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March 31, 2025

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 20250029-GU, Petition for Rate Increase by Peoples Gas System, Inc.

Dear Mr. Teitzman:

Attached for filing on behalf of Peoples Gas System, Inc. in the above-referenced docket is the Direct Testimony of Jeff Chronister and Exhibit No. JC-1.

Thank you for your assistance with this matter.

(Document 9 of 16)

Sincerely,

J. Jeffry Wahlen

cc: Major Thompson, OGC
Jacob Imig, OGC
Walt Trierweiler, Public Counsel
Jon Moyle, FIPUG

JJW/dh
Attachments

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20250029-GU

IN RE: PETITION FOR RATE INCREASE

BY PEOPLES GAS SYSTEM, INC.

PREPARED DIRECT TESTIMONY AND EXHIBIT

OF

JEFF CHRONISTER

TABLE OF CONTENTS

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

JEFF CHRONISTER

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

A. My name is Jeff Chronister. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric") as Vice President Finance. I am also Vice President of Finance for TECO Holdings, Inc., which is a parent company of Peoples Gas System, Inc. ("Peoples" or the "company").

Q. Please describe your duties and responsibilities as Vice President of Finance for Tampa Electric and Vice President of Finance for TECO Holdings, Inc.

A. I am responsible for maintaining the financial books and records of Tampa Electric and for determining and implementing accounting policies and practices for Tampa Electric. I am also responsible for budgeting activities within Tampa Electric, which includes business planning and financial planning and analysis, as well as general accounting, regulatory accounting, plant accounting, tax accounting, financial reporting, accounts payable, and payroll.

I am familiar with how affiliates in the Emera Incorporated ("Emera") family of companies charge costs to each other, including how costs are direct charged, assessed, and allocated to and among affiliates, especially as related to Tampa Electric and Peoples.

I am also familiar with the capital and financing needs and plans of Tampa Electric and Peoples and how Peoples coordinates with Emera to obtain equity and debt capital to finance its operations. I work with the Peoples finance team on issues of mutual interest and stay abreast of Peoples' financial planning and performance.

Q. Please describe your history with Peoples and your present involvement in its governance and operations.

A. I served as Controller for Peoples (and Tampa Electric) from 2009 to 2018. I attend Peoples Board of Directors meetings and am currently involved in Peoples governance through groups such as the Capital Leadership Team and the Risk Authorization Committee. My Tampa Electric finance team supports Peoples operations by providing day-to-day business functions such as payroll, accounts payable, taxes and plant accounting, as well as the operation and maintenance of the company's accounting system. These activities give me visibility into Peoples' operations, financial plans, and financial performance.

Q. Please summarize your educational background and business experience.

A. I graduated from Stetson University in 1982 with a Bachelor of Business Administration degree in Accounting. I became a Certified Public Accountant in the State of Florida in 1983. Upon graduation I joined Coopers & Lybrand, an independent public accounting firm, where I worked for four years before joining Tampa Electric in 1986.

I started in Tampa Electric's Accounting department, moved to TECO Energy's Internal Audit department in 1987, and returned to the Accounting department in 1991. I have led Tampa Electric's Accounting department since 2003. I became Vice President Finance for Tampa Electric and the parent company of Tampa Electric and Peoples in 2018.

For the last seven years, I have been responsible for treasury and finance functions, including short-term and long-term debt, cash management, and debt compliance. My team also works with Emera financial personnel when debt is issued, and to prepare financial information and communications for credit rating agencies and investment analysts.

Q. Have you previously testified before the Florida Public Service Commission ("FPSC" or the "Commission")?

A. Yes. I testified for Tampa Electric in Docket Nos. 20210034-EI and 20240026-EI, which were Tampa Electric's last two base rate proceeding. I also filed testimony in the following dockets:

(1) Docket No. 20130040-EI, Tampa Electric Company's Petition for An Increase in Base Rates and Miscellaneous Service Charges;

(2) Docket No. 20080317-EI, Tampa Electric Company's Petition for An Increase in Base Rates and Miscellaneous Service Charges;

(3) Docket No. 19960007-EI, Tampa Electric's Environmental Cost Recovery Clause;

(4) Docket No. 19960688-EI, Tampa Electric's environmental compliance activities for purposes of cost recovery;

(5) Docket No. 20170271-EI, Petition for recovery of costs

associated with named tropical systems during the 2015, 2016, and 2017 hurricane seasons and replenishment of storm reserve subject to final true-up;

(6) Docket No. 20180044-GU, Consideration of the tax impacts associated with Tax Cuts and Jobs Act of 2017 for Peoples Gas System; and

(7) Docket No. 20200144-EI, Petition for Limited Proceeding to True-Up First and Second SoBRA by Tampa Electric Company.

