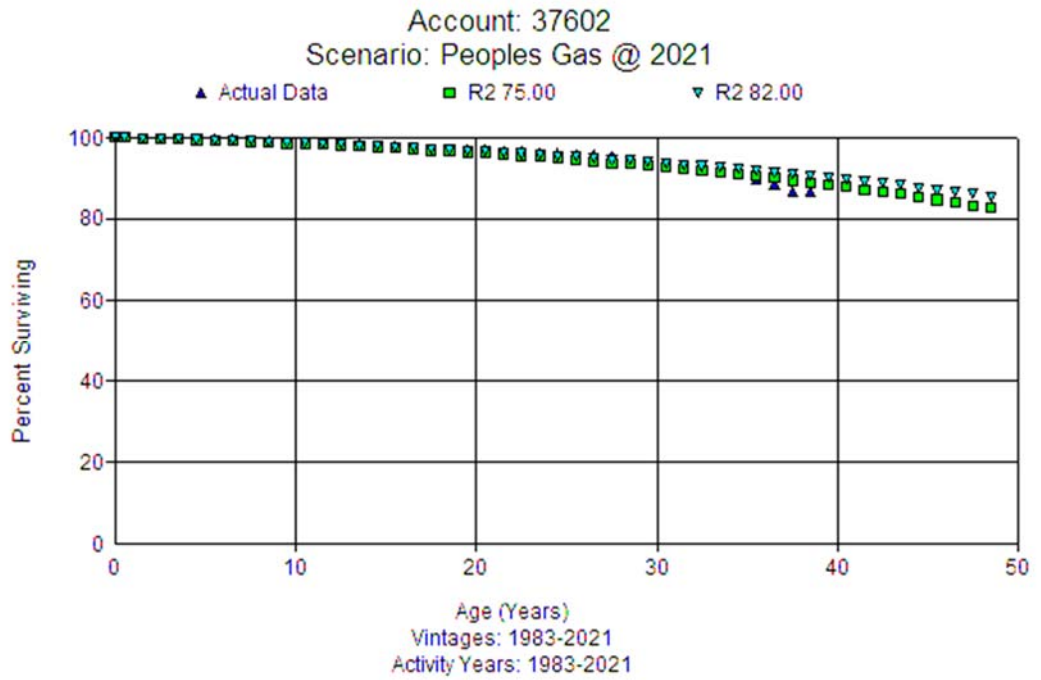


1 When I retain the 1959-2021 placement band and narrow the  
2 experience band to 1997-2021, the Company's proposal is  
3 still a better visual match as shown below.



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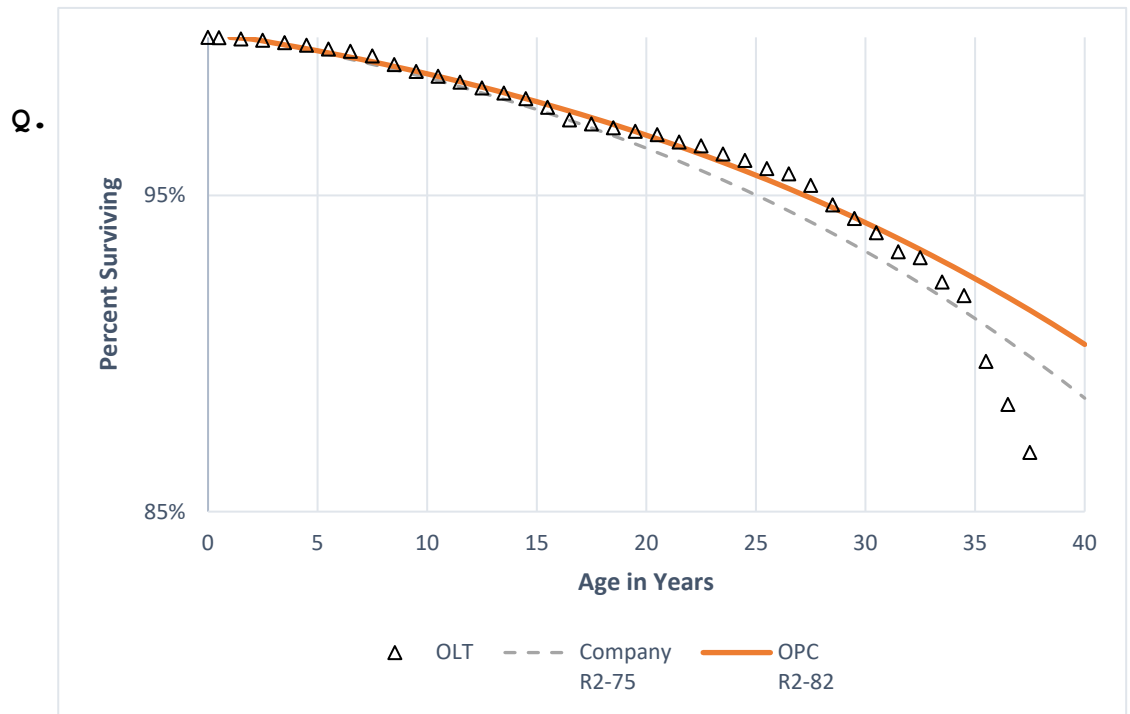
When I change the placement band and experience band to 1983-2021 for both, this is the curve witness Garrett presents as representative of this account.<sup>17</sup>



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12 If I change the axis on witness Garrett's graphs to magnify  
13 the y axis from 80 to 100 percent, then one can distinguish  
14 which curve is a better match.  
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ACCOUNT 37602

Placement Band and Experience Band 1983-2001



15 Q. Are there other aspects that you considered in your 75 R2  
16 R0.5 recommendation?

17  
18 A. Yes. The fit I selected was one of 17 different fits across  
19 multiple placement and experience bands, which can be found  
20 in my workpapers. There are a variety of assets with a mix  
21 of lives recorded in this account and my recommendation of  
22 a 75-year life is reasonable.

23  
24 Q. Do you have any additional comments on the life  
25 recommendation for this account?

1     **A.**    Yes.  My life recommendation of 75-R2 recognizes both the  
2            indications in the life analysis and the Company-specific  
3            information from the SMEs.  Witness Garrett's proposal to  
4            move the life another seven years from my recommendation is  
5            excessive.  When compared to existing parameters, witness  
6            Garrett's life represents an increase of seven years or a  
7            9.3<sup>18</sup> percent change.

8

9     **Q.**    What life did witness Garrett recommend for this account in  
10           the recent Florida City Gas case?  
11

12    **A.**    In Docket 20170179-GU for Florida City Gas, witness Garrett  
13            recommended a 59 S3<sup>19</sup> life for this account.  In Docket  
14            20220069-GU for Florida City Gas, witness Garrett  
15            recommended a 70 R3<sup>20</sup> life for this account.  It does not  
16            seem logical that Peoples would have assets in this account  
17            that last 17.1<sup>21</sup> percent longer than witness Garrett's  
18            recommendation for another Florida utility.

19

20    **Account 379 - Measuring and Regulating Equipment - City Gate**

21    **Q.**    Please describe your and witness Garrett's recommendations  
22            for Account 379- Measuring and Regulating Equipment - City  
23            Gate?  
24

24

25    **A.**    I recommend a slight increase in service life for Account

1 379-Measuring and Regulating City Gate. The existing life  
2 for this account is 50 R2.5, and I propose a life of 52 R2,  
3 which is a two-year increase from the existing life.  
4 Witness Garrett proposes 60 R2, which is an increase of ten  
5 years over the existing life and eight years greater than  
6 my recommendation. In Peoples' last Study filed in Docket  
7 No. 20160159-GU, witness Garrett proposed 55 R.15 and only  
8 five years later his recommendation has changed  
9 significantly. At December 31, 2021, the average age of  
10 survivors in this account is 7.29 years and the average age  
11 of retirements in this account is 25.50 years. This  
12 information demonstrates that this is a young account with  
13 little retirement experience for the majority of the assets.  
14

15 **Q.** Do you agree with witness Garrett's basis for proposing  
16 an 60 R2 Curve?  
17

18 **A.** No. There are a number of reasons I disagree with witness  
19 Garrett on the life for this account. First, witness  
20 Garrett does not appear to factor in the life expectations  
21 for specific assets in this account as communicated by  
22 Company SMEs. My interview notes on this account indicate  
23 the following factors that influence the life of this  
24 account:  
25

1 City gate is defined by being a take point  
2 from a transmission system. They have been  
3 in the process over the last few years of  
4 aggressively rebuilding and upgrading  
5 technology in city gates. Many of the  
6 original gates are 50 years old or more  
7 (some of which may have been upgraded over  
8 the life of the city gate). They are  
9 starting to build new city gates and are  
10 doing more capital improvements than in the  
11 past. They would expect a longer life from  
12 a city gate than from a DRS.<sup>22</sup> There are  
13 over 90 city gates. There is not typically  
14 any major change in gates after they are  
15 installed (maybe heaters, orifice to  
16 ultrasonic meters, increasing the size of  
17 regulators, etc.) - except for when they  
18 are upgraded. YZ Odorizers may last 30 to  
19 40 years and are the sole type of odorizers  
20 at the gates. Newer heaters may last 30  
21 years or more. Regulators may last 30 years  
22 or more if well maintained. Most of the  
23 assets are in the site and pipe which may  
24 last as long as steel mains. Newer stations  
25 are expected to last longer than older ones.

1 Buried piping is cathodically protected and  
2 improved above ground atmospheric  
3 protection programs. 50 years seems  
4 reasonable from an operational  
5 perspective.<sup>23</sup>

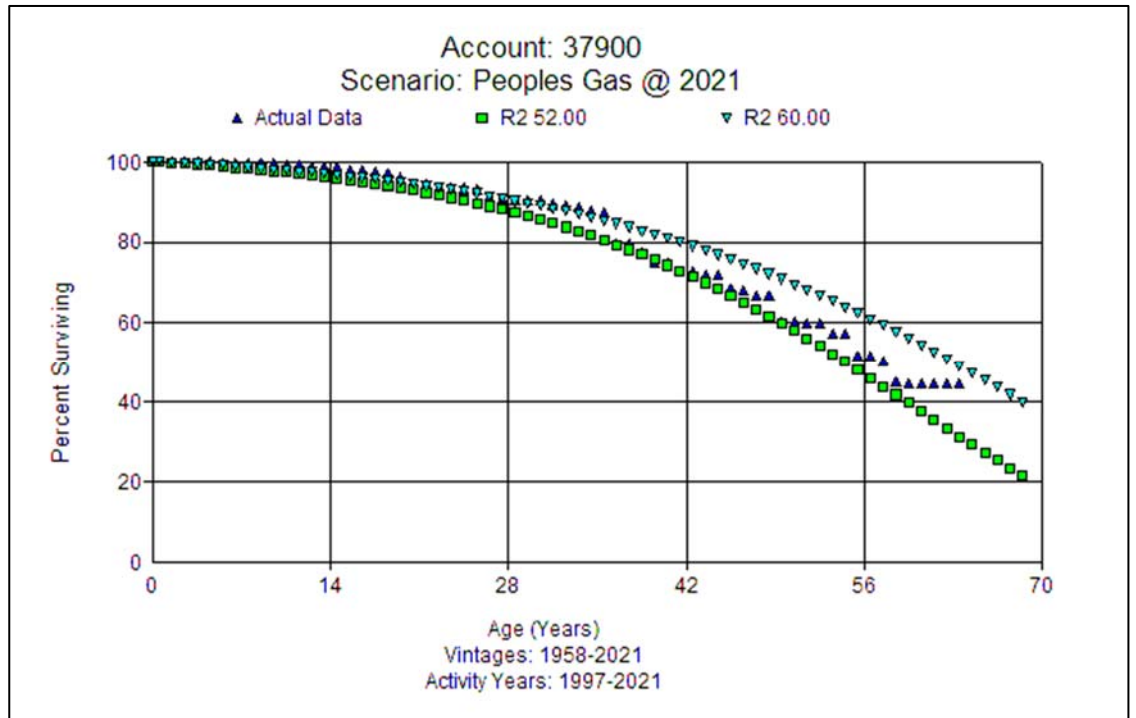
6  
7 Next, witness Garrett only examines one band for his  
8 proposal which ends at 92.36%<sup>24</sup>. As discussed in Account  
9 37600, this account has insufficient data to meet criteria  
10 recommended by authoritative literature. In contrast, I  
11 used five different placement experience bands as shown in  
12 my workpapers.

13  
14 **Q.** What does a visual comparison over multiple bands show?

15  
16 **A.** Below are graphs over various placement and experience  
17 bands. The blue triangles represent the observed life  
18 table, the green rectangles represent the Company's  
19 proposal, and the aqua slanted triangles show witness  
20 Garrett's proposal. The first graph shows Peoples'  
21 competing recommendations over the period 1959-2021 for the  
22 placement band and the correct 1983-2021 experience band.  
23 As with other accounts, my recommendation is a better match  
24 to the Company's actual experience.

25

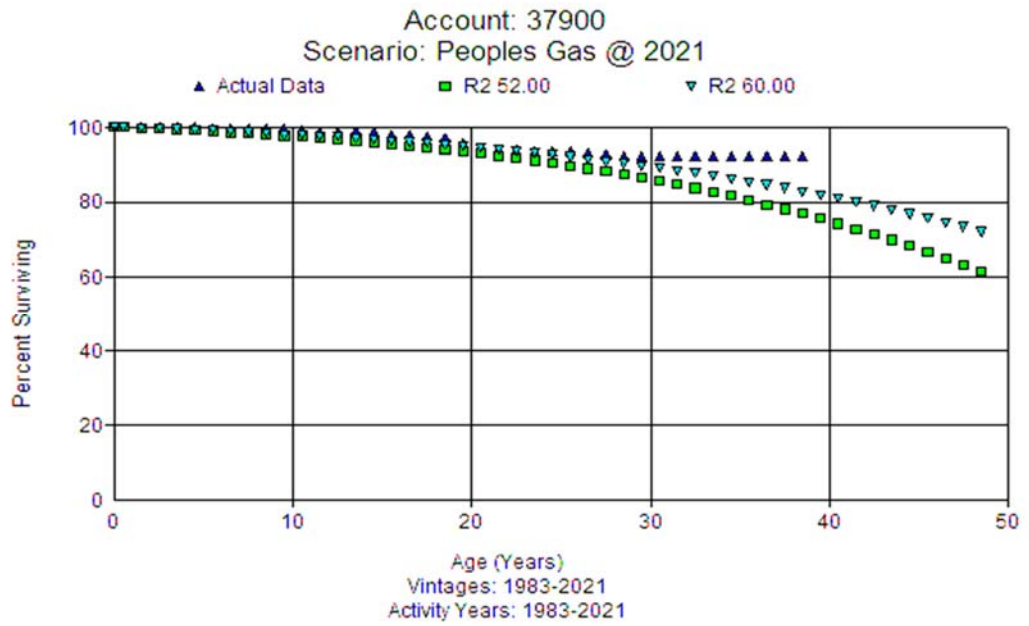
1 Another placement band of 1958-2021 and an experience band  
2 1997-2021, my recommendation is a closer match to Company  
3 experience than witness Garrett's proposed life.



15 When I change the placement band and experience band to  
16 1983-2021 for both, this is the curve witness Garett  
17 presents as representative of this account.<sup>25</sup>

18  
19  
20  
21  
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25

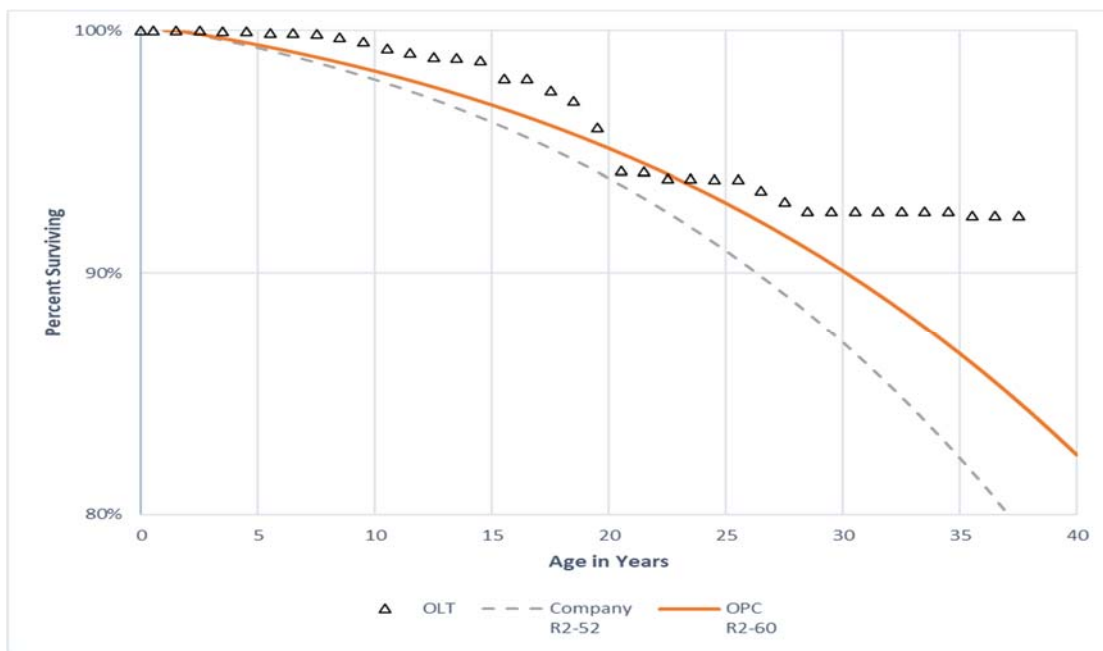




1  
2  
3  
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5  
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7  
8  
9  
10  
11  
12 If I change the axis on witness Garrett's graphs to magnify  
13 the y axis from 80 to 100 percent, then one can distinguish  
14 the curve pattern. This graph matches neither proposal  
15 well, so reviewing results in different bands is necessary.  
16 When examining the wider bands shown above, I believe my  
17 proposed curve is a better match.  
18  
19  
20  
21  
22  
23  
24  
25

ACCOUNT 379

Placement Band and Experience Band 1983-2001



13 Q. Do you have any additional comments on the life  
14 recommendation for this account?

15  
16 A. Yes. My life recommendation of 52 R2 recognizes both the  
17 indications in the life analysis and the Company-specific  
18 information from the SMEs. Further, my analysis recommends  
19 a slight two year increase over the existing life. To move  
20 the life another eight years from my recommendation is  
21 excessive. When compared to existing parameters, witness  
22 Garrett's life represents an increase of nine years or a  
23 15.4<sup>26</sup> percent change. This level of change at one time  
24 without an operational justification is unreasonable, is  
25 not supported by the evidence, and should be rejected.

1 Q. What life did witness Garrett recommend for this account in  
2 the recent Florida City Gas case?

3

4 A. In Docket 20170179-GU for Florida City Gas, witness Garrett  
5 recommended a 39 R0.5<sup>27</sup> life for this account. In Docket  
6 20220069-GU for Florida City Gas, witness Garrett  
7 recommended a 45 S3<sup>28</sup> life for this account. It does not  
8 seem logical that Peoples would have assets in this account  
9 that last 33.3 percent<sup>29</sup> longer than witness Garrett's  
10 recommendation for another Florida utility.

11

12 **Account 380 - Plastic Services**

13 Q. Please describe your and witness Garrett's recommendations  
14 for Account 380 Plastic Services.

15

16 A. I recommend retaining the current life with a slight shift  
17 in dispersion. The existing service life for Account 380  
18 Plastic Services, which is currently 55 R1.5, to a 55 R2.5.  
19 Witness Garrett proposes 62 R2, which is an increase of  
20 seven years over the existing and my recommendation. At  
21 December 31, 2021, the average age of survivors in this  
22 account is 10.70 years and the average age of retirements  
23 in this account is 18.66 years. This information  
24 demonstrates that this is an account with newer assets and  
25 retirements that have not been in service for a full life

1 cycle.

2

3 **Q.** Do you agree with witness Garrett's basis for proposing a  
4 62 R2 Curve?

5

6 **A.** No. There are a number of reasons I disagree with witness  
7 Garrett on the life for this account. First, witness  
8 Garrett does not appear to factor in the life expectations  
9 for specific assets in this account as communicated by  
10 Company SMEs. As stated in my interview notes, I mention  
11 factors that influence the life of this account:

12

13 PPP program started retiring in around 2017  
14 and the asset ages would be around 50 years  
15 old. When steel mains are replaced, if there  
16 is a plastic service, they will replace.  
17 The PPP program and the BS/CI programs are  
18 artificially depressing the life...  
19 Operationally, there is no driver other  
20 than PPP that would change the life from  
21 that currently approved.<sup>30</sup>

22

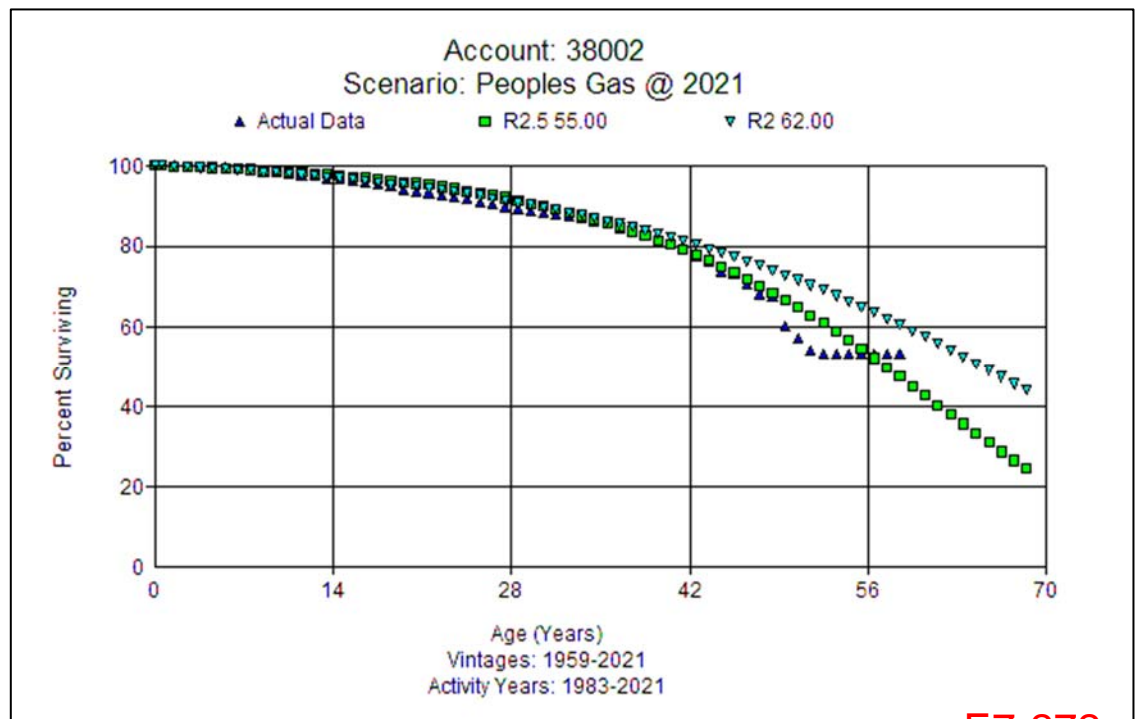
23 Second, as, with other accounts, witness Garrett only  
24 examines one band for his proposal. In contrast, I used  
25 five different placement and experience bands as shown in

1 my workpapers.

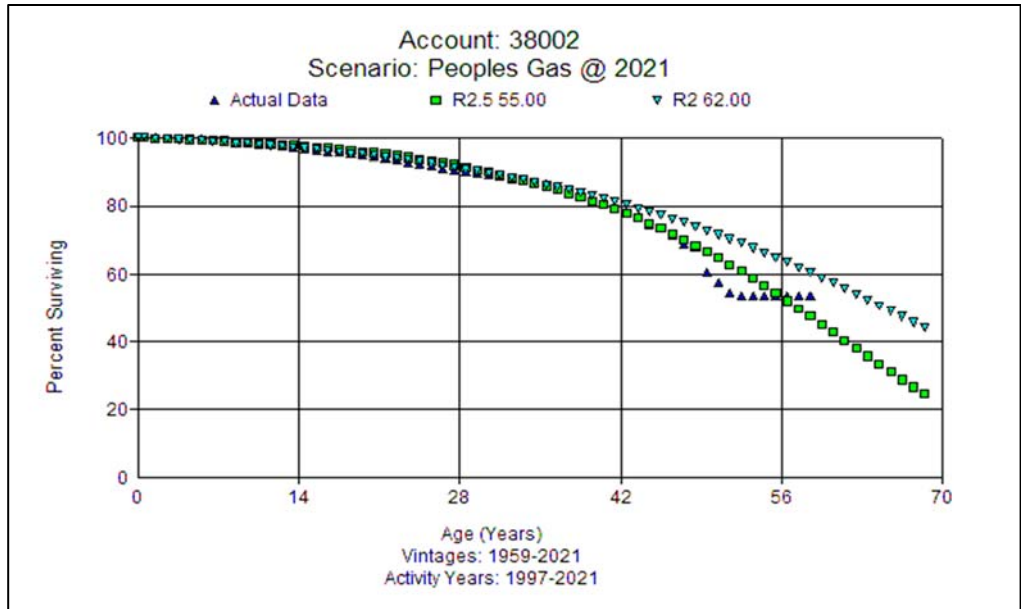
2  
3 Finally, witness Garrett's disregard for input from Company  
4 SMEs renders his proposal a one-sided analysis aimed at  
5 lowering Peoples' depreciation rates.

