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 10 - PAGES 1824 - 2093

PROCEEDINGS: HEARING

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

DATE: Friday, September 15, 2023

TIME: Commenced: 9:00 a.m.
Concluded: 12:54 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.)

I N D E X

EXHIBITS CONTINUED

NUMBER:		ID	ADMITTED
16	As identified in the CEL		1845
28	As identified in the CEL		1845
205-217	As identified in the CEL		1846
218	Revised revenue requirement calculation	1989	2074
219	2020 MFR Schedule G-2, P. 17	2009	2074
220	Response to OPC INT No. 185	2015	2074
221	USOA A&G Accounting Instructions	2017	2074
222	Cost Allocation Manual	2052	2074
23	As identified in the CEL		2074
33	As identified in the CEL		2074
105-108	As identified in the CEL		2084

P R O C E E D I N G S

CHAIRMAN FAY: All right. Good morning. Everyone. I would ask you to take your seats. We will get started this morning with our two witnesses and see where we end up on a time perspective.

I was going to take up any preliminary matters. I can start over here with you, Mr. Rehwinkel or Ms. Wessling, and work our way down if there is anything that we need to discuss or address before we get back into Mr. Richard's cross.

MR. REHWINKEL: None from the Public Counsel. We would just like to thank you for your patience last night, and I am glad you had us get this over with. Thank you.

CHAIRMAN FAY: Yeah. Great. Thank you.

Mr. Moyle.

MR. MOYLE: Thank you, Mr. Chairman. We do have a couple of preliminary matters.

I want it start by thanking you and the staff and the parties for accommodating me last evening. I appreciate it.

Secondly, we've had some discussions with PGS with respect to certain issues, and we have come to a change of position on certain issues that I wanted to make the Commission aware and indicate that it should set them up for a Type 2 Stipulation, because we are going to change our position to no position. And those issues are 58 through 70, with the exception of 66. 66 was already the subject of a stipulation, and these are cost of service issues. I have been in discussions with the company, and I think that positions them for approval of a Type 2 Stipulation. So that was the other preliminary matter that I had.

CHAIRMAN FAY: Okay. Great.

So then just confirmation with the other parties, you are agreeing with Type 2, Mr. Moyle, you are the only other party, is that correct, before we take those up for a vote?

MR. REHWINKEL: We will facilitate a Type 2 Stipulation on that.

CHAIRMAN FAY: Okay.

MR. WAHLEN: Yes, sir. Thank you, Mr. Chairman.

Just for clarification, though, three or four of those issues are kind of fallout issues, so when he is stipulating to the issue, if it's a fallout issue, it's like what are the rates going to be after the revenue requirement. He is not agreeing to our revenue requirement or our rates as proposed. He is agreeing to the fallout --

CHAIRMAN FAY: Okay.

MR. WAHLEN: -- calculation. But with all of that, we are very happy to have the stipulation, and it will simplify the briefing and everything.

CHAIRMAN FAY: Okay. Great. And, Mr. Sandy, so if we -- based on what Mr. Wahlen just mentioned on the record, if we go ahead and take those up as Type 2 stipulations, with the understanding that, just like Mr. Wahlen said, they are not taking the position of that number, but in there is fallout, that seems appropriate to me if we want to take the ones that are fallout separately and not take them up as Type 2, if you have any concerns on that, then I would be happy to do so, but I am comfortable just voting them in as a block since we've got clarity.

MR. SANDY: I would say, Mr. Chair, in the sake of clarity, if we put a pin in those, make sure there is agreement on which issues are fallout issues and then we can set those aside. And then all the other issues can be stipulated to and then voted to on the record. I think we can resolve that no later than the end of this hearing so that it's ready for a vote, and then that way there is clarity on the record.

CHAIRMAN FAY: Okay. That works. So then we will let you kind of keep working on it, and then as -- we will take it up at the appropriate time, because it doesn't need to be taken up right now, and then we will keep going on Mr. Richard. And then once you guys feel comfortable as to how you would like to present it for us, then the Commission can take a vote on those.

MR. SANDY: Thank you, sir.

MR. WAHLEN: For whatever it's worth, Ms. Draper give us a list to the issues she thought were fallout, and we agree with those, so thank you.

CHAIRMAN FAY: Okay. Great. We will just make sure we are all own the same page before taking a vote on those.

Seeing any other preliminary matters, seeing none. Mr. Moyle, we will move to you for your cross for Mr. Richard whenever you are ready.

MR. MOYLE: Thank you, Mr. Chairman.

EXAMINATION

BY MR. MOYLE:

Q Good morning, Mr. Richard.

A Good morning.

Q You were here late last night. I hope you rested well.

A I rested well. Thank you.

Q I am going to have a handful of questions about some of the topics that you previously have provided some testimony about with your conversation with Mr. Rehwinkel with Office of Public Counsel.

You were shown a deposition yesterday of a Mr. O'Connor that took place a few years ago, and you were asked about the Blue Marlin project and a couple of other projects.

With respect to the Blue Marlin project, that was a project that you all, in the last rate case, were putting forward. You were asking the Commission to provide rates for you in the test year at the time, and the Blue Marlin project, as we sit here today, is really no closer to be completed than it was back at the time of that deposition, is that right?

A That's correct.

Q Okay. And Mr. Rehwinkel asked you some other questions about capital projects being delayed. You would agree, as an engineer, and as someone who is responsible for all these projects, that things happen

and projects do get delayed, correct?

A   Sure, so -- yes. And as we think about our business, we have very different types of projects within our overall capital program. You know, we have the residential customers who want gas service for their home, and we have the commercial customers who want gas service for their restaurant, the hotel, and then we have the larger projects that are typically to serve single customers, large volume, very complex projects in terms of commercial arrangements.

And so in those three classes of types of projects, there will be some projects that are delayed because the customer has other commercial arrangements that they are trying to finalize, and they may or may not have them finalized. So there is puts and takes within a year, and our responsible is to manage that overall capital program.

Q   And there is also big projects that you had said, well, maybe the customer has some changes; but there is also situations where you have sourcing issues, or you need to change a design that are on your end as well that result in delays, correct?

A   We've had examples where we've looked at a project. I mentioned Dade City yesterday, where the circumstances around this change, the pandemic was a global event that impacted us in many different ways, and on that particular project, labor costs, land costs, supply of certain materials, supply of -- or the cost of steel, for example, changed dramatically. And so we paused to make sure we had the project properly budgeted, again, to make sure we are doing the right thing in terms of advancement in that project, and then advanced the project in due course.

So to answer your question, it would be, yes, depending on what's happening around us.

Q And you responded to an earlier question that you have familiarity with regulatory policy in a broad, you know, context.

Wouldn't you agree that with respect to what you are asking the Commission do here, to set rates, that it's fundamentally fair that if you are in asking for rates to be increased because of certain capital projects that are going to be in effect in the upcoming year, that those projects should go into service in that upcoming year? I mean, that's representation that's being made here with the evidence, here's our capital plan, here's when we expect this to come in, and from a regulatory context, you asking them, based on projections, to go ahead and approve rates; is that right?

A Yes, based on our plan. And we've presented it in the materials and the evidence and the depositions of you're capital program, our capital forecasts and our plans moving forward based on the needs of our customer, based on the needs of our system, to make that we have a reliable, safe system, and that we serve a customer who want our product.

Q And in any other business context, other than in a regulatory context that we are talking about, if someone has a commercial relationship where they say, I would like to get a thousand widgets, and I am going to pay you now, and the widget manufacturer says, I am going to get those thousand widgets to you within the next six months, and then something happens and the widgets don't come for two years, that would be kind of a fundamental breach of that understanding, would it not?

A I am not sure I follow, but as -- you know, as I think about the function of engineering, construction and technology, commercial arrangements kind of fall in two buckets. One is our typical residential and commercial customers, which is straightforward. It's repetitive. It's high volume. And then there are those larger projects that have agreements, perhaps with a single party.

Lew Rutkin, in our gas supply and development team, or business development team, would be the person to speak with those arrangements. We work with his team to provide estimates, to make sure that we build a quality asset, that is safe, reliable and meets the customer's needs.

Q Yeah. My question may not have been formulated the right way.

When you are in your everyday life and you go buy a product, you typically pay money and then you got the product, right? I mean, it's almost a realtime transaction?

A That's correct.

Q And in situations -- I mean, it's not really typical for you to go in and go, here, I am going to prepay -- start prepaying on something that if you say I want it this week, and then it comes two years from now, that's not going to typically work for you from a personal standpoint or a business standpoint, correct?

A I am not sure what your question is trying to ask. There is services that you prepay, cell phone bills, perhaps you prepay, I am not --

Q Yeah. I guess -- you are aware that as part of the case here, you all are asking for a lot of capital dollars, correct?

A Yeah. We have a capital program that will serves the needs of our customers to ensure that we have a safe and reliable system.

Q And what's the total dollar amount of your capital program that you are asking the Commission to set rates on, as we sit here today, if you know off the top of urban head?

A I don't on the top of my head. I am not --

Q You can ballpark it.

A It's in the $300 million range.

Q Okay. And so to the extent that some of the projects take longer than others, isn't it -- isn't it fair, from your perspective, to have some type of a adjustment, or a safety valve, that to the extent projects take longer, that ratepayers aren't paying for them if there are delays?

A I am not sure what you mean by a safety valve. But I will say, from my perspective, being responsible to not only estimate, but also execute our capital program, it's our job to manage the envelope of capital projects.

So in some cases, capital projects will have changes to them in terms of schedule and budget, but we have an envelope of projects that we need manage. And as we have demonstrated over the last five years, we are working on our processes to make that better, and that's a job that's never done. We will continue to look for opportunities to make that better. We are on a positive trend. For 2023, we will execute our capital program very close to budget. And for 2024, there is no reason to think that we will not.

Q Very close to budget.

A It's -- we are in the ninth month of the year. As we forecast out the rest of the year, we are a few million dollars projected over, and we are managing that envelope to try to bring it to budget.

Q Right. There were -- and we talked about this in your deposition. There were a number of projects that were delayed that had a substantial impact on your capital budget forecast compared to actuals, correct?

A We have one project that we mentioned yesterday with a single customer that has had a one-year delay that we also mentioned yesterday.

Q So I guess -- I guess when you said -- you said -- I used the phrase like a relief valve or something. You are aware that Mr. Kollen has suggested that there be an adjustment, that this commission make an adjustment of approximately 10 percent of your capital budget, to say, you know, this will give you a little room in the event that things don't come on when

planned, you are aware of that, correct?

A I am aware of the testimony that he has filed, yes.

Q Okay. You were asked some questions about SeaCoast, and I know -- you have engineers that do work for SeaCoast, correct?

A That's correct.

Q Okay. And with respect to the business, the PGS business, there are a number of large customers, isn't it true about 50 percent of the business of PGS is derived from providing natural gas to power plants?

A No, I don't think -- it depends on how you look at it. I am sure number of customers with very different volumes in terms of therms that they consume would be very different. So offhand, I can't say that it's 50 percent because it depends on which metric you are using.

Q That's fair, because an apartment complex -- you have a lot more apartment complexes than power plants. I was talking in terms of therms.

A Generally speaking, power plants are very large therm users. That's correct.

Q Okay. And presently, PGS serves Tampa Electric, is that right?

A We serve some Tampa Electric power plants, correct.

Q And you also serve JEA, is that right, Jacksonville Electric Authority?

A Yes.

Q And you serve Seminole?

A SeaCoast serves Seminole. And I am not sure if PGS has an asset that serves other power plants. I am not sure.

Q You have some Florida municipal power agency clients that you serve that are -- have power plants, is that right?

A I am not sure from a customer perspective.

Q Okay. Yeah. So the -- why the distinction with respect to Seminole, and with SeaCoast serving that as compared to the JEA service and the Tampa Electric service?

A We have four SeaCoast assets. All of them were put in service before my time. It's a niche market, and so at the time it was deemed to be best served by SeaCoast. I can't speak to the decision-making at that point in time.

And I mentioned earlier, our gas supply and development team, our business development team would be the best people to ask about how they characterized a project, and whether or not it's a PGS asset or a

SeaCoast asset.

Q Okay. And I am going to keep my conversation here relatively brief and at a high level, but with respect to SeaCoast, it's a separate corporate entity, correct?

A That's correct.

Q Right. And in the natural gas business, this is something that is not unusual. There are other companies that have regulated LDCs, like PGS, and also have lightly regulated entities like SeaCoast, is that right?

A I am not sure I can speak to the market in general. I can speak to Florida. And in Florida, there were others who are structured this way that have a non-rate regulated entity as well as regulated -- rate regulated entities.

Q Okay. And the key issue, I guess, for the Commission as it relates to that, is just as part of their role is to make sure that costs are allocated properly when things are done in the SeaCoast entity, and you use a Massachusetts allocation model, is that right?

A That's correct.

Q Okay.

A And also we direct charge.

Q You had used the phrase RRE yesterday, and I want to just have a quick conversation with you about that. What, again, is RRE?

A Reliability, resiliency and efficiency.

Q And with respect to your business going forward, do any of those categories capture efforts to provide more renewable natural gas?

A No. RRE projects are mostly our team evaluating the system as it evolves. So customers come on, customers come off. We have -- it's an ever-changing and dynamic system, and we are always looking at our models to ensure that it is going to be reliable to see if there is any parts of our system that, perhaps, are experiencing low pressures that we may have to build up to look at whether or not there are safety concerns on our system, so we work very closely with Tim O'Connor's team to get that information into our system, so that from a sustainability perspective, or RRE perspective, that we have, you know, we make the right investments in our system to make sure that it continues to be safe and reliable.

Q Mr. Rehwinkel shared a sheet with you that had a lot of your engineer employees on it. Are some of your engineer employees responsible for understanding kind of the composition of natural gas? And that's a

very broad question.

Where I want to go is with respect to renewable natural gas, is it materially different from gas that is extracted, say, from the Gulf of Mexico?

A   I can speak to what we do to the gas. I can't speak to whether or not it's different than gas that comes from a traditional well.

Gas that comes from a renewable energy source, whether it's a landfill, a dairy farm or a wastewater treatment facility, it needs to be conditioned. It's coming from, you know, whether it's cow manure or garbage, and so we need to make sure that it's of proper quality in order to put and inject into the pipeline system, because our users, whether it's someone in their stove, or a power plant in their generator, they need to make sure that we have -- that they have consistent fuel.

And so part of our renewable energy project is to clean up the gas, usually called conditioning equipment. And then gas chromatographs, which is equipment that makes sure that gas is of a certain spec before it's injected into the system.

Q   Okay. And part of that, I mean, I am not going to delve into this, but the additional treatment, and the conditioning that has to be done, I mean, the

renewable natural gas typically has a higher cost than traditional natural gas is that right?

A I am not sure, because I can't speak to the conditioning that happens in a geological well. I am assuming that geological natural gas also needs to be treated, but that's outside my area of expertise. When we get it, it's already conditioned.

Q So at a cocktail party, and somebody says, oh, you are in the natural gas business. Is renewable natural gas the same price as regular natural gas, how do you answer that?

A I wouldn't be the one to answer that. But I would say, natural gas -- renewable natural gas is really cool. We are taking cow poop and we are making energy with it. So we are taking a source of methane that's being emitted in the atmosphere, we are putting it into our pipeline system, sourced locally in Florida, to power peoples' homes, to power power plants, I mean, from that that's perspective is how I would answer at a cocktail party.

Q Well, given the earliness of the hour, I am going to leave how do you it alone. Thank you for your time.

CHAIRMAN FAY: All right. Staff?

MR. THOMPSON: No questions from staff.

CHAIRMAN FAY: Commissioners?
All right. Redirected?
MS. PONDER: Yes, just a little bit.
FURTHER EXAMINATION
BY MS. PONDER:
Q Mr. Richard, when did you come into your current role?
A September of last year, of 2022.
Q Okay. At that time, was the capital budgeting process reliable?
A Yes.
Q And have you made improvements to that process?
A We have.
Q Since you have come into your role, you have made improvements?
A Yes.
Q Did Peoples spend its capital budget in 2022?
A We spent a little bit more than what we had budgeted, so, yes, we did.
Q Okay. And I believe you spoke with Mr. Moyle regarding how the company is on track to spend its capital budget a little over, is that -- was that your testimony, is that correct, for 2023?
A That is correct, for '23.

Q And what is the goal for your capital budget in spending?

A We are serving customers, and so there is a customer need, and we get projects from both our gas supply and development team and our residential and commercial team. We make projections or estimates on what capital needs to be spent to meet that requirement. You know, it's very fortunate that customers want natural gas. And we also have to look at our system to make sure that we are putting the right dollars at work to continue to make sure that we have a safe and reliable system. And so the goal ultimately is to deliver on those estimates, deliver on that capital budget that we put together every year.

Q Thank you.

MS. PONDER: Mr. Chairman, we would ask that Exhibits 16 and 28 be moved into the record, please.

CHAIRMAN FAY: Okay. Show Exhibits 16 and 28 without objection entered into the record.

(Whereupon, Exhibit Nos. 16 & 28 were received into evidence.)

CHAIRMAN FAY: OPC?

MR. REHWINKEL: If you give me just a second, Mr. Chairman, I have got -- we would move 205 through 217.

CHAIRMAN FAY: Okay. That's what I have. 205 through 217 without objection. Okay. Show those entered into the record.

(Whereupon, Exhibit Nos. 205-217 were received into evidence.)

CHAIRMAN FAY: All right.

MS. PONDER: May Mr. Richard be excused?

CHAIRMAN FAY: Yes. Mr. Richard, thank you again for your time.

THE WITNESS: Thank you.

(Witness excused.)

CHAIRMAN FAY: All right. Next we will move into our last witness, witness Ms. Parsons. Ms. Ponder, whenever you are ready.

MR. WAHLEN: While she's getting situated. I found Ms. Draper's list of fallout issues and just have shared those with Mr. Moyle and staff. She identified Issue 60, 61, 69 and 70 as fallout issues, and we agree with that. I think Mr. Moyle does too.

CHAIRMAN FAY: Okay. In agreement?

MR. MOYLE: Yes.

CHAIRMAN FAY: All right. Commissioners, I will take up a motion to approve stipulations for

Items 58, 59, 62, 63, 64, 65, 67 and 68.

COMMISSIONER CLARK: Move approval, Mr. Chairman.

CHAIRMAN FAY: That's -- one second, I apologize. I took a longer pause than I wanted to, with the idea that there will be fallout in Issues 61 -- 60, 61, 69 and 70.

Commissioner Clark, you have a motion?

COMMISSIONER CLARK: Move approval, Mr. Chairman.

COMMISSIONER PASSIDOMO: Second.

CHAIRMAN FAY: A motion and a second.

All that approve say aye.

(Chorus of ayes.)

CHAIRMAN FAY: Okay. Show those stipulations and the fallout approved at this time.

MR. WAHLEN: Thank you very much.

CHAIRMAN FAY: Okay. All right. With that, PGS, you are welcome to begin with your witness.

MR. WAHLEN: Thank you.

Whereupon,

RACHEL B. PARSONS

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

EXAMINATION

BY MR. WAHLEN:

Q Ms. Parsons, were you sworn?

A Yes, I was.

Q Thank you.

Would you state your full name for the record?

A Rachel Parsons.

Q And who is your employer, and what's your business address?

A It's TECO Peoples Gas, 702 North Franklin Street, Tampa, Florida, 33602.

Q And did you prepare and cause to be filed in this docket, on April 4th, 2023, prepared direct testimony consisting of 80 pages?

A I did.

Q And did you prepare and cause to be filed in this docket on July 20th, prepared rebuttal testimony consisting of 53 pages?

A I did.

Q And did you prepare and cause to be filed revisions to your page one of your prepared direct testimony on July 21st?

A Yes.

Q Other than that revision, do you have any additions or corrections to your prepared direct or

rebuttal testimony?

A No, I do not.

Q With those revisions, and the one filed on -- well, with the revision filed on June 21st, if I were to ask you the questions contained in your prepared direct testimony and rebuttal testimony today, would your answers be the same?

A Yes, they would.

MR. WAHLEN: Mr. Chairman, Peoples requests that the prepared direct and rebuttal testimony of Ms. Parsons, as updated on June 21st, be inserted into the record as though read.

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

MR. WAHLEN: Thank you.

(Whereupon, prefiled direct testimony of Rachel B. Parsons was inserted.)

TECO PEOPLES GAS
AN EMERA COMPANY

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20230023-GU

IN RE: PETITION FOR RATE INCREASE
BY PEOPLES GAS SYSTEM, INC.

PREPARED DIRECT TESTIMONY AND EXHIBIT

OF

RACHEL B. PARSONS

D12-914

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PREPARED DIRECT TESTIMONY AND EXHIBIT

OF

RACHEL B. PARSONS

D12-915

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

RACHEL B. PARSONS

POSITION, QUALIFICATIONS, AND PURPOSE

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

A. My name is Rachel B. Parsons. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed as the Head of Financial Performance of Peoples Gas System, Inc. ("Peoples" or the "company").

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

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

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

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

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

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

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

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

(3) Support the methodology for transferring Cast Iron / Bare

Steel Replacement ("CI/BSR") rider revenue requirements to base rates.