I also served on a panel of witnesses during the final hearing in Docket No. 20200065-EI, which addressed Tampa Electric's amortization reserve for intangible software assets.

Q. What are the purposes of your direct testimony?

A. The purposes of my direct testimony are to:

(1) provide an overview of changes to the company's financial profile and the reasons it needs the rate increase it is proposing in this case;

(2) discuss the importance of maintaining the company's financial integrity, why the Commission should

approve the company’s proposed 54.7 percent equity ratio (investors sources) in its 2026 test year capital structure, and how the company forecasted short-term and long-term debt cost rates for the 2026 test year;

(3) provide a high-level view of the company’s long-term financial outlook for serving its current and new customers and explain why approving the company’s proposed subsequent year adjustment (“SYA”) for 2027 is appropriate in this proceeding; and

(4) describe the processes and procedures used by affiliates in the Emera family of companies to account for costs charged to each other, including how costs are direct charged, assessed, and allocated by, to, and among affiliates, especially Peoples (“affiliate transactions”).

Q. Have you prepared an exhibit to support your direct testimony?

A. Yes, Exhibit JC-1, entitled the Exhibit of Jeff Chronister, 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. It consists of four documents, as follows:

Document No. 1	List of Minimum Filing Requirement Schedules Sponsored or Co-Sponsored by Jeff Chronister
Document No. 2	2027 SYA Calculation
Document No. 3	Pages 36a and 36b of the Diversification Activity section of the FPSC Annual Report of Peoples Gas System, Inc., for the year ended December 31, 2024
Document No. 4	SeaCoast Comprehensive Procedural Review

Q. Do you sponsor any sections of Peoples Minimum Filing Requirement ("MFR") Schedules?

A. Yes. I sponsor or co-sponsor the MFR Schedules listed in Document No. 1 of my exhibit. The contents of these MFR Schedules were derived from the business records of the company and are true and correct to the best of my information and belief.

Q. How does your prepared direct testimony relate to the prepared direct testimony of other company witnesses?

A. My testimony complements the testimony of Peoples witness Andrew Nichols, who: explains the company's budget and forecasting process; justifies the company's proposed 2026 test year; and presents and explains the details of the company's 2026 rate base, 2026 capital structure and overall rate of return, 2026 net operating income, and 2026 revenue requirement calculations.

Peoples used the affiliate transaction processes and procedures described in my testimony to develop the company's 2026 budget and its 2026 test year rate base, capital structure, net operating income, and revenue requirement amounts.

Peoples witness Nichols used the equity ratio and debt cost rates supported in my testimony to calculate the company's proposed 2026 capital structure, weighted average cost of capital (overall rate of return), and annual revenue requirement increase for the 2026 test year.

I used financial data in MFR schedules supported by Mr. Nichols to: (1) develop an overview of changes to the company's financial profile, (2) discuss the company's financial integrity and proposed equity ratio, and (3) calculate the 2027 SYA as shown in Document No. 2 of my exhibit.

I. FINANCIAL PROFILE CHANGES SINCE LAST RATE CASE

Q. How has Peoples' financial profile changed since its last rate case?

A. Peoples filed its last rate case on April 4, 2023, and the case concluded when the Commission issued its order at the end of that year. The Commission approved a 13-month average FPSC Rate Base of $2,357,327,760 for 2024 (the test year in the previous case). The company's actual 13-month average FPSC Rate Base for 2024 (as reported on the company's December 2024 Earnings Surveillance Report) was $2,376,657,000.

In order to meet its obligation to provide reasonably sufficient, adequate, and efficient service for both new and existing customers, Peoples must invest in rate base assets to serve the demand from future customers and to ensure the safety, reliability, resilience, and efficiency of its existing distribution system.

The company's projected FPSC Rate Base for 2026 (the test year in this filing) is $2,954,441,634, which is approximately $580 million higher than the 2024 actual amount. This amounts to rate base growth of about twelve percent a year and is a function of investing in assets to serve the company's growing customer base and improve its gas distribution infrastructure.

Q. How does this rate base growth impact other portions of the company's financial profile?

A. All other things being equal, increasing rate base increases depreciation expense, operations and maintenance ("O&M") expenses, and taxes other than income taxes (primarily ad valorem taxes), because there are more assets to depreciate and to operate and maintain, and that are subject to property taxes. Despite its rate base growth and the impacts of inflation, Peoples has been able to keep its O&M expense growth since the last rate case under the Commission's benchmark.