6  
7 **Q.** What does a visual comparison over multiple bands show?

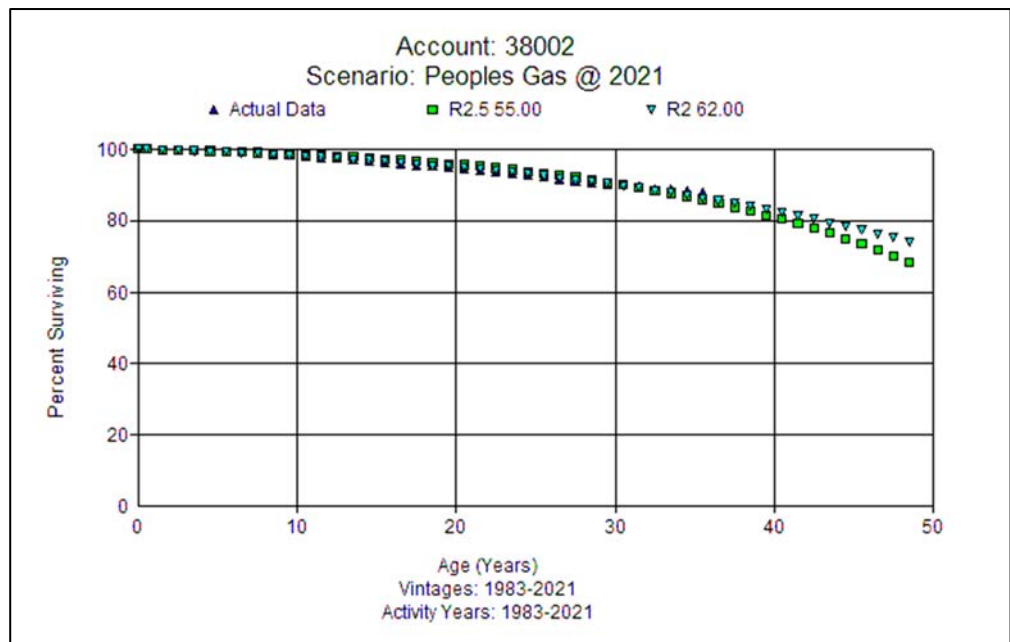
8  
9 **A.** Below are graphs over various placement and experience  
10 bands. The blue triangles represent the observed life  
11 table, the green rectangles represent the Company's  
12 proposal, and the aqua slanted triangles show witness  
13 Garrett's proposal. The first graph shows the period 1959-  
14 2021 for the placement band and 1983-2021 experience band.



1 Use of the same placement band of 1959-2021 and experience  
2 band of 1997-2021 below also again affirms the Company's  
3 proposal is a better fit of the activity in this account.



13 The next graph demonstrates the same placement and  
14 experience band that witness Garrett displays for this  
15 account. <sup>31</sup>



1 In my opinion, the Company's proposed 55 R2.5 is a better  
2 visual choice over all points.

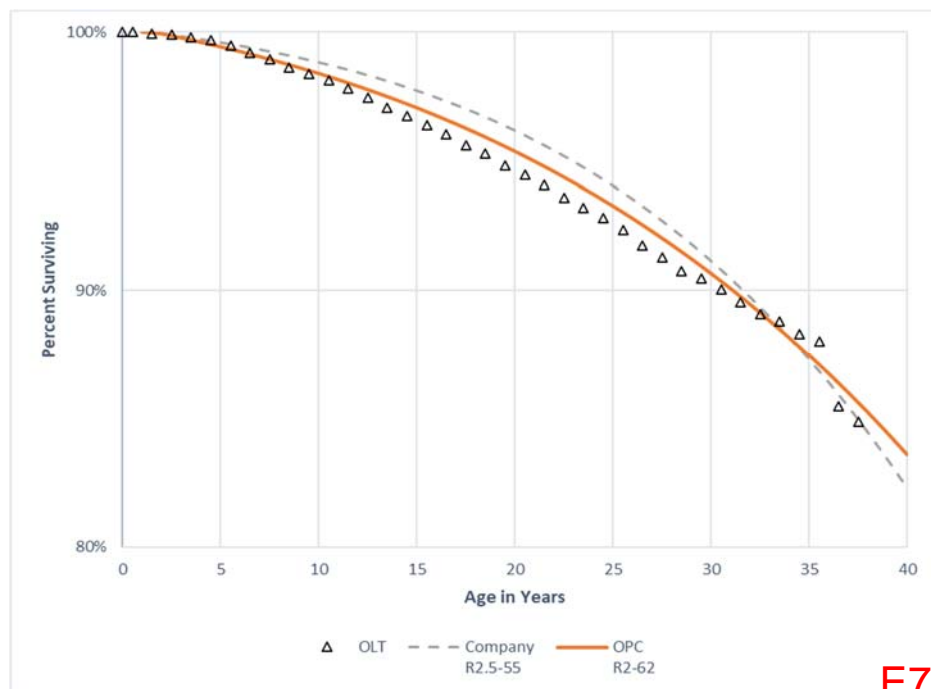
3  
4 With witness Garrett's recommended 1983-2021 placement and  
5 experience band, the observed life table is too short a  
6 stub to be predictive of the life of the account (only going  
7 to 84 percent surviving).

8  
9 **Q.** Does it make a difference to widen the y axis in this graph?

10  
11 **A.** Yes. An expanded Y axis is shown in the graph below. Given  
12 this band it is difficult to distinguish which curve is a  
13 better match.

14 **Account 38002**

15 **Placement Band and Experience Band 1983-2001**



1 Q. Do you have any additional comments on the life  
2 recommendation for this account?

3  
4 A. Yes. My life recommendation of 55 R2.5 recognizes both the  
5 indications in the life analysis and the Company-specific  
6 information from the SMEs. Further, my analysis recommends  
7 retention of the current life parameter. Reviewing the  
8 longer bands and incorporating input from Company SMEs  
9 reaffirms that the Company's recommendation is the more  
10 appropriate life parameter for this account.

11  
12 Witness Garrett's proposal to move the life another seven  
13 years from my recommendation is excessive. When compared  
14 to existing parameters, witness Garrett's life represents  
15 an increase of 7 years or a 12.7 percent change.<sup>32</sup> This  
16 level of change without operational reasons at one time is  
17 unreasonable, is not supported by the evidence, and should  
18 be rejected.

19  
20 Q. What life did witness Garrett recommend for this account in  
21 the recent Florida City Gas case?

22  
23 A. In Docket 20170179-GU for Florida City Gas, witness Garrett  
24 recommended a 54 R2.5<sup>33</sup> life for this account. In Docket  
25 20220069-GU for Florida City Gas, witness Garrett



1 recommended a 55 R2.5<sup>34</sup> life for this account. It does not  
2 seem logical that Peoples would have assets in this account  
3 that last 12.7<sup>35</sup> percent longer than witness Garrett's  
4 recommendation for another Florida utility.

5  
6 **Account 382 Meter Installations**

7 **Q.** Please describe your and witness Garrett's recommendations  
8 for Account 382-Meter Installations?

9 **A.** I recommend increasing the existing service life for  
10 Account 382, which is currently 44 R1, to 45 R1.5. This  
11 represents an increase of one year. Witness Garrett  
12 proposes 55 R0.5, which is an increase of eleven years over  
13 the existing and ten years beyond my recommendation. At  
14 December 31, 2021, the average age of survivors in this  
15 account is 12.09 years and the average age of retirements  
16 in this account is 13.72 years. This information  
17 demonstrates that this is an account with newer assets and  
18 retirements that have occurred before a full cycle of  
19 activity has occurred.

20  
21 **Q.** Do you agree with witness Garrett's basis for proposing a  
22 55 R0.5 Curve?

23  
24 **A.** No. There are a number of reasons I disagree with witness  
25 Garrett on the life for this account. First, witness

1 Garrett does not appear to factor in the life expectations  
2 for specific assets in this account as communicated by  
3 Company SMEs. As stated in my interview notes, I mention  
4 factors that influence the life of this account:

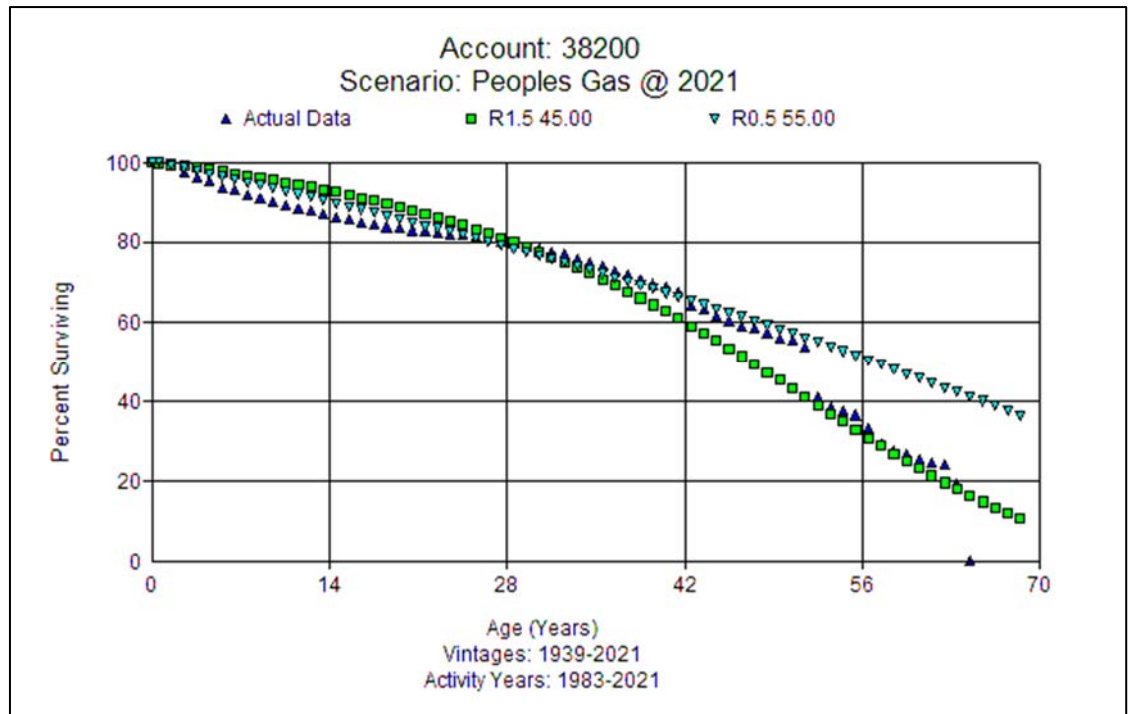
5  
6 The retrofitting of the meters to install  
7 ERTs are booked in this account. ... When a  
8 meter is replaced, there is no retirement  
9 of installation cost or capitalization of  
10 the new installation cost. Only when a  
11 "failed family" event happens will there be  
12 a retirement of installation and  
13 capitalization of new installation. If the  
14 meter loop is replaced or abandoned, a  
15 retirement will be triggered in this  
16 account. For every meter set retirement,  
17 they will retire 1 unit cost (FIFO) of meter  
18 installation and regulator installation.  
19 They would not necessarily replace the  
20 meter set when the meter is replaced.<sup>36</sup>

21  
22 Finally, the use of Company history as shown below validates  
23 the superiority of the Company's proposal compared to  
24 witness Garrett's and incorporates input from Company SMEs.

25

1 Q. What does a visual comparison over multiple bands show?

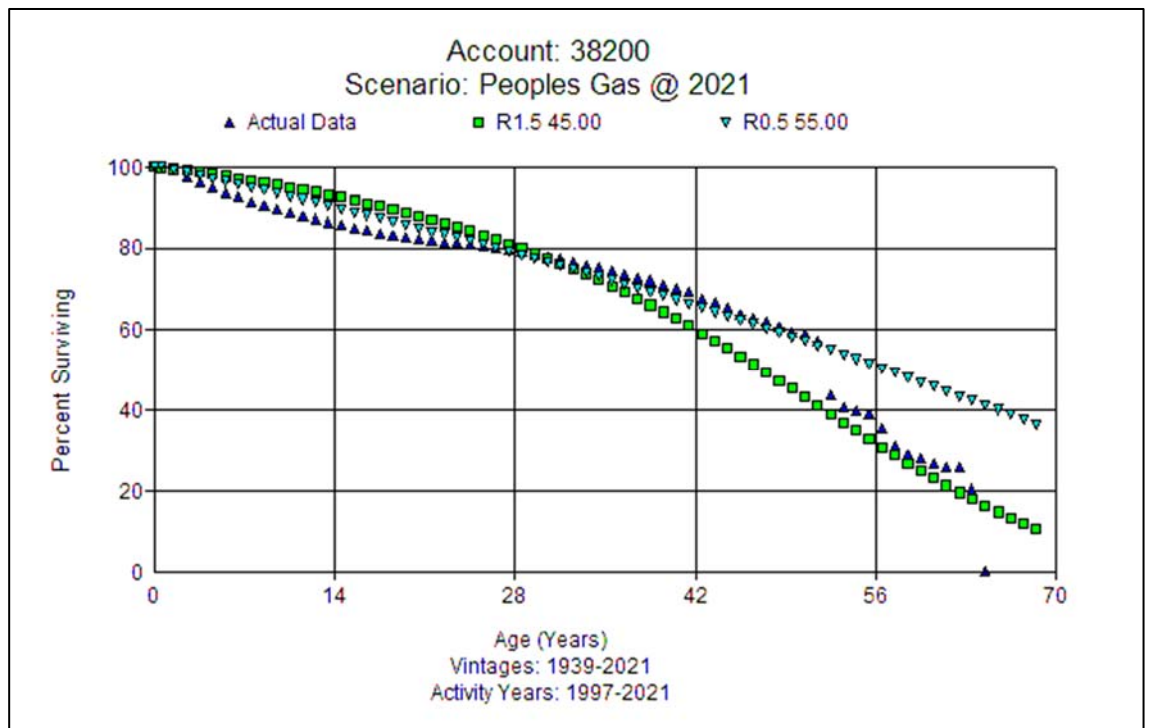
2  
3 A. Below are graphs over various placement and experience  
4 bands. The blue triangles represent the observed life  
5 table, the green rectangles represent the Company's  
6 proposal, and the aqua slanted triangles show witness  
7 Garrett's proposal. The first graph shows the period 1939-  
8 2021 for the placement band and 1983-2021 experience band.  
9 Overall, I follow the guidance of Depreciation Systems in  
10 trying to match the slope of the graph from 80 percent to  
11 20 percent surviving. I maintain my proposed curve is a  
12 better match that witness Garrett's proposed curve.



24 Witness Garrett's proposal may appear a reasonable match,  
25 but when we add the criteria that *Depreciation Systems*

1 recommends, I focused on matching the slope of the curve  
2 from 80 percent surviving to 20 percent surviving. Based  
3 on the fit from 80 percent to 20 percent, my proposal is a  
4 better visual match.

5  
6 The next graph shows the overall experience band and a  
7 narrower experience band. Again, I maintain my proposed  
8 curve is a better match than witness Garrett's proposed  
9 curve.



22 Again, in this band witness Garrett's proposal may appear  
23 a reasonable match, but based on the criteria that  
24 *Depreciation Systems* recommends, I focused on matching the  
25 slope of the curve from 80 percent surviving to 20 percent

1 surviving. Based on the fit from 80 percent to 20 percent,  
2 my proposal is a better visual match.

3

4 The next band shown below is the one witness Garrett  
5 illustrates in his testimony and Exhibits.<sup>37</sup>

6

7

8

9

10

11

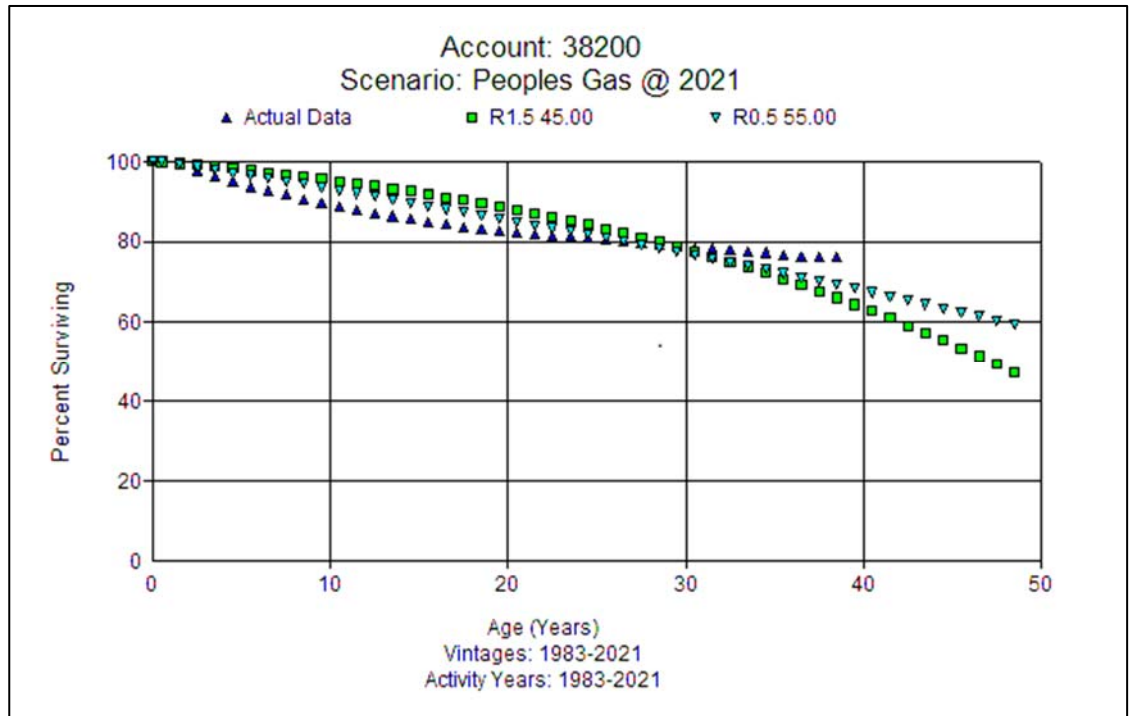
12

13

14

15

16



17 Unfortunately, the observed life table in this band only  
18 goes to 76 percent surviving, which makes the band not  
19 predictive and the two proposals difficult to distinguish.  
20 As discussed with respect to Account 376.00, authoritative  
21 treatises recommend matching a longer stub curve than 76  
22 percent surviving. The stub curve is not long enough to be  
23 predictive and not robust enough to make any material  
24 movement in life.

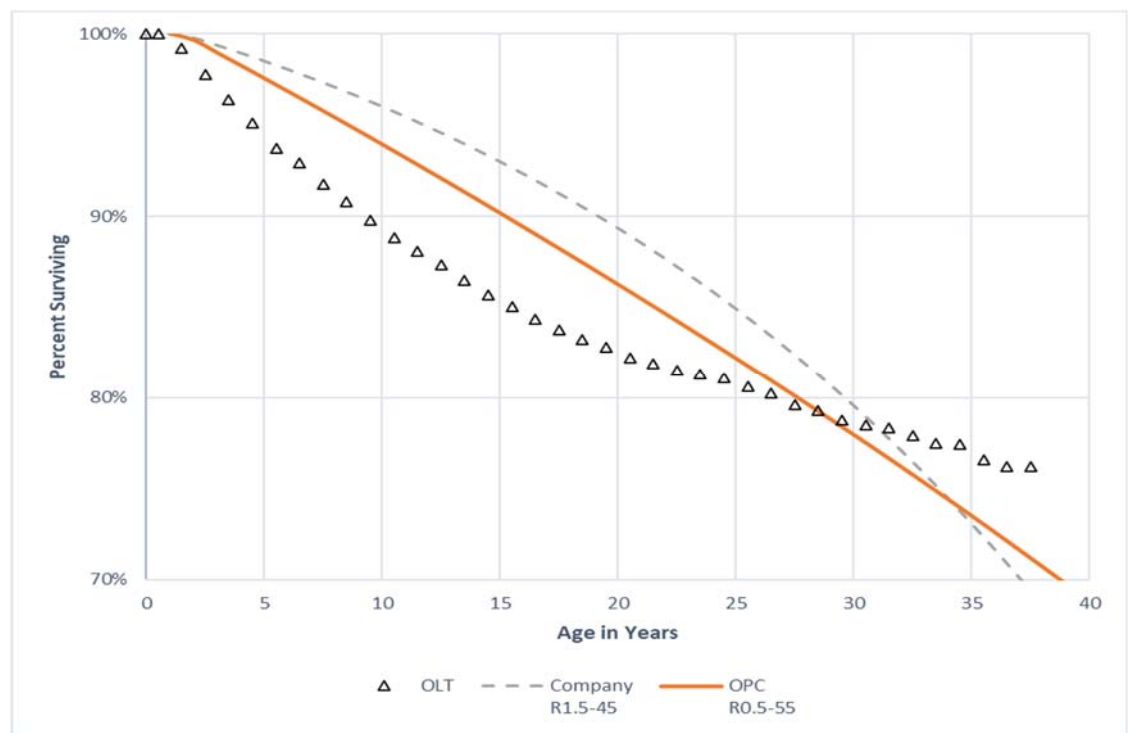
25

1 Q. Is there another perspective one can review to compare the  
2 two proposals?

3  
4 A. Yes. I have taken witness Garrett's workpaper and reset the  
5 y axis for the graph to magnify the area that contains  
6 relevant data. Neither curve is a good visual match for  
7 that placement and experience band.

8 **Account 382**

9 **Placement and Experience Band 1983-2021**



22 Q. Do you have any additional comments on the life  
23 recommendation for this account?

24  
25 A. Yes. My life recommendation of 45 R1.5 recognizes both the  
E7-281

1 indications in the life analysis and the Company-specific  
2 information from the SMEs. Further, my analysis recommends  
3 an *increase* of one year over the existing life. To move the  
4 life another seven ten from my recommendation is excessive.  
5 When compared to existing parameters, witness Garrett's  
6 life represents an increase of 11 years or a 25 percent  
7 change. This level of change without operational reasons  
8 at one time is unreasonable, is not supported by the  
9 evidence, and should be rejected.

10  
11 **Q.** What life did witness Garrett recommend for this account  
12 in the recent Florida City Gas cases?

13  
14 **A.** In Docket 20170179-GU for Florida City Gas, witness Garrett  
15 recommended a 34 S3<sup>38</sup> life for this account. In Docket  
16 20220069-GU for Florida City Gas, witness Garrett  
17 recommended a 35 R3<sup>39</sup> life for this account. It does not  
18 seem logical that Peoples would have assets in this account  
19 that last 57.14<sup>40</sup> percent longer than witness Garrett's  
20 recommendation for another Florida utility.

21  
22 **OTHER ISSUES**

23 **Q.** What is witness Garrett's recommendation regarding the  
24 reserve surplus?

1     **A.**     Witness Garrett and witness Kollen recommend amortizing any  
2             reserve imbalance over 10 years. Reserve imbalances change  
3             in each depreciation study (as evidenced by the decrease in  
4             surplus since the last study). Depreciation theory and the  
5             use of the remaining life technique in calculating  
6             depreciation rates will spread any surplus (or deficit)  
7             over the remaining life of the asset group. To do  
8             otherwise, as suggested by witness Garrett and witness  
9             Kollen, is a policy decision, not a depreciation theory  
10            decision.

11  
12    **Q.**     Did you review witness Garrett's computations of rates  
13             based on 2023 year end balances?

14  
15    **A.**     Yes. I made those computations using year end 2023 data in  
16             response to Staff's Fifth Request for Production of  
17             Documents. Witness Garrett uses the MFR year end 2023 data  
18             which shows the \$34 Million adjustment applied against  
19             Account 37600 Steel Mains. In my computation, I revised  
20             distribution function reserves to include a portion of the  
21             credit to all depreciable plant in the distribution  
22             function. My proposed rates under that scenario do not  
23             match witness Garrett's due to some rounding issues in  
24             average lives and the allocation of the \$34 million credit.  
25             I am providing the 2023 data using my proposed parameters



1 as Exhibit DAW-2, Document No. 3.<sup>41</sup>

2  
3 **SUMMARY**

4 **Q.** Please summarize your rebuttal testimony.