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

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

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

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

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

(7) Discuss the company's Operations and Maintenance ("O&M") expense. I discuss how inflation and customer growth are reflected in the company's O&M expense budget and for computing the Commission's O&M Benchmark. I discuss

affiliate transactions and the reasonableness of costs allocated from affiliates. I discuss trending factors impacting O&M expense as well as expense drivers not trended. I support the reasonableness of the 2024 projected test year O&M expense.

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

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

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

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

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

Document No. 1 List of MFR schedules Sponsored or Co-

	Sponsored by Rachel B. Parsons
Document No. 2	CI/BSR Revenue Requirements Transferred to Base Rates
Document No. 3	Revenue Summary
Document No. 4	Operations & Maintenance Expense Summary
Document No. 5	2024 O&M Benchmark Comparison by Function
Document No. 6	2023 and 2024 Capital Budget
Document No. 7	Storm Reserve Analysis and 2022 Study
Document No. 8	Calculation of Internal Revenue Code Required Deferred Income Tax Adjustment
Document No. 9	2024 projected test year Reconciliation of Capital Structure to Rate Base
Document No. 10	2020 Agreement

Q. Are you sponsoring any of Peoples' Minimum Filing Requirement ("MFR") Schedules?

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

PROJECTED TEST YEAR

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

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

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

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

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

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

2024 REVENUE REQUIREMENT

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

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

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

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

Q. What was Peoples' earned return on equity ("ROE") for 2022 and what is its projected ROE for 2023?

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

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

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

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

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

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

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

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

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

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

(2) growth in O&M expenses;

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

(4) taxes and other items; and

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

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

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

Increased Capital Revenue Requirements	$92.9 million
Increased O&M Expense	$35.3 million
Change in Weighted Average Cost of Capital	$35.2 million
Taxes and Other	$21.6 million
Growth in Revenue	($45.7)million
Total	$139.3 million
Less:	
Transfer of CI/BSR Revenue Requirements	($11.6)million
Total	$127.7 million

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

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

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$1,536.8 million to the $2,366.8 million in the projected 2024 projected test year.

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

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

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

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

Q. Please explain how the $21.6 million in the Taxes and Other category was calculated.

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

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

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

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

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

Q. Please explain how the $45.7 million Growth in Revenue was calculated.

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

CAST IRON/ BARE STEEL REPLACEMENT RIDER PROPOSAL

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

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

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

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

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

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

BUDGET PROCESS

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

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

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

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

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

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

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

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

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

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

Q. How was the 2024 budgeted income statement developed?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. Please discuss how income taxes were budgeted.

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

NET OPERATING INCOME

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. How did the State Tax Rate Change impact the company in 2023?

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

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

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

Q. How did the State Tax Rate Change impact the company's ADIT?

A. As a result of the 5.5 percent state tax rate increase, and in accordance with Rule 25-14.013(4), Florida Administrative Code, the company performed the required revaluation of its

ADIT. This reevaluation created deficient deferred taxes of approximately $4.6 million, which Peoples recorded as a credit to ADIT with a corresponding debit to a regulatory asset. Establishing a regulatory asset related to the tax reform revaluation of ADIT and resulting "Excess or Deficient Deferred Taxes" conforms with Section 8 of the 2020 Agreement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BASE REVENUE

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

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

1. The most recent approved tariff rate schedules of customer charges and per-therm distribution charges;
2. Forecasted customers from the regression models discussed in witness Fox's prepared direct testimony;
3. Forecasted therms-per-customer from the regression models discussed in witness Fox's prepared direct testimony;
4. Forecasted customers and therms from non-regression techniques discussed in witness Fox's prepared direct testimony; and
5. Billing determinate allocation factors.

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

The Residential class has 10 rates schedules: Residential Service (RS) 1-3; Residential General Service (RGS) 1-3;

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

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

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

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

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

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

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

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

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

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

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

OPERATIONS & MAINTENANCE EXPENSE

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

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

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

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

A&G costs classified in FERC account 926 (Employee pension and benefits) and FERC Account 920 (Administrative & General

Salaries) are supported by witness Bluestone in her direct testimony.

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

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

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

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

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

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

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

A. There are only small differences. As shown in Document No. 4 of my exhibit, the difference or unreconciled amount between the detailed 2023 and 2024 O&M budgets and the 2023 and 2024

FERC O&M budget data on MFR schedule G-2, page 18b is approximately $48,000 and $11,000, respectively. Relative to total 2024 O&M expense of $151.0 million, this is a difference of less than 0.1 percent. The differences are reflected as a line item labeled "Unreconciled budget items" in FERC Account 930.2 on MFR schedule G-2, page 18a. As a result of reflecting the small unreconciled budget items in FERC account 930.2, the total FERC O&M calculated using trending on MFR schedule G-2 for 2023 and 2024 equals the detailed 2023 and 2024 O&M budgets, or approximately $130.0 million for 2023 and $151.0 million for 2024.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Peoples in the 2024 projected test year?

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

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

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

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

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

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

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

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per headcount added can vary greatly depending on the position. These positions are discussed further by the witnesses indicated on MFR schedule G-2, pages 19c-19e.

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

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

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

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

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

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

Payroll	
(trended 5.0 percent/5.0 percent)	$4.6 million
Inflation	
(trended 2.80 percent/2.20 percent)	2.5 million
Customer Growth	
(trended 3.81 percent/3.23 percent)	2.0 million
Position replacements and additions	7.7 million
Alliance RNG Project (direct budget)	4.0 million
Other not trended (direct budget)	7.5 million
Total	$28.4 million

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

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

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

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

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

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

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

<u>FERC Account 923 – Outside Service Employed</u> – The Other not trended decrease in this account from 2022 to 2024 of about $270,000 is primarily driven by $772,000 of legal expenses incurred in 2022 that are not expected to be incurred in 2024 and lower strategy consulting costs in 2024 compared to 2022. These decreases are partially offset by increased financial statement audit fees associated with Peoples' independent financing efforts discussed in witness McOnie's direct

testimony, and higher information technology ("IT") contractor costs in 2024 related to Peoples' work and asset management system discussed in witness Richard's direct testimony.

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

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

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

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

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

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

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

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

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

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

RATE BASE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. The company employed the same process used in developing its annual budgeted balance sheet. These methods are described on an account-by-account basis in MFR schedule G-6. The company began with actual December 31, 2022, account balances and projected individual line items through the projected test year. The company trended balance sheet accounts, including

Accounts Receivable, Accounts Payable, and Unbilled Revenues, using known patterns of activity that occur in the normal course of business.

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

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

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

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

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

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

CAPITAL STRUCTURE, COST-OF-CAPITAL AND INCOME TAXES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Agreement.

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

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

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

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

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revenue requirement.

LONG-TERM DEBT RATE TRUE-UP MECHANISM

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

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

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

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

Second, an adjustment would be made to replace the Commission approved long-term debt cost rate used in determining the company's approved weighted cost of capital (as calculated in

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

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

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

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

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

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

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

SUMMARY

Q. Please summarize your prepared direct testimony.

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

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

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

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

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

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(Whereupon, prefiled rebuttal testimony of Rachel B. Parsons was inserted.)

TECO PEOPLES GAS
AN EMERA COMPANY

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20230023-GU

PETITION FOR RATE INCREASE
BY PEOPLES GAS SYSTEM, INC.

REBUTTAL TESTIMONY AND EXHIBIT
OF
RACHEL B. PARSONS

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

RACHEL B. PARSONS

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

A. My name is Rachel B. Parsons. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Peoples Gas System, Inc. ("Peoples" or the "company")as the Head of Financial Performance.

Q. Are you the same Rachel B. Parsons who filed direct testimony in this proceeding?

A. Yes, I am.

Q. Have your title and duties and responsibilities changed since the company filed your prepared direct testimony on April 4, 2023?

A. Yes. Effective June 7, 2023, my title changed to Head of Financial Performance. The company filed a revised version of the first page of my prepared direct testimony on June 21, 2023. That document reflects my revised duties and responsibilities.

Q. What are the purposes of your rebuttal testimony?

A. My rebuttal testimony serves four general purposes.

First, I will address the accounting and ratemaking issues identified by witness Lane Kollen in his testimony filed on June 22, 2023 by the Office of Public Counsel ("OPC"). In the process, I will address the depreciation proposals by OPC witness David Garrett reflected in the revenue requirement calculations presented by witness Kollen. I disagree with OPC's accounting and ratemaking proposals, but I conceptually agree with one of them and have included it in the company's revised revenue requirement presented with this testimony.

Second, I will provide information on five accounting and ratemaking issues arising from the company's responses to OPC's discovery requests and proposed by OPC at the informal issue identification meeting coordinated by the Staff of the Florida Public Service Commission ("FPSC" of "Commission") on June 23, 2023. OPC has indicated it may propose adjustments to the company's proposed 2024 revenue requirement increase for those issues, so I will address them in a way that informs the Commission's consideration of them.

Third, I will comment on witness Kollen's quantification of adjustments and recommendations made by witness Garrett.

Finally, I will present the company's revised revenue increase request that corrects certain errors identified since we filed our case on April 4, 2023, updates information on certain budgeted expense amounts that change the company's test year revenue requirements, and reflects the Commission Staff's audit findings plus other adjustments to base rate recoverable O&M expense proposed by OPC that the company does not contest. Taking into consideration these three categories of adjustments, the company has revised its requested net revenue requirement increase downward from $127,624,042 to $124,942,677. This revised request does not include the $11,647,804 of Cast Iron/Bare Steel Rider revenues the company proposes to move from the rider to base rates.

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

A. Yes. Exhibit No. RBP-2, entitled "Rebuttal Exhibit of Rachel B. Parsons," was prepared by me or under my direction and supervision. The contents of this exhibit were derived from the business records of the company, and are true and correct to the best of my information and belief. My rebuttal exhibit consists of the following nine documents:

Document No. 1	Revised Revenue Requirements
Document No. 2	Account 921 Average Increase
Document No. 3	Historical Storm Costs in 2024 Dollars
Document No. 4	RNG Revenue Requirement & Cost Recovery
Document No. 5	Capital Expenditure Analysis
Document No. 6	Dec. 31, 2023 Depreciation Study Impact
Document No. 7	Revision to SeaCoast Overhead Allocation
Document No. 8	Vehicle Retirement Impact on NOI and Rate Base
Document No. 9	Discovery Responses and Other Referenced Documents

I.

Kollen's Proposed Adjustments

Q. How will you address the accounting and ratemaking issues raised in sections II, III, and IV of witness Kollen's testimony?

A. Witness Kollen proposes 12 adjustments to the company's proposed 2024 net operating income ("NOI"), four adjustments to the company's proposed 2024 rate base, and four adjustments to the company's proposed 2024 capital structure and rate of return.

Seven of his NOI adjustments reflect OPC's proposals on discrete NOI issues. I will address those issues first.

One of his proposed rate base adjustments reflects OPC's position on the company's forecasted capital expenditures and plant additions in 2023 and 2024. I will address that as a discrete issue, even though it factors into his proposed overall capital structure adjustment.

One of his proposed NOI adjustments and one of his rate of return adjustments reflect OPC's position on the 2023 Transaction, so I will address those adjustments together.

Four of his proposed NOI adjustments, three of his rate base adjustments, and one of his capital structure adjustments reflect OPC's positions on the company's depreciation study, proposed depreciation rates, and test year depreciation expense, so I will address those issues as a group.

His remaining capital structure and rate of return adjustments reflect witness Garrett's proposed return on equity and synchronize the company's capital structure with OPC's proposed adjusted rate base amounts. I will address both of those issues near the end of this section of my rebuttal testimony.

A. Discrete NOI Issues

1. *General*

Q. Witness Kollen states that Peoples' budgets were not developed in the normal course of the company's budgeting process and that the forecast for 2024 was developed to support the requested rate increase and that they incorporate assumptions and methodologies biased upward to the company's requested increase. Do you agree with these statements?

A. No. The timing of the preparation of our 2024 budget was adjusted to meet the schedule for filing this rate case; however, that change was a practical necessity of filing a rate case with a forecasted test year. The company developed its 2024 budget using its normal budgeting processes and the company's Board of Directors approved the budget before the company filed this rate case. The company's 2024 budget assumptions properly reflect the company's evaluation of resources needed to provide safe and reliable gas distribution services on a sustainable basis to customers and to meet future demand for natural gas across Florida.

Q. In OPC witness Kollen's testimony, he states there is evidence that the last base rate proceeding reflected excessive operating expenses and overstated its revenue requirement. Do you agree there is evidence the company included excessive operating expenses in the last base rate proceeding and the implication that it has also done so in this proceeding?

A. No. Although the company's actual O&M expense for 2021 was lower than the requested O&M expense in the 2021 rate filing, the actual 2021 results were lower and largely driven by COVID pandemic impacts. Through 2020 and 2021, COVID significantly impacted our customers and altered the company's expense profile as many team members shifted to working remotely. In 2022, the impacts of COVID began to abate, and the company's operations and maintenance expenses returned closer to normal and historic levels. The impact of COVID on the company's operations in 2021 was unique and unprecedented. Witness Kollen's attempt to draw conclusions about 2024 using 2021 budget variances is misplaced.

2. *Staffing*

Q. Witness Kollen proposes to reduce the company's test year payroll and related expenses by $9.686 million, which would entirely eliminate the company's forecasted staffing increases. Do you agree with this adjustment?

A. No. The company has justified its forecasted staffing increases for 2023 and 2024 in: (a) my direct and rebuttal testimony; (b) response to several interrogatories including but not limited to OPC's First Set of Interrogatories No. 13 (see Document No. 9 to my Exhibit RBP-2, pages 1-6) and OPC's Fourth Set of Interrogatories Number 201 (see Document No. 9 to my Exhibit RBP-2, page 7); (c) the prepared direct testimonies of Helen J. Wesley, Timothy O'Connor, Christian C. Richard, and Donna L. Bluestone; and (d) the rebuttal testimony of witnesses O'Connor, Richard and Bluestone. The company asserts it has proven the need for its forecasted new team members based on the growth of its system and increased work activity, the majority of which is non-discretionary. Therefore, witness Kollen's proposed staffing adjustment to remove all positions forecasted to be added in 2023 and 2024 should be rejected.

Q. Does the company need the new administrative and general employees forecasted in the finance area to be hired in 2023 and 2024?

A. Yes. Peoples witness Bluestone discusses administrative and general staffing in her rebuttal testimony, but I will explain the Finance staffing.

Three of the eight finance positions were replacement positions and have already been hired, and the remaining five positions are necessary to support the financial needs of the business.

Peoples needs the Treasury Analyst position to support new requirements related to Peoples' independent financings associated with the 2023 transaction and will replace support currently being provided by Tampa Electric. Peoples needs the Manager, Commercial Investments and Analyst positions to provide financial and project evaluation support to the opportunities being explored by the company's Gas Supply and Development team to serve large commercial and industrial customer demand rising from increased decarbonization requirements. The team members filling these positions will also support enhanced financial profitability analysis to ensure appropriate revenue projections and rate analysis. The two co-op positions will provide the company with a cost-effective way to provide a potential pipeline of talent for filling entry level finance positions and developing future leaders.

Q. If the Commission concludes that some of the added positions should be removed from the test year revenue requirements, how do you propose that those adjustments be made?

A. Each position the company proposes to be added over the years 2023 and 2024 should be evaluated by the Commission on its individual justification and need to support the growth and increased activity of Peoples' distribution system. Through the company's combined testimony and interrogatory responses, we believe we have provided proof of our careful consideration and justifications for each position. In MFR G-2, pages 19c-19e, the company has specifically detailed the labor cost for each proposed position being added in 2023 and 2024. In addition, in response to OPC's Fourth Set of Interrogatories No. 202 (see Document No. 9 to my Exhibit RBP-2, pages 8-10), the company provided in electronic format the support file "OPC Fourth IRR No. 202.xlsx" that includes the tab "IRR 202 Detail" that details the 2024 test year labor O&M expense, benefits O&M expense and payroll tax for each individual position being added. If the Commission decides to remove certain added positions from the test year revenue requirement, it need not resort to the broad-brush approach advocated by OPC. Rather, it can individually remove the related labor and benefits O&M expense and payroll tax for each position as appropriate to adjust NOI by using the detailed information by position included in the file "OPC Fourth IRR No. 202.xlsx" tab "IRR 202 Detail".

However, we believe we have provided proof of careful consideration and evaluation of each position and that OPC witness Kollen has not provided commensurate rationale to warrant removal of all positions.

3. *Office Supplies and Expenses for Employee Additions*

Q. Witness Kollen proposes to reduce the company's proposed revenue increase by $1,162,000 to eliminate the company's proposed increase to account 921 office supplies and expenses associated with staffing increases. Do you agree with his proposal?

A. No. As stated above, the company has justified its forecasted staffing increases for 2023 and 2024, and these costs will be necessary to support these new team members.

Q. If the Commission agrees with witness Kollen that some of the office supplies and expenses for employee additions should be reduced in the test year, how do you propose that those adjustments be made?

A. If the Commission decides to remove certain positions from the 2024 test year, then the associated reduction in account 921 should be made based on the department the position was budgeted in. In Exhibit RBP-2, Document No. 2, I have calculated by department the per headcount added average increase in 2024 account 921 office supplies and expenses. If the Commission determines that a position identified on MFR

G-2, pages 19c-19e should be removed from the company's 2024 test year revenue requirements, then the associated pro-rata reduction in account 921 office supplies and expenses can be determined using the average amounts by department provided in Exhibit RBP-2, Document No. 2.

4. *2023 and 2024 Pay Increases*

Q. Witness Kollen proposes to reduce payroll and related expenses in the test year to reflect lower wage escalation factors. Do you agree?

A. No. The company's proposed wage escalation factors for 2023 and 2024 are reasonable for the reasons explained in the rebuttal testimony of Peoples witness Bluestone; therefore, witness Kollen's proposed adjustment should be rejected.

5. *Capitalization of A&G Expense*

Q. In OPC witness Kollen's testimony he asserts the company's forecasted capitalization of administrative and general ("A&G") expenses of $11.0 million in 2024 is too low of a credit to A&G expenses and should increase with capital expenditures and increases in A&G expenses. Do you agree with his recommendation to have the Commission increase the company's 2024 credit in account 922 to $13.125 million?

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A. No. As stated in response to OPC's Fourth Set of Interrogatories, No. 185 (see Document No. 9 to my Exhibit RBP-2, page 11), the company deemed it reasonable to keep the A&G allocation to capital at $11.0 million in the 2023 and 2024 budgets as it had already increased from $8.0 million in 2020 to $11.0 million in 2022. Excluding the FGT to Jacksonville Export Facility project, the 2024 capital budget is $314.2 million, which is lower than the recent history that was considered in the increase to $11 million already reflected. In fact, the 2024 budgeted capital spend is less than that experienced in 2020 ($339.0 million), 2022 ($325.2 million) and expected in 2023 ($364.4 million excluding FGT to Jacksonville Export Facility project). For this reason, I disagree with Kollen's adjustment.

6. *Storm Expense Accrual*

Q. In OPC witness Kollen's testimony, he states that the company's methodology for determining the appropriate annual storm reserve accrual is flawed because it includes the costs of Hurricane Michael that was recovered through a surcharge. Do you agree with OPC witness Kollen's assertion?

A. No. As stated in response to OPC's Fourth Set of Interrogatories, Nos. 183 and 184 (see Document No. 9 to my Exhibit RBP-2, page 12 and 13), Hurricane Michael storm costs eligible under the ICCA methodology were included in the storm reserve annual accrual analysis because those costs are reflective of major hurricane events that may occur going forward. In addition, the storm reserve provides the ability to recover storm costs while also maintaining rate stability for customers. With the appropriate annual accrual and target, the storm reserve can provide the ability to recover restoration costs of expected hurricane events and is not meant for just less impactful tropical storms. The company's request for the surcharge to recover Hurricane Michael incremental costs was not only due to the severity of that storm, but also due to the inadequacy of the storm reserve annual accrual of $57,500 established almost ten years prior to Hurricane Michael. As seen recently with another major storm in 2022, Hurricane Ian, the company has elected not to recover any incremental costs through a surcharge to customers and has instead elected to recover those costs from the annual storm reserve accrual.

Q. In the storm reserve analysis included in your Exhibit RBP-1, Document No. 7, you used the most recent 10-year history of storm costs to determine an annual average cost. Why is using the most recent 10-year history more appropriate than using the 14-year history as proposed by OPC witness Kollen?

A. As seen in my direct testimony, Exhibit RBP-1, Document No. 7, for the years 2009 through 2015, there was no storm activity requiring incremental costs. However, for the next seven years from 2016 through 2022 there were six named storms that occurred with incremental costs to our business. Therefore, the most recent 10-year rolling history of storm costs is a more appropriate period to include in the analysis as it is more representative of current hurricane activity impacting the State of Florida.

Q. In your storm reserve annual accrual recommendation, you conservatively rounded down the $545,338 10-year average incremental costs down to $500,000. Is there any other conservatism embedded in your methodology?

A. Yes. The $545,338 10-year average incremental storm cost amount was calculated using nominal dollars that totaled $5,453,379 and included costs dating back as far as 2016. If I had accounted for inflation and brought those nominal dollar costs to 2024 test year dollars, the total 10-year history of costs would equate to $6,402,571 or an annual average of $640,257 (see my Exhibit RBP-2, Document No. 3). Therefore, foregoing this inflation impact adds almost another $100,000 of conservatism to my recommendation of a $500,000 annual storm accrual and a $5.0 million storm reserve target.