Q. How do these changes influence the company's proposed 2026 rate increase request?

A. The company's rate base growth since the test year in its previous rate case has a 2026 revenue requirement impact of approximately $48 million. Higher depreciation expense, caused by rate base growth, has a revenue requirement impact in 2026 of about $19 million. The effect of higher O&M expenses, taxes other than income taxes, and cost of capital have a 2025 revenue requirement impact of approximately $23 million, $9 million, and $15 million, respectively. These impacts total approximately $114 million.

Q. If the collective impact of the items above is approximately $114 million, why is the company's request for revenue increase for 2026 only $97 million?

A. The 2026 requested net annual increase of $96.9 million ($103.6 million minus $6.7 million of Rider CI/BSR revenue) is tempered by the increase in base revenue from load growth since 2024. Load growth is expected to generate incremental base revenues of approximately $17 million in 2026. The difference between the $114 million above and the counterbalancing revenue growth of $17 million equals $97 million.

Q. Are the changes in the expense elements referred to above reasonable?

A. Yes. Depreciation expense, O&M expense, and taxes other than income have increased as a result of asset growth to serve customers as well as economic conditions since the last rate case.

Q. Is the company's forecasted amount for 2026 O&M expense reasonable?

A. Yes. The company's 2026 O&M expense is lower than an amount calculated using the Commission's O&M Benchmark methodology. The Commission's O&M Benchmark measures a company's O&M expense levels against an O&M expense level from a prior year escalated annually by a multiplier reflecting inflation and customer growth.

The company's actual 2024 O&M expense was lower than the Commission O&M Benchmark, as shown on MFR Schedule C-34, sponsored by Peoples witness Nichols.

The company's projected 2026 O&M expense is lower than the benchmark, as shown on Document No. 10 of the Exhibit of Peoples witness Nichols.

Being below the benchmark is important evidence that the company's efforts to control O&M expenses have worked, and that its projected 2026 O&M expense levels are reasonable.

Q. Did inflation impact the company since the last rate case?

A. Yes. General inflation increased the prices Peoples pays for the goods and services it uses to provide service to customers. Peoples witness Christian Richard explains in his testimony that the cost of meters, meter accessories, and valves increased from 2023 to 2024 by 35 percent, 33 percent, and 22 percent, respectively. Peoples witness Nichols discusses the general level of inflation in his direct testimony.

Q. Has the company experienced other cost increases since the last rate case?

A. Yes. Company labor costs and the cost of property and casualty insurance have increased due to general economic conditions and market forces beyond the control of the company. Peoples witnesses Donna Bluestone and Nichols discuss these increases in their direct testimony.

Q. What did Peoples do to counteract these price increases?

A. The company's proposed overall 2026 O&M expense level is below the Commission’s benchmark because the company focused on cost control and made business decisions to counteract upward cost pressures. The items that resulted in positive impact include:

(1) The company has a culture that focuses on process improvements, operational optimization, resource allocation, technology enhancements, and innovations for efficiency.

(2) The company monitors market conditions and opportunities to reduce expenses or moderate expense increases through prudent decision-making. Examples of this are the supply chain, contracting, and WAM-driven changes discussed in the testimony of Peoples witnesses Richard and Timothy O’Connor.

(3) The company recognizes that with the growth in capital investments comes the opportunity to appropriately charge a greater amount of Administrative & General (“A&G”) Expense to capital. The company increased the amount of A&G capitalized since its last rate case and reflected this reduction in the forecasted 2026 expense. Peoples witness Nichols discusses this change in his direct testimony.

Q. Given the financial changes discussed above, what net operating income is forecasted for the company’s 2026 test year and what return does that represent?

A. Peoples’ forecasted 2026 Jurisdictional Adjusted Net Operating Income is $146.9 million. Without the company’s requested 2026 rate increase, that net operating income would result in an overall rate of return of 4.97 percent and a return on equity (“ROE”) of 5.70 percent as shown on MFR Schedule A-1. The effect of these return levels on the company’s financial integrity indicators would be negative as shown on MFR Schedule A-6 and could negatively impact Peoples’ credit ratings. I will discuss the importance of financial integrity and credit ratings in the next section of my testimony.

II. FINANCIAL INTEGRITY, EQUITY RATIO, AND COST OF DEBT

A. <u>FINANCIAL INTEGRITY</u>

Q. What is financial integrity?

A. Financial integrity refers to a relatively stable condition of liquidity and profitability in which the company can meet its financial obligations to investors while maintaining the ability to attract investor capital as needed on reasonable terms, conditions, and costs.