5  
6 **A.** I conducted a complete depreciation study using standard  
7 depreciation processes and methodologies that resulted in  
8 the recommended parameters and depreciation rates. My  
9 recommended life and net salvage parameters are reasonable  
10 and more aligned with other gas utility companies in the  
11 state of Florida, as discussed above. The depreciation  
12 rates, as provided in Exhibit DAW-2, Document No. 1,  
13 Appendices A and B of my direct testimony should be  
14 applied to Peoples' plant in-service. Witness Garrett is  
15 the only party to oppose my recommendations and resulting  
16 depreciation rates. My depreciation rates, when applied to  
17 Peoples' forecasted plant in-service balances, provide  
18 fair and reasonable recovery to both Peoples and its  
19 customers and should be adopted by this Commission.

20  
21 **Q.** Does this conclude your rebuttal testimony?

22  
23 **A.** Yes, it does.  
24  
25

1 BY MR. MEANS:

2 Q Mr. Watson, did you also prepare and cause to  
3 be filed with your direct testimony an exhibit marked  
4 DAW-1 consisting of three documents?

5 A Yes, I did.

6 Q Did you also prepare and cause to be filed  
7 with your rebuttal testimony an exhibit marked DAW-2  
8 consisting of three documents?

9 A I did.

10 MR. MEANS: Mr. Chairman, Peoples would note  
11 for the record that these exhibits, DAW-1 and 2,  
12 were identified on the comprehensive exhibit list  
13 as Exhibits 22 and 32.

14 CHAIRMAN FAY: Okay.

15 BY MR. MEANS:

16 Q Mr. Watson, would you please summarize your  
17 prepared direct and rebuttal testimony?

18 A Yes.

19 Good afternoon. My direct testimony presents  
20 the results of a recent depreciation study I conducted  
21 for Peoples' depreciable assets. The study incorporates  
22 actual historical data as of December 31st, 2022, to  
23 establish the proposed life and net salvage parameters  
24 for each depreciable plant account. The study then uses  
25 forecasted plant and reserve balances as of December

1 31st, 2024, to calculate depreciation rates based on  
2 those parameters. The study uses the sample approach  
3 and concepts as previously used in developing the  
4 depreciation rates adopted by the Commission's PGS.

5 For distribution and general accounts, the  
6 lives for most accounts stayed the same as previously  
7 approved, and the actual experienced net salvage  
8 factors, in other words, removal costs, moved more  
9 negative for certain accounts.

10 As it relates to asset lives, seven accounts  
11 have increasing lives, one account had a decrease in  
12 life, and 28 accounts had no change.

13 The study proposes an incremental movement  
14 toward the higher experienced negative net salvage. In  
15 other words, more negative, or decrease in net salvage,  
16 for nine accounts. For the remaining accounts, there  
17 are three accounts with increasing positive net salvage,  
18 and the remaining accounts had no change.

19 The study recommends the following changes in  
20 depreciation expense for each function based on an  
21 estimated accounts balances as of December 31st, 2024:

22 An increase of 8.3 million for distribution  
23 assets, and an increase of 0.7 million for general  
24 assets. The total proposed change in depreciation  
25 expense for distribution in general is an increase of \$9

1 million based on projected account balances as of  
2 December 31st, 2024.

3 In order to appropriately recover both the  
4 asset cost, and the cost to remove the assets from  
5 service at appropriate levels, and to provide  
6 intergenerational equity among the company's customers,  
7 I recommend the Commission approve the proposed  
8 depreciation rates.

9 That concludes my direct summary.

10 My rebuttal testimony primarily addresses two  
11 issues. The first is that I provided an updated  
12 depreciation study report to make certain corrections.  
13 These corrections resulted in a decrease in depreciation  
14 expense of approximately \$36,000 compared to my original  
15 recommendation.

16 The second area addressed is that I explain in  
17 detail why the five accounts I chose that were  
18 challenged by OPC are the appropriate lives for this  
19 commission to approve. I demonstrate that when  
20 conducting the analysis thoroughly and making the  
21 appropriate use of operational information, my  
22 recommendations on the five accounts are clearly  
23 superior.

24 This concludes my rebuttal summary.

25 **Q Thank you.**

1           MR. MEANS: Mr. Chairman, we tender Mr. Watson  
2           for cross-examination.

3           CHAIRMAN FAY: Okay. OPC.

4                           EXAMINATION

5           BY MS. CHRISTENSEN:

6           Q     Good afternoon, Mr. Watson. Since you are  
7           remote, I was going to ask, do you have a copy of Mr.  
8           Garrett's testimony available to you?

9           A     I do.

10          Q     Okay. And you also have a copy of your direct  
11          and your rebuttal testimony available to you, correct?

12          A     Correct.

13          Q     Okay. I would ask you to turn to page four of  
14          your direct testimony, starting at line 22, and --

15          A     I am there.

16          Q     Great.

17                   And you say that the purpose of your testimony  
18          is to discuss your updated depreciation study for PGS,  
19          correct?

20          A     Yes.

21          Q     And that study is conducted on PGS's  
22          depreciable assets using actual historical data as of  
23          December 31st, 2021, as the starting point; is that  
24          correct?

25          A     Yes.

1 Q And the use of the December 31st, 2021,  
2 historical data was at the request of the company, is  
3 that correct?

4 A I think it was mutually agreed that was the  
5 most current information to calendar year we had  
6 available when we were conducting the study.

7 Q Okay. And you adjusted the actual historical  
8 data by including the forecasted plant and reserve  
9 balances as of December 31st, 2024, right?

10 A Correct.

11 Q Now, turning to page 34 of your direct  
12 testimony, and let me know when you are there. I will  
13 give you some time to get there. It will take me a  
14 minute to get there as well.

15 A I am there.

16 Q Okay. And I am almost there as well.

17 A I show it as a title page for the exhibit. Is  
18 that where you intended to direct me?

19 Q Let me get there myself and I will tell you in  
20 a moment. I think I am looking at page 34 of your  
21 direct testimony, and it would be lines five through  
22 nine.

23 A So my pagination must be different than yours,  
24 because my page 34 has -- is just the title page for  
25 exhibits of Dane A. Watson.

1           CHAIRMAN FAY: Mr. Watson, are you looking at  
2           the page number in the middle bottom of the page?

3           THE WITNESS: Yes, I am.

4 BY MS. CHRISTENSEN:

5           Q     Okay. Because I am using the page numbers on  
6           the case management system, yeah, and I would think that  
7           this is going to be -- yeah, this is going to be two  
8           pages back from the end of your testimony.

9           A     Okay.

10          Q     And the question in your testimony was: What  
11          should be the implementation date for the revised  
12          depreciation rates and amortization schedule? Do you  
13          see that question?

14          CHAIRMAN FAY: Ms. Christensen, while he is  
15          looking for that, I just, real quick, want to make  
16          sure, if there is a chance that we are essentially  
17          just two pages off from, you are referencing him to  
18          a descent amount of his direct or --

19          MS. CHRISTENSEN: Probably.

20          CHAIRMAN FAY: Okay. Let's --

21          MS. CHRISTENSEN: We'll have to manage as best  
22          we can.

23          CHAIRMAN FAY: That's fine. Let me just see  
24          if it's a simple solution. So are you on page --  
25          with that line five question that Ms. Christensen

1 just presented you, Mr. Watson, are you on page 36  
2 -- or 32, excuse me, the other way.

3 MR. MOYLE: I think staff may have directed us  
4 to the page.

5 MR. THOMPSON: I sent out a page direction.  
6 Mr. Watson is on Case Center.

7 CHAIRMAN FAY: So, Mr. Watson, are you  
8 accepting the page direction?

9 THE WITNESS: Yes.

10 CHAIRMAN FAY: Great. Perfect. Well, then we  
11 will just do that if you want to tell us where we  
12 are going, and then they will direct his --

13 MS. CHRISTENSEN: And that's what I am using,  
14 is the page numbers from Case Center. So that  
15 might be -- that night work.

16 BY MS. CHRISTENSEN:

17 Q So are you there now, Mr. Watson?

18 A Yes, I am on Case Center.

19 Q Okay. So on page 34, lines five through nine,  
20 you testified that the implementation date for your  
21 revised depreciation rates and amortization schedules  
22 should be January 1st, 2024, as proposed by the company;  
23 is that correct?

24 A Yes.

25 Q So one many affect of your proposed rates are



1 -- or one affect, if your proposed rates are implemented  
2 as you suggest, is customers will pay depreciation  
3 expense calculated using depreciation rates based on  
4 2024 plant additions starting on January 1st, 2024,  
5 before any of those plant additions go into service; is  
6 that correct?

7 A That's a question for Ms. Parsons. I was  
8 directed to calculate rates up through December 31st,  
9 2024, to walk forward. The rest of it would be better  
10 directed to her.

11 Q Are you recommending that rates be implemented  
12 as of January 1st, 2024?

13 A That is the company's proposal.

14 Q Okay. And you would agree that if rates are  
15 implemented on January 1st, 2024, using data that  
16 includes plant additions that occurred during 2024, that  
17 is going to create a problem where customers are paying  
18 for plant before it's placed into service, right?

19 MR. MEANS: I am sorry, Mr. Chairman. Don't  
20 we have a stipulation on this issue?

21 MS. CHRISTENSEN: I do not know. I don't  
22 believe so, but we can -- if you can give me a  
23 minute, we will check.

24 CHAIRMAN FAY: I will give you a second just  
25 for the parties to confirm.

1 MR. MEANS: Yes.

2 (Discussion off the record.)

3 MS. CHRISTENSEN: With that clarification, I  
4 believe that has been resolved as to what the  
5 appropriate study date is and the implementation  
6 date. Am I correct, that those have been resolved  
7 between the company and --

8 MR. MEANS: Yes. My understanding that's  
9 covered by the Type 2 Stipulation on Issue 8.

10 MS. CHRISTENSEN: Okay.

11 MR. THOMPSON: And for the record, that's  
12 contained in Exhibit 159.

13 MS. CHRISTENSEN: Okay. With that  
14 understanding, and my bad, I will move along.

15 CHAIRMAN FAY: No problem. We will move on.  
16 Thank you.

17 BY MS. CHRISTENSEN:

18 Q Let me direct your attention to page 20 of  
19 your testimony, and specifically -- and I am starting at  
20 line 24 of your direct testimony. And in that, you  
21 state that for distribution and general accounts, there  
22 are seven accounts with increasing lives and one account  
23 with decreasing life; is that correct?

24 A Yes.

25 Q And then if you go to the top of page 21, you

1 go on to say, there is 28 accounts that have no change  
2 at all, correct?

3 A Correct, related to lives.

4 Q Related to lives.

5 Would you agree that a theoretical reserve  
6 represents the portion of the property group cost that  
7 would have been accrued as depreciation if the current  
8 lives and net salvage that you are recommending were  
9 used and achieved throughout the life of the property  
10 group depreciation accrual, is that correct?

11 A Yes, in a perfect world, that would be right.

12 Q Okay. And if I were to say that in other  
13 words, you would agree that that is -- the theoretical  
14 reserve represents the depreciation cost collected from  
15 customers if the new lives in net salvage had been used  
16 the whole life in the company's assets, is that another  
17 way of saying that?

18 A Yes, that's fair, at a particular point in  
19 time.

20 Q Okay.

21 A It obviously changes.

22 Q And a theoretical reserve surplus or deficit  
23 is determined by comparing the theoretical reserve to  
24 the book reserve to determine if the unrecovered  
25 investment of the asset and the cost of removal cost

1 **have been over- or under-recovered, correct?**

2 A I would not characterize it that way. It has  
3 been recovered to date based on Commission orders, and  
4 the depreciation rates the Commission has provided. At  
5 a snapshot in time, it shows that there is a difference  
6 between those two. But I would not characterize it as  
7 being over- or under-recovery, because it was recovered  
8 as appropriate based on the facts and circumstances  
9 known at the time.

10 Q All right. But it shows whether or not there  
11 is more money available, or there is money, theoretical  
12 money that has been collected from customers, even if  
13 previously approved in Commission orders, there is more  
14 money available in the theoretical reserve surplus than  
15 was required to be collected when you apply the new  
16 rates, is that appropriate?

17 A Well, I -- of course, depreciation expense is  
18 not money in and of itself, but to a degree, I would  
19 agree with you, that it is, at a snapshot in time, in  
20 theory, you should have in your reserve as compared to  
21 what you actually have in your reserve.

22 Q Okay. So based on your updated study, you  
23 found a surplus of \$119 million approximately as of  
24 December 31st, 2024, based on your recommended lives and  
25 net salvage, correct?

1           A     That was in the original study. I believe  
2     it's a different number with the revision that I made  
3     for in my rebuttal testimony.

4           Q     Okay. And we'll get there when we discuss  
5     your rebuttal testimony.

6                     So that number has changed based on your new  
7     and updated study?

8           A     Yes.

9           Q     Okay. And in your testimony -- in your direct  
10    testimony, on page 24, lines 20 and 23, you say that in  
11    the last PGS rate case, remaining life was used to  
12    amortize the amount of surplus; is that correct?

13          A     Yes, it was. That technique was used for  
14    depreciation recovery --

15          Q     And would you agree --

16          A     -- and that included -- I am sorry.

17          Q     Please finish your answer.

18          A     Oh, and that included any surplus that would  
19    you have been depreciated over that remaining life  
20    absent the 34 million that was put up -- was able to be,  
21    I believe, amortized. I don't know the details, but  
22    there is a \$34 million carve-out.

23          Q     Okay. You would agree that the Commission  
24    could amortize the surplus over a shorter amortization  
25    period than the remaining lives of the assets, right?

1           A     Yes. That would be a policy decision and not  
2 a depreciation theory decision, though.

3           Q     Okay. And moving on to page 32 of your direct  
4 testimony, and I am specifically referring to lines 13  
5 through 25, you discuss updating the depreciation rates,  
6 including -- you discuss updating the depreciation rates  
7 to include impacts for the proposed LNG and RNG, which  
8 is approximately three million annually; is that  
9 correct?

10          A     The three million I have to validate, but I do  
11 discuss updating it to those.

12          Q     Okay. If LNG and RNG assets are moved  
13 below-the-line for ratemaking purposes, would you agree  
14 that the impact on depreciation rates would have to be  
15 reversed or corrected in your depreciation rates and  
16 study?

17          A     Well, I mean, my study calculates depreciation  
18 rates, so those rates would not be used above-the-line  
19 because they were moved below-the-line, so I am not sure  
20 what correction would need to be done.

21          Q     One moment, please.

22                    Okay. Mr. Watson, can I refer you to your  
23 rebuttal testimony?

24          A     I am there.

25          Q     Okay. And I am looking specifically at page

1 two of your rebuttal testimony, and that on page two you  
2 discuss the three exhibits attached to your testimony,  
3 is that correct?

4 A Yes.

5 Q And the first rebuttal exhibit you discuss,  
6 starting on page three, is your revision to your  
7 original study to correct for the removal of the 34  
8 million depreciation surplus, which you said you had  
9 needed to adjust because you had it in there twice, I  
10 believe?

11 A I had taken it out twice.

12 Q Okay.

13 A The first thing I discuss is document one is  
14 -- I am sorry to interrupt, but document one is the  
15 Endnotes, so document two is, I start after that  
16 discussing the updated study --

17 Q Okay.

18 A -- to be clear.

19 Q Thank you for that clarification.

20 So as of July -- or excuse me, let me restart  
21 that.

22 So in document two, with this revised July  
23 2023 study, this also corrects -- corrected the December  
24 31st, 2024, book reserve amount; is that correct?

25 A Yes, it did, for four small general plant

1 accounts. That what -- that is what accounts for the  
2 \$34,000 difference between the original study and that  
3 study.

4 Q Okay. So with that correction, if the  
5 Commission were to use your corrected study with the  
6 December 31st, 2024, study date, the reserve surplus  
7 would have been increased by 34 million to 153 million;  
8 is that correct? Is this --

9 A Yes. That's correct. There are actually,  
10 yeah, two corrections. One, the four accounts that had  
11 the minor difference in reserve, and then the 34 million  
12 that was added back in that was taken out double. So,  
13 yes, it would be 153 million, as I speak to on page five  
14 of my rebuttal.

15 Q Okay. And you talk about the other  
16 disagreement you have with Mr. Garrett regarding the  
17 five life parameter changes to -- that Mr. Garrett  
18 proposes, and the 10-year amortization period; is that  
19 correct?

20 A Yes, I do talk about both of those in my  
21 rebuttal.

22 Q Okay. And on page seven of your rebuttal  
23 testimony.

24 A I am there.

25 Q And you show a comparison of the service life



1 estimates between you and Mr. Garrett, is that correct?

2 A That is correct.

3 Q And on page 12 of your rebuttal testimony, at  
4 lines seven and eight, you criticize Mr. Garrett for  
5 only using one placement and experience band, is that  
6 correct?

7 A Yes.

8 Q And you define the bands as it referring to  
9 periods of time for the vintage years and retirement  
10 years of the company's data that you are analyzing, is  
11 that correct?

12 A I am not sure I follow your, exactly your  
13 definition. But there are two different types of bands.  
14 One is the placement band, and that is the vintage --  
15 the vintages of assets that you are studying. So the  
16 company has, I believe, vintages of access back to 1910  
17 that can be studied to some degree or another.

18 And so the other band that we discussed is an  
19 experience band. And that means the transactions that  
20 are happening over time to those placements, to those  
21 vintage years of assets. The company has transaction  
22 years back to 1983. So you combine your placement --  
23 pick your level of placements and how far back you want  
24 to look, and you pick your experience, how many  
25 transaction years you want to look at, in order to do an

1 actuarial analysis.

2 Q Okay. So you are looking at periods of time  
3 for the vintage years, and you are also looking at it in  
4 terms of retirement years as well?

5 A Oh, those are not -- I guess those are not the  
6 term of art I would use, but that's what I said,  
7 basically, in my description.

8 Q Okay. And on page nine, lines one through  
9 three, you say, Mr. Garrett offered that he reviewed  
10 multiple placement and experience bands, but only  
11 presented one band on his exhibits and workpapers; is  
12 that correct?

13 A Yes, that is my statement there.

14 Q And this is how you presented your graphs in  
15 your direct and rebuttal exhibits, you only presented  
16 what one set of bands for each of the counts; is that  
17 correct?

18 A In the actual report, I put a representative  
19 band. In my workpapers, I had many, many different  
20 bands and curves to fit. So there were, in some cases,  
21 you know, dozens to maybe 100 different curves in my  
22 workpapers as compared to his, with one.

23 Q Okay. If we turn to your Exhibit DAW-2, which  
24 is page 33 of 158. It's going to take a moment. And  
25 let me know, did you get there?

1           A     Just to make sure, is the top account 375, a  
2     single plot of that table, that's the page you are  
3     looking at?

4           Q     **That is correct.**

5           A     I just want to make sure. Okay. Thank you.  
6     Yes, I am there.

7           Q     **Okay. In this graph, you were -- you present**  
8     **the graph showing the IR curve you selected, correct?**

9           A     Correct.

10          Q     **And it looks like this data covers the vintage**  
11     **years 1919 through 2021, and the activity -- activity**  
12     **years of 1983 through 2021; is that correct?**

13          A     Yes.

14          Q     **And this is just one set of placement and**  
15     **experience bands, is that correct?**

16          A     That's right. For presentation purposes,  
17     again, there are quite a number of those in my  
18     workpapers with various bands.

19          Q     **Okay. And if we scroll down to page 35 of the**  
20     **158, it also shows another graph for account 37600,**  
21     **that's --**

22          A     Yes.

23          Q     **-- and that also shows -- only shows one graph**  
24     **for this account, which covers only one set of bands, is**  
25     **that correct?**

1           A     Yes.  As with the others, there are numbers of  
2 those in my workpapers.  This is just a simple single  
3 one for representation of the fits.

4           Q     Okay.  And let's turn to page 11 of your  
5 **rebuttal testimony.**

6           A     Yes, I am there.

7           Q     Okay.  Wonderful.  And looking at lines 18  
8 **through 20, you say that you used five or more placement**  
9 **slash experience bands for each of the accounts at issue**  
10 **in this proceeding where sufficient data existed,**  
11 **correct?**

12          A     Yes.

13          Q     And I think you have stated this before, but  
14 **you would agree that in the depreciation study that you**  
15 **attached to your testimony, you did not present all of**  
16 **the possible placement and experience bands for these**  
17 **accounts in your exhibit, correct?**

18          A     No, because the exhibit would be a thousand  
19 pages --

20          Q     Okay.

21          A     -- so I gave a representative one and put the  
22 rest in my workpapers.

23          Q     Okay.  And on page 13 of your rebuttal, lines  
24 **eight through 11.**

25          A     Yes.

1           Q     In this portion of your testimony, you  
2 criticize Mr. Garrett because you say he makes no  
3 indication that he reviewed or incorporated information  
4 from the company's experts in his life recommendation,  
5 correct?

6           A     Correct.

7           Q     And you also discuss a little bit further on,  
8 lines 11 through 13, the importance of relying on  
9 information from the company's experts in your service  
10 life analysis, correct?

11          A     Yes. And it's not just my opinion. I quote  
12 the authoritative text that tell you to rely on them as  
13 well.

14          Q     Okay. And on page 14, lines eight through 16,  
15 you give an example where you say, the company's experts  
16 estimates different lives for different equipment, its  
17 YZ Odorizers may last 40 to 50 years, heaters may last  
18 20 to 30 years, and regulators may last 30 years or  
19 more, and you say that Mr. Garrett did not consider  
20 this, correct?

21          A     Well, yes, because my next sentence is that  
22 none of those lives even approached the 60 years that  
23 Mr. Garrett recommended --

24          Q     Okay.

25          A     -- so on the surface, you know, if you have

1 any understanding -- as an engineer, I also understand  
2 life components, that the life is longer than you would  
3 expect for the assets, and that 60 years is an average  
4 that he is suggesting, so I find it hard to understand.

5 **Q But you would agree that the company experts**  
6 **are only giving their estimates, correct?**

7 A I think there is three different pieces to  
8 that. I agree that they are giving their understanding  
9 based on operating those assets for many years, but  
10 there is two other pieces that validate that. One is my  
11 understanding as an engineer of those assets as well,  
12 and my understanding from doing these studies for many,  
13 many companies, what that expectation would be. So  
14 there is sort of three pieces to validate that  
15 understanding of what those assets are like.

16 **Q Right, but two of those that you just**  
17 **discussed are based on your own personal experience.**  
18 **Only one of them is based on what the company provided,**  
19 **correct?**

20 A Yes, but they supported each other. So, yes,  
21 the company -- the company's opinions, I found to be in  
22 line with my expectations and the industry's  
23 expectations.

24 **Q Okay. And I appreciate that you are**  
25 **discussing the company's opinion.**

1                   **Let me direct you to page 13 of 158 in your**  
2 **Exhibit DW -- DAW-2.**

3           A       What page again? I am sorry.

4           **Q       Page 13 out of 158.**

5           A       With the title Iowa Curves in the center of  
6 the page?

7           **Q       Correct.**

8           A       Okay. I am there.

9           **Q       You would acknowledge that the Iowa Curves**  
10 **that you used in your depreciation study are the result**  
11 **of extensive investigation of the life characteristics**  
12 **of physical property that are commonly used and accepted**  
13 **as descriptive standards for life care characteristics**  
14 **of industrial property, correct?**

15          A       Yes.

16          **Q       So the application of Iowa Curves to determine**  
17 **the life curve does, in fact, take into account the life**  
18 **characteristics of industrial properties, right?**

19          A       I am sorry, would you ask the question again?

20          **Q       So with the application of an Iowa Curve to**  
21 **determine the life cuffs, does it, in fact, take into**  
22 **account the life characteristics of industrial property?**

23          A       I mean, that's the intent. The standardized  
24 Iowa Curves are intended to be matched up against the  
25 specific experience of a utility to give you a

1 standardized curve that then you can make calculations  
2 from.

3 Q Let me refer you back to your rebuttal  
4 testimony, on page 36.

5 A I am there.

6 Q Okay. And this graph shows OPC's recommended  
7 curve in yellow and your curve in gray dotted lines, is  
8 that correct?

9 A Yes.

10 Q And you relied on the subject matter experts  
11 for the company's specific information to develop your  
12 curve, correct?

13 A I relied on historical data from the company's  
14 books and records to develop my -- develop the Iowa  
15 Curve, yes.