Q. Is OPC witness Kollen's proposal to reduce the proposed $500,000 annual storm accrual by $300,000 appropriate?

A. No. As discussed above, the company's proposed $500,000 annual storm accrual appropriately considers the historical storm costs over the past 10-year period that are representative of recent storm activity and is very reasonable and conservative considering inflation of those historical storm costs. Therefore, the Commission should reject OPC witness Kollen's proposal to decrease the company's proposed annual storm accrual to $200,000.

7. *Three RNG Projects*

Q. Do you agree with witness Kollen proposes to "zero out" the revenue requirement impact of the company's three proposed renewable natural gas ("RNG") projects in the test year?

A. No. All three of the company's proposed RNG projects should be accounted for above-the-line in the test year for the reasons explained by witness Luke A. Buzard in his rebuttal testimony.

Peoples planned and executed the New River and Brightmark RNG projects consistent with and in reliance on the company's tariff 7.404 Renewable Natural Gas Service and rate schedule

RNGS. As shown in Document No. 4 of my Exhibit RBP-2, the company is recovering the total installed cost of these projects, including a reasonable rate of return, from the Customer using a Monthly Services Charge through the term of the RNG services agreement and purchase sale agreement. This will allow the company to recover the revenue requirement for these projects over the life of the projects. As is the case with fixed-rate, long-term customer contracts, the annual contract revenues from the customers will not recover the annual revenue requirement for the project in the early years, but will exceed the annual revenue requirement in the later years. There is nothing remarkable or improper about this phenomenon; it is a function of how depreciation expense reduces the net book value of the assets subject to a fixed-rate, long-term customer contract over the useful life of the assets. The kind of single-asset or project-specific ratemaking inherent in witness Kollen's proposal is inconsistent with the way the Commission has treated the contract revenues and revenue requirement of other long-term customer projects (e.g., pipeline extensions).

Further, the Alliance RNG project reduces the company's overall test year revenue requirement by $233,414, because the forecasted revenues from the sale of the environmental attributes from the RNG collected and conditioned at the dairy will exceed the annual revenue requirement associated with the Alliance project assets in the test year.

The impacts of all three RNG projects should be fully reflected in the test year as proposed by the company and for the reasons explained above and in the direct testimony of witness Rutkin and the rebuttal testimony of Peoples witness Buzard.

8. *Property Tax Expense*

Q. Do you agree with witness Kollen's proposal to reduce test year property tax expenses by $2.562 million?

A. No. Although I agree an adjustment is required for the 2024 test year property taxes, I do not agree with the amount of witness Kollen's proposed reduction. The company originally estimated the 2024 test year property tax to be $24.462 million. The company subsequently determined in response to OPC's Ninth Set of Interrogatories, No. 241 (see Document No. 9 to my Exhibit RBP-2, page 14), that the 2024 property tax should be adjusted downward by $2.008 million to $22.454 million following the identification of an error in the forecast workpapers used for the company's 2024 budget. Witness Kollen has asserted that the company's budget for 2024 property tax expense is inflated because the company included an “experience trend factor” in the modeling used to derive property values subject to tax. Witness Kollen indicated that he believes the experience trend factor is speculative in nature, and therefore should be disregarded from the forecast analysis completely. He concluded that the downward adjustment in property tax should be $2.562 million when the experience trend factor is completely removed from the calculation of the 2024 test year property tax expense.

The experience trend factor is the difference between the taxable values that the company has proposed to county tax jurisdictions with the actual final taxable values derived by taxing authorities. As evidenced in the table below, a review of historical outcomes comparing company proposed taxable values and final taxable values derived by taxing authorities demonstrates that the experience trend factor is a necessary and legitimate factor for consideration in forecasting taxable property values. The experience trend factor shows that the taxing authorities consistently derive higher taxable values than those proposed by the company. The experience trend factor is no more or less speculative than other factors, such as estimated millage rates, which are used in the development of the property tax estimate.

	A	B	= (B/A) - 1
Tax Year	**Proposed Taxable Tangible Property Value on Company Property Tax Return**	**Final Taxable Tangible Property Value Determined By Tax Authorities**	**Experience Trend Factor**
2022	$1,043,416,988	$1,051,943,510	0.8%
2021	$801,162,648	$830,522,961	3.7%
2020	$732,453,468	$768,385,967	4.9%
2019	$663,201,815	$699,092,779	5.4%
2018	$603,470,017	$630,687,162	4.5%
Avg.			3.9%

In determining the corrected 2024 test year property tax expense of $22.454 million, the company used the 2021 experience trend factor of 3.7 percent. As shown in the table above, the average experience trend factor over the past 5 years has been 3.9 percent. Therefore, the 3.7 percent experience trend factor that was used is reasonable, and the company proposes that the original 2024 test year property tax estimate of $24.462 be decreased by $2.008 million rather than the $2.562 million proposed by witness Kollen.

B. <u>Rate Base – Capital Expenditures and Plant Additions</u>

Q. On page 23 of OPC witness Kollen's testimony includes a summary comparison of the company's 2021 O&M expense projections included in the last rate case filing and its actual 2021 O&M expense. Did witness Kollen provide similar evidence for the company's 2021 projected capital expenditures and capital additions in the last rate case filing and its 2021 respective actual amounts?

A. No, witness Kollen did not provide similar evidence to compare actual 2021 results with the rate case forecasted capital expenditures and capital additions. The 2021 forecasted capital expenditures were $263.8 million (see MFR G-1, page 26 in Docket No. 20200051-GU that is included in Document No. 9 to my Exhibit RBP-2, page 17) compared to 2021 actual of $307.4 million (see response to OPC 1st Set of Interrogatories, No. 82 that is included in Document No. 9 to my Exhibit RBP-2, page 18). The 2021 forecasted capital additions were $232.5 million (see MFR G-1, page 27 in Docket No. 20200051-GU that is included in Document No. 9 to my Exhibit RBP-2, page 19) compared to 2021 actual of $296.7 million (see 2021 Annual Status Report in witness Dane A. Watson's direct testimony, Exhibit DAW-1, Document No. 2, page 142 of 155). For both capital expenditures and capital additions, the company's 2021 actual amounts exceeded the 2021 rate case forecast amounts. Therefore, utilizing witness Kollen's logic on 2021 O&M expenses, the company understated its 2024 capital expenditures and capital additions when preparing rate case capital expenditure and capital additions budgets, not overstated it.

Q. Do you agree with witness Kollen's proposal to reduce the company's forecasted capital expenditures and capital additions by 6.5 percent based on a weighted average calculation of budget variances for the years 2018 through 2022?

A. No. I disagree for several reasons.

First, his analysis uses the company's revised 2022 capital expenditure budget of $338.0 million rather than the original 2022 capital expenditure budget of $299.1 million prepared before 2022 spending started. When the company realized later in 2022 that it was going to exceed its original 2022 capital budget, for corporate governance reasons, the company requested board approval for a higher 2022 capital expenditure budget amount in late October. Therefore, the $299.1 million original capital expenditure budget is the appropriate budget to use for witness Kollen's analysis. With this change, the company actually overspent by $26.2 million or 8.8 percent.

Second, the company's project management group was just being established in 2018 and 2019 and its processes for managing capital projects and forecasting capital expenditures was not fully in place. Therefore, the period that more appropriately reflects the company's current structure and effectiveness in managing its capital expenditure budget is the most current years of 2020 through 2022.

After adjusting OPC witness Kollen's analysis to properly reflect the original 2022 capital expenditure budget and adjust for the more representative 2020 to 2022 period, the company historically has overspent by 0.7 percent using the same weighted average calculations performed by witness Kollen (see Exhibit RBP-2, Document No. 5).

For these reasons, and for the reasons explained in the rebuttal testimony of witness Richard, the Commission should reject witness Kollen's recommendation to reduce rate base $33.331 million and related revenue requirement by $2.963 million.

Q. If the Commission agrees with the logic underlying witness Kollen's rate base adjustment, should the Commission make an adjustment to his proposed amount?

A. Yes. Witness Kollen's calculation of the amount of the adjustment is incorrect for several reasons.

First, in his Excel workpaper file "OPCRESP-POD1b-000001 OPC Revenue Requirement Recommendation for PGS.xlsx", tab "CapEx Act vs Bud", cell E53 (also shown in Document No. 9 to my Exhibit RBP-2, page 20), witness Kollen has improperly calculated the test year reduction in accumulated depreciation. The calculation should reflect the full year 2023 depreciation expense impacting the 2024 test year balance of accumulated depreciation. Instead, witness Kollen has improperly reflected half of the 2023 depreciation expense impacting the 2024 test year balance of accumulated depreciation.

Second, on row 70 of the same reference file and tab, OPC witness Kollen makes the following statement, "No Change in ADIT Projected for this Adjustment as both Book and Tax Depreciation Expense Would Decrease". This statement is flawed as ADIT (Accumulated Deferred Income Tax) would be impacted by his proposed adjustment to reduce plant additions in 2023 and 2024 as the removal of tax depreciation expense for these assets would exceed the corresponding amount of book depreciation removed. Therefore, his proposed adjustment incorrectly ignores the impact it would have on the company's ADIT balance in its capital structure.

C. <u>NOI and Overall Rate of Return: 2023 Transaction</u>

Q. Do you agree with witness Kollen's proposal to reduce the company's test year O&M and interest expenses by a total of $9.7 million to eliminate the recurring incremental costs of the 2023 Transaction?

A. No. Although witness Kollen correctly identified the incremental costs and their amounts when he calculated his proposed adjustments, his adjustments should be rejected for the reasons explained in the rebuttal testimony witnesses Wesley and Kenneth D. McOnie.

D. <u>NOI, Rate Base, and Capital Structure: Depreciation Issues</u>

Q. Do you agree with the depreciation-related adjustments proposed by witness Kollen?

A. No. Four of his proposed NOI adjustments, three of his rate base adjustments, and one of his capital structure adjustments reflect OPC's positions on the company's depreciation study, proposed depreciation rates, and test year depreciation expense.

His first proposed NOI adjustment reduces depreciation expense to reflect his proposed reduction of rate base associated with lower capital expenditures. The Commission should reject his rate base adjustment and the related $897,000 depreciation adjustment for the reasons I previously explained in my rebuttal testimony.

His second proposed NOI depreciation adjustment would reduce depreciation expense by $625,000 to "reflect depreciation study date as of the beginning of the test year." As later discussed in my rebuttal testimony, witness Watson's calculation of depreciation rates using a December 31, 2023 study date differs from witness Garrett's. If the Commission decides to use the December 31, 2023 study date, the company believes witness Watson's calculations should be used rather than witness Garrett's.

His third proposed NOI depreciation adjustment would reduce test year depreciation expense by $7,257,000 to reflect the depreciation rates with longer lives proposed by witness Garrett. As stated by witness Watson in his rebuttal testimony, witness Garrett's determination of these extended lives is flawed and should be rejected by the Commission.

Witness Kollen's final proposed NOI depreciation adjustment would reduce test year depreciation expense by $17,625,000 by amortizing the company's theoretical depreciation reserve surplus as a credit to expense over a ten-year period, rather than over the remaining lives of the assets. As stated later in my testimony, the company believes that any such revenue requirement reduction should not be the result of deviating from normal depreciation study practice but rather should be the result of the Commission's consideration of the use of an amortization method as a matter of policy.

1. *Study Period*

Q. In OPC witnesses Kollen's and Garrett's testimony they state that the depreciation study period date used in the company's study should be December 31, 2023 rather than the December 31, 2024 study period date used in the filing. What is the company's reasoning for using the December 31, 2024 date?

A. On page 16 of the Stipulation and Settlement Agreement (see Document No. 9 to my Exhibit RBP-2, page 21) approved by the Florida Public Service Commission ("Commission") in Order No. PSC-2020-0485-FOF-GU, issued December 10, 2020, in Docket Nos. 20200051-GU, 20200166-GU, and 20200178-GU ("2020 Agreement"), item (d) states "the depreciation study period shall match the test year in the company's MFRs [emphasis added]." Included in the header of the company's MFRs filed for this rate case proceeding (see MFR G-1, page 1 for example) are the following dates:

Historic Base Year Data: 12/31/2022

Historic Base Year +1: 12/31/2023

Projected Test Year: 12/31/2024

Therefore, to comply with the terms of the 2020 Agreement as written on page 16, item (d), the company believes the depreciation study period should match the Projected Test Year date of 12/31/2024 in the company's MFRs rather than match the Historic Base Year +1 date of 12/31/2023 in the company's MFRs. The company believes it is bound to comply with the terms of the 2020 Agreement regardless of the requirements under Rule 25-7.045 Depreciation(4)(d).

Q. In witness Watson's rebuttal testimony, he states that he has calculated depreciation rates using the December 31, 2023 study period scenario that differ from witness Garrett's calculated depreciation rates using the same study date and witness Watson's parameters. What is the dollar amount difference in the 2024 test year depreciation and amortization expense between witness Watson's and witness Garrett's rates?

A. As shown in my Exhibit RBP-2, Document No. 6, using witness Watson's calculated depreciation rates, the 2024 test year depreciation and amortization included in the company's NOI calculation is $373,090 more than the amount using witness Garrett's depreciation rates. As shown on MFR G-1, page 23, the company's 2024 test year depreciation and amortization expense totaled $87,776,676. As shown on page 1 of my Exhibit RBP-2, Document No. 6, my calculation of the 2024 depreciation and amortization expense using witness Watson's December 31, 2023 study period based rates totaled $87,524,373, which is a reduction of $252,303 from the amount in the company's MFRs. As shown on page 2 of my Exhibit RBP-2, Document No. 6, OPC witness Kollen's calculation of the 2024 depreciation and amortization expense using witness Garrett's December 31, 2023 study period based rates totaled $87,151,284, which is a reduction of $625,392 from the amount in the company's MFRs. The difference between the $252,303 reduction using witness Watson's rates and witness Kollen's reduction of $625,392 is $373,090.

2. *Theoretical Reserve Surplus*

Q. Do you agree with OPC witness Kollen's proposal to amortize all the company's theoretical depreciation reserve surplus as a credit to expense over ten years rather than over the lives of the company's depreciable assets?

A. No. As discussed in witness Watson's rebuttal testimony, using a specified amortization period for theoretical depreciation reserve surplus is not normal depreciation study protocol but rather a policy decision. The company believes that any such revenue requirement reduction should not be the result of deviating from normal depreciation study practice but rather should be the result of the Commission's consideration of the use of an amortization method as a matter of policy.

Q. In witness Kollen's testimony he questions whether the company will place the Dade City Connector project in service by the end of 2023 to allow the company to amortize $8 million of theoretical depreciation reserve surplus under the 2020 Agreement. Does the company still believe the Dade City Connector project will be in service by end of 2023 and the company will be amortizing the $8 million as allowed under the 2020 Agreement?

A. Yes. As stated in the rebuttal testimony of witness Richard, the company is on track to have the Dade City Connector project in service by the end of 2023, allowing the company to amortize the $8.0 million of theoretical depreciation reserve surplus as reflected in the 2023 budget.

E. <u>Other Capital Structure and Rate of Return</u>

Q. Do you agree with OPC's four capital structure and rate of return adjustments reflected in witness Kollen's testimony?

A. No. The company disagrees with all four of witness Kollen's capital structure and rate of return adjustments reflected in his testimony.

His first proposed adjustment of $8.898 million includes restating the company's long-term and short-term debt rates to remove the effects of the 2023 Transaction on the test year. Although witness Kollen uses calculations provided by the company in response to OPC's First Set of Interrogatories, No. 100 (see Document No. 9 to my Exhibit RBP-2, pages 22-24), the company in principle opposes this adjustment for the reasons explained in the rebuttal testimony Wesley and McOnie.

His second proposed adjustment of $11.402 million includes a reduction of the company's equity component and an increase to its long-term debt component. The company disagrees with reducing its equity ratio from investor sources from the existing 54.7 percent ratio for the reasons explained in the rebuttal testimony of witness McOnie, so it also opposes the related rate of return adjustment.

Witness Kollen's third adjustment of $27.115 million reflects

OPC's proposal to set the company's mid-point return on equity at 9.0 percent. The company opposes OPC's return on equity proposal for the reasons explained in the rebuttal testimony of Dylan W. D'Ascendis, so it also opposes the related rate of return adjustment.

The company opposes witness Kollen's proposed fourth adjustment of $0.532 million associated with Accumulated Deferred Income Tax impacts related to depreciation and amortization adjustments, for the same reasons it opposes the underlying adjustments to depreciation expense.

II.

OPC's Other Issues

A. Seacoast Cost Allocations

Q. What is Seacoast Gas Transmission, LLC ("Seacoast") and what is its relationship to Peoples?

A. Seacoast is a limited liability company that designs, constructs, and operates intrastate natural gas transmission pipelines in Florida, and Seacoast received tariff approval from the FPSC in November 2008 as a non-rate regulated transmission company. Seacoast is a sister company to Peoples in that both entities are wholly-owned subsidiaries of TECO Gas Operations, Inc.

Q. Does Seacoast have any employees?

A. No, rather, it receives certain shared services from Peoples and Tampa Electric.

Q. How are the costs of the business functions performed by Peoples for Seacoast allocated or attributed to Seacoast?

A. The costs are attributed to SeaCoast in one of three ways. The first is when affiliate team members direct charge their labor to SeaCoast. The second is through a standard labor distribution where Peoples team members allocate a fixed percentage of their time to Seacoast, which are periodically reviewed and adjusted for any changes in an individual's support of Seacoast. The last is through an overhead allocation using a Modified Massachusetts Method ("MMM.")

Q. What amount of costs to be incurred by Peoples in 2024 are being attributed or allocated to Seacoast during the test year?

A. In the 2024 test year budget, the labor, benefits, and payroll tax costs projected to be directly charged or allocated to SeaCoast through a standard labor distribution are $1,114,451. The projected costs to be allocated to SeaCoast through the MMM in 2024 are $1,595,205.

Q. Please explain the MMM process of allocating corporate overhead costs to affiliates.

A. The MMM allocates costs to affiliates based on the affiliate's respective ratio of (i) net revenue, (ii) payroll and benefits costs, and (iii) gross property, plant and equipment.

Q. Since the MMM allocates corporate overhead costs using a factor based on payroll costs and SeaCoast does not have any employees, does the MMM under-allocate corporate overhead costs from Peoples to SeaCoast?

A. While the historical approach to allocating costs is reasonable and has increased significantly over the last few years as shown in my Exhibit RBP-2, Document No. 7, an argument could be made that the costs are being under-allocated given SeaCoast's recent growth and lack of employees.

Q. Does the company have a proposal on how to modify the MMM to more fairly allocate corporate overhead costs from Peoples to SeaCoast?

A. Given there are no SeaCoast employees, an alternative approach is to include the directly allocated payroll and benefits costs from affiliates for the last historical year in the MMM calculation.

Q. If the Commission agrees with the company's proposal to modify the MMM for corporate overhead cost allocations from Peoples to SeaCoast, what adjustment should be made to the company's proposed test year revenue requirement?

A. By including the $1,150,287 of direct labor and benefits sent to SeaCoast by Peoples and Tampa Electric in the MMM calculation, the allocation of corporate overhead costs from Peoples to SeaCoast increases $189,347 as show in Exhibit RBP-2, Document No. 7 which results in a reduction of the base revenue requirement of $190,837 after grossing up for regulatory assessment fees and bad debt expense.

B. <u>Projected Customer Growth and Usage After Filing</u>

Q. Has Peoples experienced unexpected customer growth in 2023 after it prepared its 2023 and 2024 budgets and filed its petition in this case?

A. Yes. Through June 2023 the company has on average 3,991 more residential customers than budgeted. Commercial customer growth through June 2023 is on track with the 2023 budget. However, the actual June 2023 year-to-date base revenues are $460,000 and $1.725 million lower than the 2023 budget for residential and commercial customers, respectively, which in total is nearly $2.2 million lower than the 2023 budget.

Q. Should the company's proposed 2024 test year revenue requirement be adjusted to reflect this unexpected growth?

A. No. Overall, the company believes the 2024 test year budgeted base revenues are still reasonable considering the year-to-date June 2023 base revenue shortfall versus the 2023 budget. If the Commission were to adjust the test year base revenue projections for the assumption of additional customers in 2024 above those projected by the company in its filing, then the Commission should make commensurate adjustments to the 2024 test year O&M and capital expense projections reflecting higher customer growth.

C. <u>Vehicle Additions and Retirements</u>

Q. Has the company reflected a reasonable number of vehicles in the 2024 test year rate base?

A. Yes. Peoples witness O'Connor demonstrates the company has forecasted a reasonable number of vehicles in rate base for

2024. These vehicle additions were budgeted in account 392.01 for years 2023 and 2024 and are reflected on MFR G-2, pages 23 and 26.

Q. With the addition of vehicles in account 392.01 included in the company's 2023 and 2024 capital budget, should MFR G-2, pages 23 and 26 have also reflected vehicle retirements for that account? And if so, what is the impact of not including vehicle retirements on the company's test year Net Operating Income ("NOI") and rate base?