Q. How is financial integrity measured?

A. Financial integrity is a function of financial risk, which represents the risk that a company may not have adequate cash flows to meet its financial obligations. The level of cash flows and the percentage of debt, or financial leverage, in the capital structure are key determinants of financial integrity. As the percentage of debt in a company’s capital structure increases, so do the fixed obligations for the repayment of that debt. Consequently, as financial leverage increases the level of financial risk also increases. Therefore, the percentage of internally generated cash flows compared to these financial obligations is a primary indicator of financial integrity and is relied upon by rating agencies when they assign debt ratings.

Q. Why is financial integrity important to Peoples and its customers?

A. As a regulated utility, Peoples has an obligation to provide natural gas distribution services to customers in accordance with its tariff, and the statutes and rules regulating its activities. Meeting new customer demand for gas service while ensuring the safety, reliability, resilience, and efficiency of its services to existing customers requires the company to make significant investments in property, plant, and equipment, both planned and unplanned, which makes Peoples very capital intensive. Peoples expects to invest approximately $831 million in 2025 and 2026 to meet its obligations to both new and existing customers.

Maintaining financial integrity is important so Peoples will continue to have access to capital on reasonable terms and conditions. Peoples’ responsibility to serve is not contingent upon the health or the state of the financial markets. When access to capital is constrained and market conditions are depressed, only utilities exhibiting financial integrity can attract capital under reasonable terms. Maintaining financial integrity provide significant and potentially critical flexibility when accessing capital markets.

Financial integrity is essential to support the company’s need for capital. The strength of Peoples’ balance sheet and its financial flexibility are important factors influencing its ability to finance planned infrastructure investments and manage unexpected events. Peoples competes in a global market for capital, and a strong balance sheet with appropriate rates of return attracts capital market investors. Financial strength and flexibility enable Peoples to have ready access to capital with reasonable terms and costs for the long-term benefit of its customers.

Q. Is the company’s requested revenue requirement and rate increase for 2026 needed to maintain the company’s financial integrity?

A. Yes. The company’s requested level of 2026 rate relief is needed to maintain the company’s financial integrity indicators and other key credit metrics at levels similar to the recent levels that have supported the company’s current credit ratings. Without rate relief, these metrics would deteriorate in 2026 and would continue to deteriorate beyond 2026 as capital spending increases and earned returns decline. This deterioration would not support Peoples’ current credit rating and would have negative implications for the company’s credit rating, borrowing costs, and access to capital.

Q. How will the company’s proposed base rate increase affect Peoples’s financial integrity?

A. The requested base rate increase will place Peoples in a prudent and responsible financial position to fund its capital program and continue providing safe and reliable gas service to its customers. To raise the required capital, the company must be able to provide fair returns to lenders and investors commensurate with the risks they assume. Having a strong financial position will ensure that Peoples has a reliable stream of external capital and will allow the company's capital requirements to be met in a cost-effective and timely manner. Uninterrupted access to the financial markets will provide Peoples with the capital it needs on reasonable terms so it can continue to improve and protect the long-term interests of its customers.

B. CREDIT RATINGS

Q. What are credit ratings and why are they important?

A. The term "credit rating" refers to letter designations assigned by credit rating agencies that reflect their independent assessment of the credit quality of entities that issue publicly traded debt securities. Credit ratings are like the grades a student receives on his or her report card - an A is better than a B letter grade - likewise a AAA is better than a BBB level credit rating.

Credit ratings reflect the informed and independent views of firms that study borrowers and market conditions and impact the interest rates borrowers must pay when accessing borrowed funds from both banks and capital markets. In general, a higher credit rating means a lower credit spread and a lower credit rating means a higher credit spread.

The credit spread is the charge added to the underlying variable rate benchmark for overnight funds in the case of short-term bank borrowing and U.S. treasury bonds in the case of long-term debt offerings. Peoples invests capital to serve customers and strong debt ratings will ensure that Peoples will have adequate credit quality to raise the capital necessary to meet these requirements.

Q. Why are strong ratings important considering the company’s future capital needs?

A. A strong credit rating is important because it affects a company’s cost of capital and access to the capital markets. Credit ratings indicate the relative riskiness of the company's debt securities. Therefore, credit ratings impact the cost of borrowing money. All other factors being equal (i.e., timing, markets, size, and terms of an offering), the higher the credit rating, the lower the cost of funds. Companies with lower credit ratings have greater difficulty raising funds in any market, but especially in times of economic uncertainty, credit crunches, or during periods when large volumes of government and higher-grade corporate debt are being issued.