16 Q Okay. And when you relied on the subject  
17 matter experts, these are employees of the company?

18 A Okay. I didn't -- I didn't agree with your  
19 statement.

20 Q Okay.

21 A I relied on the historical books and records  
22 of the company to make my life selection.

23 Q Okay. I thought you also said previously in  
24 your testimony today that you also rely on the subject  
25 matter experts from the company to develop your lives



1 **and your curves, is that still a correct statement?**

2 A That's a mischaracterization of what I said  
3 before.

4 I rely on them to support -- so the  
5 information from the subject matter experts, I will look  
6 at the actual experience of the company, and I will  
7 understand if there are changes that are happening to  
8 the assets operationally that would impact what I would  
9 project, and also understand what's in the account and  
10 expected lives of the account.

11 In this particular case, I relied upon -- if  
12 you flip two pages back -- I relied upon the fuller band  
13 because his band is not statistically valid. It's too  
14 short to make any predictions from it. So primarily, I  
15 relied upon the curve that I show on page 34 for this  
16 particular account. Now, the account -- the life that I  
17 pick and the movement that I did was reinforced by the  
18 subject matter experts' operational information.

19 **Q Okay. Let me draw your attention to page 49**  
20 **of your rebuttal testimony, at the bottom. And let me**  
21 **know when you are there.**

22 A Is the page, near the bottom, it says Other  
23 Issue -- Other Issues?

24 **Q Correct.**

25 A I am there.

1           Q     And this is the discussion of Garrett's  
2     recommendation regarding the reserve surplus.

3           A     Yes.

4           Q     On to the top of page 50, you talk about his  
5     recommendation to amortize the reserve surplus over 10  
6     years, correct?

7           A     Yes.

8           Q     Apart from your proposed use of the remaining  
9     life technique, you are not providing any testimony in  
10    this case about what corrective measures the Commission  
11    should undertake with respect to any identified  
12    depreciation reserve imbalances, is that true?

13          A     I believe the appropriate one from a  
14    depreciation perspective, depreciation theory, is to  
15    correct over the remaining life for a number of reasons,  
16    not -- and -- and if you like me to explain that?

17          Q     Well, I guess, really, just my question is,  
18    apart from your recommendation that it be flowed back  
19    over the remaining live of the asset, you are not  
20    providing any other testimony on whether -- what  
21    amortization period should be used if it's shorter than  
22    the remaining life, is that correct?

23          A     No, because I believe remaining life is the  
24    appropriate period to do this; because even in Mr.  
25    Garrett's own alternatives, you can see \$100 million

1 swing in the theoretical reserve surplus at one point in  
2 time between different ways he looked at the assets.  
3 This is a very flowing change. I mean, it dropped,  
4 between the last case and this case, by \$85 million on  
5 its own, and it will drop further as we move further and  
6 further forward --

7 **Q Well --**

8 A -- the actual experience net salvage. So I  
9 don't believe there is another option that would be  
10 appropriate other than the remaining life approach.

11 **Q But you would agree that the money collected**  
12 **under the depreciation rates, if there is a surplus,**  
13 **that's customers' money that's been collected from**  
14 **customers?**

15 A I would not characterize it that way.  
16 Depreciation is only the timing difference of the  
17 recovery of the cost of capitalized assets that the  
18 company invests for its customers.

19 **Q Right. And if they collected -- if they**  
20 **collected up front, and there is -- they collected more**  
21 **money from the customers than the current depreciation**  
22 **rates support, they are holding on to customers' money,**  
23 **correct?**

24 A They recovered the amount that was appropriate  
25 with Commission approval. And the fact that there is

1 more in there now will say that the depreciation rates  
2 are lower than they would have been otherwise had that  
3 money not been collected.

4 **Q All right. Let me ask -- let me have you look**  
5 **at OPC Exhibit 78, which is Exhibit DJG-28 attached to**  
6 **Mr. Garrett's testimony. I am providing the exhibit for**  
7 **ease of reference.**

8 A Give me a minute to find his testimony.

9 MS. CHRISTENSEN: And, Mr. Chairman, did you  
10 want to give this a number as well?

11 CHAIRMAN FAY: Yes. We will mark this 186.

12 (Whereupon, Exhibit No. 186 was marked for  
13 identification.)

14 THE WITNESS: And would you please tell me  
15 again what exhibit number your asking for?

16 BY MS. CHRISTENSEN:

17 **Q I am looking at Exhibit DJG-28 of Mr.**  
18 **Garrett's testimony.**

19 A Okay. I don't have that particular page of  
20 his testimony printed out.

21 MR. THOMPSON: I did just send out a page  
22 direction for everybody's convenience.

23 THE WITNESS: Thank you. I see it now.

24 MS. CHRISTENSEN: Okay. So he has a copy of  
25 that.

1 BY MS. CHRISTENSEN:

2 Q This is Mr. Garrett's calculation of the  
3 reserve surplus calculation of 2023 study unadjusted  
4 parameters. Would you agree that this is the  
5 calculation of the reserve surplus using your lives  
6 based on the December 31st, 2023, date?

7 A The total is close. I calculated 153, so  
8 there is some difference there, but it's in the ballpark  
9 of what I calculated.

10 Q Okay. And so Mr. -- Mr. Garrett calculated  
11 159 million, give or take, in reserve surplus; is that  
12 correct?

13 A Under one of his options. In another one, he  
14 calculated 221, and in another one, he calculated 186 --

15 Q Well, Mr. --

16 A -- so there is -- I mean, this is one of his  
17 calculations. He has more than one.

18 Q I am going to ask you about Mr. Garrett's  
19 study. The Exhibit DJ -- DJG-27. And this is the  
20 reserve surplus calculation 2023 study, he calls it  
21 adjusted parameters, so that's adjusting the lives from  
22 Mr. Garrett's recommendation -- recommended lives, and  
23 that is the surplus amount that I think you were  
24 referring to that is 221 million; is that correct?

25 A Yes, that's what it says there.

1 Q Okay. Thank you.

2 I have no further questions for you.

3 A I am sorry. Okay.

4 Q Oh, I just one -- I am sorry. I have one  
5 further follow-up question.

6 Mr. Watson, did you calculate or compute a  
7 reserve surplus based on the 2023 corrected date?

8 A Yes. It is in my rebuttal testimony on page,  
9 I believe -- let me look at it just to make sure, but I  
10 am -- 2023, I don't recall at this point. I was  
11 thinking of the thing on line -- yes, well, no, 1823 or  
12 19 -- I don't recall if I have or not. I don't believe  
13 so.

14 Q Okay. Did you find that?

15 A I am not recalling if it's in my testimony  
16 where it is. If you know, I will be glad to look at it.

17 Q Well, let me go back to Exhibit DJ -- DJG-28,  
18 page two of two, at the bottom of that exhibit, and let  
19 me know when you have that.

20 A Yes, I am there.

21 Q Okay. And right below the 159 million, it  
22 shows a reserve variation percentage of 22 percent, is  
23 that approximately -- is that correct?

24 A I didn't validate his calculations to that  
25 reserve surplus in my -- and so on page five of my

1 rebuttal as of the July 2023 study date was 153.6  
2 million. So I -- I don't believe I validated his three  
3 different types of calculations for reserve surplus.

4 **Q Okay. But hundred -- the 153 million versus**  
5 **the 159 million, you said there was some rounding**  
6 **differences in that kind of differentials in the**  
7 **calculations, so it's going to be approximately correct?**  
8 **Huh?**

9 A I did not say that. I said there -- it's in  
10 the ballpark, I believe is all I said --

11 **Q Okay.**

12 A -- as to what I calculated.

13 **Q Well, fair enough, then it's in the ballpark.**  
14 **Thank you.**

15 MS. CHRISTENSEN: I have no further questions.

16 CHAIRMAN FAY: Okay. Mr. Moyle.

17 MR. MOYLE: Thank you, Mr. Chairman. I have  
18 just a handful of questions for this witness.

19 CHAIRMAN FAY: Okay.

20 EXAMINATION

21 BY MR. MOYLE:

22 **Q Good afternoon, Mr. Watson. Jon Moyle on**  
23 **behalf of the Florida Industrial Power Users Group. I**  
24 **have a few questions for you.**

25 **There has been some conversations about the**

1 various depreciation views and studies. I just wanted  
2 to confirm that OPC's depreciation witness, Mr. Garrett,  
3 you don't challenge or have any issues with his  
4 professional qualifications to testify as an expert  
5 witness on depreciation, do you?

6 A No. He is also a CDP, as I am. Not been in  
7 business anywhere near as long as I have, nor the  
8 experience, but no. I challenge some of his views and  
9 some of his results, but not his basic understanding.

10 Q I appreciate that, and I understand there may  
11 be some different professional views, but with respect  
12 to the qualifications, that's what my question was  
13 focused on.

14 A No, I have no basis to challenge that.

15 Q Okay. And in looking at your background, I  
16 see that you have been involved with the Edison Electric  
17 Institute property and accounting valuation committees  
18 over the years, is that right?

19 A Yes.

20 Q Okay. And the Edison Electric Institute, that  
21 has a number of investor-owned utilities in it, is that  
22 right?

23 A Yes.

24 Q Yeah. During the course of your professional  
25 career in providing testimony, would it be fair to say



1 **that, more often than not, you testify on behalf of**  
2 **utilities as compared to consumer interest?**

3 A Yes, that's an accurate statement, because my  
4 company and my purpose is to develop depreciation  
5 studies, not critique depreciation studies. So my  
6 purpose -- and so naturally, companies are going to be  
7 the ones that -- that require the development of a  
8 study.

9 Q **Are you aware of situations in which consumer**  
10 **interests may have commissioned or had an alternative**  
11 **depreciation study prepared?**

12 A Not one to the level that is an originated  
13 study. Normally what I see is someone looking over the  
14 shoulder of someone who originates a study and critiques  
15 it.

16 Q **Okay. Have you ever provided testimony on**  
17 **behalf of consumer interests -- how many years have you**  
18 **been at this?**

19 A Well, I have been doing depreciation for 30  
20 something -- well, way over 30 years. I started  
21 Alliance about 20 years ago.

22 I have -- on one or two occasion, I have  
23 consulted with either an Attorney General or another  
24 group, but that's not my expertise. My expertise is  
25 developing studies.

1 Q Right. And so one or two times consulting  
2 with those who represent a consumer interest. How many  
3 times have you approximately been proved in representing  
4 the interest of the utilities, just so we will have a  
5 basis for a comparison, thousands, or is that too much?

6 A That's little too much. Three -- between 300  
7 and 400.

8 Q Okay. I noted, and I found this if you need,  
9 I don't know that you necessarily do, but I will just,  
10 as a courtesy, give you a reference to it. When you  
11 were providing some information about average service  
12 lives on page 20, line six, you made --

13 A Of my direct or --

14 Q That's your direct. Yes, sir.

15 A Okay.

16 Q And you used the word "judgment" that is  
17 something that was used to determine the average service  
18 lives for each account in distribution and general  
19 functions, is that right?

20 A Yes. The -- you cannot -- you cannot make a  
21 selection without some level of judgment in some way,  
22 form or fashion --

23 Q Okay.

24 A -- in this.

25 Q And with respect to the judgments you are

1 making with regard to service lives, have you ever  
2 worked on behalf of a LDC, a distribution company,  
3 natural gas distribution company in operations?

4 A Have I worked for a company that had an LDC?

5 Q Right. You were with a company and had daily  
6 responsibilities with respect to their assets. You  
7 weren't -- you weren't hired as an expert or to prepare  
8 a depreciation study.

9 A Yes. That's correct.

10 Q When was that?

11 A For seven or eight years back when TXU owned  
12 what later became part of the Atmos system, the MIDTX.

13 Q And what were your duties and  
14 responsibilities?

15 A I was, among other things, success accounting  
16 manager. I managed a lot of the accounting back shop,  
17 helped to manage their records processing, helped to  
18 create the retirement unit listings that they used, did  
19 a lot of valuations for them of their assets, quite a  
20 number of different areas.

21 Q And in answer to a prior question from Office  
22 of Public Counsel, you noted that there was a PSC policy  
23 issue involved, I believe with respect to the reserve  
24 imbalance correction; is that right?

25 A Not quite the characterization I used. I was

1 asked if it was -- I believe I said that it is not a  
2 valid depreciation theory, that if the Commission were  
3 to do that, it would be a policy decision, not a  
4 depreciation theory -- appropriate depreciation theory  
5 decision.

6 **Q Okay. Are you aware if the Florida commission**  
7 **has previously considered that policy question?**

8 A Generally, yes. I can't speak to any specific  
9 times, though.

10 **Q And you would also be aware that that policy**  
11 **decision with respect to the Commission came down on**  
12 **having monies returned to ratepayers, like my clients,**  
13 **sooner rather than later, in part due to concerns about**  
14 **intergenerational unfairness?**

15 A I can't speak to any particular concern. I  
16 think you are going to create intergenerational  
17 unfairness by returning it as well, or -- their --  
18 returning it is not going to solve any problems. It's  
19 actually going to cost your customers more in the  
20 long-term.

21 **Q All right. But you would agree that a source**  
22 **for consideration of this policy issue would -- would**  
23 **be -- that would be useful, would be to look at how the**  
24 **Commission has previously tackled that issue, would you**  
25 **not?**



1 A Yes, sir.

2 Q Okay. And depending on the life, the recovery  
3 may be faster or slower, right?

4 A Yes. A shorter lived asset would be recovered  
5 over a shorter period, and longer for a longer period.

6 Q And sometimes, life estimates change over  
7 time, correct?

8 A Yes, they do.

9 Q And sometimes that creates a theoretical  
10 depreciation reserve surplus or deficiency, correct?

11 A Yes.

12 Q And so what we are talking about here when we  
13 are dealing with a theoretical depreciation reserve  
14 surplus is really -- or deficiency -- it's how fast or  
15 slow the utility is going to recover the money it spent  
16 initially when it bought the asset, correct?

17 A Correct.

18 MR. WAHLEN: Thank you.

19 CHAIRMAN FAY: Okay.

20 MR. REHWINKEL: Mr. Chairman.

21 CHAIRMAN FAY: Yes, Mr. Rehwinkel.

22 MR. REHWINKEL: Mr. Wahlen supplemented  
23 Mr. Means' on redirect, I have two questions  
24 maximum on recross, if I might, based on --

25 CHAIRMAN FAY: Within the scope of that

1           redirect?

2           MR. REHWINKEL:   Yes, sir.

3           CHAIRMAN FAY:   Okay.

4                           EXAMINATION

5   BY MR. REHWINKEL:

6           Q     Hello, Mr. Watson.  My name is Charles

7   Rehwinkel with the Public Counsel's office.

8                   Mr. Wahlen asked you about who pays for the  
9   asset when the utility purchases the asset.  Do you  
10  recall that question?

11          A     I do.

12          Q     Okay.  You would agree that in timely and  
13  proper ratemaking, the company is reimbursed for that  
14  purchase through rates, would you not?

15          A     Yes.  That's what depreciation rates are for.

16          MR. REHWINKEL:  Thank you.

17          CHAIRMAN FAY:  Okay.  Mr. Moyle.

18          MR. MOYLE:  Just one, I kind of opened that  
19   door.

20                        FURTHER EXAMINATION

21   BY MR. MOYLE:

22          Q     Sir, you would agree that really the question  
23  of who pays is just a matter of perspective, right?  I  
24  mean, the Office of Public Counsel and FIPUG represent  
25  consumer interests, and Mr. Wahlen represents, quite

1 ably, PGS, so the question of who pays, initially the  
2 utilities pay, but then they turn around and impose  
3 rates to get money and a profit paid back to them based  
4 on that purchase; is that fair?

5 A Return of and on the asset, yes, I would agree  
6 that they would -- are allowed both under ratemaking  
7 rules.

8 MR. MOYLE: Okay. Thank you, sir.

9 CHAIRMAN FAY: Okay. Mr. Wahlen -- or,  
10 Mr. Means, excuse me, exhibits.

11 MR. MEANS: Mr. Chairman, we would move  
12 Exhibits 22 and 32 into the record.

13 CHAIRMAN FAY: Okay. Seeing no objection,  
14 enter 22 and 23 into the record.

15 (Whereupon, Exhibit Nos. 22 & 32 were received  
16 into evidence.)

17 CHAIRMAN FAY: Ms. Christensen, we had marked  
18 186 for you, I think 187 never made it out. I  
19 think we just kind of, you know, by reference went  
20 to it. So unless you want to submit that --

21 MS. CHRISTENSEN: I was going to say, 186 is  
22 already attached to Mr. Garrett's testimony, so I  
23 am not sure that I need to move it into the record  
24 at this time. We can do that when Mr. Garrett  
25 testifies.



1 CHAIRMAN FAY: Okay. That works.

2 MS. HELTON: And, Mr. Chairman, I think you  
3 said 22 and 23. I think maybe you meant 22 and 32.

4 MR. MEANS: 32, my mistake.

5 CHAIRMAN FAY: Okay. So hold on, just for  
6 clarity, 22 and 32, correct, okay.

7 All the lawyer math jokes are coming here.  
8 It's bound to happen.

9 All right. So with that, we will, without  
10 objection, enter 186 in, even though you don't  
11 necessarily want to do it. I think we want to just  
12 keep protocol here and make it clean. Without  
13 objection, show that entered.

14 (Whereupon, Exhibit No. 186 was received into  
15 evidence.)

16 CHAIRMAN FAY: All right. Mr. Means your  
17 witness.

18 MR. WAHLEN: I just have a question.

19 CHAIRMAN FAY: Mr. Wahlen.

20 MR. WAHLEN: I think at the beginning, we  
21 talked about putting stipulated testimony into the  
22 record based on the order of witnesses in the  
23 prehearing order, is that correct?

24 MR. THOMPSON: That's correct.

25 MR. WAHLEN: Okay. Well, I think we are back

1           in order. We had Ms. Wesley, we took two out of  
2           order. I think Peoples would move the direct  
3           testimony of Karen Sparkman, and Exhibit 13 into  
4           the record at this time.

5                   CHAIRMAN FAY: Okay. That works. So will  
6           take Ms. Sparkman's testimony as though read into  
7           the record -- or not read, I guess I should say,  
8           into the every record.

9                   (Whereupon, prefiled direct Karen K. Sparkman  
10          testimony was inserted.)

11

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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  
KAREN K. SPARKMAN

PEOPLES GAS SYSTEM, INC.  
DOCKET NO. 20230023-GU  
WITNESS: SPARKMAN

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**OF**  
**KAREN K. SPARKMAN**

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PEOPLES GAS SYSTEM, INC.  
DOCKET NO. 20230023-GU  
WITNESS: SPARKMAN

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PREPARED DIRECT TESTIMONY AND EXHIBIT  
OF  
KAREN K. SPARKMAN

**INTRODUCTION**

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

**A.** My name is Karen K. Sparkman. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric") as Vice President of Customer Experience. I work on behalf of Tampa Electric and Peoples Gas System, Inc. ("Peoples" or the "company") in a shared service capacity.

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

**A.** As Vice President of Customer Experience, I am responsible for leading the organization's Customer Experience Strategy and Operations. My duties include: (1) ensuring the company understands customers' evolving expectations for natural gas services; (2) developing and implementing a strategy and plan to stay relevant to and provide excellent service to our customers; and (3) delivering an excellent customer

1 experience through the Customer Experience Centers, Digital  
2 Experience, Billing and Payment Services, Credit and  
3 Collections and Customer Communications.

4  
5 **Q.** Please describe your educational background and professional  
6 experience.

7  
8 **A.** I have a bachelor's degree in business management and a  
9 master's in business administration from Colorado Technical  
10 University. I began my utility career nearly 23 years ago  
11 with Colorado Springs Utilities in their contact center.  
12 Since then, I have held positions which have progressed in  
13 responsibility, functional area and leadership at three  
14 national utilities providing natural gas, electricity, water  
15 and wastewater services. I have experience in all areas of  
16 customer experience, including call centers, workforce  
17 management, billing and payment, meter operations, revenue  
18 protection, project management, and strategic planning. I  
19 joined Peoples in June 2017 as Director of Customer Experience  
20 Operations. I assumed my current role in October 2020.

21  
22 **Q.** Have you filed testimony before the Florida Public Service  
23 Commission ("Commission") in prior cases?

24  
25 **A.** Yes. In Docket No. 20200051-GU, I filed testimony adopting

1 the direct testimony of Peoples' witness Monica A. Whiting.

2

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

5

6 **A.** The purposes of my direct testimony are to: (1) discuss the  
7 company's evolving strategy focused on excellence in customer  
8 service; (2) describe improvements to customer service made  
9 since the company's last base rate proceeding in 2020; (3)  
10 explain the company's plans for continuing to improve its  
11 customer experience; (4) describe Peoples' commitment to  
12 continued excellence and achievement in customer  
13 satisfaction, including Peoples' J.D. Power customer  
14 satisfaction achievements; and (5) demonstrate that the level  
15 of Customer Experience operations and maintenance ("O&M")  
16 expenses in the company's 2024 test year is reasonable and  
17 prudent.

18

19 **Q.** Did you prepare any exhibits in support of your prepared  
20 direct testimony?

21

22 **A.** Yes. Exhibit No. KKS-1 was prepared under my direction and  
23 supervision. My exhibit consists of four documents entitled:

24

25 Document No. 1 List of Minimum Filing Requirements



- 1 ("MFR") Co-Sponsored
- 2 Document No. 2 Peoples' Award History Since 2013
- 3 Document No. 3 J.D. Power Customer Satisfaction Scores
- 4 Document No. 4 Capital by Major Project 2022-2024

5

6 The contents of my exhibit were derived from the business  
7 records of the company and are true and correct to the best  
8 of my information and belief.

9

10 **CUSTOMER EXPERIENCE ORGANIZATIONAL STRUCTURE**

11 **Q.** Describe how customer experience is implemented at Peoples  
12 and the major functional areas in that department.

13

14 **A.** Peoples' customer experience is delivered through a shared  
15 service agreement with the company's affiliate, Tampa  
16 Electric. This organizational structure allows Peoples to  
17 provide customer experience in a streamlined way and have  
18 access to a larger workforce. This organization is made up  
19 of approximately 450 employees and provides the following  
20 eight major functional areas in support of Peoples:

- 21 1. Customer Experience Centers: Support residential and  
22 business customers through call center activities.
- 23 2. Billing Operations: Delivers accurate and timely billing  
24 information including coordinating with Peoples to receive  
25 meter reading information and resolve meter related issues.

- 1           3.    Payment Team: Processes and balances customer payments  
2           from several vendor options.
- 3           4.    Credit and Collections: Supports Peoples through  
4           customer positive identification, including fraud  
5           investigation, debt collection, research/maintenance of  
6           customer deposit securitization and bankruptcies.
- 7           5.    Customer Assistance: Networks with social service  
8           agencies to assist with customers who qualify for local,  
9           state, and federal funds.
- 10          6.    Customer Experience Strategy, Training and Workforce  
11          Management: Delivers (a) strategy, quality monitoring,  
12          training, and improvement programs for the Customer  
13          Experience team members; (b) complaint resolutions, research,  
14          and voice of the customer programs; (c) policy and procedure  
15          development; and (d) compliance monitoring.
- 16          7.    Digital Customer Solutions: Responsible for digital  
17          customer solutions from strategy to delivery including  
18          customer portal, Interactive Voice Response ("IVR") and  
19          digital outbound communications.
- 20          8.    Business Solutions: Supports the use of technology and  
21          continual enhancements to the Customer Relationship  
22          Management and Billing ("CRMB") solution and other solutions.
- 23
- 24    **Q.**    What are Peoples' goals around customer experience?
- 25

1 **A.** Peoples' overarching goal is to provide customers with a  
2 simple, personalized, and flexible experience. In addition,  
3 the company utilizes the following specific 2023 goals around  
4 Customer Experience:

- 5 1. Customer Safety - Emergency Response Rate
- 6 2. Transactional Satisfaction
- 7 3. Outstanding and Proactive Communications
- 8 4. Customer Journey Mapping

9

10 **Q.** Has Peoples formalized its plans for achieving this goal?

11

12 **A.** Yes. The company's Customer Experience Strategy, developed  
13 in 2017, is continually reassessed and revised based on  
14 continued two-way communication and engagement with our  
15 customers to better reflect our overarching goal.

16

17 The Customer Experience Strategy states that we will deliver  
18 outstanding customer service by:

- 19 1. Simplifying the customer experience;
- 20 2. Personalizing the customer experience; and
- 21 3. Partnering with customers in meaningful ways.

22

23 **Q.** How does this strategy benefit Peoples' customers?

24

25 **A.** The customer is the cornerstone of this strategy and is the

1 primary driver and recipient of the value propositions  
2 Peoples seeks to deliver. The results of the strategic focus  
3 on the customer's experience has proven to be successful, as  
4 indicated by the continued excellence in customer  
5 satisfaction as measured by J.D. Power and Cogent/Escalet.

6  
7 **CUSTOMER EXPERIENCE CENTERS**

8 **Q.** Please describe Peoples' Customer Experience Centers.