A. Yes, as stated in witness O'Connor's Late Filed Exhibit 15 (see Document No. 9 to my Exhibit RBP-2, pages 25-26), the company identified $1,706,817 and $1,571,627 of retirements in account 392.01 that should have been reflected in 2023 and 2024, respectively. As a result, 2024 test year vehicle depreciation expense would have decreased by $243,046 (see calculation in Exhibit RBP-2, Document No. 8). However, as also stated in witness O'Connor's Late Filed Deposition Exhibit 15, there would be no direct impact on NOI as vehicle depreciation expense is charged through a transportation cost allocation to O&M and capital expenditures and is not included in depreciation expense in determining NOI. In the company's budgeting process, the increase in the 2024 vehicle depreciation expense was not factored into the development of the 2024 detailed O&M budget for transportation cost allocation or FERC O&M budget on MFR G-2, pages 12-19. Instead, the 2024 vehicle transportation allocation costs included in O&M expense were trended forward using 2022 vehicle transportation costs plus inflation and customer growth in labor in areas that use vehicles, which is primarily Gas Operations, Engineering and Pipeline Safety. Therefore, any changes in vehicle depreciation expense due to the revised amount of retirements would not have an impact on O&M expense (MFR G-2, page 12-19) or depreciation expense (MFR G-2, page 1, line 6) in the determination of the 2024 test year NOI.

Regarding rate base impacts, adding the retirements to 2023 and 2024 would equally reduce the plant in service and accumulated depreciation. Therefore, the 2024 test year rate base amount would not be directly impacted by adding the retirements to account 392.01. If anything, rate base would slightly increase for the 13-month average reduction in accumulated depreciation due to lower vehicle depreciation expense (see calculation in Exhibit RBP-2, Document No. 8). The company did budget salvage in account 392.01 of $84,798 and $121,995 for 2023 and 2024, respectively. Any further increase in salvage for 2023 and 2024 would partially offset the lower accumulated depreciation due to lower depreciation expense discussed above. Also, when determining the 2023 and

2024 capital expenditures, the higher vehicle depreciation expense was not factored into those capital budgets and no impact to overall rate base would occur due to lower vehicle depreciation expense.

In conclusion, although the company agrees that retirement of vehicles in account 392.01 should have been reflected in the 2023 and 2024 plant and accumulated depreciation balances, there would be no impact on the company's determination of NOI and a slight increase in rate base which would have a minor increase in the filed 2024 test year revenue requirement. Therefore, correcting the 2023 and 2024 capital budgets for the identified retirements would slightly increase the company's 2024 test year revenue requirements. Due to the minor amount of an increase in revenue requirements, the company proposes to not make any vehicle retirement related adjustments to the company's filed MFRs.

D. Lobbying, Charitable Contributions, Sponsorships, and Institutional and Image Advertising

Q. Has the company reached an agreement with the OPC on an adjustment to move certain costs associated with lobbying, charitable contributions, sponsorships, and institutional and image advertising below the line?

A. Yes. During discovery and in response to questions posed by OPC, the company identified a total of $242,173 of costs associated with lobbying, charitable contributions, sponsorships, and institutional and image advertising that were inadvertently recorded above the line contrary to Commission policy.

Q. Has OPC subsequently added more items to the list of 2022 base rate recoverable O&M reductions in addition to the originally agreed to $242,173?

A. Yes. OPC has added $33,236 of additional transactions above the originally agreed to $242,173, which totals $275,409. Although the company does not agree all of the $33,236 should be reductions to 2022 base rate recoverable O&M expense, the company is willing to reflect the additional $33,236 as a reduction.

Q. In Staff witness Donna D. Brown's direct testimony, Exhibit DDB-1, she has identified audit findings related to these areas and other items reducing 2022 O&M expense recoverable from base rates. What is the amount of year 2022 reductions to base rate recoverable O&M expense and what is the commensurate reduction to apply to the 2024 test year?

A. In Exhibit DDB-1 to Staff witness Brown's direct testimony, she has identified $185,606 of audit findings reducing the company's 2022 O&M expense recoverable from base rates. Although the company does not agree with all the audit findings, I have reflected all of the $185,606 in my revised revenue requirement later in my rebuttal testimony. In the company's 2023 and 2024 budgets, it has applied the inflation assumptions as shown in MFR G2, pages 12 - 19. Factoring in the inflation assumptions, the reduction in the 2024 test year base rate recoverable O&M expense resulting from witness Brown's audit findings is $195,062.

Q. During the audit conducted by Staff witness Brown, did the company also self-disclose any base rate recoverable O&M reductions that were not included in Staff witness Brown's audit findings?

A. Yes. During the audit the company self-disclosed $64,483 of year 2022 base rate recoverable O&M reductions. Factoring in the inflation assumptions, the reduction in the 2024 test year base rate recoverable O&M expense resulting from these self-disclosed items is $72,074.

Q. Are there any double-counted items between the OPC agreement adjustments, Staff witness Brown's audit findings and the company’s self-disclosed reductions to year 2022 base rate recoverable O&M?

A. Yes, there are several individual transactions that are redundantly included in the OPC agreed upon reductions, audit findings and the self-disclosed reductions during the audit. Within the OPC amount of $275,409, there are $114,408 of redundant transactions. Support for all the redundant transactions is included in the Excel workpapers supporting my Exhibit RPB-2, Document No. 1, which are being provided with my rebuttal testimony. The net incremental amount of 2022 OPC agreed upon reductions to base rate recoverable O&M expense is $161,001. Factoring in the inflation assumptions, the reduction in the 2024 test year base rate recoverable O&M expense resulting from the incremental OPC agreed upon items is $172,200.

Q. Please summarize the overall adjustment to year 2022 base rate recoverable O&M expense, excluding the redundant items, and the commensurate reduction to the 2024 test year O&M expense.

A. The below table summarizes the year 2022 and 2024 test year base rate recoverable O&M expense adjustments after factoring in the company’s inflation assumptions.

	2022 Reduction	2024 Reduction
Audit Findings	$185,606	$195,062
Self Disclosed	$64,483	$72,074
OPC Non-Redundant	$161,001	$172,200
Total	$411,090	$439,336

E. Mergers and Acquisitions Activity

Q. Are there any expenses associated with merger and acquisition activity reflected in the company's test year O&M expenses?

A. In 2022, the company received no allocated costs from Emera or any affiliate associated with merger and acquisition activity. In addition, during 2022 the company did not incur any costs for outside services related to any merger and acquisition activity. Any time spent by company personnel to evaluate or consider any merger and acquisition activity during 2022 was incidental. Since 2022 actual costs are the basis for the 2024 budget, there are no merger and acquisition activity costs included.

F. Long-Term Debt Rate True-Up Mechanism

Q. Witness Kollen states that he supports the company's proposed Long-Term Debt Rate ("LTDR") True-Up mechanism. Do you believe this mechanism would function as the company proposed with OPC witness Kollen's cost of capital proposal to base the company's revenue requirements on an allocation of Tampa Electric Company's cost of long-term debt?

A. No. The company's proposed LTDR True-Up mechanism would not function as proposed if the Commission based the company's cost of long-term debt on Tampa Electric Company's long-term debt rates. Witness Kollen states the LTDR True-Up mechanism is "essential;" however, he fails to reconcile how the LTDR True-Up mechanism would function under his cost of capital recommendations using Tampa Electric Company's long-term debt rates.

III.

Quantification of Garrett Adjustments

Q. Have you reviewed the adjustments proposed by witness Kollen to reflect positions taken by witness Garrett in his testimony?

A. Yes. The company disagrees with witness Garrett's proposed adjustments and positions, but generally agrees with witness Garrett's calculations other than the errors noted above.

IV.

Updated 2024 Increase Request

Q. Has the company revised its proposed revenue requirement increase to reflect updated information on certain expenses, corrections of errors, and reflect areas of agreement with OPC?

A. Yes. As shown in my Exhibit RBP-2, Document No. 1, I have calculated revisions to the company's revenue requirement increase with adjustments netting to a reduction of $2,681,365 that are individually explained below. With the adjustment, the company's filed $127,624,042 revenue requirement increase, net of $11,647,804 Cast Iron Bare Steel Rider revenue requirements, is reduced to $124,942,677. These referenced amounts can be seen on lines 12, 26 and 28 of my adjustment exhibit.

Q. Please explain your depreciation related adjustment for the July 2023 Study corrections?

A. As discussed earlier in my rebuttal testimony, witness Watson has revised the depreciation study for corrections that were required. The net result of those corrections is a reduction of the Depreciation and Amortization shown on MFR G-2, page 1, Line 6 from $87,776,676 to $87,742,948, or a decrease of $33,728 that is shown on line 4 of my adjustment exhibit. After the gross up for Commission assessment fees and bad debt expense, the revenue requirement impact is a decrease of

$33,993. In addition, as shown on line 18 of my adjustment exhibit, there is an additional adjustment related to accumulated depreciation impacts on rate base that increases the revenue requirement by $1,574.

Q. Please explain your depreciation related adjustment for the Alliance RNG Project?

A. In response to Staff's Interrogatories Nos. 5 and 35 (see Document No. 9 to my Exhibit RBP-2, pages 27-30), the company noted that its filing classified the Alliance RNG Project assets in the wrong accounts. In the filing the assets were classified in account 376.00 Mains Steel, but after further consideration, the company believes that accounts 376.02 Mains Plastic and 378.00 Measuring & Reg Station Equip are more appropriate. As shown on line 5 of my adjustment exhibit, the impact to depreciation expense is an increase of $15,798 and an increase to revenue requirements of $15,922 after the appropriate gross up. In addition, as shown on line 19 of my adjustment exhibit, there is an additional adjustment related to accumulated depreciation impacts on rate base that decreases the revenue requirement by $2,098.

Q. Please explain your depreciation related adjustment for the New River RNG Project?

A. In response to Staff's Interrogatory No. 57 (see Document No. 9 to my Exhibit RBP-2, page 31), the company noted that its filing classified the New River RNG Project assets in the wrong account. In the filing the assets were classified in account 336.00 RNG Plant, but after further consideration the company believes that accounts 376.00 Mains Steel and 378.00 Measuring & Reg Station Equip are more appropriate. As shown on line 6 of my adjustment exhibit, the impact to depreciation expense is a decrease of $51,505 and a decrease to revenue requirements of $51,911 after the appropriate gross up. In addition, as shown on line 19 of my adjustment exhibit, there is an additional adjustment related to accumulated depreciation impacts on rate base that increases the revenue requirement by $9,383.

Q. Please explain your depreciation related adjustment for the Brightmark RNG Project?

A. In response to Staff's Interrogatory No. 34 (see Document No. 9 to my Exhibit RBP-2, page 32), the company calculated the impact on depreciation expense, depreciation reserve, rate base and revenue deficiency if the Brightmark RNG Project "pipeline extension" was classified in account 336.01 and fully depreciated over 15 years. As stated in response to Staff's Interrogatory No. 3(a) (see Document No. 9 to my

Exhibit RBP-2, page 33), Peoples would not be opposed to fully depreciating the "pipeline extension" during the same 15-year term for which the full installation cost of the "pipeline extension" is recovered through the Monthly Services Charge. As shown on line 7 of my adjustment exhibit, the impact to depreciation expense is an increase of $321,507 and an increase to revenue requirements of $324,036 after the appropriate gross up. In addition, as shown on line 19 of my adjustment exhibit, there is an additional adjustment related to accumulated depreciation impacts on rate base that decreases the revenue requirement by $41,430.

Q. Do you have any other depreciation expense related adjustments?

A. Yes. Due to the net reduction in accumulated depreciation of $367,131 from the above depreciation expense adjustments, there is a small associated adjustment to Accumulated Deferred Income Taxes in the company's capital structure resulting in a small impact to the overall rate of return. The resulting adjustment is an increase to revenue requirements of $6,780 that is shown on line 24 of my exhibit.

Q. Please explain your Property Tax correction adjustment?

A. As discussed earlier in my rebuttal testimony, the company discovered and acknowledged an error in its calculation of the projected 2024 test year property tax expense. The company has determined that the property tax expense should be reduced by $2.008 million or from $24,462,000 included in the filing to $22,454,000. As shown on line 8 of my adjustment exhibit, after grossing up for Commission assessment fees and bad debt expense, the revenue requirement impact is a decrease of $2,023,797.

Q. Please explain your adjustment for 2024 Standalone Audit Fees?

A. As discussed in the revised response to OPC's First Set of Interrogatories, No. 100 (see Document No. 9 to my Exhibit RBP-2, pages 22-24), the company originally budgeted $346,000 for 2024 standalone audit fees. Subsequently, the company was able to negotiate those fees down to $156,000, which is a $190,000 reduction to O&M expense that is shown on line 9 of my adjustment exhibit. After gross ups, the revenue requirement impact is a decrease of $191,495.

Q. Please explain your adjustment to correct for the net cost change in Treasury support?

A. During my deposition with OPC, I acknowledged that adjustments to the 2024 budgeted Treasury support costs were required. The company budgeted for an additional Treasury Analyst position with costs for labor, benefits and payroll taxes totaling $101,798. With that resource addition plus support from the Emera Treasury team (cost allocation of $50,000) and Trustee costs of $40,000 that were not budgeted, the company would be able to remove the 2024 budgeted Tampa Electric Treasury team cost allocation of $150,234. As shown on line 10 of my adjustment exhibit, the net result is a reduction in the company's 2024 test year O&M expense of $60,234 and a revenue requirement decrease of $60,708.

Q. Please explain your adjustment reflecting Commission Staff audit findings reducing 2022 base rate recoverable O&M expense?

A. As discussed earlier in my rebuttal testimony, Staff witness Brown's identified $185,606 of audit findings that reduce the 2022 base rate recoverable O&M. After factoring in the company's inflations assumptions, the commensurate 2024 test year reduction is $195,062. As shown on line 11 of my adjustment exhibit, after grossing up the revenue requirement decrease in 2024 is $196,597.

Q. Please explain your adjustment to reflect the company's self-disclosed reductions to 2022 base rate recoverable O&M expense?

A. As discussed earlier in my rebuttal testimony, during Staff's audit the company self-disclosed that $64,483 of transactions should be removed from the 2022 base rate recoverable O&M expense. After factoring in the company's inflation assumptions, the commensurate 2024 test year reduction is $72,074. As shown on line 12 of my adjustment exhibit, after grossing up the revenue requirement decrease in 2024 is $72,641.

Q. Please explain your adjustment to reflect OPC and Peoples agreed to reductions to 2022 base rate recoverable O&M?

A. As discussed earlier in my rebuttal testimony, the OPC agreed to reductions to 2022 base rate recoverable O&M is $242,173 plus another $33,236 that OPC subsequently added, which totals $275,409. After removing $114,408 of redundant transactions already included in Staff's audit findings and the company self-disclosed items during Staff's audit, the incremental agreed-to reduction with OPC is $161,001. After factoring in the company's inflations assumptions, the commensurate 2024 test year reduction is $172,200. As shown on line 13 of my adjustment exhibit, after grossing up the revenue requirement decrease in 2024 is $173,555.

Q. Please explain your adjustment to increase the overhead cost allocation from Peoples to SeaCoast?

A. As discussed earlier in my testimony, I acknowledge that due to not having any employees at SeaCoast, the company's MMM calculation of the overhead allocation from Peoples to SeaCoast may understate the costs that should be allocated if it had employees. As shown in Document No. 7 to Exhibit RBP-2, after calculating a revised MMM incorporating all directed charged payroll and benefits costs from Peoples and Tampa Electric, Peoples 2022 overhead cost allocation to SeaCoast would increase by $180,225. Factoring in the company's inflation assumptions brings the 2024 test year reduction to $189,347. As shown on line 13 of my adjustment exhibit, after grossing up the revenue requirement decrease in 2024 is $190,837.

V.

SUMMARY

Q. Please summarize your rebuttal testimony.

A. My rebuttal testimony has addressed my disagreement with witnesses Kollen's and Garrett's proposals to adjust the company's 2024 test year revenue requirements, and my suggested changes where I agree in concept but not in the quantification. I have provided information on accounting and ratemaking issues arising from the company's responses to OPC's discovery requests and proposed by OPC at the informal issue identification meeting. Finally, I have presented the company's revised revenue increase request that corrects certain errors and includes updated information on the company's test year revenue requirements, including Commission Staff's audit findings. Taking into consideration these adjustments, I have proposed reducing the company's requested net revenue requirement increase from $127,624,042 to $124,942,677, which is net of the $11,647,804 of Cast Iron/Bare Steel Rider revenues the company proposed to move from the rider to base rates.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BY MR. WAHLEN:

Q Ms. Parsons, did you also prepare and cause to be filed with your direct testimony and exhibit marked RBP-1, consisting of 10 documents?

A Yes.

Q And did you also prepare and cause to be filed with your rebuttal testimony an exhibit marked RBP-2, consisting of nine documents?

A Yes.

Q And was document number eight of your rebuttal exhibit updated on August 14th, 2023, when the company revised its answer to staff's 14th set of interrogatories, number 155, which was included in Exhibit 128, as shown on the CEL?

A Yes.

Q And did document number nine to your rebuttal testimony, Exhibit RBP-2, include the company's answer to staff's first set of interrogatories number five as originally served on May 16th?

A Yes.

Q And did the company serve a revised answer to that interrogatory on July 28th?

A We did.

Q And is that revised interrogatory included in Exhibit 110 on the CEL?

A I believe so.

MR. WAHLEN: Mr. Chairman, Peoples would note for the record that Exhibit RBP-1 and 2 have been identified on the CEL as Exhibits 23 and 33.

CHAIRMAN FAY: Okay.

MR. WAHLEN: I have one other item, if it's okay with the parties.

In the course of the proceeding, Peoples has revised its revenue requirement, once when Ms. Parsons filed her rebuttal testimony, and then in the course of doing the prehearing order, we updated some positions. I circulated a revised calculation of the revenue requirement to the parties about a week ago, and let them review it. We would be happy to put that into the record as an exhibit if the parties think it would be helpful. It if not, we won't, but I think it would be helpful.

CHAIRMAN FAY: I would like to go ahead and put it into the record.

MR. WAHLEN: Okay.

MR. REHWINKEL: We don't have an objection.

MR. MOYLE: Given the direction of the revenue requirements, we don't have an objection either.

CHAIRMAN FAY: Thank you.

And we will mark this as 218.

(Whereupon, Exhibit No. 218 was marked for identification.)

MR. WAHLEN: It's a lot easier when it goes down, Jon, right?

BY MR. WAHLEN:

Q Ms. Parsons, real briefly, does the exhibit that's been market as 218 reflect, to your knowledge, the company's revised revenue requirement request in this case?

A Yes, it does.

Q Thank you.

And would you please summarize your prepared direct and rebuttal testimony?

A Of course.

Good morning, Commissioners. My direct testimony presents the company's original net revenue increase request of 127.7 million, and shows how it was calculated. It summarizes the company's budgeting process, and shows why our proposed 2024 test year is reasonable for setting rates in this proceeding. It explains all of the key elements of the revenue requirement; rate base, depreciation, net operating income and capital structure, and how we develop them. It compiles recommendations from our testifying experts

Fox, Watson and D'Ascendis on the revenue forecast, depreciation rates and required return on equity. It also reflects the company's proposed level of operation and maintenance expenses, which is supported by our operating witnesses O'Connor, Richard, Rutkin and Bluestone, and is well below the Commission's O&M expense benchmark.

As part of this case, we propose to move recovery of approximately 11.6 million of the revenue requirement for a legacy pipe safety replacement program from our cast iron/bare steel rider to base rates, and a long-term debt true-up mechanism. My direct testimony explains these items as well.

My rebuttal testimony responds to the accounting and ratemaking proposals advanced by OPC's witnesses and issues identified by OPC during discovery, and reflected in the issues as presented in the prehearing order.

My rebuttal testimony presents the company's revised revenue increase request of approximately 124.9 million, which is down 2.7 from our request as filed. This revised increase request corrected mistakes we found in our original filing, and reflects our consideration of OPC's proposals, ideas from staff, results of the staff audit, and updated budgeted expense amounts; and explains that the expense allocation from Peoples to its affiliate SeaCoast are appropriate, and that are our corrected property tax expenses are reasonable.

Finally, since my rebuttal has been filed, we have made further adjustments which are reflected in our positions in the prehearing order. This has resulted in an updated revenue increase of 123.7 million. And I would be happy to discuss any questions related to this updated.

That concludes my summary. Thank you.

MR. WAHLEN: Ms. Parsons is available for cross-examination.

CHAIRMAN FAY: Okay. Office of Public Counsel.

MR. REHWINKEL: Thank you, Mr. Chairman.

EXAMINATION

BY MR. REHWINKEL:

Q And good morning, Ms. Parsons.

A Good morning.

Q You are responsible for maintaining the financial books and records of the company, and for determining and implementing accounting policies and practices for Peoples Gas, which includes general accounting, regulatory accounting and financial

reporting?

A Correct.

Q Okay. And you are also responsible for short-term budgeting and forecasting activities within the company, right?

A Yes.

Q I am going to ask you a series of questions about certain issues that you address in this case, and those would be primarily the A&G, or administrative and general allocation involving a revenue requirement of about $2.1 million under Issue 27 and 49, do you understand that?

A Uh-huh.

Q Okay. I am also going to ask you about the capital budget involving a revenue requirement of about $3.9 million under Issues 21, 23 and 27.

A Okay.

Q And I am going to ask you about the deferral of revenue -- or the deferral or revenue neutrality in the test year of the RNG projects remaining in the case amounting to about $1.5 million under various issues that also include the working capital issue, do you understand that?

A Yep.

Q Okay. Do -- and I am also going to ask you

some questions about the SeaCoast allocations that you mentioned in your summary related to Issue 13, okay?