Given the capital-intensive nature of the utility industry, it is critical that utilities maintain strong credit ratings sufficiently above the investment grade threshold to retain uninterrupted access to capital. The impact of being investment grade versus non-investment grade is material. A company raising debt that has non-investment grade ("speculative grade") credit ratings will be subject to occasional lapses in availability of debt capital, onerous debt covenants and higher borrowing costs. In addition, companies with non-investment grade ratings are generally unable to obtain unsecured commercial credit and may have to provide collateral, prepayment, or letters of credit for certain contractual agreements.

Given the high capital needs, obligation to serve existing and new customers, and significant requirements for unsecured commercial credit that gas utilities have, non-investment grade ratings are unacceptable. Peoples' current ratings should also be strong enough to buffer against the costs of hurricane and other weather events.

Q. Can the financial credit market be foreclosed by unforeseen events extraneous to the utility industry?

A. Yes. There have been times when financial credit markets have been closed or challenged due to unforeseen events. Market instability resulting from the sub-prime mortgage problems affected liquidity in the entire financial sector causing a financial recession, and there were periods of time in 2008 and 2009 when the debt markets were effectively closed to all but the highest rated borrowers. This is a good example of how access to the marketplace can be shut off for even creditworthy borrowers by extraneous, unforeseen events, and it emphasizes why a strong credit rating is essential to ongoing, unimpeded access to the capital markets.

Q. How are credit ratings determined?

A. Generally, the processes the rating agencies follow to determine ratings involves an assessment of both business risk and financial risk. Business risk is typically determined based on the combined assessment of industry risk, country risk, and competitive position. Financial risk is based on financial ratios covering cash flow/leverage analysis. These two factors are combined to arrive at an overall credit rating for a company. Business risk and financial risk are more fully discussed and described in the direct testimony of Peoples witness Dylan D'Ascendis.

Q. How does regulation affect ratings?

A. The primary business risk the rating agencies focus on for utilities is regulation, and each of the rating agencies have their own views of the regulatory climate in which a utility operates. The exact assessments of the rating agencies may differ but the principles they rely upon for their independent views of the regulatory regime are similar. Essentially, the principles, or categories, that shape the views of the rating agencies as they relate to regulation are based upon the degree of transparency, predictability, and stability of the regulatory environment; timeliness of operating and capital cost recovery; regulatory independence; and financial stability.

According to the rating agencies, the maintenance of constructive regulatory practices that support the creditworthiness of the utilities is one of the most critical issues rating agencies consider when deliberating ratings. Utility regulation in Florida has historically been supportive of maintaining the credit quality of utilities within the state, and that has benefited customers by allowing utilities to provide for their customers' needs consistently and at a reasonable cost. This has been one of the factors that has helped Florida utilities maintain pace with the growth in the state, which has been essential to economic development.

A key test of regulatory quality is the ability of companies to earn a reasonable rate of return over time, including through varying economic cycles, and to maintain satisfactory financial ratios supported by good quality of earnings and stability of cash flows. Regulated utilities cannot materially improve or even maintain their financial condition without regulatory support. Thus, the regulatory climate has a large impact on the company, its customers, and its investors.

Q. What have credit rating agencies recently said about the utility industry?

A. Fitch currently has a neutral outlook on North American utilities for 2025. The neutral outlook reflects moderation in inflationary conditions and a continued subdued commodity environment that eases near-term pressure on customer bills. Fitch expects utility capital expenditures to grow at a double-digit rate driven in part by investments to make infrastructure more resilient and growing energy demand. Last, they highlight rate case outcomes will be key to watch with a balanced regulatory framework being a key support for utility sector creditworthiness.

Q. Please describe Peoples Gas System's current credit rating.

A. Peoples Gas System's senior unsecured long-term debt is currently rated A by Fitch.

Q. When did this rating become effective?

A. The current rating for Peoples became effective on October 23, 2023. Prior to Peoples' last rate case, the Company was not independently rated as it was a division of the Tampa Electric Company. As part of the 2023 Transaction discussed in its last rate case, Peoples became a corporation and entered into its own short- and long-term borrowing arrangements with unaffiliated, third-party lenders. The assignment of an A rating by Fitch for the Company's long-term debt facilitated Peoples' ability to achieve a long-term debt financing result consistent with the Company’s forecast in the last petition for rates. Peoples’ inaugural debt offering raised $925 million in long-term debt at an average coupon of 5.64 percent.

