DUKE ENERGY FLORIDA

Dianne M. Triplett
DEPUTY GENERAL COUNSEL

April 2, 2024

VIA ELECTRONIC FILING

Mr. Adam J. Teitzman, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket 20240025-EI, Petition for Rate Increase by Duke Energy Florida, LLC

Dear Mr. Teitzman,

Attached for filing on behalf of Duke Energy Florida, LLC's ("DEF") in the above-referenced docket is the Direct Testimony of Michael O'Hara and Exhibit No. MTO-1.

Thank you for your assistance in this matter. Please feel free to call me at (727) 820-4692 should you have any questions concerning this filing.

(Document 18 of 40)

Respectfully,

/s/ Dianne M. Triplett

Dianne M. Triplett

DMT/mw

Attachments

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CERTIFICATE OF SERVICE

Docket No. 20240025-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic mail this 2nd day of April, 2024, to the following:

/s/ Dianne M. Triplett
Dianne M. Triplett

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Duke Energy Florida, LLC	**Docket No. 20240025-EI** **Submitted for filing: April 2, 2024**

DIRECT TESTIMONY

OF

MICHAEL O'HARA

On behalf of Duke Energy Florida, LLC

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Michael T. O'Hara. My business address is 525 South Tryon Street, Charlotte, North Carolina 28202.

Q. What is your position?

A. I am the Regional Forecasting Director for Duke Energy Florida, LLC ("DEF" or the "Company").

Q. What are your duties and responsibilities?

A. My duties and responsibilities include strategic planning, financial planning and forecasting, business planning, budgeting, cost management, management accounting, and key performance management.

Q. Please describe your educational background and professional experience.

A. I hold a Bachelor of Science degree in Accounting from LeMoyne College in Syracuse, New York. I joined Duke Energy in 2004 and have held several positions within the company prior to my current role, including Manager of Wholesale Accounting and Manager of Carolinas Regulatory Accounting. Prior to joining Duke Energy, I held various positions at Wells Fargo & Co., Oneida Limited, and Ernst & Young LLP. I am a licensed CPA in good standing in the state of New York.

Q. What is the purpose of your testimony?

A. My testimony describes the budget and financial forecast process. This process was used to develop the Company's detailed "per books" income statement and balance sheet information for the test years, which for this proceeding are 2025, 2026 and 2027. I present the key assumptions for, and the key components of, the Company's 2023 to 2027 five-year financial plan, including income statements, balance sheets, and subledgers. I explain how DEF's financial plan was used to develop the Company's Minimum Filing Requirements ("MFRs") and I also describe the procedures the Company uses to monitor and control its operation and maintenance ("O&M") and construction budgets.

Q. Do you have any exhibits to your testimony?

A. Yes, I prepared or supervised the preparation of Exhibit MTO-1, which is a list of the MFRs I sponsor or co-sponsor in this rate proceeding. This exhibit is true and accurate.

Q. Do you sponsor any schedules in the Company's MFRs?

A. Yes. I sponsor or co-sponsor the MFR schedules listed in Exhibit MTO-1. These schedules are true and accurate, subject to being adjusted during the course of this proceeding.

Q. What are the time periods covered by the MFRs in this proceeding?

A. The MFR schedules provide financial data and other information for three time periods:

(1) the "test years" are the forecasted calendar years 2025, 2026, and 2027 and are based on the results of DEF's 2022 financial planning process;

(2) the "prior year" is calendar year 2024 and is based on the results of DEF's 2022 financial planning process; and

(3) the “historic year” is calendar year 2023 and is based on actual data from the Company’s books and records.[1]

II. DEF’S FINANCIAL PLANNING AND BUDGET PROCESS

Q. Please explain the Company’s financial planning and budgeting process.

A. Developing the Company’s financial plan and budget involves the interplay of strategic planning, examination of historical spending levels, updates to energy and sales forecasts, rigorous review of resource needs and operational constraints, cost controls, and ensuring that any additional outlays for capital projects and O&M expenditures are necessary and cost-effective.

DEF produces a five-year financial plan on an annual basis. Included in each five-year financial plan is a one-year budget that is used for financial analysis and reporting purposes, two years of detailed O&M expenditures, as well as three years of forecasted data. For example, the 2022 Financial Plan includes a budget for 2023, detailed O&M expenditures for 2023 and 2024, and forecasted data for 2025 to 2027 to support Duke Energy’s financial planning and ratemaking processes. DEF’s individual functional business units (which are individual cost centers with clearly established roles and responsibilities such as Transmission, Customer Delivery, or Renewable Energy) develop resource plans that include the labor, infrastructure, and maintenance needed to deliver safe and reliable electric service to DEF customers. Individual business units also produce detailed O&M and capital budgets based on parameters provided by Duke Energy’s Budgeting and Business Support Organization.

[1] Because 2023 actuals had not occurred when the 2022 financial planning process was completed, the 2024 beginning balances as represented in the MFRs may not agree to ending 2023 balances.

Once the business unit budgets are prepared, the forecasting team integrates the budgets into the overall corporate financial plan. The corporate five-year financial plan is reviewed and modified as may be appropriate and is approved by senior management and the Board of Directors. Updates to the forecast may occur for material changes that occur which were not known at the time of Board approval, and these changes are reviewed and approved by executive management.

Q. What is the difference between the financial plan and the budget?

A. The "financial plan" refers to the forecasted five-year income statement and balance sheet. The financial plan includes information regarding O&M expenditures and capital for each business unit, as well as assumptions regarding revenues, operating expenses other than O&M (such as depreciation, amortization, property tax, payroll tax, income tax, etc.), plant additions and retirements, financing needs, and regulatory strategies. The financial plan also segregates dollars that are recoverable in cost recovery clauses versus base rates.