A Okay.

Q And additionally, I am going to ask you about the nature of your testimony and a variety of other issues, including the largest dollar issue in the Public Counsel's case, which is Issue 9, and the disposition of up to $221 million in a theoretical depreciation reserve surplus, which the customers have valued as much as $17 million on an annual basis if amortized; do you understand that?

A Yeah.

Q Okay. So I think I am going to go in reverse order and start first with the theoretical depreciation reserve surplus issue.

Isn't it true that you don't really substantively address this issue in your direct testimony?

A I don't address the calculation. That is supported by our depreciation.

Q Okay. The company does acknowledge that there is a depreciation reserve imbalance, or theoretical depreciation reserve imbalance in this case, right.

A Yes.

Q Okay. And you agree that it is at least $119

million based on the filed study?
A That seems reasonable.
Q Okay. If Mr. Garrett's depreciation parameters and rates are utilized, along with a 12/31/23 study date, which is now stipulated, the end balance would amount to about $221 million, do you agree with that?
A Sounds reasonable.
Q Okay. Did you have any issues with the math in the calculations that Mr. Garrett presented in his various presentations of the reserve imbalances?
A I am not an expert as it relates to that calculation. It seemed reasonable from what I saw, but I am definitely not the one to address that.
Q Okay. Do you agree that with the now stipulated study date, and using the PGS proposed service lives that were proposed by Mr. Watson, that the imbalance is somewhere in the neighborhood of 153 to $159 million?
A That sounds reasonable.
Q Okay. Do you agree that the -- if the imbalance is determined by the Commission to be $221 million, that that's about 33 percent of the total theoretical depreciation reserve?
A Subject to check.

Q Okay. And Mr. -- using Mr. Watson's rates and his 153, or Mr. Garrett's $159 million surplus, would you agree that surplus is at least 20 percent -- that that imbalance is 120 percent of the depreciation reserve?

A Seems reasonable.

Q Okay. If I could ask -- I think I want to push page D15-1661 which is an exhibit to Mr. Kollen's testimony, and is also a response by the company to Interrogatory 99. Are you familiar with -- do you see that yet?

A Yes.

Q Okay. I believe this is a response that both you and Mr. Watson provided affidavits on, does that sound right?

A Yes.

Q Are you familiar with this response?

A Yes.

Q Okay. In this response, I think the Public Counsel asked you about kind of the methodology of how one would go about determining a depreciation reserve surplus in order to amortize it instead of use remaining life technique; is that your understanding?

A Yes.

Q Okay. And in it, the answer shows the

company's response of how the methodology should be undertaken if you were going to do this exercise, do you agree with that?

A Yes.

Q Okay. And the way that Mr. Garrett and Mr. Kollen presented the surplus, and in order to present the policy issue of returning it faster than remaining life technique would do, does the company agree that we followed the methodology that's set out in this interrogatory, regardless of whether you agree with the numbers?

A Can you please restate your question? I am not clear.

Q Did the company have -- agree -- have any issue with the way the methodology was applied by Mr. Garrett and Mr. Kollen in determining the surplus in order to recommend to the Commission an amortization amount?

A So my understanding is that they are recommending to amortize it over 10 years --

Q Yes.

A -- and we believe it should be over the life of the asset based on Commission precedence.

Q Yes. But in order to determine the amount to amortize, if the Commission were to take that policy

path, the company doesn't disagree with the methodology that was applied to determine the amortization amount or the balance to be amortized, is that right?

A Correct.

Q Okay. In your rebuttal testimony, you address the Issue 9, depreciation reserve imbalance correction issue, at -- starting at D8-513, if we could go to that. I must -- I didn't get the right number here. I apologize.

MR. REHWINKEL: Once again, Mr. Chairman, I cleaned out my paper to references to use the Case Center, and I didn't get back on task so --

CHAIRMAN FAY: Okay.

MR. REHWINKEL: -- let me find --

CHAIRMAN FAY: I will give you a second to get realigned.

MR. REHWINKEL: -- my reference. Oh, I said D. I mean E8. E8-513, if we could go there.

BY MR. REHWINKEL:

Q So this is page 26 of your rebuttal testimony?

A Yep.

Q And starting on line 15 through line 29, this is where you address this issue, right?

A Yes.

Q Okay. Here, you state that as -- starting on

line 18 -- as stated by witness Watson in his rebuttal testimony, witness Garrett's determination of these extended lives is flawed and should be rejected -- I am sorry, that's -- that's the depreciation, your rebuttal to his depreciation, but let me just touch on that for a second.

You are really just reflecting what Mr. Watson supports in his testimony, right?

A Correct.

Q You are not offering a substantive rebuttal to Mr. Garrett's depreciation rate testimony, right?

A Correct.

Q Okay. And the same would go for the portion that starts on line 22 of page 26, and carries forward to page 27, through line seven, with respect to the flowback of a depreciation reserve surplus, correct?

A No, I think that -- I mean, I do have a position that it should be over the life of the asset, but that it's a policy decision for the Commission if they were to choose to do something different than historical.

Q Okay. So when I look at this testimony, especially going to page 27, you state that, as stated later in my testimony, the company believes that any such revenue requirement reduction should not be the

result of deviating from normal depreciation study practice, but rather, should be the result of the Commission consideration of the use of an amortization method as a matter of policy. Did I say that right?

A Yes.

Q Okay. And you are basically presenting it, as I read, this the company's position --

A That is correct --

Q -- right?

A Yes.

Q Okay. But you are not providing -- well, let's go look at your -- just a couple pages later, on page 29, which is E8-516. Your testimony starts there on-line 18 on this regard, right?

A Yes.

Q And you were asked if you agree. And you say, no. And then the way I read it is, it says: As discussed in witness Watson's rebuttal testimony, using a specified amortization period for theoretical depreciation reserve surplus is not normal depreciation study protocol, but rather a policy decision. The company believes that any such revenue requirement reduction should not be the result of deviating for normal depreciation study practice but, rather, should be the results of the Commission's consideration of the

use of an amortization method as a matter of policy?

A Yes.

Q That's the sum and substance of your testimony on that, right?

A Yes.

Q Okay. So you are -- as I read it, you are just basically repeating Mr. Watson's position in your testimony on behalf of the company on the surplus amortization?

A Yes, I think that the different context is that he is a depreciation expert, and would always recommend over the life of the asset. Whereas, we are saying there is a time and a place, if the policy -- you know, if a Commission perspective chooses to do something different.

Q Okay. So would you agree, based on that language that we just reviewed, on lines -- basically on lines two through seven on page 30, that whatever the Commission's policy is regarding correction of an excess theoretical depreciation reserve balance is what should control?

A Can you please repeat your question?

Q Yes. I am asking if you are saying that if the Commission has a policy on how to handle a surplus of this magnitude, then that policy could be applied in

this case?

A Yes.

Q Okay. And if the Commission applied whatever policy they had, the company would be fine with that, as long as it was consistent with the Commission's policy?

A If it was constructive, and we were able to maintain financial integrity, yes.

Q Okay. So would you agree that in the past, the Commission has expressed concerns about reserve imbalances that violate the matching principle, create subsidies and intergenerational inequities?

A Yes.

Q Okay. And would you agree that, in the past, the Commission has expressed concerns that depreciation of plant that generates significant surpluses can mean that the plant is over-depreciated?

A I am not aware of that.

Q Okay. Are you aware that in the situations where the Commission has found that there is a significant reserve imbalance, whether it is a deficit or a surplus, that they have ordered that it be corrected shorter than a remaining life technique would do?

A More so, my understanding is it's typically over the life of the assets.

Q Okay. But are you aware that they have utilized shorter periods to correct an imbalance that's a deficiency, as well as when there has been a surplus?

A I think in our last settlement, we had $34 million that they used.

Q Okay. But you are talking about the settlement agreement?

A Yeah.

Q Okay. And that was a settlement agreement among the parties. It wasn't something the Commission did on its own initiative?

A True. Yes.

Q Okay.

MR. REHWINKEL: Mr. Chairman, I would like to pull up J421, which is in the official recognition --

CHAIRMAN FAY: Okay.

MR. REHWINKEL: -- file. This is an FPL order from 2010.

BY MR. REHWINKEL:

Q We could go back to the 87 pages earlier and look at the front page if you like, or you can accept my representation that this is the order from the 2009 FPL rate case. Would you like to go back and look at that?

A No, I accept it. Yes.

Q Okay. All right. Are you familiar with this order in any way?

A No, I am not.

Q Okay. Are you aware, or you will accept my representation, that FPL filed a case that indicated that they had a $1.25 billion surplus depreciation reserve, theoretical depreciation reserve?

A Yes.

Q Okay. And would you further agree that after making corrective reserve adjustments, the Commission had $894.6 million of depreciation reserve surplus that became a point of contention about how to dispose of it in that case?

A It appears so.

Q Okay. Had you ever seen the language in that order that states, on page 87 there, we agree with OPC's position that intergenerational unfairness already exists, as witnessed by the existence of such a significant reserve imbalance, therefore, we are of the opinion that amortization -- that amortizing the remainder of the reserve surplus is the most appropriate remedy to eliminate the intergenerational inequity the surplus created. The only question remaining is how long it should be -- it should take to correct the situation --

A I see that.

Q -- do you see that?

Would you agree that in that case, the Commission ordered that $894.6 million to be amortized to income over four years, and returned to the customers that way?

A That's what I read. Yes.

Q Okay. In this case, the Public Counsel is regulation -- is recommending 2.5 times longer amortization period, or 10 years, compared to the Gulf -- the FPL situation, would you agree with that?

A I would agree. Yes.

Q Okay. The company has not filed any testimony in this case demonstrating that it would be unfair to the company if a 10-year amortization period of the surplus, whether it's 153, 159 or $221 million, is amortized to offset the revenue requirement in this case?

A Right. Our testimony is that it should be over the life of the assets, but that to the extent that Commission policies determined something different, then that could apply.

Q Okay. So the answer is, no, there is no evidence that there would be a financial hardship or burden to the company if that amortization of 10 years

occurred instead of the remaining life technique?

A That's correct.

Q Okay. So when the Commission stated in the very next paragraph -- I guess when I say the very next paragraph, it would be the second paragraph that starts "accordingly", on that J421 page.

Accordingly, we find that the remaining reserve surplus amount of $894.6 million shall be amortized over a four-year period. This is consistent with our policy with respect to reserve imbalance, which has been to correct them as soon as possible without adversely impacting the company's ability to earn a fair and reasonable return?

MR. WAHLEN: Mr. Chairman, at the risk of extending this, this really sounds like legal argument that belongs in a brief. I know Mr. Rehwinkel is trying to make a point here, but we have agreed that it's a matter of Commission policy.

If he is going to go through a whole long list of orders and put them in front of the witness and ask her about that, we are going to be here a long time. If he would like to do this in the brief, that's fine. But he is really asking her to comment on Commission orders, and I am not sure why that's particularly relevant for that witness.

CHAIRMAN FAY: Mr. Wahlen, I tend to agree with you. I was -- I kind of wanted to see where this went, but, Mr. Rehwinkel, go ahead.

MR. REHWINKEL: Yes. As you can see, there was a little qualifier at the end of that very last thing that I read, and I just was factually closing the loop and the policy on that. I think I had one or two more questions, and I certainly would follow the sage advice of Mr. Wahlen and not go through a bunch of orders at this time. So if I could just finish just a couple more questions here on the --

CHAIRMAN FAY: Yeah, I think within her expertise. I mean, you haven't -- I don't think you have pushed the legal connection too far, but we are getting close.

BY MR. REHWINKEL:

Q So I just want to ask my last question in this area, is you would agree that Mr. Kollen and Mr. Garrett's recommendation on the corrective amortization of the significant reserve imbalance is not in violation of the Commission's policy in this area?

A It doesn't appear so.

Q Okay. Thank you.

So let's go to the A&G allocation capital

issue, which I think is housed in the fallout issues of 27 and 49, would you agree with that --

A Yes.

Q -- rate base and O&M?

All right. Although there is not a specific issue asking whether the company has properly allocated administrative and general expense costs from accounts 920 and 921 through account 922 to construction costs as contemplated in the Uniform System of Accounts, you would agree with me that the OPC has raised the issue, and you have responded to it, and it's properly addressed in Issues 27 and 29 -- and 49?

A That is correct. Yes.

Q Okay. And you would agree that the Commission should make a determination about whether PGS forecasts -- PGS's forecasted level of A&G transfer to plant or rate base is reasonable and prudent an amount, would you not?

A Yes.

Q Now, you have proposed that the correct number is $11 million, and Mr. Kollen has testified it should be $13.1 million, right?

A Yes.

Q Would you agree with me that it has been a practice of PGS in two rate cases now, this one and the

2020 case, to propose to transfer an unadjusted or unescalated amount of A&G to construction or plant in the historical test year, base year and test year?

A We did keep it consistent with '22. It's not necessarily a policy. It's an accounting estimate. And when we looked at the facts and circumstances of the test year, it felt appropriate to keep it at that $11 million.

Q Okay. You did the same thing in the 2020 case, you set it at $8 million based on the 2019 base year, base year plus one was eight million, and then 2021 test year was eight million, right?

A Subject to check, I can't recall specifically.

MR. REHWINKEL: Mr. Chairman, I passed out yesterday an Exhibit 24 that I ended up not moving into the record. It may be laying around.

CHAIRMAN FAY: This is nonconfidential?

MR. REHWINKEL: Yes.

CHAIRMAN FAY: And it's titled what, Mr. Rehwinkel?

MR. REHWINKEL: It's -- I think it's G-2, it's OPC 24, but it's an MFR schedule from 2020 case.

MS. HELTON: And I think it's already up on Case Center.

MS. WESSLING: I would just add that since we did release it, it is available in Case Center which I directed everyone to, it just needs an exhibit number.

CHAIRMAN FAY: Okay. We will mark that as 219.

(Whereupon, Exhibit No. 219 was marked for identification.)

CHAIRMAN FAY: PGS, do you have that?

BY MR. REHWINKEL:

Q Do you have that in front of you?

A Yes, I do.

Q Okay. So just so we can confirm, what I described with the $8 million being in the base year, base year plus one and test year, that's what's reflected on line 13, if I have that lined up right?

A I believe it's line 14.

Q 14, okay. Line 14 of this MFR schedule from the last case, right?

A Yes.

Q Okay. And a similar phenomenon, if that's the right word, occurred in this case --

A Yes.

Q -- where there was $11 million in 2022 that was carried over into '23, and then again into the test year?

A Yes.
Q You would agree that after rates were set through the stipulation in 2020, based on a 2021 test year, that for the year 2022, PGS increased the transfer from $8 million to $9 million in 2021, and then to $11 million in 2022?
A That is correct. Our capital program increased more than what we had anticipated in the 2021 test year. And so when we do our review of what seems appropriate looking at all of the factors of that estimate, we did increase it based on those facts and circumstances.
Q Okay. You increased it in 29 -- in '22 $1 million, to $9 million -- I am sorry. Actually, in 2021, did you increase it to $9 million?
A Yes. We increased it from eight million to nine million in 2021.
Q Okay. And then in '22, it went from $9 million to $2 million more, to 11 million, right?
A Yes.
Q In this case, you didn't do any special time study that supported the change in the allocation either from the test year amount in the rate case to what you used in your income -- I guess in your income statement for '21, or to go from that $9 million to $11 million,

did you?

A   No, we did not.

Q   Okay. So in this case, after that 2020 filing transfer amount was revised from eight million to $9 million -- and I guess what I am trying to understand is you had $8 million in the test year filing, but what it appears happened is that, at some point, for financial reporting purposes, that number changed to $9 million?

A   It increased based on the higher capital spend program that we had in '21 compared to what was anticipated in the test year, yes.

Q   Okay. And then that number going to $11 million became the base for determining of the test year income statement and capital amounts as they relate to where A&G costs sit, is that fair?

A   So when we prepared the budget, we looked at the facts and circumstances around how the 11 million was calculated, which is based on the amount of effort team members spend on capital, the capital program, various different things are in consideration around that estimate. And when we did so, we felt that 11 million was appropriate in the test year, yes.

Q   I would like to turn to Exhibit 206. I don't know if you have that in front of you. That's the budget related -- do you have a copy for her? Yes, 35.

And I want you to turn, if you can, to Bates 7 and ask you if you are familiar with this?

A Bates seven?

Q Yeah. It's OPC Bates 7, which is your Bates 341 --

A Okay.

Q -- and interrogatory number 82.

A Yes.

Q Okay. You know this document, right?

A I do.

Q Okay. So this -- in the bottom half of this page, it shows the CAPEX over the capital budget, and then the capital spend. The actual is in the bottom part, right?

A Yes.

Q Okay. So here we see that in 2018, the capital spend was $172.4 million; 2019, 201.8; 2020, 338.9; 2021, 307.4; and then 2022, 325.2, right?

A Yep.

Q So 2019, the -- to 2020, subject to check, would you accept that the budget amount increased six percent?

A Yes.

Q Okay. And then from 2020 to 2021, the budget decreased nine percent, or the CAPEX, I mean?

A Yes.

Q Okay. And then from 2021 to 2022, it increased 2.6 percent, subject to check?

A Subject -- yes, subject to check.

Q Okay. In 2022, compared to 2029, the budget increased 52 percent over those three years --

A That looks reasonable, yes.

Q -- subject to check?

A Yep.

Q Okay. I meant to compare 2019 and 2022. If I said 2029, I am definitely not a time traveler, so with that correction, you agree a 52-percent change?

A Yes, I knew what you meant.

Q So in 2021, the CAPEX spend was $301 million, which was about, as we've discussed, nine percent less than the 2020 CAPEX level, and yet the -- let me strike that question and ask about in 2021.

Despite the nine-percent drop in CAPEX spend, you increased the A&G transfer by 12-and-a-half percent, or from eight to nine million, is that right?

A That is correct. It's not simply a faction of, you know, related to capital expenditures. It's about the activity within our A&G costs that are supporting that. So there is a handful of factors that we can look at and consider, but yes.

Q Okay. So the activity you are talking about is actual construction activity?

A So this is meant to reflect the administrative and general costs that are on going to support capital, is what the A&G credit does. Yep.

Q Okay. In 2022, when the CAPEX spend increased by 2.6 percent, as we've already discussed, your A&G transfer increased by 22 percent to $11 million, right?

A That is correct. Yes.

Q Okay. Wouldn't you agree that these two scenarios are inconsistent with the basis that PGS is presented presenting to the Commission related to why the $11 million in '22 is not increased or escalated for '23 and '24?

A No, I would not. Like I said, this is one of various factors that we look at, and it is something that we review ongoing, and I would not agree with that.

Q Okay. But there was no special study or analysis presented in your filing that demonstrated kind of the process that you went through to determine whether -- why 11 -- why '23 and '24 should stay exactly flat compared to '22, right?

A No. I believe there was one discovery request that we explained the capital, but, yes, there is nothing more than that.

Q Okay. There is no special study, or anything like that, that looks at the construction activities and the supervisory activities that might flow from 920 through 922 and over to the plant accounts, right?

A Not in the filing, not to my knowledge.

Q All right.

MR. REHWINKEL: So let's go to OPC 39, if we can, which is -- I will need an exhibit number for this, Mr. Chairman.

CHAIRMAN FAY: Okay. 219 -- 220.

MR. REHWINKEL: This is a response to OPC Interrogatory 185.

(Whereupon, Exhibit No. 220 was marked for identification.)

BY MR. REHWINKEL:

Q Do you see that?

A Yes, this is what I was referring to a minute ago.

Q I thought you might.

So this is a response that you provided in a response before and know well, right?

A That is correct. Yes.

Q Okay. Now, you would agree that this response is very consistent, and almost identical to your testimony in rebuttal on this issue, right?

A Yes, it is.

Q Okay. Now, does this response discuss the relationship between the CAPEX budget and the A&G transfers in the years 2019 through 2021?

A Yes.

Q Okay. So does it discuss the interim step of going from eight million to $9 million before you went to 11 million?

A No, it does not.

Q Okay. You used the phrase -- actually, let me just read it into the record.

The last sentence in this response says: Considering the significant increase already made to the A&G capital allocation from 2020 to 2022, as compared to the change in capital expenditures during that period, and the projected capital structure's in 2024, the company deemed it reasonable to keep the A&G allocation to capital at one -- at $11 million in the 2023 and 2024 budgets. Did I read that right?

A Yes, you did.

Q Okay. Would you agree with me that the standard for whether to capitalize A&G is not whether the company deems it to be reasonable?

A Could you please rephrase your question?

MR. REHWINKEL: Well, actually, let me just go to a new exhibit, Mr. Chairman. This will be 34. This is some excerpts from the USOA. 221?

CHAIRMAN FAY: Okay. Mark this 221.

MR. REHWINKEL: The title is USOA A&G Accounting Instructions.

(Whereupon, Exhibit No. 221 was marked for identification.)

BY MR. REHWINKEL:

Q And, Ms. Parsons, in all of the responsibilities that we discussed at the outset of your testimony -- and I think you are a CPA right?

A I sure am.

Q You are very familiar with these USOA accounts, right?

A Give or take, yes.

Q Okay. So I copied the latest document that we had in our office, which is April 1, 2022, and even though it's a little bit old, it's exactly the one that would have been in effect in 2022 when you prepared your budget, right?

A Yep.