Q. Why is it important for Peoples to maintain a strong credit rating?

A. Peoples’ access to capital markets and cost of financing, including the applicability of restrictive financial covenants, are influenced by the ratings of its securities. Maintaining Peoples’ current ratings is particularly important for three reasons.

First, Peoples is making capital investments to serve customers and strong debt ratings ensure Peoples has adequate credit quality to raise the capital necessary to meet these requirements.

Second, Peoples’ current ratings provide a reasonable degree of assurance that ratings will not slip below investment grade in the event of a hurricane or other significant event.

Third, strong credit ratings result in lower interest rates when accessing capital. Lower interest rates keep the revenue requirement lower, thus keeping customers' bills lower.

Q. Are credit ratings impacted by equity ratio and return on equity?

A. Yes. Rating agencies pay keen attention to equity ratio and ROE when evaluating the company's financial integrity and assigning credit ratings.

C. <u>EQUITY RATIO</u>

Q. What equity ratio and ROE does Peoples propose in this proceeding?

A. The company's proposed financial equity ratio is 54.7 percent. Financial equity ratio refers to investor sources of capital, for which the company is proposing 45.3 percent debt and 54.7 percent common equity. This proposed 54.7 percent equity ratio is consistent with the ratio approved by the Commission in Peoples' last general base rate proceeding.

The company's proposed midpoint ROE is 11.1 percent with an earnings range of plus or minus 100 basis points. Its proposed midpoint ROE and range are fair and reasonable and are supported in the prepared direct testimony of Peoples witness D'Ascendis.

Q. Is Peoples' proposed equity ratio of 54.7 percent reasonable and prudent for use in this proceeding?

A. Yes. Peoples' proposed equity ratio of 54.7 percent is reasonable and prudent as it has a direct impact on the level of cash flows and the percentage of debt giving rise to the financial leverage in the capital structure, which is a key determinant of financial integrity. Peoples' proposed equity ratio is also consistent with the equity ratio approved by the Commission in the company's last three rate cases.

Q. How does the company's proposed equity ratio of 54.7 percent compare to the equity ratios approved by the Commission for the gas operations of Florida Public Utilities Company ("FPUC") and Florida City Gas?

A. In 2023, the Commission approved a 55.1 percent equity ratio for FPUC and a 59.6 percent equity ratio for Florida City Gas. Peoples' proposed equity ratio compares favorably to these equity ratios.

Q. What equity infusions for 2025 and 2026 are necessary to achieve the proposed 54.7 percent equity capital structure?

A. As discussed in the direct testimony of Peoples witness Nichols, the 2025 and 2026 budgeted equity infusions are \$118 million and \$159 million, respectively. These planned equity infusions are based on the company's planned capital structure needs, its planned capital expenditures and business requirements, and a targeted equity ratio of 54.7 percent.

Q. Why should the Commission approve the company's proposed 54.7 percent equity ratio?

A. Utilities in North America, including Peoples, are navigating increasing physical risks and capital investment plans to continue providing safe and reliable service to its customers. Coupled with the potential for volatility in the capital markets, this warrants a stronger balance sheet to deal with an uncertain macro environment. A conservative financial profile, in the form of a reasonable equity ratio, is consistent with the need to accommodate these uncertainties and maintain the continuous access to capital under reasonable terms that is required to fund operations and necessary system investment, even during times of adverse capital market conditions. A downward change to the company's equity ratio would be considered credit-negative by rating agencies.

Q. Please summarize the relationship of financial integrity and the company's proposed capital structure.

A. Maintaining financial integrity, through a strong, prudent, and responsible financial position, will allow Peoples to attract capital on reasonable terms and continue to provide a safe and reliable gas system for its customers. Financial integrity helps ensure uninterrupted access to capital markets to finance required infrastructure investments as well as to manage unforeseen events. It also keeps costs lower for customers given the relationship of stronger credit ratings to lower debt rates. Peoples' rate increase request, which includes the continued appropriate levels of ROE and equity ratio, will maintain the company's financial integrity and place Peoples in an appropriate financial position to fund capital costs for assets and continue providing its high level of reliable service to its customers.

D. <u>DEBT RATES</u>

Q. Do the projected short- and long-term debt amounts and cost rates reflect the equity ratio and financial integrity discussed above?

A. Yes. The company's forecasted debt issuances in this case were developed to maintain the equity ratio proposed in this testimony. The company's forecasted debt cost rates for the 2026 test year were developed with the expectation that Peoples will be able to maintain its current level of financial integrity through this rate proceeding.