9  
10 **A.** Peoples' Customer Experience Centers are central hubs for  
11 customer connection and manage all types of incoming channels  
12 of communication, including telephone, email, and social  
13 media. The Customer Experience Centers handle emergency and  
14 nonemergency requests 24 hours a day, 7 days a week, 365 days  
15 a year. The company has two (2) Customer Experience Centers  
16 in Tampa, with one located at the company headquarters in  
17 downtown and the other in Ybor City. The downtown Customer  
18 Experience Center focuses on business customers while the  
19 Ybor City location serves residential customers.

20  
21 Customer Service Professionals ("CSPs") serve customers by  
22 helping with: (1) emergencies; (2) credit arrangements; (3)  
23 turn-on and turn-off service requests; (4) billing and  
24 remittance inquiries; and (5) miscellaneous customer account  
25 inquiries. All the company's CSPs, whether an in-office or

1 work-from-home employee, live in Florida. The company finds  
2 this local connection important and meaningful to assisting  
3 customers.

4  
5 The management of utility-related emergency calls is a top  
6 priority for Peoples in keeping its customers and communities  
7 safe. The company provides CSPs with specialized training  
8 for handling these calls and the CSPs take this responsibility  
9 seriously.

10  
11 **Q.** Please describe any improvements made to Customer Experience  
12 Centers since the company's last general base rate proceeding  
13 in 2020.

14  
15 **A.** Since 2020, the company made notable improvements to the  
16 Customer Experience Centers, including enhancement of the  
17 quality monitoring program. This enhancement supports and  
18 improves the overall customer experience through audio/visual  
19 monitoring of inbound and outbound phone and online customer  
20 interactions with CSPs.

21  
22 The monitoring program evaluates: (1) quality standards; (2)  
23 first call resolution; (3) transactional accuracy; (4)  
24 compliance with applicable policies, rules, and regulations;  
25 and (5) customer impact. The evaluations include monitoring

1 CSP behaviors that provide a positive customer experience and  
2 align with the drivers of customer satisfaction, as defined  
3 by J.D. Power. The evaluations are reviewed and any  
4 corrective or affirming feedback is provided to the CSPs.

5  
6 The company conducted post-training course evaluations via  
7 the monitoring process described above and found the CSPs'  
8 scores increased by several points.

9  
10 **ASSISTANCE FOR LOW-INCOME CUSTOMERS**

11 **Q.** Has the company implemented specific programs or processes to  
12 help low-income customers since 2020?

13  
14 **A.** Yes. The company instituted a Customer Assistance Team in  
15 2021 to help low-income customers who struggle to pay their  
16 bill and/or are trying to keep their costs of gas down. This  
17 team is led by a team member that serves as an Advisory Board  
18 Member for National Energy & Utility Affordability Coalition  
19 ("NEUAC") which is dedicated to heightening the awareness of  
20 the energy needs of low-income energy consumers by fostering  
21 public-private partnerships and engaging in other activities  
22 to help address these needs.

23  
24 The company has a long-standing practice of offering short-  
25 term payment arrangements, as well as long term installment

1 plans, to provide flexibility with extensions when customers  
2 are struggling to pay their gas bills. If assistance beyond  
3 a payment arrangement is needed, customers are referred to  
4 their local United Way 2-1-1 agency for additional  
5 resources. CSPs are also able to generate a customer  
6 assistance referral to our internal Customer Assistance Team  
7 for further review.

8  
9 The Customer Assistance Team works with a network of local,  
10 regional, and federal non-profits, including community action  
11 agencies, to aid with customers' payment of utility bills and  
12 provide referrals to our customers to other services offered  
13 by these community stakeholders. Specifically, the Customer  
14 Assistance Team provides referrals to the Low-Income Home  
15 Energy Assistance Program ("LIHEAP") providers, Emergency  
16 Home Energy Assistance Program ("EHEAP"), and the Share  
17 Program, which is administered thru the Salvation Army and  
18 Catholic Charities.

19  
20 Peoples also enhanced the online payment process by adding a  
21 specific "agency" portal for our 248 social service agency  
22 partnerships, allowing these entities to assist the customers  
23 in need more efficiently. In 2022, Peoples collaborated with  
24 these agencies to provide over \$470,000 in assistance to over  
25 2,300 gas households.

1 **EVOLUTION OF CUSTOMER EXPECTATIONS**

2 **Q.** Please explain how the expectations of Peoples' customers  
3 have changed in relation to their natural gas service?  
4

5 **A.** Peoples believes that customer expectations of their natural  
6 gas service are increasing across every aspect of that  
7 service. These rising expectations are similar across all  
8 utility types, whether that service is natural gas, electric,  
9 water, or telecom.

10  
11 Customers today expect more, and the company anticipates this  
12 evolving outlook on customer experience to continue.  
13 Customers want a quality experience and one that is  
14 consistent, personalized, and simple to use. Customers want  
15 information specifically related to services that impact  
16 their account, service quality and reliability, billing, and  
17 payment. Customers want to know what the utility is doing to  
18 improve the utility's infrastructure and what they are doing  
19 to lessen any negative impacts to the environment. Customers  
20 want options, and they want to be informed and in control of  
21 their usage and their experience. Customers expect their  
22 utility to provide the same digital experiences and options  
23 as any other company they do business with, using the latest  
24 technologies and platforms, for extreme ease of doing  
25 business at any time of the day or night.



1 Q. Please describe how Peoples has responded to the change in  
2 expectations of its customers.

3

4 A. Peoples improved the customer experience to meet changing  
5 customer expectations by using new technology, creating new  
6 experiences, new options, and opportunities by engaging with  
7 customers through new pathways. The objective is to  
8 understand the journey they would like to be on and then join  
9 them in that journey.

10

11 Q. How do customers expect Peoples to contribute to a more  
12 sustainable environment?

13

14 A. Peoples believes that customers want to understand how their  
15 utility is impacting the environment and what steps are being  
16 taken to contribute to a more sustainable environment.  
17 Sustainability is at the core of how Peoples does its  
18 business. The company has committed to reducing our own  
19 carbon footprint and greenhouse gas emissions while also  
20 working with our customers to decrease theirs. By increasing  
21 efficiency, decreasing our own system emissions, and  
22 supporting the development and use of renewable natural gas,  
23 compressed natural gas and liquified natural gas, the company  
24 is fully dedicated to meeting the expectations of our  
25 customers and the company's environmental plan.

1 In addition, natural gas is one of the safest and cleanest  
2 fuels available; it emits less pollution than any other fossil  
3 fuel source. However, customer expectations continue to  
4 increase as it relates to sustainability. Customers want to  
5 stay informed about Peoples' efforts in using renewable  
6 natural gas and how their utility is serving as an  
7 environmental steward, including the protection and  
8 restoration of natural resources. Peoples is ranked first in  
9 the nation by customers for corporate citizenship, according  
10 to J.D. Power. This award is measured by evaluating a  
11 company's: (1) support of local economic development; (2)  
12 awareness of environmental efforts; (3) level of involvement  
13 within the community; and (4) awareness of safety and  
14 conservation efforts.

15  
16 **CHANGES IN CUSTOMER EXPERIENCE SINCE 2020**

17 **Q.** How has Peoples improved the customer experience since the  
18 company's last general base rate proceeding in 2020?

19  
20 **A.** Peoples improved the customer experience through:

- 21 1. Continual evaluation and modification to Peoples'  
22 customer strategy to meet customer expectations.
- 23 2. Using technology strategies, programs, and services to  
24 improve customer programs and capabilities, and provide  
25 diverse options for customer-company interaction.

1 3. Continued identification of process improvements that  
2 enhance our ability to serve our customers proficiently.

3

4 **Q.** How much did the company spend in 2022 on capital projects in  
5 Customer Experience and how much does it plan to spend in  
6 2023?

7

8 **A.** The company spent \$4.0 million in Customer Experience in 2022  
9 and expects to spend \$2.9 million in 2023.

10

11 **NEW TECHNOLOGY PROJECTS**

12 **Q.** What types of technology improvements has the company made to  
13 improve the customer experience since the last general base  
14 rate case proceeding?

15

16 **A.** Peoples invested in the following technology projects since  
17 its last general base rate proceeding in 2020 to improve the  
18 customer experience: (1) Replacement of the company's IVR  
19 system and enhancements to the company's Contact Center  
20 Management ("CCM") system; (2) Enhancement to the company's  
21 public website; and (2) Enhancement to the digital billing  
22 experience by adding an interactive billing feature.

23

24 **1. Replacement of the IVR System and Enhancement of the CCM**  
25 **System**

1 Q. Please describe the replacement of the IVR system and the  
2 enhancement of the CCM system.

3

4 A. The IVR system platform was replaced due to outdated hardware.  
5 The enhancement of the CCM was required due to the replacement  
6 of the IVR platform and included a new virtual assistant  
7 feature. This project improved many key operational Customer  
8 Experience tasks, provided an improved call flow menu, and  
9 offers other features to enhance automation of services.  
10 These upgrades also allow for further integration of customer  
11 preferences for outbound company communications.

12

13 Q. What was the cost for the replacement of the IVR system and  
14 the enhancement of the CCM system?

15

16 A. The company made a capital investment of \$1.3 million in 2022  
17 for the replacement of the IVR system and the enhancement of  
18 the CCM system.

19

20 Q. How has this change to the IVR and CCM systems improved the  
21 customer experience?

22

23 A. The IVR and CCM systems handle over four million calls on an  
24 annual basis for Tampa Electric and Peoples, with 50 percent  
25 routed to CSPs and the remaining 50 percent resolved via self-

1 service. The change to these systems improved the customer  
2 experience by:

3  
4 1. Integrating billing and other customer systems via a  
5 modern desktop agent, allowing CSPs to assist customers more  
6 efficiently and effectively.

7 2. Establishing new self-service payment options,  
8 facilitating the customer to select a self-designated  
9 timeframe for payment.

10 3. Providing new self-service dunning options.

11 4. Expanding call capacity, allowing both Tampa Electric  
12 and Peoples to accept a higher volume of concurrent calls.

13 5. Reducing the overall time it takes a customer to  
14 navigate the IVR through improved speech recognition software  
15 and menu structure.

16 6. Providing a new after-call customer survey.

17  
18 Additionally, as part of the enhancement to the CCM, the  
19 company implemented a virtual assistant ("VA", "virtual  
20 agent" or "chatbot"). The VA is a lifelike, conversational,  
21 non-transactional chatbot providing a unique, interactive,  
22 and personalized means for customers to find answers and get  
23 assistance on the company's website, 24 hours a day, 7 days  
24 a week, 365 days a year. With the use of the VA, many  
25 customers see quicker resolution times for the more basic

1 inquiries such as "how do I report an outage?" and "where can  
2 I make a payment?".

3  
4 **2. Public Website Enhancement**

5 **Q.** Please describe the enhancement made to the company's public  
6 website?

7  
8 **A.** Peoples implemented a new Content Management System ("CMS")  
9 for the public website. This CMS replacement project replaced  
10 outdated technology and allows for real-time updates to site  
11 content. Peoples chose a CMS platform designed to meet the  
12 needs of customers and accomplish Peoples' overall Customer  
13 Experience Strategy.

14  
15 **Q.** What was the cost for the implementation of a new CMS for the  
16 company's public website?

17  
18 **A.** The company made a capital investment of \$809,863 in 2022 to  
19 implement a new CMS to the company's public website.

20  
21 **Q.** How did this change to the company's public website improve  
22 the customer experience?

23  
24 **A.** The CMS system (1) reduced calls because customers are  
25 empowered to self-serve online; (2) increased customer

1 engagement; (3) increased Peoples' J.D. Power customer  
2 satisfaction score; and (4) improved customer understanding  
3 and trust.

4  
5 **3. Enhancement to the Digital Billing Experience.**

6 **Q.** Please describe the enhancement to the digital billing  
7 experience.

8  
9 **A.** The company enhanced the digital billing experience by adding  
10 an interactive billing solution that creates a more  
11 personalized billing experience and is expected to go-live in  
12 May 2023.

13  
14 **Q.** What was the cost for this change to the digital billing  
15 experience?

16  
17 **A.** The company made a capital investment of \$1.0 million in 2022  
18 for implementing an interactive billing experience as part of  
19 its digital billing experience.

20  
21 **Q.** How will this change to the digital billing experience improve  
22 the customer experience?

23  
24 **A.** This solution will allow the customer to choose what billing  
25 information they deem relevant to view and will provide

1 detailed billing information. In other words, this solution  
2 allows the customer to see as much, or as little, billing  
3 data as they like. This will be a more expansive experience  
4 than the current paper bill format. This interactive solution  
5 will also provide opportunities for customer insights on  
6 consumption patterns including (1) link to an online home  
7 energy audit; (2) tips for handling high bills; and (3) energy  
8 savings advice.

9  
10 **EXCELLENCE IN CUSTOMER SATISFACTION**

11 **Q.** What industry awards has Peoples received for its customer  
12 service?

13  
14 **A.** In 2022, Peoples was recognized as one of the nation's most  
15 trusted utilities for the ninth time in Cogent/Escalet's  
16 Syndicated Utility Trusted Brand and Customer Engagement  
17 Residential study. The company received the third-highest  
18 Brand Trust Index score in the United States out of the 140  
19 natural gas, electric and combination utilities that are  
20 included in the study.

21  
22 Cogent/Escalet also named Peoples a Trusted Business Partner  
23 for the second year in a row, based on the Syndicated 2022  
24 Utility Trusted Brand and Customer Engagement Business study.  
25 Peoples' Brand Trust Index and Engaged Customer Relationship



1 scores ranked highest out of 82 United States utilities  
2 included in the business study. Document No. 2 of my exhibit  
3 shows Peoples award history since 2013.

4  
5 In its commitment to supporting Florida's clean energy  
6 future, the company also achieved high scores by  
7 Cogent/Escalet in the Environmental Dedication and Customer  
8 Effort Indexes of the Cogent Syndicated residential study.  
9 Additionally, Cogent/Escalet recognized the company as an  
10 Environmental Champion for the eighth consecutive year and  
11 one of the easiest utilities to do business with in 2022.

12  
13 **Q.** Please describe the awards measuring customer  
14 service/satisfaction that Peoples has received from J.D.  
15 Power.

16  
17 **A.** Peoples' J.D. Power ranking for residential customer overall  
18 satisfaction has remained first in the South Midsize segment  
19 for the past 10 years. Document No. 3 of my exhibit shows the  
20 company's customer satisfaction index scores since 2013. The  
21 company has steadily improved from an overall satisfaction  
22 score of 787 in 2017, to 886 at the end of 2021, and ended  
23 2022 at 865. The company is also currently ranked first in  
24 the nation out of 83 brands, as it has been for nine of the  
25 past 10 years. For business customers, the company placed

1 first in our segment and the nation for 2022. This is the  
2 sixth time in the past eight years that Peoples has been  
3 ranked first in our segment, and the fourth year in a row  
4 ranking first in the nation. The company's overall  
5 satisfaction score has also steadily increased from 832 in  
6 2017 to 865 at the end of 2022.

7  
8 **Q.** Has Peoples received any similar awards measuring customer  
9 service?

10  
11 **A.** Yes, in 2021, TECO Energy won Chartwell's Best Practices  
12 Silver Customer Service Award for the company's Voice of the  
13 Customer program and the work done since its launch in 2020.  
14 The program seeks to gain a more holistic view of customers  
15 across multiple journeys and interactions to understand gaps  
16 in customer satisfaction and prioritize strategic initiatives  
17 to improve the customer's experience. Peoples' Voice of the  
18 Customer program was also selected for presentation at the  
19 2021 and 2023 Customer Service Week national conference.

20  
21 **MEASURING THE CUSTOMER EXPERIENCE**

22 **Q.** How does Peoples measure its performance in customer  
23 experience?

24  
25 **A.** Peoples measures its performance in customer experience based

1 on customer satisfaction scores as measured by J.D. Power and  
2 by the level of customer complaints filed with the Commission.

3

4 **Q.** How has the company performed in Commission customer  
5 complaints?

6

7 **A.** Customer complaints filed with the Commission against Peoples  
8 have decreased by approximately 43 percent from 101 total  
9 complaints in 2012 to 58 complaints in 2022. The decrease in  
10 complaints is driven largely by: (1) implementation of the  
11 new billing system in 2017; (2) the new IVR system implemented  
12 in 2021 with increased self-serve options; (3) customer  
13 portal enhancements; (4) the customer notification and  
14 preference management system; and (5) by Peoples' strong  
15 customer focus and improved business operations.

16

17 The company is proud that it has had zero Commission  
18 infractions over the last seven years. As part of its  
19 commitment to quality customer service, Peoples contacts all  
20 customers who file a formal or informal Commission complaint  
21 to ensure these matters are resolved with the customer.  
22 Additionally, Peoples uses these complaints as an opportunity  
23 for continuous improvement, either through employee training,  
24 process or system changes, and improved customer education.

25

1 Q. In general, how has the company's performance in customer  
2 experience trended since the last general base rate  
3 proceeding?

4  
5 A. Since the last general base rate proceeding in 2020, Peoples  
6 has remained number one in overall satisfaction in the South  
7 Midsize segment and in the industry for both residential and  
8 business customers according to J.D. Power. In the  
9 residential study, Peoples was the first brand to achieve  
10 a score over 800 in overall satisfaction in 2020 and remains  
11 one of only two brands with a score above 800 in 2022.

12  
13 **2024 CUSTOMER EXPERIENCE PROPOSED RATE BASE ADDITIONS**

14 Q. What is Peoples' capital budget for Customer Experience in  
15 2024?

16  
17 A. As shown in Document No. 4 of my exhibit, the capital budget  
18 for Customer Experience totals \$3.6 million for 2024. The  
19 projects reflected in this budget are also shown on Document  
20 No. 4 of my exhibit.

21  
22 Q. How does Peoples determine its capital budget for Customer  
23 Experience?

24  
25 A. Customer Experience identifies capital improvement

1 opportunities based on analysis of industry best practices,  
2 customer feedback through our Voice of Customer program and  
3 identification of points of customer concern and gaps in  
4 customer satisfaction through customer journey mapping.

5  
6 **Q.** How does the company plan and manage its major capital  
7 improvement projects for Customer Experience?

8  
9 **A.** Customer Experience drafts a business case for each capital  
10 project that identifies potential benefits to the  
11 organization and to the customer and supports the capital  
12 project's priority ranking and cost. These capital projects  
13 are then submitted through the company's capital approval  
14 process. Once approved, the capital projects are tracked  
15 through Customer Experience's capital project portfolio and  
16 are reviewed monthly to ensure quality, timeline, and budget  
17 are on track.

18  
19 **Q.** You previously explained the company's rate base additions in  
20 Customer Experience since the company's last general base  
21 rate proceeding in 2020 and why they were prudent and that  
22 they continue to be used and useful to serve the company's  
23 customers. Now, please describe and explain the additions to  
24 rate base in Customer Experience forecasted to occur in the  
25 2024 projected test year. Why are each of these projects

1 prudent and how will they benefit the company and its  
2 customers?

3  
4 **A.** The major project included in the capital for the 2024  
5 projected test year is the Customer Experience and  
6 Digitalization project. This project will continue to focus  
7 on improvements to meet customer expectations and will make  
8 it easier for our customers to do business with Peoples. Two  
9 main features of the Customer Experience and Digitalization  
10 project include a Transactional Chatbot and Mobile  
11 Application. These features are described below:

12 1. Transactional Chatbot: The transactional chatbot efforts  
13 will enhance the existing chatbot search functionality and  
14 will provide customers the ability to self-serve multiple  
15 transactional requests including: (a) pay bills; (b) update  
16 account information; (c) start/stop/transfer; and (d) report  
17 outages. Transactional chatbot enhancements will increase  
18 the customers' self-service capabilities, providing the  
19 customer with the flexibility of performing account related  
20 transactions.

21 2. Mobile Application: The Mobile Application ("App") will  
22 deliver the core capabilities of the website experience  
23 within a native, mobile-friendly package. This will include  
24 items such as bill presentation, bill payment, outage  
25 reporting, outage map, Start/Stop/Transfer, and chatbot. The

1 Mobile App will allow the customer to interact with Peoples'  
2 digital mediums more easily. This will allow the user to  
3 stay logged into their account, more easily navigate  
4 (relative to a web browser), leverage push notifications,  
5 etc.

6  
7 **2024 CUSTOMER EXPERIENCE O&M EXPENSE**

8 **Q.** What amount of O&M expenses did Customer Experience incur in  
9 2022?

10  
11 **A.** The total in 2022 was \$13.2 million. This total amount was  
12 recorded in FERC Account 903 and the amounts are shown on MFR  
13 Schedule G-2, page 14.

14  
15 **Q.** What are the projected O&M expenses for your area in 2023 and  
16 2024?

17  
18 **A.** The totals in 2023 and 2024 are \$14 million and \$15 million,  
19 respectively. The distribution of these amounts is also shown  
20 on MFR Schedule G-2, page 14.

21  
22 **Q.** Why is the total projected amount of 2024 O&M expense for  
23 Customer Experience higher than the actual amount in 2022?

24  
25 **A.** The total in 2024 is \$1.8 million higher than in 2022.

1 Approximately \$770,000 of this increase are labor costs that  
2 are budgeted on a trended basis, as described in the direct  
3 testimony of company witness Donna L. Bluestone.  
4 Approximately \$440,000 of this increase are other costs that  
5 were budgeted on a trended basis, as described in the direct  
6 testimony of company witness Rachel B. Parsons. The remainder  
7 of the increase consists of approximately \$470,000 of not  
8 trended labor costs and approximately \$130,000 of not trended  
9 other costs. These amounts are shown on MFR Schedule G-2,  
10 page 14.

11  
12 **Q.** Why are not trended labor costs increasing by approximately  
13 \$470,000 from 2022 to 2024?

14  
15 **A.** The not trended labor costs are increasing as the company  
16 adds 6 positions to the business operations support ("BOSS")  
17 team which is responsible for the scheduling, planning, and  
18 dispatching of service work to all 14 service areas. Company  
19 witness Timothy O'Connor describes these additions to the  
20 BOSS team in his direct testimony.

21  
22 **Q.** Why are not trended other costs increasing from 2022 to 2024?

23  
24 **A.** The increase is driven by the Customer Relationship  
25 Management and Billing ("CRMB") Asset Usage fee which



1 supports the continued use of our CRMB platform.

2

3 **Q.** Is the total amount of 2024 projected O&M expense for Customer  
4 Experience reasonable?

5

6 **A.** Yes. The overall level of Customer Experience O&M expense for  
7 2024 is reasonable. The company remains focused on achieving  
8 operational efficiencies to invest in more strategic  
9 functions that will enhance the customer experience.

10

11 **SUMMARY**

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

13

14 **A.** My direct testimony provides an overview of Customer  
15 Experience. I describe the company's capital budget process  
16 for Customer Experience and capital projections for the 2024  
17 projected test year. I demonstrate that Customer Experience's  
18 level of O&M expense in the company's 2024 projected test  
19 year is reasonable and prudent.

20

21 Peoples has a long history of delivering safe, clean,  
22 reliable, and affordable natural gas while delivering high  
23 value customer service, as measured through customer  
24 satisfaction. Since Peoples' last general base rate  
25 proceeding in 2020, the company has successfully continued to

1 invest in technology, people, and processes that enhances the  
2 customer experience. These continued enhancements are  
3 necessary to meet growing technology and customer  
4 expectations. Since the company's last general base rate  
5 proceeding in 2020, the company has successfully (1) replaced  
6 the IVR system and made enhancements to the CCM system that  
7 increased customer engagement and improved customer; and (2)  
8 implemented a new CMS for our public website, resulting in  
9 increased customer engagement. The company also enhanced  
10 billing and payment services and made many smaller process  
11 and system improvements to better serve our customers.  
12 Additionally, this year, the company will add an interactive  
13 billing solution to create a more personalized billing  
14 experience.

15  
16 The company's continually evolving strategy focused on  
17 excellence in customer service, coupled with Peoples' goal of  
18 providing customers with effortless customer experiences has  
19 been foundational to the company's continued success. These  
20 efforts have resulted in the company's J.D. Power ranking for  
21 residential customer overall satisfaction remaining first in  
22 the South Midsize segment for the past 10 years.

23  
24 **Q.** Does this conclude your prepared direct testimony?  
25

1    **A.**    Yes.

2

3

4

5

6

7

8

9

10

11

12

13

14

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21

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23

24

25

1           CHAIRMAN FAY:  And the exhibit, what exhibit  
2           number do we have for Ms. Sparkman?

3           MR. WAHLEN:  13.

4           CHAIRMAN FAY:  Okay.  Without objection show  
5           that entered.

6           (Whereupon, Exhibit No. 13 was received into  
7           evidence.)