Q Okay. So I would like for you to turn, if you can, to Bates 5, which is the excerpt page 794, and have you look at the account definition for account 920, administrative and general salaries, do you see that?

A Yes.

Q This is the -- this is the significant cost center, if you will, that it's -- that's the issue that we are talking about here today, and in conjunction with 921, which were the office supplies that kind of go with those salaries, right?

A Yes.

Q Okay. So this 920, it says: This account shall include the compensation, parentheses, salaries, bonuses and other consideration for services, but not including directors fees, close parentheses, of officers, executives and other employees of the utility properly chargeable to utility operations and not chargeable directly to a particular operating function. Do you see that?

A Yes, I do.

Q And this is the kind of guiding instruction as far as what costs you take out of your O&M expenses and move over to construction, right?

A Right.

Q Then if we go over and look on Bates 6 in 922, administrative expenses transferred credit, this is the mechanism that gets those debits over to the balance sheet, right?

A Yes. This is one of the methods. We also have on folks that charge A&G and specifically allocate labor to capital projects.

Q Okay. This account says: This account shall be credited with administrative expenses recorded in accounts 920 and 921, which are transferred to construction costs, which are nonutility accounts, parenthesis, see gas plant in instruction four. Do you see that?

A Yes.

Q Okay. And then instruction four is over here on Bates 3. In the lower right-hand quadrant there in italics, it says four, overhead construction costs. Do you see that?

A Yes.

Q And these are all the instructions that apply how you treat those expenses to get them on to your balance sheet, right?

A Right.

Q And if I could point you down to B at the very bottom of that page. It says: As far as practicable, the determination of payroll charges includable in construction overheads shall be based on timecard distribution thereof. Where this procedure is impractical, special studies shall be made periodically of the time and supervisory -- time of supervisory

employees devoted to the construction activities to the end that only such overhead costs that have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not prohibited -- is not permitted. Do you see that?

A I do.

Q Okay. So this is really the instruction that governs this -- these allocations, right?

A Yes.

Q Okay. So this is more than just whether the company deems it reasonable. You kind of have to following the accounting guidelines as far as doing this, right?

A Right. And we have performed studies in the past. We just haven't refreshed it as of late given resource constraints.

Q Okay. But for purposes of coming to the Commission and asking for rate relief, one of the revenue requirement issues that the Commission has to grapple with and make a decision on is whether O&M expenses should be reduced so that those costs move over to your balance sheet and are properly allocated to plant in service that is then depreciated, right?

A Absolutely. Yes.

Q Okay. So the fact that there could have done a study, but didn't, that would -- the Commission could evaluate whether that goes to -- whether you meet your burden of proof on this issue, would you agree?

A Right. And if we felt that there were material circumstances, we would have ensured that we had somebody to help support that effort, but the facts and circumstances felt that, you know, that the $11 million was still appropriate.

Q Okay. One of the things, if we could go back to that Interrogatory 185 and 220, which is exhibit OPC 36 -- 39.

One of the analyses that you perform in this response is that you suggest that the FGT to Jacksonville Export Facility project should not be considered in evaluating whether these costs should move over, is that right?

A Yes.

Q Okay. We heard a little testimony from Mr. Richard yesterday about FGT to JEF has been delayed?

A Right.

Q But I want to ask you if we could go, if you look at Mr. Rutkin's testimony that's been stipulated into the record, and I would direct the Commission and the witness to D4-189, which is page 15 of Mr. Rutkin's

testimony, as it relates to this FGT to JEF project.

So Mr. Rutkin testifies here, starting on line 3 through line 14 that the project is expected to be under contract by the end of the second quarter of 2023, under construction by the third quarter of 2024, and in service by the third quarter of 2025, which is later than the company projected in the '23 -- 2023 and 2024 budgets. Do you see that?

A I do.

Q And he goes on to say: In addition, the cost estimates for the project in the initial budgets have changed. However, due to its size and length of time it will take to build, the project will be eligible to accrue allowance for funds used during construction and the capital costs will not be included in the company's base rate calculation for the 2024 test year, right?

A Yes.

Q So not including it in rates for rate recovery purposes is different from whether it's an ongoing active construction project, right?

A Yes.

Q Okay. So you would agree, based on the timeline that he has testified to, that the Commission could conclude that it is entirely reasonable that all kinds of engineering and construction activities are

ongoing as we sit here today, to make this project come in on time, right?

A Yes. However, I would say that the latest information I am aware of is we have not yet signed that contract, so there may be further delays than what's represented here.

Q Okay. But engineering services would be ongoing in this regard, right?

A Honest -- I am not the right person on that. I don't recall any cost happening as of yet, so I would suspect no, but Mr. Richard would have been a better witness for that.

Q Right. But based on the timeline that the witness that's in the record, and Mr. Rutkin is in here and stipulated to, he is the guy, and he says this is what's going on; right?

A As of that point in time, absolutely. Yes.

Q So to the extent that activities that would require supervisory salaries to be allocated to a construction project are ongoing, the Commission could determine that it would be appropriate to consider FGT to JEF as far as whether it should -- there should be salaries allocated over the administrative and general, correct?

A Yes. And I believe most of Mr. Richard's shop is in the capital -- charges capital directly.

Q Okay. But in your response here, and in your testimony, you have told the Commission that this -- this should be excluded because of the timing of it, not because of how the salaries flow, right?

A Correct. Right.

Q Okay. Yesterday, we did -- had some discussion with Mr. Richard about the seven-member capital management team. Do you recall that?

A Yes.

Q Okay. Now, is it your understanding that that seven-member team would allocate approximately 90 percent of its time to capital?

A Did you say nine percent or 90.

Q 90, nine zero. Yeah.

A Yes, I think so.

Q Okay. I think there is an MFR somewhere there that actually goes through and shows what dollars are in O&M, and the balance would be in capital, right?

A Right.

Q Okay. So those costs are, I think as the discussion was, was the lion's share of that team's labor costs would hit your books in the second half of 2024, is that roughly correct?

A Subject to check. I can't recall.

Q Okay. If he testified that mid '24 would be when they would -- they would hire everybody but the director that's already been hired --

A Yes.

Q -- that would mean that those costs would be in 2024. And if 90 percent of them were going to go to capital, how do you square that with keeping the $11 million flat, not changing it?

A Because that goes directly through capital. It does not ever flow through A&G 920. Their charges -- basically their standard labor distribution says 90 percent is going to get charged to capital. When those projects are ongoing, they charge directly. So it doesn't sit in the initial bucket they were allocating costs from.

Q Okay.

A You have to be careful not to double allocate. If we then include it in a bucket, that 10 percent, in an allocated bucket, and then send to capital, and then we send to 90, we are over-allocating to capital at that point.

Q Okay. Fair point there.

So if the person they hired happened to be in the executive pool -- I don't know whether he would or not -- his costs might end up in 920, but by and large

what you are saying, the intent there is, from day one, if they are going to be allocated to capital, that doesn't go through this process?

A Exactly.

Q Okay. Thank you for that.

Can you tell me about the circumstances surrounding how a test year allocation of A&G of $8 million that we saw in the MFRs, how and when would that have changed to $9 million?

A So we would have looked at -- done some type of analysis in a study high level around the activities that the capital spend different factors, and when we did that, we felt that nine million was appropriate. It was a subjective review of an accounting estimate.

Q When would that have happened?

A I believe it would have -- usually Q4 of '20 --

Q Okay.

A -- yeah.

Q Now, I know that that case settled so the Commission didn't make a determination, but would it be appropriate for a test year amount, let's say $11 million in this year, to be considered and approved by the Commission, and then in Q4 this year, the company decide, hey, maybe Mr. Kollen was right, it's $13.1

million. So if you made that kind of a change after the Commission voted, wouldn't this be the scenario, you would have revenues that would be based on expenses that assumed $11 million went over to capital, but if you then allocated $13 million, that's $2 million that would go to your bottom line, but the customers would be paying for that in rates in that hypothetical situation, right?

A If we would offset a little bit by the additional costs of carrying capital, correct.

Q I am sorry?

A Yes. However, we would have additional capital that we would have carrying costs for at that point. So the dollars go from O&M into capital, and then there is cost for that, but that would be the case. However, there is not a plan to do that at this point in time. And the facts and circumstances don't show that that's the path that we are taking.

Q Okay. So -- well, I get your point on the capital, but the ratio of revenue requirements is about nine to one, right?

A Give or take.

Q Okay. And the testing year, $1 million of expenses is $100,000 capital on a revenue requirement basis, right?

A   Yes.
Q   Okay. Let's just talk quickly, if we can, about the property tax issue.
I think we still -- you originally filed for saying that this -- the trend over the past five years was that your property taxes were 3.9 percent higher than what you had budgeted, or what your return said. Do I have that right?
A   I don't believe so. I think that was the corrected property tax estimate.
Q   What's that?
A   That was the corrected. Are you talking about the experience trend factor?
Q   Yes.
A   Yeah, so there was an error in our original filing around the experience trend factor. In my rebuttal, we corrected that, and the five-year average was about four percent, I believe.
Q   Okay. I thought it corrected to 3.7.
A   3.7 is the 2022 amount that we use, which is conservative compared to the 3.9 average.
Q   Okay. Well, I thought 2022 was 0.08?
A   That was prior to the correction. So in the calculation, when we did it initially, we had picked up a wrong year, and it produced the -- 0.8 was -- I am

trying to recall, but yes -- I think it might have been we used 2020 -- you are correct. We used 2021 because 2022 was an anomaly due to one particular jurisdiction we spoke about in my deposition.

Q Right. So when you removed the Orange County, which you considered an anomaly, there wasn't an error on anybody's part there, they just -- they were less than what you had proposed, right, and that drove the whole average down to 0.08?

A Right. It was a very strange phenomenon, historically, we have seen much closer to four percent. One jurisdiction had a very low amount that caused the entire average to go to 0.8 percent, and so we used a -- well, our five-year average, like I said, was over around four percent, and so we used the 3.7 percent of 2021 to be conservative.

Q Okay. But wouldn't you agree that the trend in the last four years was a declining one in terms of the difference?

A No, I would not.

Q Well, do you happen to have those numbers in front of you?

A Yeah. So what I have here is our 2018 experience trend factor was 4.5 percent. It grew in 2019 to 5.4 percent; 2020 it was 4.9 percent; 2021, which is the assumption that we used in our case was 3.7 percent; and then 2022 was 0.8 percent, or when you handle the anomaly of Orange County, 3.1 percent. So an average of around four percent, and we used 3.7.

Q Okay. So I said five, I meant four years, the last four years with 3.1 percent correction, or the 0.8, each year is less, right?

A It has gone down, but like I said, 2022 is quite strange.

Q Okay. But even if you use 3.1, the trend is going down, right?

A Yes.

Q Okay. So it wouldn't be unreasonable to use 3.1, given the trend has been down, and that's your latest experience, right?

A I disagree. I think it would be unreasonable. I am not sure what other factors happened at the other taxing authorities, but using one year, one point in time is not really best practice in some cases, and so I think using a five-year average of, you know, the four percent, and we came in at three percent, is extremely reasonable.

Q Okay. Thank you.

MR. REHWINKEL: I would -- do we have 37? I am going to wing this a little bit.

BY MR. REHWINKEL:

Q We had asked you some discovery responses -- requests in OPC 267 and 268 related to TPI, TECO Partners, Inc, and I think you provided the response to it. What we had asked you was, were there any charities additional contributions, political contributions, sports sponsorships, any below-the-line items in there, and you gave -- I think we can put it on the system.

CHAIRMAN FAY: Okay. What is that, Mr. Rehwinkel?

MR. REHWINKEL: This is 37, and it's interrogatories 267 and 268, I believe. I think we just didn't print a paper copy of it.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: We are going to try to release it to the world.

MR. WAHLEN: Mr. Chairman and Mr. Rehwinkel, I don't know if it will speed things along, but I think the company is prepared to stipulate --

MR. REHWINKEL: Yes, I am just -- I want to put that on the record. That's all.

MR. WAHLEN: -- yeah, that the stipulation on Issue 44 would cover any lobbying, charitable contributions, sponsorships and institutional and image advertising incurred by TPI that may somehow

or another have been charged to Peoples Gas are.
BY MR. REHWINKEL:
Q And here's my question to the witness, and don't know that we need to get that up there. We will -- I was going to ask her if she would agree that to the extent there were any costs addressed by Issue 44, and without conceding that such costs related to TPI are, in fact, be recovered in the TPI billings to PGS, the negotiated resolution between the parties, including the staff's involvement, resolves that dispute consistent with the -- or resolves that dispute, would you agree with that.
A Yes.
MR. REHWINKEL: Okay. And so I think the stipulation that Mr. Wahlen offered is one that we agree to.
We just wanted to put it on the record, since we raised it in this case, that they have made a concession, and a negotiated resolution on resolving these below-the-line items, and we concur that the TPI stuff is --
CHAIRMAN FAY: Okay. And the stipulation addresses that, so that's all you have on that issue?
MR. REHWINKEL: Yes.

CHAIRMAN FAY: Okay. Great. Good.

MR. REHWINKEL: All right. I am going to turn, Mr. Chairman, now to an issue that may take a little bit of time. This is the CWIP issue, and I want to -- I passed out a document with Mr. Richard last night. It was OPC 41. I don't know if we gave it a number. 210? So it's in the record, and I want to -- I want to turn to that document.

CHAIRMAN FAY: Okay.

BY MR. REHWINKEL:

Q Do you have this with you?

A I do.

Q Are you familiar with the response to Interrogatories 227 and 228?

A Generally, yes.

Q Okay. Would you agree that here, the OPC asks for PGS's monthly balances of budgeted and actual CWIP broken down between blanket CAPEX spends and specific major projects?

A Yes.

Q Okay. We also asked you for the AFUDC accrual for the month, as well as the closures of blanket work order work and specific projects to plant in service, right?

A Yes.

Q Okay. And this is a document that's -- that I have put together here, that I kind of spliced together those two responses just so they could be looked at side-by-side. Do you see that?

A I do.

Q Okay. And I would like to see fallout issues if we can go through the mechanics of how the company keeps track of CWIP, and how you close it to plant using this document.

A Okay.

Q And I want you to look, if you could, at OPC Bates 5. I don't know. That probably doesn't have the Bates on it. It is the 2022 sheet in there.

A Okay.

Q Do you have that?

A I do.

Q Okay. And this is where I left off with Mr. Richard before he vigorously pushed back on responding to this, which I don't blame him.

Let me do this, let me go to the 2023 number. I apologize. I have my questions set up a little differently. So I apologize. Let's go to 2023. And budget row is on the bottom of this page, do you see that?

A I do.

Q And if you go out to the closure to plant total column, the amount is 550,582,923.63, do you see that?

A I do.

Q Okay. I have a question that asks how you forecast 63 cents in the budget process, but is this because Power Plan does this?

A It does, it goes through Power Plan. Yes.

Q Okay. It's Power Plan, with no T at the end, right?

A Yes. I think power plant might be a module within it. I can't --

Q All right. So if one didn't keep an open mind about it, you could get a false sense of the precision about a document like this, right? I mean, there is no intent to budget to that level of precision, is there?

A No.

Q Okay. So that 550 -- that same number we just looked at is found in the 2023 MFRs in G-1 that we looked at last night with Mr. Richard, do you agree with that?

A Yes.

Q Okay. And that $550 million number is used to support the -- it rolls up to the projected plant additions that are in the rate base in this case, right?

A Yes.

Q Okay. Now let's go over to the 2022 actual -- I guess I want to go there now.

A Okay.

Q In the actual, at the top, there we see the beginning balance of 147,483,849.61, do you see that?

A Yes, I do.

Q That is an actual number, so that 61 cents is real, right?

A It sure is.

Q Okay. In this month of January, what happens is that balance -- and this is construction work in progress, and it probably includes both AFUDC earning and non-AFUDC projects, right?

A Yes.

Q Okay. And then the two lines below that, CAPEX blankets and CAPEX special major, if you add those two together, that's about $23 million, right, just eyeballing it?

A Yes.

Q So that $23 million would be added to the 147, the AFUDC that's accrued on any earning projects is added --

A Correct.

Q -- and then any items that you complete the

work on in close to plant in service, those are deducted?

A Yes.

Q Okay. And then the remaining balance, the 158,111, that carries over to February. And then the process starts all over again. You do the same exact thing --

A Yes, sir.

Q -- down and up and down and up and over.

Okay. So when I look at this actual activity for 2022, it shows that for the year, you closed 218,175,544 of CWIP to plant in service, right?

A Yes.

Q If you go down to the balance -- I mean, the budget below for the year, before that year started, or earlier in that year, you had projected $308,809,113.47 for the -- that would close, right?

A Yes, that is correct. We had some timing where items didn't go in quite on plan.

Q Okay. But this 308 here would have been a product of you developing your budget for 2022, loading that into Power Plan, putting some assumptions in there about the timing of work --

A Uh-huh.

Q -- which ones are earning AFUDC, and then

Power Plan just spits this out, right?

A   I believe so.

Q   Okay. But as we've seen on -- for 2023, that spit out that I called it, that's used to support your revenue requirement request in this case, right, not the '22 one, but the '23 one?

A   Right. It is used, and, yes, the system spits it out. However, there is ample review and folks are validating the output for that.

Q   Okay. So this $90 million, what happens is if you look on the actual row at the top there in December, the 246,108,951, that then carries over, if we can go to 2023, that carries over to your actual balance on January 1, right?

A   Yes, it does.

Q   Okay. And then we see that process go all over again.

Looking on the budget, it looks to me like there was a reforecast, or an adjustment to the CWIP budget that matches the 246, that the same amount is the starting balance for the budget and the actual for '23, right?

A   That is correct. We had to update our budget for this proceeding. Considering capital can be multiyear, when we closed the books for 2022, we had to

update the future to ensure a consistent time period.
Q Okay. If we flip back to 2022, we see that the projection for the budget was that you would end at 98,443,000 in CWIP balance, but that didn't happen, so you had to kind of reset -- the budget doesn't carry over in this -- in this circumstance, right? You had to readjust your '23 budget for CWIP, right?
A Right. And this '22 budget would have been done in the fall of 2021 --
Q Right.
A -- so it wouldn't have been appropriate to use for the budget in the test year at this point, because we had much better data.
Q Okay. So when I look at 2024, the year-to-date closures to plant, if you add the January, February, March and April numbers, it appears that -- that the amount closed is about $67.4 million. Would you agree with that, subject to check?
A Yes. I think it's in that total line.
Q Okay. Yeah, 60 -- actually, it's 67.4 --
A Yep.
Q -- at that point in the budget, you were projecting to have closed $287.8 million of CWIP to plant, right?
A Subject to check, yes.

Q Okay. So doesn't this indicate that there could be a concern about whether you are going to actually close $550 million of CWIP to plant?

A I think it could, however, there are a handful of timing large projects that are driving this to occur, the WAM project that Mr. Richard spoke about, some of the RNG facilities. So I think there is some real projects that we know are going in service, or have even since this point in time.

Q So one could do the math here and see that it's $220.5 million behind schedule, if you will, to the extent that this CWIP budget is a useful guide for the schedule of plant closures, right?

A Yes.

Q Okay. You would agree with me that you have about $24 million of CWIP in your budget for the test year?

A Subject to check, that sounds reasonable.

Q And you would also agree with me that, in terms of revenue requirements, CWIP dollars in rate base are not the equivalent of plant in service dollars in rate base, right?

A Can you please rephrase?

Q Well, CWIP doesn't depreciate, it doesn't create depreciation reserve balance, and doesn't create

deferred taxes?

A That is correct.

Q Okay. I think we can put this exhibit aside.

A Okay.

Q And I want to turn now to issues -- well, I want to talk about the RNG cost deferral issue.

A Okay.

Q And this is -- we have stipulated to the treatment of the projects in Issues 16, 17 and 18. 18, Alliance, is removed from the case and that's all been buttoned down and that's taken out. 15 and 16, I think as you heard the staff discuss yesterday in their cross-examination, there is an issue of about a million-five in terms of the timing of revenue recovery for the costs as they are accounted for in the test year, right?

A Yes.

Q Okay. And that -- so in the test year, there is a million-five more costs than there are customer revenues from the RNG customer included in the revenue requirement for that case -- for this case, right?

A Right. That is the case.

Q Okay. And part of the stipulation among the parties was that the Commission would get to decide the regulatory treatment of that should they just let it

fall as it's accounted for, or should there be some kind of deferral mechanism to make it revenue neutral to the general body of customers, right?

A Correct.

Q Okay. I think the term that the company used is customer-backed. These are two customer-backed projects, which means that they are supposed to be the responsibility of the customer, the dairy farm or the landfill, right?

A Yes. Those customers will be paying for the total installed costs for the life of those investments.

Q Okay. And these customer-backed projects are generally presented as holding the general body of customers harmless over the life of the project by making sure that the specific RNG customer is paying 100 percent of the cost of the project, at least over the life of the project; is that right?

A Yes.

Q Okay. And in this case, for the test year, the timing of the levelized revenue payments from the customers in the two tariffed projects do not cover the upfront capital and O&M costs that are residing in the test year, is that right?

A That is correct. And that's the case with many, you know, fixed long-term contracts.

Q Okay. So this million-five deficiency, if you will, in terms of the RNG customer being responsible for 100 percent in the test year, that means that, for setting rates, that the general body of customers will pick up a portion -- the lion's share of that million-five deficiency, right?