Q. How did the company determine the short-term debt cost rate for the 2026 projected test year?

A. The short-term debt cost rate of 4.24 percent is based on the estimated cost of the company's credit facilities, the rates for which are based on the Secured Overnight Financing Rate plus credit spreads and program fees.

Q. How does the company's proposed 4.24 percent cost of short-term debt compare with the cost of debt in the Peoples' last rate case?

A. The 2026 test year cost rate of 4.24 percent is lower than the 4.85 percent short-term cost of debt approved by the Commission in the company's last rate case.

Q. How did the company determine the cost and amount of long-term debt to be included in the capital structure?

A. The long-term debt cost rate of 5.64 percent, as shown on MFR Schedule G-3, page 3, is based on existing long-term debt issued in December 2023 and forecasted debt issuances of $125 million during 2025 and $200 million in 2026 that are shown on MFR Schedule G-3, page 8.

These forecasted debt issuances include: (i) $125 million of 10-year notes at 5.30 percent issued in June 2025, (ii) $75 million of 10-year notes at 5.20 percent in June 2026, and (iii) $125 million of 10-year notes at 5.10 percent in November 2026. When developing the forecasted debt issuance and cost rate, the company considered its targeted equity ratio and assumed ongoing drawn amounts on the company's credit facilities related to the company's normal course of business and liquidity requirements.

The long-term cost of debt for these forecasted issuances is based upon the underlying U.S. Treasury rates sourced from Bloomberg plus the average forecasted credit spread for a typical gas distribution company with an A credit rating. The assumed debt issue costs are based on Peoples' recent cost to issue debt in 2023.

Q. How does the company's proposed 5.64 percent cost of long-term debt compare with the cost of debt in the Peoples' last rate case?

A. The 2026 test year cost rate of 5.64 percent is equal to the 5.64 percent long-term cost of debt approved by the Commission in Docket No. 20240028-GU related to the Long-Term Debt Cost Rate True-Up Mechanism for the 2024 test year.

Q. Are these short-term and long-term debt rates reasonable?

A. Yes. They reflect the company's financial plans, its current credit ratings, and market conditions expected at the time.

III. 2027 FINANCIAL OUTLOOK AND REGULATORY OPTIONS

A. <u>FUTURE FINANCIAL PROFILE</u>

Q. How do you expect the company's financial profile to change in the subsequent year after the 2026 test year?

A. The company expects the ROE achieved in 2027 to be approximately 200 basis points lower than 2026 ROE. With that projected decrease, the company expects in 2027 to earn below the bottom of the ROE range the company is proposing in this proceeding.

Q. What will cause this reduction in achieved ROE in the year subsequent to the test year?

A. There are two primary causes.

The first is the way in which revenue requirements are determined. The rate base for a test year revenue requirement calculation is a 13-month average. Since the company invests in capital and places assets in service throughout the test year, the full value of assets included in the test year does not manifest itself in a 13-month average until the following year. Correspondingly, the depreciation expense and property tax expense in a test year does not represent the full year expense that will exist the following year, given the fact that these expenses occur at or after assets are placed in service.

The second cause of ROE degradation is the capital investments that will be made in the subsequent year. Throughout 2027, the company will continue to prudently invest in assets that enhance the reliability, resilience and efficiency of our distribution system and meet the strong demand for delivering safe and affordable natural gas to our growing number of customers. As the equity support of growing rate base moves upward, there is pressure on ROE. The downward movement in ROE is further impacted by the increasing depreciation expense and property tax for the assets added in the subsequent year. If the pace of base revenue growth does not match the pace of these factors, then subsequent year ROE degrades.

Q. Did Peoples experience an ROE reduction after the 2024 test year in your last rate case similar to the 2027 ROE degradation that you discuss above?

A. Yes. The company’s 2025 budget reflects a 251 basis point ROE reduction relative to the 2024 historical base year. As discussed in the testimony of Peoples witness Nichols, the 2024 Earnings Surveillance Report reflected an actual ROE of 10.37 percent. The projected 2025 ROE is 7.86 percent, which reflects a 251 basis point decrease from 2024 to 2025.

Q. What are the primary reasons for the ROE degradation in 2025 from 2024?

A. The first is the impact of the revenue requirement calculation method. The rate base for the 2024 test year revenue requirement calculation was a 13-month average.

However, 2025 13-month average rate base reflects the full value of the test year assets – which is reflected in the 2024 year end rate base amount. 2024 year end net utility plant included in the Commission approved rate base was $2,464 million, which was almost $79 million higher than the Commission approved 2024 13-month average amount. Additionally, the annualized depreciation and property tax expenses in 2025 were higher than the 2024 test year amounts by $4.1 million and $3.6 million, respectively.