8           MR. WAHLEN:  And Mr. Means will take it from  
9           hear.

10          CHAIRMAN FAY:  And then that brings us to  
11          Mr. O'Connor?

12          MR. WAHLEN:  Yes, sir.

13          CHAIRMAN FAY:  Okay.

14          MR. MEANS:  Peoples calls Mr. O'Connor.

15          MS. CHRISTENSEN:  Can we excuse Mr. Watson?

16          MR. MEANS:  Oh, yes.  Can you excuse Mr.  
17          Watson, Mr. Chairman?

18          CHAIRMAN FAY:  Mr. Watson, we need you to sit  
19          there all night.

20          THE WITNESS:  I was hoping you wouldn't forget  
21          me.

22          CHAIRMAN FAY:  Your counsel is taking care of  
23          you.  You are excused, Mr. Watson.

24          THE WITNESS:  Thank you.

25          (Witness excused.)

1 CHAIRMAN FAY: All right. Now we will move to  
2 Mr. O'Connor.

3 Mr. Means, ready and he gets settled.

4 MR. MEANS: Thank you. Just let him get  
5 settled.

6 Whereupon,

7 TIMOTHY O'CONNOR

8 was called as a witness, having been first duly sworn to  
9 speak the truth, the whole truth, and nothing but the  
10 truth, was examined and testified as follows:

11 EXAMINATION

12 BY MR. MEANS:

13 Q Good evening, Mr. O'Connor.

14 A Good evening.

15 Q Can you please state your full name for the  
16 record?

17 A My name is Timothy O'Connor.

18 Q And have you previously been sworn?

19 A Yes, I have.

20 Q Who is your current employer and what is your  
21 business address?

22 A My employer is TECO Peoples Gas. Our business  
23 address is 702 North Franklin Street, Tampa.

24 Q Did you prepare and cause to be filed in this  
25 docket on April 4th, 2023, prepared direct testimony

1 consisting of 64 pages?

2 A Yes.

3 Q And did you prepare and cause to be filed in  
4 this docket on July 20th, 2023, prepared rebuttal  
5 testimony consisting of 25 pages?

6 A Yes.

7 Q Do you have any additions or corrections to  
8 your prepared direct or rebuttal testimony?

9 A No.

10 Q If I were to ask you the questions contained  
11 in your prepared direct and rebuttal testimony today,  
12 would your answers be the same?

13 A Yes.

14 MR. MEANS: Mr. Chairman, Peoples requests  
15 that the prepared direct and rebuttal testimony of  
16 Mr. O'Connor be inserted into the record as though  
17 read.

18 CHAIRMAN FAY: Okay. Show the direct and  
19 rebuttal testimony as though read entered.

20 (Whereupon, prefiled direct testimony of  
21 Timothy O'Connor was inserted.)

22

23

24

25



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  
TIMOTHY O'CONNOR

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PREPARED DIRECT TESTIMONY AND EXHIBIT

OF

TIMOTHY O'CONNOR

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1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**2   **PREPARED DIRECT TESTIMONY**3   **OF**4   **TIMOTHY O'CONNOR**5  
6                   **POSITION, QUALIFICATIONS, AND PURPOSE**7           **Q.**    Please state your name, address, occupation, and employer.8  
9           **A.**    My name is Timothy O'Connor. My business address is 702 North  
10           Franklin Street, Tampa, Florida 33602. I am employed by  
11           Peoples Gas System, Inc. ("Peoples" or the "company") as Vice  
12           President, Operations, Sustainability and External Affairs.13  
14           **Q.**    Please describe your duties and responsibilities in that  
15           position.16  
17           **A.**    I am responsible for all aspects of utility operations ("Gas  
18           Operations") for Peoples, which consists of the following  
19           areas: gas operations, sustainable operations, business  
20           operations support ("BOSS"), technical training, and external  
21           affairs. I lead the team of people who operate and maintain  
22           our transmission and distribution assets across the company's  
23           14 service areas. My duties include overseeing the  
24           preparation of my area's capital and operating budgets and  
25           planning and directing the company's operations and

1 maintenance activities to promote the delivery of safe,  
2 efficient, and reliable natural gas services to our  
3 customers. My duties also include overseeing the newest form  
4 of sustainable energy in Florida, which is renewable natural  
5 gas ("RNG"). Gas Operations' staffing includes technicians  
6 and other functional roles dedicated to customer service,  
7 distribution maintenance, meter reading, locating,  
8 compliance, and leak surveying, among other responsibilities.  
9 I work closely with our Pipeline Safety and Engineering and  
10 Construction teams. I am responsible for the safety,  
11 training, and evaluation of our Operations team members and  
12 external affairs team members.

13  
14 **Q.** Please summarize your educational background and business  
15 experience.

16  
17 **A.** I earned Bachelor of Science degrees in Finance and Economics  
18 from New York University and a Master of Business  
19 Administration degree from Fordham University.

20  
21 I began my career in the energy industry in 2006 when I joined  
22 Emera Maine (formerly Bangor Hydro-Electric Company), and  
23 thereafter held numerous positions of increasing  
24 responsibility in Accounting, Strategy Development, and  
25 Business Development with other subsidiaries of Emera

1 Incorporated ("Emera").

2

3 I joined Peoples in November 2016 as Vice President of  
4 Business Development, became the Director of Operations in  
5 January 2021, and assumed my current role in January 2022.

6

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

9

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

11 (1) describe the functions of the company's Gas Operations  
12 and the factors influencing that part of the business.

13 (2) describe our Pipeline Safety team and compliance  
14 activities.

15 (3) explain what Peoples is doing to improve and evolve Gas  
16 Operations with changing conditions.

17 (4) detail how the company invests capital in Gas Operations  
18 to promote safe, efficient, and reliable service to our  
19 customers.

20 (5) demonstrate that the company's proposed levels of  
21 operations and maintenance ("O&M") expenses for Gas  
22 Operations and Pipeline Safety for the 2024 projected test  
23 year are reasonable and prudent.

24 (6) summarize the company's activities and plans to promote  
25 sustainability.

1 I will also explain the company's plans for a Work and Asset  
2 Management ("WAM") platform, our proposals to begin an  
3 Advanced Metering Infrastructure ("AMI") pilot, and to  
4 recover economic development expenses in accordance with  
5 Florida Administrative Code ("FAC") Rule 25-7.042, and I will  
6 present information supporting MFR schedule Nos. I-1, I-2,  
7 and I-3.

8  
9 **Q.** Did you prepare an exhibit to support your prepared direct  
10 testimony?

11  
12 **A.** Yes. Exhibit No. TO-1, entitled "Exhibit of Timothy  
13 O'Connor", was prepared under my direction and supervision,  
14 and accompanies my prepared direct testimony. My exhibit  
15 consists of these four documents entitled:

16  
17 Document No. 1 List of Minimum Filing Requirements  
18 ("MFR") Sponsored or Co-Sponsored by  
19 Timothy O'Connor

20 Document No. 2 Map of Peoples' Operations Service Areas

21 Document No. 3 Reliability, Resiliency, and Efficiency  
22 ("RRE") Project's Actual and Projected  
23 Capital Expenditures by Type

24 Document No. 4 Customer Growth by Service Area  
25

1 The contents of my exhibit were derived from the business  
2 records of the company and are true and correct to the best  
3 of my information and belief.

4

5 **GAS OPERATIONS**

6 **Q.** Please describe the company's Gas Operations and the basic  
7 operating functions performed.

8

9 **A.** Peoples currently serves over 470,000 customers in 39  
10 counties across Florida. The company's Gas Operations team  
11 serves customers in three territories (North, Central and  
12 South) divided into 14 service areas. A map showing these  
13 territories and service areas is included as Document No. 2  
14 of my exhibit.

15

16 Gas Operations has four basic operating functions: (1)  
17 customer service; (2) distribution maintenance; (3) damage  
18 prevention and emergency response; and (4) compliance. Safety  
19 considerations permeate all functions the company performs  
20 and will be discussed later in my direct testimony.

21

22 **Q.** What customer service functions does Gas Operations perform?

23

24 **A.** The company's commitment to exceptional customer service is  
25 second only to its commitment to safety. Members of Gas

1 Operations perform all customer service field activities,  
2 including installing new meters, meter changeouts, meter  
3 reading, meter investigations, account turn-ons, account  
4 turn-offs, dunning disconnects, dunning reconnects, and meter  
5 and other trouble investigations. Our field personnel often  
6 interact personally with our customers as our field  
7 activities require us to interact with home and business  
8 owners. Although electric utilities are increasingly digital  
9 and remote, our gas field activities require our technicians  
10 to be on-site to serve our customers. Peoples is proud to do  
11 this and value this opportunity to interact directly with our  
12 customers.

13  
14 **Q.** Please explain the distribution maintenance activities  
15 performed by Gas Operations.

16  
17 **A.** Gas Operations is responsible for the safe and efficient  
18 operation and maintenance of the company's gas distribution  
19 system, which consists of gas mains, laterals, and service  
20 lines, and equipment such as meters, regulators, and pressure  
21 monitoring equipment. Gas Operations performs routine  
22 pipeline and meter maintenance, and monitors and maintains  
23 system integrity. Activities include: leak repair, equipment  
24 replacement, cathodic protection, valve maintenance, valve  
25 relocation related to road construction, regulator and meter

1 replacement on large volume meter installations, cleaning and  
2 painting above ground facilities, adjusting pipe clearances  
3 for construction by others, and various other items.  
4

5 **Q.** What damage prevention and gas emergency response functions  
6 are performed by Gas Operations?  
7

8 **A.** Peoples' transmission and distribution systems operate and  
9 serve customers across the major metropolitan areas of  
10 Florida and are buried in rights-of-way, easements, and  
11 private property. The significant amount of new commercial  
12 and residential development in Florida involves equally  
13 significant excavation activity to build and expand roads and  
14 other infrastructure. Gas Operations is responsible for  
15 locating our system infrastructure related to this excavation  
16 activity. For 2022, this represented a significant volume of  
17 "locates" of over 600,000 tickets submitted through the  
18 Sunshine State One Call 811 System ("Sunshine 811 System").  
19 Gas Operations is also responsible for emergency response due  
20 to damages to our pipeline system caused by excavation  
21 activities, regardless of whether the company was called  
22 through the Sunshine 811 System beforehand or not. For 2022,  
23 this represented nearly 1,800 damages requiring emergency  
24 response. Both the volume of locates and emergency responses  
25 are significant non-discretionary work requirements for our



1 team. Later in my direct testimony, I will demonstrate the  
2 considerable efforts Peoples has made to reduce the number of  
3 damaged facilities and to improve public safety surrounding  
4 damage prevention activities.

5  
6 **Q.** What pipeline safety compliance activities are performed by  
7 the Gas Operations team?

8  
9 **A.** Peoples is subject to pipeline safety regulations promulgated  
10 by the federal government and the State of Florida. The most  
11 significant compliance requirements are contained in  
12 regulations adopted by the Transportation Administration and  
13 the Pipeline and Hazardous Materials Safety Administration  
14 ("PHMSA"). These compliance requirements for local  
15 distribution companies ("LDCs") transporting natural gas  
16 include regulations on integrity management, incident  
17 management and communications, engineering design, operator  
18 qualifications, pipeline inspections and testing, records  
19 retention, and others.

20  
21 The Gas Operations team performs many activities to comply  
22 with these federal and state requirements including leak and  
23 atmospheric corrosion surveys, continuing surveillance  
24 surveys, cathodic protection, odorant tests, and regulator,  
25 valve, and meter inspections. These activities also require

1 significant records management. The Gas Operations team  
2 members perform hundreds of thousands of compliance  
3 inspection schedules annually.

4  
5 **Q.** What work is performed by the Gas Operations Technical  
6 Training team?

7  
8 **A.** The Gas Operations Technical Training ("Technical Training")  
9 team is responsible for providing apprentices and experienced  
10 utility technicians with PHMSA required operator  
11 qualification ("OQ") training and testing, which ensures that  
12 Gas Operations team members are competent to perform specific  
13 natural gas-related tasks. The frequency of required task-  
14 level training depends on the complexity and associated  
15 hazards of the task and ranges from annually to triennially.  
16 The instruction provided by the Technical Training team  
17 addresses the 52 covered tasks needed so technicians can  
18 comply with operator qualifications associated with their job  
19 duties. In addition to the covered tasks, there are 68 tasks  
20 not covered by the Apprentice program but are administered by  
21 the OQ coordinators for our teams.

22  
23 Peoples uses our company-run training center, a simulated  
24 community with a fully functional natural gas system called  
25 GasWorX, and a standardized training program with classroom

1 instruction and field experience to train all apprentices.

2

3 New hires begin as apprentices and progress through six levels  
4 of classroom and field study to attain operator  
5 qualifications. This career development program is a talent  
6 attraction tool for new team members to learn and develop  
7 critical skills and contribute to the safe and reliable  
8 operation of our system. Training a team member so he or she  
9 can respond to all gas system operational needs (i.e., be  
10 "on-call"), takes a minimum of approximately 18 months.

11

12 Training our team members does not stop when they achieve  
13 operator status. Our Gas Operations team members undergo  
14 routine, periodic training to reinforce our safe work  
15 practices, and learn about how to use new technology and  
16 comply with new safety and damage prevention requirements.

17

18 The Technical Training team currently consists of one  
19 manager, two supervisors and six trainers.

20

21 **Q.** How does the BOSS team support the activities of Gas  
22 Operations and the company?

23

24 **A.** The BOSS team supports Gas Operations and serves as the  
25 interface with our Customer Experience team that is shared

1 with Tampa Electric. The responsibilities of the BOSS team  
2 are to manage the Gas Operations requirements resulting from  
3 our customer service, billing, and credit and collections  
4 activities. This includes meter reading, meter management,  
5 collections, customer follow-ups, service dispatching, data  
6 analytics and reporting, and other operational controls.  
7 Through the BOSS team, Peoples is able to standardize  
8 Operations' practices across all 14 service areas and  
9 effectively interface with Customer Experience.

10  
11 The company also has a Centralized Dispatch team that is  
12 included within the BOSS team. This team is responsible for  
13 the scheduling, planning, and dispatching of service work to  
14 all 14 service areas. This centralized function benefits  
15 customers by providing a dedicated focus to the customer,  
16 consistent dispatch and processing of work assignments, and  
17 knowledge of each customer's usage and activities.

18  
19 The BOSS team currently consists of one manager, two  
20 supervisors, 10 dispatchers and four customer specialists.

21  
22 **Q.** What are the responsibilities of the Sustainable Operations  
23 team in Gas Operations?

24  
25 **A.** The Sustainable Operations team in Gas Operations supports

1 our existing and planned RNG facilities as part of Peoples'  
2 overall operations. RNG is an emerging, important business  
3 segment and represents a different operational profile than  
4 our conventional pipeline system. The company utilizes  
5 contractors to design, construct, and operate these  
6 facilities. The Sustainable Operations team is responsible  
7 for managing these outside resources to meet our safety,  
8 compliance, maintenance, and operational requirements for  
9 these sustainable assets. The team is also responsible for  
10 coordinating with Peoples' gas supply and business  
11 development, engineering and construction, safety, and other  
12 teams. The company anticipates three RNG facilities will be  
13 online and operational in 2023. Although Peoples' obligations  
14 and commitments are different for each project and with each  
15 counterparty, we have responsibilities to ensure the gas  
16 quality meets appropriate pipeline standards and that the RNG  
17 facility and pipeline equipment are operating appropriately.

18  
19 The Sustainable Operations group is a new team established in  
20 2021 and consists of three team members.

- 21  
22 **Q.** What functions does the company's external affairs group  
23 perform?  
24  
25 **A.** The external affairs group is responsible for maintaining the

1 company's relationships with local governments, community  
2 groups, trade associations, and non-profits. The external  
3 affairs group reports to me and supports Gas Operations and  
4 other parts of the company by managing a wide range of  
5 relationships, opportunities, and issues.

6  
7 As of 2023, the company has 119 franchise agreements with  
8 various cities, towns, and municipalities that are managed by  
9 this team. This team is also actively engaged with nearly  
10 100 economic development organizations, chambers, non-  
11 profits, associations, and Boards of Directors in numerous  
12 counties and regions to support future growth across Florida.

13 As the largest LDC in Florida, this team leads the company's  
14 engagement in natural gas industry groups and associations  
15 such as the American Gas Association ("AGA"), the Southern  
16 Gas Association ("SGA") and the Florida Natural Gas  
17 Association ("FNGA") to facilitate industry and peer best  
18 practices and communications. Covering five defined regions  
19 of Florida (North Florida, Central Florida, Tampa Bay,  
20 Southwest Florida & Southeast Florida), this team maintains  
21 relationships with key stakeholders, political office  
22 holders, and customers. In storm situations, the external  
23 affairs team participates as members of the Emergency  
24 Operations Centers ("EOCs"), where they provide updates to  
25 and assist key stakeholders and communities with our team's

1 preparation and response to a significant event.

2

3 Lastly, the external affairs team educates and advocates for  
4 natural gas and our customers across the state. They are  
5 often the first in our organization to learn of emerging  
6 issues, opportunities, and challenges and to effectively  
7 communicate externally and internally to best position the  
8 company.

9

10 In 2021, the company moved resources from a shared service  
11 basis with Tampa Electric and formed a dedicated team for  
12 Peoples. Creating a dedicated and geographically diverse  
13 external affairs team focused on Peoples, its customers, and  
14 the communities it serves is part of the evolution of the  
15 company described by company witness Helen J. Wesley's direct  
16 testimony.

17

18 **Q.** Please describe how many team members work in Gas Operations.

19

20 **A.** As of December 31, 2022, the Gas Operations Organization,  
21 including External Affairs, employed 401 team members.  
22 Peoples employs 100, 142, and 125 team members, respectively,  
23 in our North, Central, and South Territories which are split  
24 into 14 service areas. They provide gas service to  
25 approximately 138,000, 172,000, and 158,000 customers in

1 those areas, respectively. The company's Gas Operations  
2 organization employs nine team members in its Technical  
3 Training team, 16 in Business Operations Support, three in  
4 Sustainable Operations and six in External Affairs.

5  
6 **Q.** Does Gas Operations use contractor resources to supplement  
7 the work done by employed team members?

8  
9 **A.** Yes. Given our team's obligation to safely operate our  
10 pipeline system and provide the aforementioned customer  
11 service, distribution maintenance, damage prevention and  
12 emergency response and compliance activities, contractors are  
13 used to supplement our internal resources. Our approach is  
14 dependent on workload volumes and needs, availability of  
15 contractors and cost. Later in my direct testimony, I will  
16 explain how the company uses contractors to support Gas  
17 Operations and how the recent challenging labor market  
18 conditions have influenced the company's use of contractors  
19 in Gas Operations.

20  
21 **Q.** How has Peoples performed in Gas Operations?

22  
23 **A.** Peoples is proud of our record. Our team members provide  
24 safe, reliable, and affordable service to our customers each  
25 day and with industry-leading performance. Peoples' witness



1 Karen K. Sparkman will testify regarding Peoples' leading  
2 customer service over the last decade, as exemplified by its  
3 J.D. Power top ranking for residential customer overall  
4 satisfaction in the South Midsize segment for the past 10  
5 years. Our continual focus on serving our customers shows how  
6 well our Gas Operations team members are performing.

7  
8 **Q.** How did Peoples perform in responding to the service areas  
9 impacted by Hurricane Ian?

10  
11 **A.** Emergency Preparedness and Response is a key function of the  
12 utility to provide safe and reliable service through life  
13 safety, incident stabilization, and property conservation.  
14 In 2022, Hurricane Ian tested the organization's capabilities  
15 when it made landfall on September 28<sup>th</sup> as a Category Four  
16 hurricane through Charlotte Harbor, on the line between  
17 Peoples' Sarasota and Ft. Myers service areas.

18  
19 The company's response started well ahead of landfall.  
20 Starting five days before landfall, the company activated  
21 Incident Command and initiated checklists for preparedness  
22 and response. The company's preparedness effort includes  
23 customer relationship management; safety management; system  
24 response and upstream supply; declaration of extraordinary  
25 circumstances; logistics, mutual aid disclosures; contractor

1 preparedness; Peoples' resource management; excavations;  
2 mobilization of support staff and Incident Management Teams;  
3 and site preparation of critical facilities and construction  
4 sites.

5  
6 Per Peoples' training and procedures, the company's response  
7 started with assessments, mobilizing resources, and  
8 logistical support as soon as it was safe to begin those  
9 activities. Over the next two weeks, the Damage Assessment  
10 teams completed approximately 28,000 damage assessments and  
11 10 bridge crossings, over 1,200 miles of main were evaluated  
12 with the MobileGuard Mobile Leak Survey, and approximately 90  
13 emergency leaks were repaired while Logistics, Planning, and  
14 Finance teams worked to support the staff and operations.

15  
16 Once the assessments and immediate repairs were completed,  
17 the company began demobilization. During this extensive  
18 effort, there were zero at-fault accidents or injuries of  
19 Peoples' team members and zero pipeline safety incidents. The  
20 system showed resiliency, and after the Incident Support team  
21 demobilized, the company's efforts continued through the  
22 public awareness plan to support damage prevention,  
23 construction, and operations to continue to recover.

24  
25 Consistent with the Peoples' Pipeline Safety Management

1 System and Emergency Preparedness Plan, the company completed  
2 an after-action review once normal operations were resumed.  
3 The company is actively incorporating lessons learned into  
4 the business to enhance an already robust emergency response  
5 capability. The incremental costs associated with Peoples'  
6 response to Hurricane Ian are shown in Document No. 7 of  
7 company witness Rachel B. Parsons' direct testimony and  
8 exhibit.

9  
10 **Q.** How did the Fort Myers system perform during and after  
11 Hurricane Ian?

12  
13 **A.** Given that Hurricane Ian was a Category 4 hurricane, Peoples  
14 prepared for extensive damage to the area where the storm had  
15 the potential to impact our pipeline system. During such a  
16 storm, damage to buildings can rip our equipment out of place,  
17 uprooted trees can hit our pipelines, water and flooding can  
18 potentially immerse our infrastructure, and during recovery,  
19 electric power pole repair and other excavation can damage  
20 lines.

21  
22 Hurricane Ian demonstrated the resilience of Peoples' system.  
23 At the peak, the company had approximately 700 customers  
24 without service, but many were not at their residences or  
25 businesses. Within two weeks, the company had restored most

1 customers who were able to receive service and, for some areas  
2 like Fort Myers Beach, our teams were ready to resume service  
3 once the local infrastructure was back in place. Furthermore,  
4 there were many customers who had home generation fueled by  
5 natural gas that were able to maintain hot water and cook  
6 food while they waited for the local electric companies to  
7 restore power.

8  
9 **Q.** Given the increasing number of customers, compliance and  
10 customer service levels, does Peoples require additional team  
11 members to meet expected work requirements?

12  
13 **A.** Yes. For all the areas of Gas Operations previously detailed,  
14 additional resources are required to meet future work  
15 requirements and to maintain safe and reliable operations to  
16 serve our customers. As shown on MFR schedule G-2, pages  
17 19c-19e, this amounts to 38 additional positions in 2023 and  
18 36 additional positions in 2024, many of which are  
19 replacements for vacant positions. As I will discuss later  
20 in my direct testimony, these new positions are needed to  
21 perform the incremental level of work activities driven by  
22 Florida's remarkable growth, and to comply with increasingly  
23 stringent compliance requirements and evolving risks across  
24 pipeline safety, damage prevention and emergency management.

25

1 **SAFETY OPERATIONS**

2 **Q.** What role does safety play at Peoples?

3  
4 **A.** The safety of Peoples' team members, contractors, customers,  
5 and the public is paramount. The company seeks to set the  
6 standard for LDCs in Florida and beyond. As the largest gas  
7 utility in Florida, we seek to lead by example with safe and  
8 reliable operations and a sharp focus on customer service.  
9 Peoples expects its contractors to follow the company's  
10 safety and customer service standards and devotes resources  
11 to ensure that they do.

12  
13 Peoples' goal is to prevent all serious injuries related to  
14 our business considering our customers, the public, our team  
15 members, and contractors. We pursue this goal by strict  
16 adherence to the industry standard Pipeline Safety Management  
17 System ("PSMS") approach established by American Petroleum  
18 Institute's Recommend Practice 1173.

19  
20 The PSMS has 10 key elements that define essential  
21 requirements for a complete safety program that are risk based  
22 and leadership driven. Peoples began implementation of PSMS  
23 in 2016 and continues to develop its systems, processes, and  
24 culture around PSMS, through a "Plan, Do, Check and Act"  
25 cycle. Implementing the PSMS involves a concerted team effort

1 by our team members and outside service providers.

2

3 **Q.** Please describe the company's Pipeline Safety team.