A In the first year, yes. But like we've talked about, the levelized nature is later in the life. As the net book value of those assets depreciate, the ratepayers will actually benefit, because the revenue received from those customers will be more than the cost of those specific projects.

Q Unless the Commission -- the company comes in for a rate case and gets rate relief, and that turnaround is recognized, right, or only if that happens?

A Right. But it could also serve to fund other, you know, activities as we grow.

Q Okay. But if a customer, in 2024 and 2025, if they move away, or otherwise are no longer a customer of PGS before this turnaround occurs, and the revenue is equal to or exceeds the cost of the project, they will have borne some of the costs that only the RNG customers should have borne, right?

A Can you please rephrase that?

Q Yeah. Let me ask it a different way.
If a customer in 20 -- a general body, just an average Joe customer moves away in '25, in November of 2025 for 33 months, they will have paid -- they will have borne the cost of this project instead of the RNG customer for their portion of that million-five, right?
A Yes.
Q Okay. And that customer would not get that offset benefit when it turns around, right?
A That is correct.
Q Okay. You would agree that Mr. Kollen never recommended that Brightmark and New River be below-the-line, right? He just advocated for revenue neutrality?
A Correct.
Q Okay. Do you have exhibit -- let's see. I guess my assistant has left me, so I am going to do this.
Okay. This is Mr. Kollen's Exhibit LK-23, and it's your response to Interrogatory 199. Do you see that?
A Yes.
Q Okay. In this response, you say in the answer part: The company has not reflected deferral accounting in the 2024 test year for the RNG projects. The company

can only apply deferral accounting with Commission approval. Peoples has no precedent as basis for requesting deferral accounting on a contract with a customer, therefore, it did not propose deferral accounting. If directed by the Commission to apply deferral accounting on these contracts, then the company would not object.

Do you see that?

A Yes, we did say that.

Q Okay. Is that answer no longer correct?

A No, it is correct. I think, you know, the concern is just the administrative burden. These are two projects. They are no different than a lot of our other projects, where, in the early years, they are not meeting their revenue requirement, and they are in there later years. And for that reason, the administrative burden is it ideal for two projects and the resources to do that? No. However, if the Commission so chooses, we can do deferral accounting.

Q Okay.

A It is complete complex, though.

Q Okay. But if you did it, it would take some of the burden of the rate increase off of the general body of customers, right?

A It would, and they wouldn't benefit in the outer years.

Q It what?

A It would, but they wouldn't benefit on the back end.

Q Okay.

MR. REHWINKEL: Okay. Mr. Chairman, I have one last area here, and it is going to be limited cross-examination on the SeaCoast issue.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: If you --

CHAIRMAN FAY: Are you good to keep going?

MR. REHWINKEL: Keep going?

CHAIRMAN FAY: Yep.

MR. REHWINKEL: All right.

BY MR. REHWINKEL:

Q You are the person in the company testifying who is most directly responsible for the proper accounting for affiliate transactions in this case, right?

A Yes.

Q And you would agree that SeaCoast is an affiliate of PGS for purposes of the Commission's rules and policies, right?

A Yes.

Q And if the functions that you described in

your direct testimony that we reviewed at the very beginning, you do those same things generally for SeaCoast, right?

A Yes.

Q At the outset of this case, you did not propose an adjustment in the filing to the costs attributed to SeaCoast, right?

A Can you rephrase that?

Q You had in your -- in the filing, there were allocations or attributions of costs to SeaCoast that were baked into your budget process?

A Yes. That is correct.

Q Okay. I didn't ask it the right way.

You didn't propose any further adjustments to the costs that are attributed to SeaCoast as a part of your filing, right?

A Not in my direct testimony. In my rebuttal, I did, yes.

Q All right. So after an issue was raised, you listened to the consumer parties, you went back and did another look, and you are proposing in this case to adjust another $190,000 out of the revenue requirement to correct for some errors that you at least thought may exist in that process, right?

A I don't know that I would say --

Q Put in your words.
A Yeah, I wouldn't say it was a correction of error. I think that there was some information that we discussed that felt reasonable to include the additional $190 million -- 190,000 adjustment to reflect.
Q Okay. So if we could go to your testimony at E8-520. I am looking at line nine.
MR. REHWINKEL: The system doesn't like me, Mr. Chairman. It keeps kicking me out. Maybe it's trying to tell me something.
CHAIRMAN FAY: Is that when you manually go there or when you are directed?
MR. REHWINKEL: I don't know. It just all of a sudden I found it was gone and then it kicked me out again, so I don't know.
CHAIRMAN FAY: We will give you a second to get back there.
MR. REHWINKEL: Okay. There we go.
BY MR. REHWINKEL:
Q All right. You have -- so I am looking at your rebuttal testimony on page 33, which is E8-520, and you state here that -- you kind of describe how SeaCoast gets costs allocated or attributed to it, starting on line six town down through line 16, do you see that?
A Yes.

Q And wouldn't you agree that the cost shifting to SeaCoast is based on relying on PGS employees to accurately charge or allocate some of their time to SeaCoast?

A Yes. And then we pick up the remainder through the Modified Massachusetts Method.

Q Okay. And in here on line 13, you use the word "periodically --

A Yes.

Q -- with respect to the allocations of time, that they are periodically reviewed and adjusted?

A Yes.

Q Okay. When was the last time that was done?

A So we did a valuation at the end of 2022, and actually increased the allocation to SeaCoast based on some new cost centers that should be sent over -- sending costs over to SeaCoast.

Q Okay. But the budget was set earlier in 2022, right?

A We actually had the opportunity to adjust it, and our 2023 budget was -- the allocation to SeaCoast was increased to reflect that change about $500,000.

Q Okay. So it's, like, 4.8 percent now, for like engineering and construction?

A Yes, it was. Prior to the agreement that we have, I think it's a close -- a little over five percent now, and we adjust for the labor.

Q Okay. And what was it before?

A Hi fours, or 4.8 maybe sounds about right.

Q Okay. But you didn't present anything -- you didn't presents a study or any analysis to the Commission in this case related to that process, right?

A I don't believe so.

Q Okay. Isn't it true that the way SeaCoast -- that Peoples identifies whether to shift costs or charge -- directly charge costs to SeaCoast is essentially grounded around whether there is an actual project underway for SeaCoast?

A No, the MMM, the Modified Massachusetts Method, works regardless if there is a project going on or not, we do consistently shift costs to SeaCoast.

Q Okay. But that's sort of like executive kind of costs, isn't it, the MMM?

A No, it includes, like you just mentioned, engineering, safety, there is a handful, customer experience, I believe, you know, it's -- there is a big bucket. It's not just executives that goes in there.

Q Okay. But an organization, or a cost center like ECT, their costs are going to get over to SeaCoast primarily based on the amount of work that their

engineers are actually doing working on a project for SeaCoast, right?

A The majority is going to be directly based on that project, yes.

Q Okay. And the modification, I think, that you discussed in your testimony, was kind of taking those costs and treating them like they were payroll, even though there is no SeaCoast payroll, and then plugging that into your MMM formula, and then making it work that way? And I am not trying to be denigrative, it's just that was a surrogate for payroll that you used then to apply the factor, right?

A Exactly. There are no SeaCoast employees. And in order to ensure that we are capturing all of the direct labor costs, we have imputed all of the direct labor costs that Tampa Electric and Peoples Gas incur to support SeaCoast into that calculation.

MR. REHWINKEL: Okay. I want to look, if we can, at exhibit -- OPC 45. This will be, I believe, my last exhibit, Mr. Chairman. And what number? 222?

CHAIRMAN FAY: 222.

MR. REHWINKEL: Okay. I am going to give this a short title, CAM, Cost Allocation Manual, but it has a little bit of extra information in it.

(Whereupon, Exhibit No. 222 was received into evidence.)

BY MR. REHWINKEL:

Q This is your late filed deposition exhibit with the CAM attached to it?

A Yes.

Q Okay. And in this -- you are familiar with this exhibit, right?

A I sure am.

Q Okay. So would it be fair to say that this -- there is a kind of a SeaCoast instruction for cost allocation, and it appears to govern kind of the direct charging of engineering time related to the SeaCoast Seminole-Palatka project?

A Yes. It's engineering as well as legal, permitting, you know, other costs as well. Yes.

Q Okay. This was all based around the fact that there was an actual project in place and under way and being built, right?

A Correct.

Q Okay. So the Cost Allocation Manual, this is the public version of it. There is -- I guess it lacks an attachment that had an update to the Tampa Electric debt costs, it's in the confidential version?

A I believe so. I am not familiar with that.

Q This one is public?
A Yes.
Q Okay. There is no confidential information in this, okay.
If we could turn to page 16 of the exhibit, or Bates 22, OPC Bates 22 -- well, before I ask you about this page. This manual here is, the TECO Energy Cost Allocation Manual, is basically designed to take Tampa Electric costs and push them out to any affiliates, or bring them back from any affiliates for the Tampa Electric Company, right?
A Primarily. Yes.
Q Okay. Because Tampa Electric Company performed a lot of the services for its affiliates, whether it's Peoples, SeaCoast or New Mexico Gas, right?
A Yes.
Q Okay. Now, this document, back on Bates 4, is dated January -- effective January 1, 2020 --
A Yes.
Q -- do you see that?
And when you go to Bates 22, or page 16, there is a Roman numeral VII, affiliate supplied services. Do you see that?
A I do.
Q And under A there, this is the Peoples Gas

System segment, right?

A   Yes.

Q   And this is sort of, I guess a little mini version of the CAM. This is, like, this little subsidiary pushing costs out to others, correct?

A   Correct.

Q   Okay. And it says: Periodically, PGS may provide services -- service to its affiliates. When this occurs, PGS will direct charge that affiliate for these services. Direct charges are expenses directly tied back to services provided to an affiliate. Direct services will be priced at direct labor costs, plus fringe costs, plus payroll tax services purchased by PGS from third-party providers on behalf of affiliates are a cost passed through to those affiliates.

Did I read that right?

A   You did.

Q   And this is basically the only thing in the CAM that really specifically addresses PGS allocating costs to an affiliate, right?

A   Yes.

Q   Okay. And if I go to Bates 27, this is the Tampa Electric Company Modified Massachusetts Method. This is the MMM. And it shows the spread of Tampa Electric costs to among Tampa Electric Company, Peoples

Gas, New Mexico Gas, something called TECO Pipeline, which is essentially SeaCoast, right?
A Yeah, I believe I am on the right page.
Q Oh, I am sorry. I am looking at --
A The last page of the handout?
Q Yes. 231.
A Yes.
Q And so this takes these costs and it applies the revenue, net income, operating asset, it uses those factors to spread costs among these affiliates, this pushes costs off of Tampa Electric's books on to affiliates, right --
A Correct.
Q -- that's factors?
A Right. Those are the costs that these affiliates incur for the support services that Tampa Electric provides us.
Q Okay. When I look at this, it says: Actual as of 12/31/2018. And then it develops a blended actual rate of 2019. And would I be mistaken in saying that this was looking at what we are going to do for the year 2019 and beyond based on what has happened in 2018?
A It would be what would be used for 2019, but this exercise is done on an annual basis.
Q Okay. So has this been updated here?

A I am sure it has.
Q Okay. But it wasn't -- this wasn't updated in the cost allocation manual, was it?
A Right. I think it was probably an example illustrative, but this is done every year.
Q Okay. And exhibit -- on Bates 26, Exhibit C, this describes the Modified Massachusetts Method, and the paragraph at the bottom talks about the three-factor formula, and it describes in here the relationship of these -- of these activities to the costs that are pushed out, right?
A Yes.
Q Like it says, the formula includes asset because the greater value of an affiliate's assets, more focus will be placed on that affiliate's operations due to the relative effect on the consolidated business and balance sheet, et cetera. Do you see that?
A Yeah.
Q Okay. So these are assumptions that are baked into the way the Modified Massachusetts Method is applied in Tampa Electric Company, right?
A Correct.
Q You listened to the cross of Ms. Wesley and Mr. Richard related to SeaCoast?
A I did.

Q Okay. And did you come to an understanding that the PGS and the Public Counsel may have a difference of opinion about what costs should be allocated to SeaCoast, and how they should be attributed?

A I did.

Q Okay. Would you accept my representation that the Public Counsel does not view Peoples Gas as having intentionally misallocated costs to SeaCoast, even under our view of this issue?

A Can you rephrase that?

Q Would you accept my representation that the Public Counsel does not believe that Peoples Gas has misallocated costs intentionally to SeaCoast, even under our view of how those costs ought to be treated? In other words, we don't think you are doing -- you have intentionally doing anything wrong, even if our view of the world is correct?

A Yes.

Q You accept that?

A I do.

Q Okay. And would you also accept our appreciation that you listened to our concerns in discovery and made the adjustment that's in your testimony of 190,000?

A Sure.

Q Okay. If the Commission were to direct you to conduct a more comprehensive study of the services and costs that SeaCoast receives from Peoples Gas, and they were to direct you to file that in the next case, would you be willing to do that?

A Of course.

Q Okay. Thank you.

MR. REHWINKEL: Mr. Chairman, those are all the questions I have of Ms. Parsons. I appreciate your time. Thank you.

CHAIRMAN FAY: Okay. Thank you.

All right. Mr. Moyle.

MR. MOYLE: Thank you, Mr. Chair.

EXAMINATION

BY MR. MOYLE:

Q You were handed off a number of questions by prior witnesses, so I am going to start by asking you about the 2023 Transaction cost.

A Okay.

Q And there is approximately $10 million in costs, did you hear that testimony?

A I did.

Q There was a distinction made between nonrecurring costs, which I understood that the company

will pick up and not seek to recover any of the nonrecurring costs associated with that transaction, and recurring costs, is that right?

A The nonrecurring costs are not being borne by Peoples Gas, and we are seeking recovery of the recurring costs as normal course of business for our utility.

Q So who is bearing the nonrecurring costs, Emera?

A Yes.

Q Okay. And I don't know if you have seen all the documents, but you were here when those documents were explained, and you would agree, those documents speak to advantages largely, almost exclusively, with respect to corporate interests as compared to consumer interests, correct?

A I would disagree that.

Q So the question is: Do the documents do that? Have you looked at all the documents and done a comparison and said, all these documents, they are talking about good things for the corporation, not for the customer; you disagree with that?

A I think the documents -- I believe that the testimony of our other witnesses helped to --

Q I understand. I am asking you about the

documents.

A Yes.

Q So you agree that all -- most of the documents speak to the benefits to the company, not the customers, correct?

A From what I saw, yes.

Q So what's the -- what's the total number? If you could just break down the nonrecurring versus the recurring for me.

A I honestly am not aware of the nonrecurring costs because they weren't at Peoples Gas. I didn't stay close to it.

Q Okay.

A The recurring costs are in line with what you said, there is the ongoing interest cost, which is the market rate that our customers and Peoples Gas would incur for our debt profile. There is also some, you know, recurring costs related to maintaining that debt. So there is a treasury analyst, you know, rating agency cost in the audit. So about $9.7 million, I think, for all of that.

Q And how is the company proposing that those costs be shared between the corporate interest that are benefiting, you know, PGS and the ratepayers? Is it a 50-50 split, or what's the proposal as to how those

recurring costs should be shared going forward?

A We believe that the customers would bear that. That's a normal operating costing of running a utility.

Q So the answer to that would be 100 percent the customers should pick up every nickel for those costs?

A They should pay for the prudent costs that we incur to run our utility.

Q And just to make sure the record is clear, that's 100 percent of the recurring costs of the 2023 Transaction?

A Yes.

Q You were asked some questions about the theoretical depreciation reserve, and you were shown a document with a PSC case. I think it would be clear and helpful for the record if there were a couple of principals mentioned. Intergenerational inequity. Do you have an understanding of what that is?

A Generally, yes.

Q Could you put that on the record, tell us what your understanding of that is?

A It's that the customers of today aren't bearing the burden of the past or the future.

Q And that is a regulatory policy that Peoples should pursue, correct --

A Generally, yes.

Q -- that regulators should try to pursue?
A It's reasonable. Yes.
Q And the basis of that is, is that the people who are paying bills, natural gas bills or electric bills contemporaneously with the services should pay that, it shouldn't be shifted to either earlier generations or later generations, right?
A Ideally, yes.
Q And there is also a term that was used, the matching principle. Do you have an understanding of that?
A Yes.
Q What is your understanding of that?
A Generally that your expenses should match the same time period as your revenues.
Q And that's something that the regulatory body should strive to achieve?
A Yes.
Q And are you aware that the Public Service Commission is able to establish policy through its orders?
A Yes.
Q All right. And are you aware that the decision that was referenced to you by Office of Public Counsel, in which they did not have the amortization

recovered over the remaining life of the asset but ordered a shorter period of time, that that was something that was consistent with past orders in which the Commission had authorized reserve imbalances to be shorter than the remaining life?

A I saw that order, and it did reference that, yes.

Q And as we sit here today, just so the record is clear about the, you know, whose positions are where, that case that you were shown, the Commission acted and said, get that back to the ratepayers in four years, is that right?

A Yes.

Q And in this case, Public Counsel is saying, no, we are okay with it going back in 10 years, is that right?

A Yes.

Q And the PGS position is, it should go back greater, over a period of time greater than 10 years, is that right?

A Over the life of the asset, which I believe is normal depreciation study protocol, as described by our witness Watson.

Q So do you know if that's longer than 10 years?

A Yes, it would be.

Q How many years is it? Do you know?

A I think each asset class has a different depreciation life, so I don't know specifically.

Q But you -- okay. But you do know it's longer than the --

A Yes.

Q -- what's proposed by Public Counsel?

A Yes, we have long-lived assets.

Q If the Commission wanted to stick closely to the concepts that we talked about, the matching principle and the intergenerational inequity, they -- they one way to do that would be to order that the assets be amortized over a shorter period of time. I mean, they could do it over two years if they felt that that would help get money back to ratepayers on the books and not materially harm the company, they would be free do that, would they not, the Commission?

A Yeah. I mean the utility has already incurred all those costs, depreciation expense is just how quickly you recover those costs back.

Q Right. You do work for SeaCoast?

A Yes, I do.

Q What -- well, there is three ways that costs are allocated, direct charge, standard labor allocation and the Massachusetts model, right?

A Yes.

Q How was the decision made as to which one is used in which situation?

A So if there is a specific capital project, we create orders, as Mr. Rehwinkel showed, where we have team members directly charged for those costs. If there are team members, like in gas control, fuel supply, where a significant portion of their time is routinely spent, they set up standard labor distributions to ensure that those costs specifically flow to SeaCoast. And for the remainder of, kind of the overhead type costs, we use the Modified Massachusetts Method to appropriately allocate costs to SeaCoast.

Q The Massachusetts model, has that been peer-reviewed by the Commission, if you know, by our commission?

A I am not sure.

Q The standard labor allocation model, where it's based on a fixed percentage, what's used to determine that fixed percentage?

A So each of the team members look at how they spend their time, and they dictate -- you know, if I spend 30 percent of my time routinely on SeaCoast, then they allocate 30 percent of their time.

Q Okay. How much of your time is allocated to

SeaCoast?

A My time is allocated through the Modified Massachusetts Method, so a little over five percent will be going in the test year.

Q A little over five percent?

A Uh-huh.

Q You were asked the question by Mr. Rehwinkel about RNG projects, and that they are set up in a way that is designed not to put the general body of ratepayers at risk, correct?

A Yes.

Q Okay. Things don't always work out as planned, we know that, right?

A Yes.

Q And so if something happens with an RNG project where it does not work out, are the general body of ratepayers subject to being asked to help with that project from a financial standpoint?

MR. WAHLEN: Mr. Chairman, I am going to object. We have a stipulation on the RNG projects. The only issue that has been reserved for litigation in this case is whether we are going to use deferral accounting. I think this line of questioning is not relevant.

CHAIRMAN FAY: Mr. Moyle, it is outside the scope of that stipulation. I mean, do you --

MR. MOYLE: I think that may be subject to a little bit of debate. I mean, we do have a stipulation on it, and, you know, Mr. Rehwinkel asked questions about that, the general body of ratepayers. So my question is a follow-up on what the witness already, you know, testified to. You know, with that, I think that would -- given that it's already -- testimony has already gone into the record on that topic, I think I should be allowed to have a question or two about that.

MR. WAHLEN: I think there is a distinction. He is trying to ask about what happens if there is a default, or the customer fails, and that hasn't happened in this case, and it may never happen, and it's not relevant for discussion given the stipulation that we have entered into.

MR. MOYLE: This whole case is it based on projections, so how is it not fair to ask a question of a projection to say what happens if, you know, it doesn't work out?

They do have a couple of projects that they do have in rate base that they are seeking recovery for, as we sit here today. The stipulation says, these two projects stay in, the other ones stay out.

CHAIRMAN FAY: I am going to sustain the motion, Mr. Moyle. Move onto your next. Thank you.

BY MR. MOYLE:

Q You were asked questions about CWIP and AFUDC. Could you, at a high level, draw a distinction between those, particularly as it focuses on whether the company is allowed to earn a return on equity, slash, profit when seeking recovery through CWIP and/or AFUDC?

A So CWIP, C-W-I-P, is included in rate base unless it is earning AFUDC. To the extent that the capital project is earning AFUDC while in construction, it is removed from rate base, and we are not seeking rates for that.

Q Okay. So do you earn -- with AFUDC, do you earn a profit when you are using AFUDC?