The "budget" as referred to in my testimony, represents the first year of the financial plan. The budget includes detailed information such as FERC account numbers and other descriptors and elements that enable analysis and reporting. The budget includes the same components as the overall financial plan but in a more detailed manner and represents the current year metric for measuring DEF's financial results.

Q. How are business unit O&M budgets and forecasted plans developed?

A. Each business unit develops a two-year preliminary detailed O&M budget on a FERC account, resource type (e.g., internal labor, contract labor, materials, etc.) and departmental basis using the guidelines referenced above. The O&M budget process for business units is exclusive of fuel costs recoverable through the fuel adjustment clause. For example, the guidelines include detailed instructions for budgeting employee labor data, non-labor related expenses (such as transportation and information technology expenses), as well as instructions for handling contract labor and supplies. The Company follows internal capitalization guidelines when identifying a capital versus expense item, and budget coordinators are required to use these assumptions and/or instructions when projecting their future departmental expenses.

This "bottom-up" approach is reasonable and has been an effective process for DEF in managing costs. The O&M budgets represent the baseline for which each business unit is held accountable. At the conclusion of the preliminary review and analysis, each department inputs its direct O&M expenditures into the OneStream budget tool, then a series of burdens and allocations are run, including benefit and tax burdens on payroll, inventory burdens, sales and use tax burdens on materials, and the allocation of Duke Energy's service company costs to individual business units.

The detailed two-year O&M budgets for each individual business unit are integrated into the corporate financial plan. The overall O&M expenditures for the remaining three years of the corporate financial plan include adjustments for non-levelized or non-recurring items, and the remaining levelized and recurring items include an inflation factor each year.

Q: What are the key assumptions for DEF's 2025, 2026, and 2027 financial plans?

A. The key assumptions underlying the 2025, 2026, and 2027 financial plans are listed in MFR Schedule F-8.

Q. How are DEF's planned construction programs incorporated into Duke Energy's five-year financial plan?

A. The need for physical facilities required to provide electrical energy to our customers is the foundation of Duke Energy's construction program and, in turn, DEF's construction budget. Examples of these physical facilities are generating units, transmission and distribution lines and substations, and other structures. The need for these facilities is driven by a number of factors, either individually or in combination, such as customer growth projections, age of existing facilities, technological obsolescence of existing plant, availability of alternative energy sources, and system reliability.

Prior to constructing new facilities, the Company evaluates various alternatives, and considers a host of factors such as reliability, cost, and fuel type. Utilizing this information, the Company develops a specific plan for the construction of generating facilities that considers factors such as size and if additional transmission and distribution facilities will be needed. The essential construction requirements data included in this plan are then transmitted to various construction management groups who develop detailed construction budgets. Please refer to the direct testimony of Company witnesses Reginald Anderson, Edward Scott, Brian Lloyd, Vanessa Goff, and Hans Jacob for additional information concerning each business unit. Please also refer to MFR Schedule F-5 for a complete description of DEF's forecasting methodology for construction work in progress, electric plant in service, accumulated depreciation, and depreciation expense.

Q. How does DEF monitor and control operating costs after budgets have been developed for individual business units?

A. The primary means to monitor and control O&M and construction costs is through monthly cost management reports. These reports reflect monthly and year-to-date variances between actual costs and budgeted costs by individual business units and are distributed to senior management as part of DEF's monthly corporate financial report. Cost management reports also include updated projections of O&M and capital spending as compared to the original annual budgets. These projections are the basis for updated corporate income and cash flow projections, which are presented to senior management on a monthly basis.

III. <u>DEVELOPMENT OF THE COMPANY'S MFRs</u>

Q. Please explain how the financial plan supports the Company's MFRs.

A. DEF's 5-year financial planning process for 2023 through 2027 is the starting point for developing the MFRs. The financial plan was prepared in accordance with the procedures and processes used by the Company to prepare its financial plans for normal business purposes and these numbers reasonably represent the actual expected financial results for operating the business for the test years (2025 through 2027).

Q. In developing the MFRs, did the Company make any adjustments to the per books financial information derived from the Company's budget process?

A. Yes, a number of adjustments were made to the "per books" actual and budget data for retail ratemaking purposes, as detailed in the testimony of Company witness Marcia Olivier.

IV. <u>CONCLUSION</u>

Q. Does this conclude your testimony?

A. Yes.

List of MFRs Sponsored or Co-Sponsored

MFR	TITLE
B-3	13 Month Average Balance Sheet - System Basis
B-5	Detail of Changes In Rate Base
B-7	Plant Balances By Account And Sub-Account
B-8	Monthly Balances Test Year - 13 Months
B-9	Depreciation Reserve Balances By Account And Sub-Account
B-10	Monthly Reserve Balances Test Year - 13 Months
B-11	Capital Additions And Retirements
B-13	Construction Work In Progress
B-17	Working Capital – 13 Month Average
B-19	Miscellaneous Deferred Debits
B-20	Other Deferred Credits
B-21	Accumulated Provision Accounts - 228.2, 228.3, 228.4
B-24	Leasing Arrangements
B-25	Accounting Policy Changes Affecting Rate Base
C-1	Adjusted Jurisdictional Net Operating Income Calculation
C-2	Net Operating Income Adjustments
C-5	
C-6	Budgeted Versus Actual Operating Income And Expenses
C-8	Detail Of Change In Expenses
C-18	Lobbying, Other Political Expenses And Civic/Charitable Contrib.
C-19	Amortization/Recovery Schedule - 12 Months
C-29	Gains And Losses On Disposition Of Plant Or Property
C-33	Performance Indices
D-9	Financial Indicators - Summary
F-5	Forecasting Models
F-8	Assumptions