4

5 **A.** The company's safety teams operate under the leadership of  
6 the company's Vice President of Pipeline Safety and  
7 Regulatory Affairs. Pipeline Safety is included in my direct  
8 testimony because that team works seamlessly with Gas  
9 Operations, and I am personally familiar with the company's  
10 safety programs and activities.

11

12 The Safety Operations team has two groups. The first focuses  
13 on environmental safety and compliance, contractor safety,  
14 and Occupational Safety and Health Administration ("OSHA")  
15 workplace safety. The second focuses on damage prevention and  
16 public awareness, pipeline safety compliance, and emergency  
17 management.

18

19 **Q.** Please describe how many team members work in Safety  
20 Operations.

21

22 **A.** At the end of 2022, Safety Operations consisted of a total of  
23 35 team members.

24

25 **Q.** What safety regulations impact how Peoples conducts business?

1   **A.**   As an LDC, Peoples is subject to federal and state regulations  
2           to promote the safety and reliability of the transportation  
3           of natural gas for our customers.

4  
5           The PHMSA, which is part of the United States Department of  
6           Transportation, develops and enforces regulations for the  
7           safe, reliable, and environmentally sound operation of  
8           America's 2.6 million miles of gas pipeline and the nearly  
9           1.0 million daily shipments of hazardous materials by land,  
10          sea, and air.

11  
12          The Florida Public Service Commission ("Commission") annually  
13          inspects Peoples' compliance with the requirements under 49  
14          C.F.R. § 191 and 192 and Chapter 25-12 of the Florida  
15          Administrative Code.

16  
17          As an employer, Peoples is subject to workplace safety  
18          regulations imposed by OSHA, and environmental regulations  
19          enacted by federal and state environmental regulatory  
20          agencies.

21  
22          The company understands that following applicable safety and  
23          other regulations is one of its fundamental obligations and  
24          works diligently to meet and exceed the compliance  
25          requirements under these laws.

1 Q. In general, how do these regulations and compliance  
2 requirements influence the company's costs of doing business?

3  
4 A. While complying with federal and state safety including  
5 damage prevention and other regulations which promote the  
6 safety of our customers and the public, these compliance  
7 requirements affect the company's costs to construct assets  
8 and its level of O&M expenses.

9  
10 Regulations may specify that the company install new pieces  
11 of equipment or design and construct facilities to a certain  
12 standard. On the O&M side, Peoples begins dedicating  
13 resources to federal and state compliance as soon as new rules  
14 or rule amendments are noticed for adoption. Peoples monitors  
15 rule development and amendment activity to assess their  
16 potential impacts on the company's gas system and operations,  
17 and to provide input as appropriate so the costs and benefits  
18 of new rules and rule amendments to its customers are properly  
19 considered.

20  
21 For example, a recent Rupture Mitigation Valve ("RMV") Rule  
22 requires process improvements over the entire lifecycle of  
23 the pipeline. The RMV rule was issued April 4, 2022 and became  
24 effective October 5, 2022. It requires new capital assets  
25 (valves and telemetry) to be designed and installed for



1 pipeline facilities fitting certain PHMSA criteria. The RMV  
2 rule also imposes requirements for construction standards and  
3 how valves and telemetry must be operated and maintained.  
4 This federal rule change is compelling Peoples to update its  
5 design and construction standards, operation and maintenance  
6 practices, gas control room procedures, testing protocols,  
7 and training programs.

8  
9 Peoples considers this safety compliance work to be important  
10 and valuable in the pursuit of safety, but it does increase  
11 the costs the company incurs to construct, operate, and  
12 maintain its distribution system.

13  
14 **Q.** How has Peoples performed in the safety area?

15  
16 **A.** Peoples is proud of its safety record.

17  
18 The company's OSHA injury rate for team members and  
19 contractors is an industry low. Its OSHA incident rate  
20 declined from 1.22 in 2020 to 1.13 in 2022. Its avoidable  
21 vehicle incident rate declined from 2.26 in 2020 to 1.84 in  
22 2022.

23  
24 Peoples was awarded the Industry Leader Accident Prevention  
25 Award from the American Gas Association for a "DART" (days

1 away, restricted, or transferred) incidence rate below the  
2 industry average in 2022.

3  
4 Peoples received Gold Shovel Standard Certification for its  
5 use of underground damage prevention best practices and has  
6 required the same of its strategic partners. The company  
7 continues to have excellent PHMSA compliance results.  
8

9 **EXTERNAL FORCES AND THE EVOLUTION OF GAS OPERATIONS**

10 **Q.** What external forces are significantly influencing the  
11 activities of Gas Operations?  
12

13 **A.** The major forces influencing the activities of Gas Operations  
14 are: (1) the remarkable population growth of Florida, (2) the  
15 challenging market dynamics for internal and external labor,  
16 (3) increasing safety compliance obligations, (4) increasing  
17 damage prevention activities, and (5) growing customer demand  
18 for, and opportunities to support, compressed natural gas  
19 ("CNG"), liquefied natural gas ("LNG"), and RNG customers.  
20

21 **GROWTH OF FLORIDA**

22 **Q.** How does Peoples describe the recent growth of Florida?  
23

24 **A.** As noted by witness Wesley and supported by company witness  
25 Dr. Richard K. Harper, Florida's growth has been remarkable,

1 especially over the past few years. Florida's population  
2 growth means more new home construction; more hotels,  
3 hospitals, stores, and restaurants; new and expanded roads  
4 and other construction; and more gas-fired electricity  
5 generation. As Florida grows, Peoples must invest in new  
6 mains, laterals, service lines, and meters; hire team members  
7 to operate and maintain a growing system; and spend money  
8 building, upgrading, and moving the company's gas  
9 distribution infrastructure to accommodate Florida's growth  
10 and construction.

11  
12 **Q.** What impact has the recent growth of Florida had on the  
13 company's Gas Operations?

14  
15 **A.** Florida's growth is providing Peoples the opportunity to  
16 serve more customers and grow the size of the distribution  
17 system and resources we use to serve them. As our system  
18 expands, the company must increase the resources we spend on  
19 safety compliance and the different functions performed by  
20 Gas Operations. It also has increased the work that must be  
21 done to accommodate third-party construction activities such  
22 as new residential and commercial construction and road  
23 construction. Identifying the location of our gas  
24 infrastructure before building contractors, road contractors  
25 and landowners dig is an important and growing part of the

1 work done in Gas Operations.

2

3 **Q.** Has Florida grown uniformly across Peoples' service area?

4

5 **A.** No. The percentage of customer growth by service area as  
6 provided in Document No. 4 of my exhibit, showcases the  
7 remarkable growth of Florida. For 2021 and 2022 respectively,  
8 Jacksonville has grown 12.9 percent and 11.9 percent;  
9 Southwest Florida has grown 11.6 percent and 12.1 percent;  
10 and Sarasota has grown 8 percent and 8.4 percent. For those  
11 three service areas, the overall growth for 2018-2022 has  
12 been 57.9 percent, 53.7 percent, and 35.2 percent. These  
13 percentage increases underscore our higher growth areas. The  
14 company continues to see growth in other service areas, but  
15 not at the same levels as illustrated above. Dade-Broward,  
16 Tampa and Orlando represent three of our largest service  
17 areas. For 2021 and 2022 respectively, Dade Broward has grown  
18 1.1 percent and 0.7 percent, Tampa has grown 3.1 percent and  
19 2.7 percent, and Orlando has grown 2.6 percent and 2.1  
20 percent. For those three service areas, the overall growth  
21 for 2018-2022 has been 3 percent, 12.9 percent, and 9.5  
22 percent, respectively.

23

24 **Q.** Do you have data that reflects the impact of Florida's growth  
25 on Gas Operations?

1 **A.** Since 2020, Gas Operations is experiencing an increased  
2 workload in all areas, which I have highlighted in key areas  
3 below:

4 (1) Customer growth has increased from 425,990 customers at  
5 the end of 2020 to 467,975 at the end of 2022 and is expected  
6 to be 496,812 by the end of 2024. This increase of 70,822  
7 customers in this time frame drives higher customer service  
8 volumes to Gas Operations. Our teams have more customers to  
9 serve which can include new meter sets, meter reading,  
10 maintenance and investigations, leak responses, customer  
11 inquiries, meter compliance requirements and all activities  
12 required to serve our customers and operate the system safely  
13 and properly.

14 (2) In 2020, the company's distribution system consisted of  
15 approximately 14,175 miles of mains. Those numbers increased  
16 to approximately 14,880 by the end of 2022 and are expected  
17 to grow to 15,494 by the end of 2024.

18 (3) Locate ticket requests have increased from approximately  
19 535,000 at the end of 2020 to approximately 618,000 at the  
20 end of 2022 and are expected to exceed 700,000 by the end of  
21 2024. This increase of over 50,000 tickets annually in this  
22 time frame drives higher locate activity in every service  
23 area. The Sunshine 811 System process requires Peoples to  
24 respond to locate tickets within two business days. Coupled  
25 with the remarkable business, roadway and construction growth

1 in Florida, the volume of locate tickets is a significant  
2 resource driver to Peoples. Furthermore, the expected  
3 infrastructure investments for Florida related to the  
4 Inflation Reduction Act will add to this already high growth  
5 environment.

6 (4) Damages to the distribution system have increased from  
7 1,500 at the end of 2020 to 1,800 at the end of 2022 and are  
8 expected to be 2,000 by the end of 2024. This increase of  
9 approximately 100 damages each year in this time frame drives  
10 higher emergency response activity in each service area. With  
11 our ever-expanding geographic service area to cover,  
12 responding to damages quickly is becoming more challenging  
13 without more resources. The emergency response time  
14 percentage under 60 minutes was 98.5 percent at the end of  
15 2020, 98 percent at the end of 2021 and 98 percent at the end  
16 of 2022. The general industry standard is no less than 98.5  
17 percent. The increase in damages, the greater mileage to cover  
18 per technician, and the impact of Florida's population growth  
19 on traffic and roads is slowing our response times. Given  
20 where some team members live within a service area, it is  
21 sometimes physically impossible to safely travel to a damaged  
22 line in under 60 minutes. Lastly, given that a technician  
23 must be prepared for any situation in an emergency response  
24 scenario, only fully trained, operationally qualified team  
25 members are on-call and able to respond. In other words, a

1 new apprentice will not have the adequate training necessary  
2 to respond to emergency scenarios and as a result are unable  
3 to immediately contribute to the growing emergency response  
4 resourcing need related to damages.

5  
6 **Q.** How is Gas Operations responding to this growing level of  
7 work activity?

8  
9 **A.** Due to our growing customer base and increased compliance,  
10 locate, emergency response and other operational needs, Gas  
11 Operations is increasing our trained workforce while  
12 selectively engaging contractors. Through this process,  
13 Peoples is also actively working to ensure we have qualified  
14 personnel available in locations to meet the 60 minutes  
15 response time.

16  
17 Total headcount in Gas Operations at the end of 2022 was 395.  
18 For 2021 and 2022, total headcount was 360 and 395,  
19 respectively. For 2023 through 2024, the total headcount is  
20 expected to be 433 and 466, respectively. Including budgeted  
21 vacancy allowances of five percent, the net headcount  
22 reflected in the 2023 and 2024 budgets is expected to be 413  
23 and 445, respectively. MFR schedule G-2, pages 19c-19e shows  
24 the position breakdown for 2023 and 2024 for these increases.

25

1 In 2023, 39 total new positions are planned, not including  
2 any vacancy assumption:

- 3
- 4 (1) 32 positions are planned for various field personnel -  
5 supervisors, utility technicians, line locators, apprentices,  
6 corrosion technicians and utility coordinators,  
7 (2) six positions are planned for dispatchers and support  
8 specialists within the BOSS team, and  
9 (3) one position is planned for an external affairs analyst.

10

11 For budgeting purposes, a five percent vacancy assumption was  
12 used on the total 39 positions planned, thereby reducing the  
13 total 2023 planned positions to a net of 37.

14

15 In 2024, 33 total new positions are planned, not including  
16 any vacancy assumption:

- 17
- 18 (1) 30 positions are planned for various field personnel -  
19 supervisors, utility technicians, line locators, apprentices,  
20 corrosion technicians and utility coordinators,  
21 (2) Two positions are planned for technical trainers, and  
22 (3) One position is planned for a damage prevention  
23 supervisor.

24

25 For budgeting purposes, a five percent vacancy assumption was



1 used on the total 33 positions planned, thereby reducing the  
2 total 2024 planned positions to a net of 31.

3  
4 **CHALLENGING LABOR MARKETS**

5 **Q.** Have you found it challenging to meet the internal and  
6 external labor needs for Gas Operations?

7  
8 **A.** Yes. Since 2020, the labor market in Florida is more  
9 competitive, and as a result Peoples has experienced  
10 challenges in attracting and retaining qualified team  
11 members. In this more competitive labor environment,  
12 candidates are seeking higher wages, flexible work  
13 arrangements, rapid career promotion and other job  
14 opportunities that have made it more difficult to attract  
15 workers for field operations roles as well as other key roles  
16 within the company.

17  
18 Although Florida is an attractive place to live and work, the  
19 gas industry employs fewer workers when compared to electric  
20 utilities in Florida, so the number of fully trained people  
21 available to work in the gas industry is not as large here as  
22 it is in other states. The company finds it difficult to  
23 recruit trained gas industry workers from northern states  
24 where gas loads and penetration are greater, because the  
25 prevailing wage rates where they are working are higher than

1 our wage scales. These challenges are explained more fully  
2 by company witness Donna L. Bluestone in her direct testimony.

3  
4 **Q.** What impact has the challenging labor market had on Gas  
5 Operations?

6  
7 **A.** The challenging labor market has impacted Gas Operations by:  
8 (1) increasing activities aimed at recruitment, training, and  
9 retention, (2) regular review of our wage rates to determine  
10 their competitiveness, and (3) balancing our use and  
11 associated costs with contractors.

12  
13 RECRUITMENT, TRAINING AND RETENTION

14 Total team members in Gas Operations have increased from 360  
15 in 2021 to 395 in 2022, with planned additions of 38 in 2023  
16 and 33 for 2024. These increases are necessary due to the  
17 growth of the pipeline system and our obligation to serve  
18 customers safely and reliably. The increases are also due to  
19 some reduction in the number of contractors by bringing some  
20 positions in house.

21  
22 In addition to the impact of the challenging labor market  
23 related to hiring new team members, the development timeframe  
24 required to ensure new hires are sufficiently trained and  
25 obtain operator qualifications results in a lag before team

1 members can fully participate in the required work. For  
2 example, a new apprentice with no prior gas utility experience  
3 cannot perform any tasks for a minimum of three months as  
4 they acquire operator qualifications. It takes a minimum of  
5 approximately 18 months for the same apprentice to acquire  
6 sufficient operator qualifications to perform on-call duties.  
7 What this means is that although Peoples is adding to our  
8 team members, the impact on the increasing workforce is not  
9 realized immediately and will lag for a period.

10  
11 Lastly, the company has been challenged in its ability to  
12 retain team members over the long-term. Due to this  
13 competitive environment and the necessary onboarding and  
14 training requirements to ensure a proficient and skilled  
15 workforce, Peoples is experiencing higher turnover and  
16 attrition. While this is unfortunate, the company knows that  
17 it is a phenomenon affecting others in the utility sector as  
18 geographic migration for similar roles but at higher pay  
19 continues.

20  
21 COMPETITIVE COMPENSATION

22 The starting hourly wage rate for an apprentice in Gas  
23 Operations was \$16 in 2020 and has risen to \$20 in 2022.  
24 Peoples anticipates needing to continue increasing wage rates  
25 in 2023 and 2024 to attract and retain qualified team members.

1 Witness Bluestone's direct testimony will provide more detail  
2 on labor rates and compensation.

3

4 USE OF CONTRACTORS

5 The company's obligation to provide a safe and reliable  
6 natural gas distribution system is largely dependent upon  
7 non-discretionary job activities. Accordingly, Peoples must  
8 ensure the labor needs related to operations, compliance,  
9 safety, maintenance, customer service and emergency response  
10 activities do not go unmet. Peoples can secure the services  
11 of fully qualified gas technicians by contracting outside  
12 service providers. While these contractors are more costly on  
13 a per-hour basis, use of contractors allows the company to  
14 meet its immediate needs and to quickly adjust the size of  
15 its total work force, including both team members and  
16 contractors, to meet its operational, performance and  
17 geographic needs.

18

19 **Q.** What actions is Gas Operations taking to mitigate the impact  
20 of current labor market conditions?

21

22 **A.** Gas Operations collaborates with the company's Human  
23 Resources group to hire team members to meet our needs. The  
24 actions taken to mitigate market conditions include: 1)  
25 providing market competitive wages and benefits to our team

1 members, 2) increasing the volume of new apprentices through  
2 our GasWorx apprentice program for future workload needs, and  
3 3) reducing the need for some contractors by increasing  
4 internal teams.

5  
6 Witness Bluestone's direct testimony details the company's  
7 efforts to adjust wages and benefits to align with market  
8 conditions. To attract and retain new team members, the  
9 company must be competitive in the marketplace by offering a  
10 strong compensation package.

11  
12 In 2022, the company worked diligently to recruit for our  
13 apprentice classes. The company recruited three new  
14 apprentice classes, the most completed in any year, and  
15 trained 38 new apprentices to meet our higher workload and to  
16 reduce the usage of contractors. This is not an immediate  
17 cost savings between internal and external costs due to the  
18 amount of time required to train new team members.

19  
20 **SAFETY COMPLIANCE**

21 **Q.** Please describe how the company's safety compliance  
22 requirements are increasing.

23  
24 **A.** Recent PHMSA regulation changes include enhanced requirements  
25 in the categories of integrity management, management of

1 change, rupture detection, valve installations, leak  
2 management, safety reporting requirements, environmental  
3 standards and procedures, and pipeline assessment  
4 requirements. Looking ahead, Peoples is facing changes from  
5 the PIPES 2020 Act, MegaRule RIN1, RIN2, and RIN3, and RMV  
6 Rule, and rulemaking is expected to arise from the 2024 PHMSA  
7 reauthorization. Company witness Christian C. Richard  
8 provides greater detail of these compliance requirements in  
9 his direct testimony.

10

11 **Q.** Why did the company add to the Pipeline Safety team in 2022?

12

13 **A.** In 2022, the company added 11 team members to Safety  
14 Operations for the following business reasons:

15

16 The company added six members (including a supervisor and  
17 manager) to its Damage Prevention team due to the rise in  
18 construction activity in the state and the resulting increase  
19 in locate tickets and damages. These new team members work  
20 in the field in different locations around the company's  
21 service territory and dedicate their efforts to preventing  
22 underground pipeline damages

23

24 Peoples added one Emergency Management Manager, who is  
25 dedicated to planning our response to and responding to

1 emergencies, including large customer outages and severe  
2 weather events. Improving the resiliency of utility  
3 infrastructure and promoting prompt response by utilities to  
4 severe weather events is becoming a more important public  
5 policy goal in Florida. Additionally, the expansion of our  
6 system results in the need for a position that focuses on  
7 emergency management.

8  
9 As our capital program has expanded, so has the number of  
10 contractors employed and therefore the need for more safety  
11 supervision of those contractors. The company added three  
12 coordinators assigned geographically across the state to our  
13 Contractor Safety team. Peoples works with 150 contractor  
14 crews to meet the construction demands of its growing system.  
15 Our Contractor Safety team is responsible for collaborating  
16 with contractors and conducting field inspections to ensure  
17 compliance with safety programs and safe construction  
18 practices.

19  
20 The company added a Compliance Analyst to the  
21 PHMSA/Commission Compliance team to manage the hundreds of  
22 thousands of compliance activities and the almost 30  
23 compliance inspections which occur annually while pursuing  
24 process improvements in the compliance function.

25

1 Q. How is Peoples adding to the Safety Operations team in 2023?

2

3 A. The company is adding one additional team member to its  
4 Quality Assurance and Pipeline Safety Management team to  
5 accommodate pending regulatory requirements and safety risk  
6 mitigation efforts. This position is needed to support the  
7 growing regulatory workload (e.g., Management of Change) and  
8 the Corrective and Preventive Action Program ("CAPA") we are  
9 developing.

10

11 Q. Does the company plan to add to the Safety Operations team in  
12 2024?

13

14 A. Yes. The company plans to add five members to its Pipeline  
15 Safety team in 2024 for the following purposes:

16

17 (1) one additional team member to our occupational safety  
18 team to advance safety training across our growing internal  
19 and external workforce.

20

21 (2) one additional team member to the Pipeline Safety  
22 Compliance team to be the subject matter expert on existing  
23 and impending safety compliance regulations. This person is  
24 needed to ensure the company complies with the rapidly  
25 changing and increasingly complex pipeline safety regulations



1 I previously described in my direct testimony. This highly  
2 technical position will advance safety of the system through  
3 compliance and participate in the design of our compliance  
4 systems to maximize efficiency, compliance, and safety.

5  
6 (3) add two members to the Emergency Management team. With  
7 14 service areas across the state and a growing customer base,  
8 these roles will enhance Peoples' ability to plan for and  
9 respond to hurricanes and other emergency events across the  
10 state. Developing and executing drills and mock storm events  
11 is critical to prepare team members to properly prepare and  
12 respond to an emergency event. These mock events will be  
13 coordinated and executed with local and state municipal  
14 emergency services. Peoples needs to expand its team to  
15 properly coordinate and execute these activities.

16  
17 (4) add one new team member to its environmental team. Peoples  
18 currently employs one dedicated environmental specialist who:  
19 (a) helps the company meet environmental permitting  
20 requirements, (b) coordinates environmental safety programs,  
21 and (c) responds to environmental near misses or incidents.  
22 By expanding our environmental team, the company will be  
23 positioned for the future to enhance environmental efforts in  
24 the areas of methane emission reduction, program management  
25 and environmental remediation.

1 **DAMAGE PREVENTION**

2 **Q.** Please describe the challenges and operational requirements  
3 of damage prevention and emergency response.

4  
5 **A.** In response to excavation activities and locating requests  
6 through the Sunshine 811 System, the company responded to  
7 approximately 535,000 underground facility "locates" in 2020.  
8 This number grew to approximately 618,000 in 2022 and is  
9 expected to increase to more than 700,000 in 2024. These  
10 locate requests are made by third-party excavators and the  
11 company must respond within two business days. These locate  
12 requests require a technician or a contractor to confirm the  
13 location of our facilities and for those locates that are in  
14 the vicinity of our distribution pipeline system, physically  
15 mark the gas lines, with yellow paint or flags, to help  
16 prevent excavators from damaging an underground pipeline.

17  
18 It is important to emphasize the impact of the volume of  
19 locates on our business. The approximate 618,000 locate  
20 requests in 2022 represents a monthly average of around 51,500  
21 locate requests. Given the two-business day response  
22 requirement, this volume can represent 20-30 locate tickets  
23 per day for our locators or technicians.

24  
25 Peoples suffered approximately 1,500, 1,700 and 1,800

1 underground facility damages by third parties in 2020, 2021,  
2 and 2022, respectively. Of the damages in 2022, approximately  
3 80 percent were caused by the excavator that either failed to  
4 call the Sunshine 811 System call center to request a ticket  
5 or did not adhere to damage prevention requirements defined  
6 in Chapter 556 as required by law.

7  
8 Emphasis on the volume of damages is important as the  
9 approximately 1,800 damages in 2022 represents about five  
10 damages per business day. Damages are not scheduled or  
11 planned. When a damage occurs, our team must stop work to  
12 respond to the damage. The company does not staff positions  
13 to be on standby for possible damages. Our teams must be  
14 ready to respond as needed.

15  
16 These locate and damage prevention activities are a priority  
17 and responsibility of Peoples' Operations and Pipeline Safety  
18 teams, and ensuring adequate resources exist to perform these  
19 duties is an essential responsibility to the communities of  
20 Florida. Appropriate rates to support these costs are  
21 beneficial to customers in the interest of public safety,  
22 liability, and reliability of gas service.

23  
24 **Q.** What actions has the company taken to reduce underground  
25 damages by third parties?

1 A. Peoples has implemented numerous damage prevention  
2 initiatives to mitigate the risks associated with damages to  
3 our pipeline system. These initiatives started in 2021 and  
4 include: (1)re-organized Gas Operations supervisors and team  
5 members to be dedicated to locate and gas emergency response  
6 activities for areas with high volumes of locate tickets, (2)  
7 initially piloted, then expanded broadly, process improvement  
8 efforts led by an external process consultant, (3) expanded  
9 the number of Pipeline Safety Damage Prevention team members  
10 dedicated to the field and proactive intervention with third-  
11 party contractors to prevent damages, (4) obtained  
12 certification as a Gold Shovel Gas Operator and required  
13 Peoples' contractors to obtain this certification, ensuring  
14 we are following damage prevention best practices, and (5)  
15 focused efforts on engaging with leadership of high-risk  
16 excavators who use mechanized equipment that can damage  
17 underground natural gas pipeline with serious consequences.