A So when we have AFUDC, it's not part of the typical base rates. It's -- we don't actually get return on that until that project goes into service. When the CWIP goes into service, the AFUDC accrued on that project goes into service, at that point, we would earn on that investment.

Q You earn interest on these as the project is being constructed?

A Correct.

MR. MOYLE: All right. Those are all the questions I have.

CHAIRMAN FAY: Okay. Staff?

MR. SANDY: Yes, Mr. Chair, we just have a very limited line of cross-examination for the witness.

EXAMINATION

BY MR. SANDY:

Q Ms. Parsons, good morning, or I guess afternoon. I would like to discuss with you very briefly the RNG projects that have been the subject of questioning.

You stated earlier that the deferral accounting mentioned, I believe by Mr. Rehwinkel, was onerous for the utility, is that right?

A Yeah. I mean, it's going to require some effort, for sure.

Q Okay. So with that in mind, which adjustments -- which adjustment mechanisms are available to the utility that are the least onerous for the sake of making these projects revenue neutral for ratepayers? It's a bit of a convoluted question, and I am happy to sort of split it up if necessary.

A No, I think I understand.

I don't know of one that is less onerous. I think this is -- this is the path that I am aware of, and I just can't think of any other ones. I think this is the path, if we were to try to make it revenue neutral, that we would need to undertake.

Q Let me understand. When you say that you don't know of a less onerous methodology, what do you mean by that? Less onerous than what?

A So I think -- if I understood your question correctly, your question was, is there another way to kind of make those projects revenue neutral in the test year? And to my knowledge, the only path would be to have deferral accounting, and so there is not one that's more or less, I am just not aware if there may be others.

MR. SANDY: Okay. No further questions, Mr. Chair.

CHAIRMAN FAY: Okay, Commissioners?

Okay. Exhibits?

MR. WAHLEN: Could I ask just a couple of redirect questions?

CHAIRMAN FAY: Sure, Mr. Wahlen. Go ahead.

FURTHER EXAMINATION

BY MR. WAHLEN:

Q Ms. Parsons, Mr. Rehwinkel showed you an old

FPL order where a four-year period was used for reserve imbalance?

A Yes.

Q And there is lots of orders out there addressing this issue, correct?

A I would assume so, yes.

Q Are you familiar with the recent Florida City Gas rate case?

A Vaguely. Yes.

Q And did you read the filing order in that case?

A I probably did --

MR. MOYLE: Mr. Chair, aren't we getting back into the very basis upon which an objection was raised, that these are really legal issues, and legal arguments that should be made in the briefing?

CHAIRMAN FAY: Mr. Wahlen, would you repeat your question?

MR. WAHLEN: I am just going to ask one question about the City Gas rate case and the position that Public Counsel took in the City Gas rate case in the reserve imbalance.

CHAIRMAN FAY: Okay. And not for a conclusion based on that?

MR. WAHLEN: No.
CHAIRMAN FAY: Okay. Go ahead.
BY MR. WAHLEN:
Q Are you aware that witness Kollen -- I am sorry, witness Garrett, on behalf of Public Counsel in the City Gas rate case, proposed resolving the depreciation reserve differences over the life of the assets?
A I do.
Q Thank you.
Now, the A&G question that you spent time with Mr. Rehwinkel on. Public Counsel's proposed increasing the capitalization of A&G costs by about $2.1 million, right?
A Correct.
Q And that would have the affect of increasing rate base, right?
A It would. Yes.
Q And if the Commission makes that adjustment, it should increase rate base, correct?
A Correct.
Q And hasn't Public Counsel been complaining about the level of rate base growth in this case?
A Yes, they have.
Q Thank you.

CHAIRMAN FAY: Okay. Move exhibits?

MR. REHWINKEL: Mr. Chairman, I would --

MR. WAHLEN: We would --

MR. REHWINKEL: I would like to -- I need to ask one question, one single question on recross within the scope of Mr. Wahlen's first question.

CHAIRMAN FAY: Okay. For purposes of consistency, I will allow it. I am not sure what was introduced new on that recross, but go ahead, Mr. Rehwinkel.

FURTHER EXAMINATION

BY MR. REHWINKEL:

Q So given you have a good memory, you probably remember a few seconds ago, Mr. Wahlen asked about the City Gas case and the Public Counsel's expert witnesses' approach. You don't have any information about what the percentage of the theoretical reserve imbalance was to the theoretical reserve in that case, do you?

A No, I do not.

MR. REHWINKEL: Thank you.

CHAIRMAN FAY: Okay. Mr. Wahlen, now I will take exhibits.

MR. WAHLEN: Yes, Peoples would move Exhibits 23, 33 and 218.

CHAIRMAN FAY: Okay. Show 23, 33 without

objection, 218, without objection, entered into the record.

(Whereupon, Exhibit Nos. 23, 33 & 218 were received into evidence.)

MR. SANDY: Excuse me, Mr. Chairman if we may, on Exhibit 218, is that admitting the Excel spreadsheet as well, like the Excel spreadsheet, or merely the printed out copy of this?

MR. WAHLEN: Well, I don't have the Excel spreadsheet, but we will be glad to provide it. I think we've provided it by email, but we were just admitting the hard copy, but --

CHAIRMAN FAY: Yeah, I think the copy is sufficient.

MR. WAHLEN: We will be glad to make the Excel spreadsheet available to the parties.

MR. SANDY: We very much appreciate that. Thank you.

CHAIRMAN FAY: Okay.

MR. REHWINKEL: Public Counsel would move 219 through 222, please.

CHAIRMAN FAY: Okay. 219 through 222, without objection, show those entered.

(Whereupon, Exhibit Nos. 219-222 were received into evidence.)

CHAIRMAN FAY: All right. Mr. Wahlen, excuse your witness?

MR. WAHLEN: Yes, may Ms. Parsons be excused?

CHAIRMAN FAY: Yes, you may. Thank you, Ms. Parsons.

(Witness excused.)

CHAIRMAN FAY: All right. Commissioners, that concludes the witness testimony portion for the hearing. We will move into other matters with staff to address briefing and then timeline -- oh, sorry.

MR. THOMPSON: Mr. Chair, I am sorry, if I could, staff hasn't formally entered in its testimony into the record.

Staff asks to move the prefiled testimony of Donna Brown and Angela Calhoun into the record, as well as their respective exhibits identified on the CEL as 105, 106, 107 and 108.

CHAIRMAN FAY: Okay. Thank you. Good catching, Mr. Thompson. We will introduce the testimony and exhibits, staff, without any objections, show those entered.

(Whereupon, prefiled direct testimony of Donna Brown was inserted.)

FILED 7/6/2023
DOCUMENT NO. 03955-2023
FPSC - COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20230023-GU – Petition for rate increase by Peoples Gas System, Inc.

DOCKET NO. 20220219-GU – Petition for approval of 2022 depreciation study, by Peoples Gas System, Inc.

DOCKET NO. 20220212-GU – Petition for approval of depreciation rate and subaccount for renewable natural gas facilities leased to others, by Peoples Gas System, Inc.

Witness: Direct Testimony of **Donna D. Brown**, Florida Public Service Commission; Appearing on Behalf of the Staff of the Florida Public Service Commission.

DATE FILED: July 6, 2023

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

COMMISSION STAFF

DIRECT TESTIMONY OF DONNA D. BROWN

DOCKET NOS. 20230023-GU, 20220219-GU, and 20220212-GU

JULY 6, 2023

Q. Please state your name and business address.

A. My name is Donna D. Brown. My business address is 2540 Shumard Oak Blvd.; Tallahassee, FL 32399.

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

A. I am employed by the Florida Public Service Commission (FPSC or Commission) as a Regulatory Analyst Supervisor. I have been employed by the Commission since February 2008.

Q. Please give a brief description of your educational background and professional experience.

A. I graduated from Florida A&M University in 2006 with a Bachelor of Science degree in Accounting. In 2018, I received my Masters in Business Administration from Troy University. I have worked for the FPSC for 15 years, and I have varied experience in the electric, gas, and water and wastewater industries. My work experience includes various types of rate cases, cost recovery clauses, and utility audits.

Q. Please describe your current responsibilities.

A. I currently manage the Bureau of Auditing's Financial Review Section within the FPSC's Office of Auditing & Performance Analysis. My responsibilities consist of performing audits, as well as supervising staff during audits, to ensure utility compliance with FPSC rules, policies and procedures.

(Whereupon, prefiled direct testimony of Angela Calhoun was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20230023-GU – Petition for rate increase by Peoples Gas System, Inc.

DOCKET NO. 20220219-GU – Petition for approval of 2022 depreciation study, by Peoples Gas System, Inc.

DOCKET NO. 20220212-GU – Petition for approval of depreciation rate and subaccount for renewable natural gas facilities leased to others, by Peoples Gas System, Inc.

Witness: Direct Testimony of **Angela L. Calhoun**, Florida Public Service Commission; Appearing on Behalf of the Staff of the Florida Public Service Commission.

DATE FILED: July 6, 2023

DIRECT TESTIMONY OF ANGELA L. CALHOUN

Q. Please state your name and address.

A. My name is Angela L. Calhoun. My address is 2540 Shumard Oak Boulevard; Tallahassee, Florida 32399-0850.

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

A. I am employed by the Florida Public Service Commission (FPSC or Commission) as Chief of the Bureau of Consumer Assistance in the Office of Consumer Assistance & Outreach.

Q. Please give a brief description of your educational background and professional experience.

A. I graduated from Florida State University in 1993 with a Bachelor of Arts degree. I have worked for the Commission for more than 22 years, and I have experience in consumer complaints and consumer outreach. I work in the Bureau of Consumer Assistance within the Office of Consumer Assistance & Outreach where I manage consumer complaints and inquiries.

Q. What is the function of the Bureau of Consumer Assistance?

A. The Bureau's function is to resolve disputes between regulated companies and their customers as quickly, effectively, and inexpensively as possible.

Q. Do all consumers that have a dispute with their regulated company contact the Bureau of Consumer Assistance?

A. No. Consumers may initially file their complaint with the regulated company and reach a resolution without the Bureau's intervention. In fact, consumers are encouraged to allow the regulated company the opportunity to resolve the dispute prior to any Commission involvement.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss/outline the number of consumer complaints logged with the Commission against Peoples Gas System, Inc. under Rule 25-22. 032, Florida Administrative Code, Consumer Complaints, from June 1, 2018 through May 31, 2023. My testimony will also provide information on the type of complaints logged and those complaints that appear to be rule violations.

Q. What do your records indicate concerning the number of complaints filed for Peoples Gas System, Inc.?

A. From June 1, 2018, through May 31, 2023 the Commission logged 265 complaints against Peoples Gas System, Inc. Of those, 99 were transferred to the company for resolution via Commission's Transfer-Connect (Warm-Transfer) System. This system allows the Commission to directly transfer a customer to Peoples Gas System, Inc. customer service personnel. Once the call is transferred to Peoples Gas System, Inc., the Company can provide the customer with a proposed resolution.

Q. What have been the most common types of complaints logged against Peoples Gas System, Inc. during the period of June 1, 2018, through May 31, 2023?

A. During the specified time period, approximately forty-nine (49%) percent of the complaints logged with the Commission concerned billing issues, while approximately fifty-one (51%) percent of the complaints involved quality of service issues.

Q. Do you have any exhibits attached to your testimony?

A. Yes. I am sponsoring ALC-1 and ALC-2, which are listings of consumer complaints logged with the Commission against Peoples Gas System, Inc. under Rule 25-22.032, Florida Administrative Code. The complaints listed were received between June 1, 2018, through May 31, 2023, and were captured in the Commission's Consumer Activity Tracking System (CATS). Exhibit ALC-1 lists quality of service complaints and Exhibit ALC-2 lists billing complaints. Both exhibits group the complaints by

Close Type.

Q. What is a Close Type?

A. A Close Type is an internal categorization code. It is assigned to each complaint once staff completes its investigation, and a proposed resolution is provided to the consumer.

Q. Do you have any additional exhibits?

A. Yes. Exhibit ALC-3 is a listing of complaints resolved as Close Type GI-02, Courtesy Call/Warm Transfer.

Q. Can you explain Close Type GI-02?

A. Yes. Peoples Gas System, Inc. participates in the Commission's Transfer-Connect (Warm-Transfer) System. This system allows the Commission to directly transfer a customer to the company's customer service personnel. Once the call is transferred to Peoples Gas Systems, Inc., it provides the customer with a proposed resolution. Customers who are not satisfied with the company's proposed resolution have the option of re-contacting the Commission. While the Commission is able to categorize each of the complaints in the GI-02 category, a specific Close Type is not assigned because the proposed resolution is provided by the company. Consequently, the GI-02 Close Type only allows staff to monitor the number of complaints resolved via the Commission's Transfer-Connect System.

Q. How many of the complaints summarized on your exhibit has staff determined may be a violation of Commission rules for Peoples Gas System, Inc.?

A. Staff determined that, of the 265 complaints logged against Peoples Gas System, Inc. during the period of June 1, 2018, through May 31, 2023, there were no service quality complaints or billing complaints that appear to demonstrate a violation of Commission Rules.

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Q. Does that conclude your testimony?
A. Yes.

(Whereupon, Exhibit Nos. 105-108 were received into evidence.)

CHAIRMAN FAY: Anything else, Mr. Thompson, that we are missing before we go to post-hearing?

MR. THOMPSON: Not at this time.

CHAIRMAN FAY: Okay. All right. For post-hearing, so presuming parties do want to file briefs at this time, staff, do we have recommended structure, I guess, going forward?

MR. THOMPSON: Yes. Staff will note that according to the prehearing order, post-hearing briefs due on October 5th, and shall not exceed 50 pages.

CHAIRMAN FAY: Okay. We have October 5th and do not exceed 50 pages, seeing no issues or objections to that.

All right. With that, any other issues from the parties?

MR. WAHLEN: I have one question, and it's just for housekeeping. We have the deferral accounting issue to be briefed, and I am no the sure we have decided on where a home for that argument would be. I was going to suggest, for purposes of writing the brief, that we address that under Issue 57, which is kind of a general revenue issue. The issue is, is it revenue neutral or not. It could go somewhere else. We just need, I think, to all argue that in the same place in our briefs. So my suggestion would be Issue 57, but if the staff wants to think about it and let us know later on where to put it, that's fine too.

CHAIRMAN FAY: I would actually be more curious for the parties consistency makes sense to me. I just want to make sure you don't have any other thoughts as to how you would want that to go forward.

MR. REHWINKEL: I think it's a reasonable suggestion. It just needs to have a home.

CHAIRMAN FAY: Yeah.

MR. REHWINKEL: And nobody disagrees that -- nobody is going to object and say it was inobediently argued.

CHAIRMAN FAY: Great. Okay, Mr. Moyle?

MR. MOYLE: I think so long as it's clearly designated somewhere in the brief --

CHAIRMAN FAY: Okay.

MR. MOYLE: -- it will work?

CHAIRMAN FAY: Let's do that then. We will have that under Issue 57, unless staff has an alternative.

MR. SANDY: So there is a working capital component on that, and I believe there is some stipulations there. I just want to get the parties' thoughts on that. I may be mistaken, and if I am, my apologies. I just wanted to make sure we are on the same sheet of music going forward.

MR. WAHLEN: I think that it touches a variety of rate base, working capital, lots of things, 57 is kind of a fallout issue, talking about the overall revenue increase, we just put it there and handle all of those pieces under 57.

MR. SANDY: And out of curiosity, if working capital is stipulated to, how would that this interact with that stipulation?

MR. WAHLEN: I think -- I think the working capital stipulation has left room for fallout issues like this.

CHAIRMAN FAY: Mr. Sandy, do you have an alternative?

MR. SANDY: You know, you are never supposed to raise an issue without a solution, Mr. Chair. At the same time, I just wanted to air that issue out to make sure we are not missing something for the future.

CHAIRMAN FAY: I appreciate that. You are ready to run for Congress now.

MR. REHWINKEL: Mr. Chairman.

CHAIRMAN FAY: Yes, any other issues, Mr. Rehwinkel?

MR. REHWINKEL: On the brief due date, October 5th was set back when the hearing was two-weeks ago. So we are really less than three-weeks to file a brief in this case. We would ask if there is a compromise time where -- we are not asking for the two-weeks to be restored, but if we could get another week, we would appreciate it.

CHAIRMAN FAY: Yeah. Just looking at the timeline, Mr. Rehwinkel, I think that would allow basically three-weeks for briefing and probably less than three-weeks for recommendations, so --

MS. HELTON: Mr. Chairman.

CHAIRMAN FAY: Yes, Ms. Helton.

MS. HELTON: If we could address that. I appreciate where Mr. Rehwinkel is with respect to the fact that we lost two-weeks when we had to change the hearing date because of the storm, but the fact of the matter is that the staff's date has not changed either. And it's my understanding that we are going to need to file a recommendation on October 26th, according to the current schedule, unless that has been changed. And I honestly don't know physically how staff would be able to file a brief with one week less to do it with respect to the briefs from the parties.

CHAIRMAN FAY: Yeah. I mean, it's obviously a comprehensive rate case. Let me just look at the calendar and see if there is any alternative to that.

So, Ms. Helton, there is no -- I guess, from a staff perspective, there is no reason that it would have to be submitted on -- the briefs would have to be submitted on a Friday. I mean, is that just typical submission? So, like, if we were able to give, you know, the parties potentially some extra days -- and I am not insinuating that that would be their weekend or anything, but at least a little bit of help there -- if we set it, like, on the, you know, the end of the day for the 9th or the 10th, or something, at least give them a little bit more time?

MS. HELTON: Can we have one minute to kind of gather up, please?

CHAIRMAN FAY: Yeah, you can, go ahead.

MR. REHWINKEL: The 9th would certainly help.

CHAIRMAN FAY: Okay.

MS. HELTON: Mr. Chairman, I appreciate your request, but part of the issue is staff was planning on using that weekend to write with the briefs that we receive from the parties.

You know, we -- we believe that the issues have been narrowed down in this case, you know, I don't hear any objections to a 50-page brief from the parties, and the court reporter has told us that she's going to have the transcript to us, probably not Monday now since we are going into Friday, but by Tuesday morning I think we should have the transcript. I just -- I honestly don't know how your staff is going to write a brief, I mean, write a recommendation if the briefs are filed after October 5th.

CHAIRMAN FAY: And can we ensure an expedited -- I mean, that obviously is very important, can we ensure expedited transcript?

MS. HELTON: Yes. We have already talked to Ms. Krick about that.

CHAIRMAN FAY: Okay.

MR. WAHLEN: Mr. Chairman.

CHAIRMAN FAY: Yes, Mr. Wahlen.

MR. WAHLEN: It's kind of out of bounds for us to ask that the staff be given permission to file their recommendation a little bit late, but if they had a little bit of room to file their recommendation out of cycle, maybe a few days after the deadline, it might help.

CHAIRMAN FAY: Okay. Historically, I haven't supported delaying those recommendations get out. I do recognize this is, I guess, the sort third sort of gas case we've taken up this year, so as a comparable, I am not sure we've seen a lot in our dockets.

I -- with an expedited transcript, I don't take issue with the current timeline as it's set. With that said, let's look here --

Okay, Ms. Helton, so on the rate case side of it, a delayed recommendation would essentially impact us in our review for our decision is, on a rate case docket, is that abnormal for that time to be potentially shrunken up or is that pretty standard? Because it sounds like it would impact us, the Commission more -- the Commissioners more than anybody else.

MS. HELTON: If we were to file our recommendation later than is currently set out, yes, it will impact your ability to review the recommendation, and to meet with staff to discuss it if you so desired.

MR. WAHLEN: We are fine with October 5th --

CHAIRMAN FAY: Okay.

MR. WAHLEN: -- Peoples.

MR. REHWINKEL: Can we at least go to Friday the 6th?

CHAIRMAN FAY: Okay. Hold on one second.

So, yeah, I guess that's my question. So is the 5th a timing issue, if we moved it to the end of the day business on the 6th, is that an issue? Because then still allows for at that weekend work, which you are saying you need for the recommendation, gives OPC a little bit more time.

MS. HELTON: In the spirit of cooperation, if we could get it by the end of the day on October 6th, but if y'all could also make sure that they are served to staff, emailed to staff, so that they can start working on it, in Word.

CHAIRMAN FAY: Gotcha. Okay. So would the parties have any problem submitting the briefs electronically once they are submitted? Perfect. Oaky. Let's do that then.

So we will set that briefing date for October 6th, and keep the rest of the Agenda on schedule.

Ms. Helton, I appreciate you and your team working a little bit to accommodate everybody. Obviously, the storm has challenged a lot for what we've done for this hearing, but, you know, before I close, I would just like to say that I appreciate all the work from the parties and our staff at the Commission.

I don't know if this will be the last full hearing I chair or not -- I guess I hope it is probably the last full hearing I chair, but I really do appreciate the candor, and just the quality of work that has been done by the parties. And as I look at other commissions and bodies that operate around the country, I think we have a lot to be really proud of. So this started out a little bit bumpy with the technology side of it, and I think moving forward, everybody recovered pretty strongly to get appropriate due process in, so I appreciate all of that.

Commissioners, are there any other comments from you?

Showing none, this hearing is adjourned. Thank you.

MR. WAHLEN: Thank you.

(Proceedings concluded.)

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 19th day of September, 2023.

DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH31926
EXPIRES AUGUST 13, 2024