18  
19 Peoples also continues to work with state and local  
20 jurisdictions on strengthening enforcement activities to  
21 deter future excavation violations. Based on available data,  
22 improved communication, education, and enforcement could  
23 drive greater utilization of the Sunshine 811 System. By  
24 reducing excavation activities that are not preceded by a  
25 locate call, the company can better prevent damages.

1 Q. Have these five initiatives increased costs for Peoples and  
2 why are they good for customers?

3  
4 A. Yes. These initiatives have increased O&M and capital costs.  
5 These cost increases were incurred as a result of staffing  
6 requirements to properly respond to the increasing ticket  
7 volume. These cost increases are prudent and in the best  
8 interest of customers as they enhance public safety, lower  
9 methane emissions with every prevented damage, reduce  
10 liability for Peoples, and prevent costly and disruptive  
11 customer outages.

12

13 **SUSTAINABILITY OPPORTUNITIES**

14 Q. What opportunities does Peoples see to support CNG, LNG, and  
15 RNG in Florida?

16

17 A. Peoples sees growing opportunities in all three areas.  
18 Company witness Lew Rutkin, Jr. describes these growing  
19 opportunities, and what Peoples is doing to support customers  
20 who seek them, in his prepared direct testimony.

21

22 Q. How have the activities of the Gas Operations area been  
23 affected by the work witness Rutkin and his team have been  
24 doing in the CNG, LNG, and RNG areas?

25

1 **A.** As discussed earlier in my direct testimony, the company has  
2 added three members in the Gas Operations area to operate the  
3 facilities used to support the three RNG facilities discussed  
4 by witness Rutkin in his direct testimony. In support of the  
5 RNG facilities, Sustainable Operations evaluates, procures,  
6 and manages contractors to perform O&M services and other  
7 obligations.

8  
9 **GAS OPERATIONS CAPITAL PROJECTS**

10 **Q.** What kinds of potential capital projects are identified by  
11 Gas Operations?

12  
13 **A.** Most potential capital projects identified by Gas Operations  
14 serve to promote the reliability, resiliency, and efficiency  
15 ("RRE") of our gas distribution system. Through the course of  
16 operating our distribution systems, members of our Gas  
17 Operations team become aware of facilities that need to be  
18 replaced (beyond the replacement of Cast Iron/Bare Steel or  
19 Problematic Plastic Pipe), improved or relocated to maintain  
20 the safe and reliable operation of the system. We work with  
21 the company's engineering, construction, and technology team  
22 on larger capital projects with longer planning and  
23 implementation schedules. Projects also include pipeline  
24 installations to loop our system to ensure no significant  
25 customer base is dependent on only one feed of gas. As

1 previously discussed, with the significant volume of damaged  
2 facilities Peoples experiences, ensuring reliable and looped  
3 systems provides for the ability to respond more safely to a  
4 damaged facility. Witness Richard describes the process for  
5 identifying, evaluating, budgeting, and implementing major  
6 RRE projects in his direct testimony.

7  
8 **Q.** What dollar value of RRE projects were identified as needed  
9 by Gas Operations for 2022 to 2024?

10  
11 **A.** Gas Operations identified the need for a total of  
12 approximately \$144.5 million of RRE projects for that period.  
13 Of that total, approximately \$43.5 million was spent in 2022,  
14 and approximately \$37 million and \$64 million are projected  
15 to be spent in 2023 and 2024, respectively. A schedule showing  
16 the actual and projected capital expenditures by type for  
17 these three years is included as Document No. 3 of my exhibit.

18  
19 The process the company uses to plan, budget and construct  
20 capital projects is explained by witness Richard in his direct  
21 testimony. The actual and projected spending amounts shown  
22 for 2022, 2023, and 2024 for Gas Operations RRE projects  
23 reflect projects that are needed, have been or will be  
24 constructed, are prudent and should be included in rate base  
25 for the 2024 projected test year.

1 Q. What categories of projects are included in the RRE project  
2 totals for 2022, 2023 and 2024?

3  
4 A. The categories of projects included in those amounts include  
5 cathodic protection, distribution system improvements,  
6 improvements to property, main replacements, meters and  
7 regulators, non-construction, service line replacements,  
8 technology projects and transportation vehicles. The work  
9 associated with each of these categories is explained below.

10  
11 Cathodic Protection - replacement, retirement, or addition of  
12 cathodic protection on existing gas mains and services. The  
13 company spent \$3.3 million in 2022 and projects to spend \$2.5  
14 million and \$2.6 million in 2023 and 2024, respectively.

15  
16 Distribution System Improvements - replacement, retirement,  
17 or addition of gas mains related to the enhancement of the  
18 gas distribution system's reliability. The company spent \$5.4  
19 million in 2022 and projects to spend \$3.0 million and \$3.5  
20 million in 2023 and 2024, respectively.

21  
22 Improvements to Property - permanent alteration, repair, or  
23 addition to a property that enhances its value, increases its  
24 useful life, or allows for new use. \$2.4 million was spent in  
25 2022 with \$3.0 million and \$12.1 million projected to be spent



1 in 2023 and 2024, respectively. For 2022, our Miami service  
2 area building required improvements to renew permits with the  
3 city. For 2024, the company projects \$1.1 million for  
4 improvements to our GasWorx facility and \$8.0 million for a  
5 new or large renovation for our Orlando office. General  
6 building repairs and costs were \$1.9 million in 2022 and are  
7 projected to be \$3.0 million and \$3.0 million in 2023 and  
8 2024, respectively.

9  
10 Main Replacements - replacement or retirement of short  
11 sections of existing gas mains in an emergency or unplanned  
12 event where there is not time to plan, design, permit, or  
13 schedule the work. The company spent \$17.6 million in 2022  
14 with \$15.0 million and \$16.8 million projected to be spent in  
15 2023 and 2024, respectively.

16  
17 Meters and Regulators - replacement, retirement, or addition  
18 of metering and regulation equipment to maintain reliability,  
19 accurate gas monitoring and compliance with applicable  
20 requirements. The company spent \$0 in 2022 and projects \$0  
21 for 2023. The company projects to spend \$7.8 million in 2024.  
22 Due to the continued shortage of small commercial meters, the  
23 company is unable to complete periodic change outs ("PCOs")  
24 for 2022 and 2023. Peoples is expecting meter supply to become  
25 available by 2024 and have reflected the costs of working

1 through any backlog and the 2024 scheduled PCOs.

2  
3 Non-Construction - tools, tooling, machinery, or equipment  
4 used to install or maintain company assets, power equipment  
5 and tools, gauges, instruments, devices, or systems used to  
6 inspect, test, calibrate, or measure parameters. The company  
7 spent \$1.4 million in 2022 and projects to spend \$1.5 million  
8 and \$2.1 million in 2023 and 2024, respectively.

9  
10 Service Line Replacements - replacement of a portion or entire  
11 service lines of existing gas services in an emergency or  
12 unplanned event where there is not time to plan, design,  
13 permit, and schedule the work. The company spent \$7.6 million  
14 in 2022 and projects to spend \$6.8 million and \$7.7 million  
15 in 2023 and 2024, respectively.

16  
17 Technology Projects - primarily purchase of computers,  
18 printers, and related equipment. The company spent  
19 approximately \$500,000 in 2022 and projects to spend  
20 approximately \$600,000 and \$400,000 in 2023 and 2024,  
21 respectively.

22  
23 Transportation Vehicles - purchase of vehicles. The company  
24 spent \$5.2 million in 2022 and projects to spend \$4.8 million  
25 and \$8.3 million in 2023 and 2024, respectively. Capital

1 totals in 2022 and 2023 reflect lower average annual amounts  
2 due to ongoing market constraints that have slowed the  
3 company's ability to source new vehicles.  
4

5 **OPERATIONS AND MAINTENANCE EXPENSES**

6 **Q.** What is the amount of O&M expenses by functional FERC account  
7 incurred in 2022 that you are supporting?  
8

9 **A.** In 2022, the company recorded a total of \$36.9 million in  
10 FERC Accounts 413, 871, 874, 878, 879, 880, 881, 886, 887,  
11 892, 893, 894 and 902. The amount for each account is shown  
12 on MFR schedule G-2, pages 12a-19a.  
13

14 **Q.** What is the projected O&M expenses for these FERC accounts in  
15 2023 and 2024?  
16

17 **A.** The totals in 2023 and 2024 are \$37.6 million and \$42.5  
18 million, respectively. The distribution of these amounts is  
19 also shown on MFR schedule G-2, pages 12a-19a.  
20

21 **Q.** Why is the total projected amount of 2024 O&M expenses for  
22 these FERC accounts higher than the actual amount in 2022?  
23

24 **A.** The total in 2024 is \$5.6 million higher than in 2022. \$2.0  
25 million of this increase is related to labor costs that were

1 budgeted on a trended basis as described in the direct  
2 testimony of witness Bluestone. \$1.9 million of this increase  
3 are other costs that were budgeted on a trended basis as  
4 described in the direct testimony of witness Parsons. The  
5 remainder of the increase consists of \$3.5 million of payroll  
6 not trended costs reflected on MFR schedule G-2, pages 19c-  
7 19e that is offset by other not trended costs with a \$1.8  
8 million decrease.

9  
10 **Q.** Why are payroll not trended costs increasing \$3.5 million  
11 from 2022 to 2024?

12  
13 **A.** Payroll not trended costs are increasing due to the position  
14 increases reflected on MFR schedule G-2, page 19c-19e for  
15 these respective FERC accounts, to meet the needs discussed  
16 earlier in my direct testimony.

17  
18 **Q.** Why are not trended other costs decreasing \$1.8 million from  
19 2022 to 2024?

20  
21 **A.** Due to the company's financial challenges in 2023 described  
22 in the direct testimony of witness Wesley, Peoples reduced  
23 contractor costs in FERC Account 874 by eliminating  
24 contractors for locators, leak surveys and other activities.  
25 This is not a sustainable solution in the long-term and will

1 be addressed through the continued balancing of internal  
2 resources and contractors. In Account 413, the O&M expenses  
3 related to leased CNG stations decreased approximately  
4 \$355,000 from 2022 to 2024 due to a customer exercising  
5 purchase options on two stations in 2022. In addition, as  
6 discussed in the direct testimony of witnesses Richard and  
7 Parsons, the company is proposing to decrease its annual  
8 expense for Transmission Integrity Management Program costs  
9 in FERC Account 887 by approximately \$439,000.

10  
11 **Q.** Is the total amount of projected 2024 O&M expenses for the  
12 FERC accounts you are supporting reasonable?

13  
14 **A.** Yes. The total projected O&M expenses for 2024 for Gas  
15 Operations represents the costs to safely operate our gas  
16 distribution system in service of our customers and the  
17 public, meet all compliance requirements, protect the public  
18 and our system from outside damages and equip our team members  
19 with appropriate training and development to perform their  
20 duties.

21  
22 **Q.** Besides the O&M expense in the FERC accounts you have  
23 supported above, is there any other O&M expense item you would  
24 like to discuss?

25

1   **A.**   Yes. The company included O&M expense related to the Alliance  
2           RNG project in FERC Account 930.2. The company projected that  
3           this project would be in-service in February 2023 and commence  
4           operations at that time. The other not trended expenses in  
5           2023 of \$3.2 million and in 2024 of \$4.0 million reflected on  
6           MFR schedule G-2, page 19b, represent the expected costs to  
7           operate the facility. Costs included are the outside services  
8           cost for O&M services, property taxes, royalties on revenues  
9           and other costs related to operating the facility. As  
10          described in the direct testimony of witness Rutkin, the  
11          Alliance RNG facility will deliver environmental, economic,  
12          and reliability benefits to our customers and to Florida.

13

14   **OTHER TOPICS:**

15           WORK AND ASSET MANAGEMENT

16   **Q.**   Please provide a brief description of the WAM system Peoples  
17          is implementing.

18

19   **A.**   As discussed in further detail in witness Richard's direct  
20          testimony, the WAM system is a central technology platform  
21          used by most utilities to track all aspects of an asset's  
22          life including planning, design, construction, use and  
23          retirement and provide for safe operations. WAM is intended  
24          to enable better work planning and execution, centralized  
25          management of assets, enhanced customer service and system

1 safety. The WAM system will result in efficiency  
2 improvements, enable growth, and reduce risk.

3

4 **Q.** How will implementation of WAM change the way of work in Gas  
5 and Safety Operations?

6

7 **A.** WAM will change the way in which each team member in these  
8 areas performs work. The company currently uses multiple  
9 systems to schedule, dispatch, complete, and report on all  
10 activities performed by the operations department. WAM will  
11 consolidate these activities into a single platform.  
12 Although the actual compliance, maintenance, customer  
13 service, and emergency response activities will not change,  
14 WAM will change how these activities are managed. Individual  
15 field operations team members will complete WAM training and  
16 be required to manage all work through WAM. Ultimately, WAM  
17 will provide opportunities for increased efficiency and  
18 productivity, however, as is usually the case when new systems  
19 are introduced, it will take time to fully implement and  
20 realize the benefits of WAM. Implementing a central work and  
21 asset management system will improve the efficiency of the  
22 Gas Operations team members and streamline their functions.  
23 Currently, Operations team members must use the following  
24 systems in conducting their work: (1) Inspection Manager for  
25 compliance activities; (2) PragmaCad for service and

1 emergency orders; (3) ad-hoc work tracking for distribution  
2 services; (4) a Leak Management System (LMS) to track leak  
3 remediation; and (5) Irthnet, a state-operated ticket system  
4 for locate response. The consolidation of these work orders  
5 into one system over time will create ease of training, ease  
6 of use, and efficiency of resource management.

7  
8 **Q.** How will WAM impact field personnel in Gas Operations?

9  
10 **A.** Field personnel in Gas Operations will experience significant  
11 changes in the way in which they perform their duties. I  
12 have provided the summary below to detail key changes:

13 (1) Each team member will utilize an iPad to manage and  
14 complete all daily work requirements. Each vehicle has been  
15 outfitted to accommodate an iPad for optimal use.

16 (2) WAM is a single platform replacing numerous legacy systems  
17 so a field technician will immediately recognize a more  
18 streamlined work management experience. Rather than logging  
19 on to multiple systems for all types of job duties, field  
20 technicians will log only into WAM and see all that they need  
21 for each day.

22 (3) New technicians will experience an easier learning curve  
23 by only learning the WAM system and not the multiple legacy  
24 systems.

25 (4) WAM will be an interactive system with work orders mapped



1 and locations highlighted in map view for ease of use. All  
2 activity will be electronic and will eliminate paper records.

3 (5) With this single platform, scheduling and planning of  
4 work orders will be improved.

5 (6) A technician's time will be recorded through WAM as jobs  
6 are completed.

7

8 **Q.** What impact will WAM have on Gas and Safety Operations O&M  
9 expenses in the 2024 projected test year and thereafter?

10

11 **A.** Implementing a new system as expansive as WAM takes time  
12 because it will result in significant changes to how team  
13 members carry out their work. In the short-term, there will  
14 likely be disruptions, errors and other challenges as team  
15 members adapt to the new system. However, this system will  
16 provide an opportunity for mid-term and long-term efficiency  
17 gains to offset the volume of work the Gas Operations team  
18 continues to experience. Central WAM systems, like the one  
19 Peoples is implementing, are industry standard for gas  
20 utilities.

21

22 **Q.** Is the level of Gas Operations and Pipeline Safety O&M  
23 expenses in the 2024 projected test year reasonable?

24

25 **A.** Yes. The O&M associated with the Pipeline Safety team is

1 reasonable as it supports the effectiveness of our PSMS which  
2 in turn ensures the safety of the pipeline, our team members,  
3 our customers, contractors, and the public. Peoples has been  
4 thoughtful and pointed in expanding these teams as system  
5 expansion, customer growth, compliance requirements and  
6 damage prevention challenges have all placed pressure on our  
7 existing resources. It is essential to authorize the proposed  
8 resources in the 2024 Test Year for the Pipeline Safety team  
9 for Peoples to deliver continued excellent safety performance  
10 and mitigate the potential for an event that could severely  
11 impact the communities we serve.

12

13 ADVANCED METERING INFRASTRUCTURE

14 **Q.** Does Peoples propose to begin using AMI?

15

16 **A.** Yes. As part of its request in this case, the company seeks  
17 approval to begin an AMI pilot program in the 2024 projected  
18 test year ("AMI Pilot"). AMI systems provide granular usage  
19 information to utilities and customers. An AMI system has  
20 three major components: (1) smart meters (and associated  
21 communication modules); (2) a communication network; and (3)  
22 AMI back-office information technology (IT) systems to manage  
23 the two-way communications enabled by AMI. To date, only a  
24 small number of gas utilities have deployed AMI technology,  
25 but AMI is widely used across the electric utility industry.

1 Q. Describe Peoples' proposed AMI Pilot.

2

3 A. Peoples' proposed AMI Pilot is a research and development  
4 pilot to support the evaluation of system-wide deployment of  
5 AMI infrastructure in a future case. The purpose of the AMI  
6 Pilot is intended to test and gain information and data on  
7 the deployment, use, benefits, and cost savings associated  
8 with AMI two-way communications. As part of the AMI Pilot,  
9 Peoples will also test and gather data on (1) the corrosion  
10 resistance and life of new smart meters and associated  
11 assemblies and (2) the ability of Peoples' back-office system  
12 to support and utilize the full potential of two-way  
13 communication smart meters. The AMI Pilot is proposed as a  
14 one-year roll-out (i.e., installation) of the meters and a  
15 subsequent three-year evaluation period in which the  
16 performance of the meters and their correlative benefits will  
17 be assessed.

18

19 Q. How many meters will be included in the AMI Pilot and what  
20 are the intended benefits?

21

22 A. Peoples intends to replace 5,000 meters in Hillsborough  
23 County. This replacement effort will provide a sufficient  
24 sample size to assess the functionalities and benefits of the  
25 meters without undue burden or cost to our system and

1 customers. In Hillsborough County, Peoples serves  
2 approximately 70,000 customers, of which the 5,000 meters in  
3 the AMI Pilot represents seven percent.

4  
5 An added rationale for conducting the AMI Pilot in our Tampa  
6 service area is the potential to connect to existing Tampa  
7 Electric technology infrastructure. Tampa Electric already  
8 uses AMI technology and Peoples is evaluating opportunities  
9 to access their existing network to support our pilot.

10

11 The AMI Pilot will allow Peoples the opportunity to assess  
12 technology that provides automated remote meter reading, both  
13 on an hourly and daily basis. This technology is used widely  
14 within the electric industry and uses digital technology to  
15 improve utility service. Specifically, the AMI Pilot should  
16 allow for the evaluation of cost reduction, remote leak and  
17 outage detection, potential remote disconnection,  
18 improvements related to billing accuracy, and the opportunity  
19 to enhance the customer experience with individual energy  
20 data and usage information.

21

22 **Q.** What are the total capital and O&M costs for the AMI Pilot in  
23 the 2024 projected test year?

24

25 **A.** For the 2024 projected test year, Peoples has included \$2.2

1 million in capital expenditures and approximately \$100,000 in  
2 O&M expenditures for the AMI Pilot.

3  
4 ECONOMIC DEVELOPMENT EXPENSES

5 **Q.** What amount of economic development expenses was spent by the  
6 company in 2022?

7  
8 **A.** The economic development expense spent by Peoples in 2022 was  
9 \$321,612.

10  
11 **Q.** What level of economic development expense is Peoples asking  
12 the Commission to approve for the company based on its 2024  
13 projected test year?

14  
15 **A.** The company has budgeted \$367,920 of economic development  
16 expense in the 2024 projected test year.

17  
18 **Q.** What economic development activities will the company perform  
19 at this level of spending?

20  
21 **A.** It is well understood that utilities are critical to economic  
22 development throughout Florida. Natural gas provides  
23 affordable, reliable, and safe energy that supports economic  
24 development for customers and businesses. The increased  
25 expenditures related to economic development, which are

1 recoverable pursuant to Rule 25-7.042 F.A.C, enhance and  
2 support many facets of economic development in the major  
3 metropolitan and rural areas served by the company. We support  
4 the economic vitality of Florida through funding these  
5 economic development activities that improve the quality of  
6 life for all Floridians, including support to small and  
7 minority-owned businesses, attracting new jobs and businesses  
8 to Florida, and promoting Florida's goods and services.

9  
10 **Q.** Why is this level of economic development expense in the 2024  
11 projected test year reasonable and prudent?

12  
13 **A.** Gas utilities like Peoples are vital to Florida's economic  
14 development activities. We can construct the energy  
15 infrastructure needed to attract new businesses to Florida  
16 and to help existing businesses expand. The company's  
17 proposed level of spending for economic development  
18 activities will allow Peoples to work with local governments  
19 and economic development organizations to promote business  
20 growth in Florida. The amount proposed by Peoples in the 2024  
21 projected test year complies with the F.A.C. Rule, is  
22 reasonable and should be approved.

23  
24 **MFR SCHEDULES**

25 **Q.** Please describe the MFR I schedules you are sponsoring.

1 **A.** I am sponsoring MFR schedules I-1, I-2, and I-3. Each schedule  
2 is described below:

3  
4 MFR schedule I-1 requires the listing of interruptions in  
5 service affecting the lesser of 10 percent of customers, or  
6 500 or more customer meters, in a service area. As indicated  
7 on the schedule, there have been two interruptions that meet  
8 this requirement. In the first instance, 505 customers were  
9 interrupted for approximately 72 hours due to damage by a  
10 third-party contractor. In the second instance, 823 customers  
11 were interrupted for approximately 48 hours due to Hurricane  
12 Ian. Both outages were caused by forces beyond the company's  
13 control, and the company restored service in a reasonable  
14 time given the circumstances.

15  
16 MFR schedule I-2 requires a summary of notices Peoples has  
17 received from the Commission with respect to rule violations  
18 during the period since the last general base rate proceeding  
19 in 2020, but not to exceed five years. As shown on the  
20 schedule between January 1, 2020, and December 31, 2022,  
21 Peoples received eight such notices representing 14  
22 violations.

23  
24 MFR schedule I-3 requires a listing of meters with a rated  
25 capacity of: (1) 250 cubic feet / hour ("cfh") or less which

1 are not included in an approved statistical sampling plan;(2)  
2 between 251 cfh and 2500 cfh; and (3) over 2500 cfh that have  
3 not been tested for accuracy within 120 months of the 2022  
4 historic base year-end.

5  
6 In 2022, the company did not perform testing for a portion of  
7 the meters required due to limitations on meter supply. Meter  
8 supply of these sizes is limited throughout the United States.  
9 LDCs across the country are experiencing this impact. The  
10 company has actively engaged the Commission to provide  
11 updates on 2022 meter levels still to be tested as well as  
12 2023 meter testing. The Gas Operations Capital Projects  
13 section of my direct testimony includes more information on  
14 this item.

15  
16 **SUMMARY**

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

18  
19 **A.** At Peoples, the delivery of safe, reliable, affordable  
20 natural gas is at the core of what we do and who we are. The  
21 safety of our distribution system for our customers and the  
22 public is our top priority and always will be. Peoples strives  
23 to provide the best possible customer experience while  
24 meeting every obligation to operate a compliant, efficient  
25 pipeline system. Natural gas remains in high demand as an



1 energy option to homeowners and businesses and Peoples seeks  
2 to ensure adequate rates to allow for this demand to be met.  
3 As a gas distribution company, our technicians are often the  
4 friendly face that physically interacts with our customers  
5 for new service or maintenance. Our technicians are the  
6 professionals who respond to a damaged line or leak call. Our  
7 technicians and our teams enjoy this aspect of our business  
8 where we can listen and learn from our customers while seeking  
9 to provide the best service possible. Peoples does all of  
10 this while continually seeking improvements and efficiency to  
11 deliver our service while ensuring that the company's  
12 proposed levels of O&M expenses for Gas Operations and  
13 Pipeline Safety for the 2024 projected test year are  
14 reasonable and prudent. As Florida continues to grow, Gas  
15 Operations is privileged to support Florida's growth and  
16 serve our new and current customers in a prudent and cost-  
17 effective manner.

18  
19 **Q.** Does this conclude your prepared direct testimony?

20  
21 **A.** Yes.  
22  
23  
24  
25

1 (Transcript continues in sequence in Volume

2 5.)

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## CERTIFICATE OF REPORTER

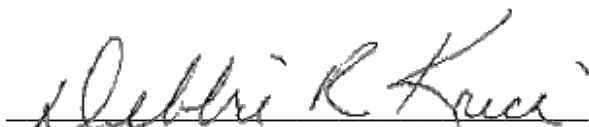
STATE OF FLORIDA     )  
COUNTY OF LEON     )

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 16th day of September, 2023.

  
DEBRA R. KRICK  
NOTARY PUBLIC  
COMMISSION #HH31926  
EXPIRES AUGUST 13, 2024