The second cause for ROE degradation is the continued investment in the company's system in 2025. This is illustrated in this summary of the causes of the company's 2025 revenue deficiency relative to the 2024 test year.

Higher Capital Revenue Requirements	$30.9 million
Increased O&M Expense	$5.0 million
Change in Weighted Average Cost of Capital	$3.9 million
Taxes	$5.8 million
Growth in Revenue	($3.5)million
Total Revenue Requirement Deficiency	$42.1 million

The $30.9 million in increased capital revenue requirements reflects three components: (1) rate base return using the 7.05 percent cost of capital approved by the Commission;

(2) depreciation expense; and (3) property taxes. These components of the $30.9 million total are $19.1 million of rate base return, $8.7 million of higher depreciation, and $3.1 million of higher property taxes.

Q. In summary, does the company's 2027 financial outlook reflect negative ROE impacts similar to the impacts that occurred in 2025?

A. Yes. With the impact of the annualized revenue requirements related to the year-end value of 2026 rate base plus continued capital investments in 2027, the company expects the amount of ROE degradation in 2027 from 2026 to be similar to the level of degradation expected in 2025 from 2024. Thus, Peoples expects to earn below the bottom of the ROE range the company is proposing in this proceeding in 2027.

Q. What are the regulatory options to address a projected decline in the subsequent year ROE below the bottom of the range?

A. One option is to request successive base rate increases in both years 2026 and 2027. The company does not prefer this option, because general base rate proceedings are costly and time consuming for all the parties involved in the proceedings.

Another option would be to attempt to extend the life of the base rates approved in this proceeding by mitigating the annualized cost of 2026 year end rate base contributing to the ROE degradation in 2027.

B. <u>2027 SUBSEQUENT YEAR ADJUSTMENT</u>

Q. Does the company have a proposal for mitigating the annualized cost of 2026 year-end rate base contributing to the ROE degradation in 2027?

A. Yes. The company proposes a year-end 2026 Net Utility Plant based subsequent year adjustment ("2027 SYA") to base rates effective in the first billing cycle of 2027. The proposed 2027 SYA would reflect subsequent year incremental revenue requirements that result from annualizing the incremental cost related to assets associated with the Commission-approved year end 2026 Net Utility Plant in excess of the 2026 test year 13-month average Net Utility Plant.

Q. Please describe the components of the company's proposed 2027 SYA.

A. The company's proposed 2027 SYA revenue requirement amount includes the following three components:

(1) the additional return using Commission approved cost of capital on the difference between 2026 year-end Net Utility Plant and the 2026 13-month average Net Utility Plant amount;

(2) the additional depreciation expense based on 2026 year-end Plant In Service balance as compared to the 2026 test year depreciation expense that is calculated using month end balances during the 2026 test year; and

(3) the additional property tax expense in 2027 determined using December year-end 2026 Net Utility Plant and 2026 NOI as compared to the 2026 test year Commission approved property tax expense that is determined using December 2025 Net Utility Plant and 2025 NOI.

The calculation of the company's proposed 2027 SYA of $26,709,000 is shown on Document No. 2 of my exhibit. Without this increase, the company anticipates that the full annualized cost of its 2026 rate base additions and the associated annualized expenses will cause Peoples to experience a decline in its earned rate of return on equity in 2027 of over 100 basis points.

Q. Should the return portion of the 2027 SYA reflect an annualization of accumulated depreciation related to projects going into service by December 31, 2026?

A. Yes. The company annualized accumulated depreciation in the SYA calculation to reduce the incremental Net Utility Plant by the average amount of incremental depreciation expense shown on line 16, or $3.267 million. This is shown in the calculation of the proposed 2027 SYA Document No. 2, page 1 to my exhibit, line 4.

Q. Should the Commission approve the company's proposed SYA?

A. Yes. The Commission should approve the proposed 2027 SYA as it addresses the additional annualized costs of capital investments made during the 2026 test year not reflected in the Commission approved 2026 revenue requirements, provides Peoples the opportunity to earn adequate returns on its invested capital and maintain its financial integrity in the subsequent year, and mitigates the need for costly successive rate cases.

Q. What rate base and related expense amounts should be recovered through the company's proposed 2027 SYA?

A. The Commission should approve $149,043,000 of rate base, $6,534,000 of depreciation expense, and $6,080,000 of property tax expense to be recovered through proposed 2027 SYA.

This incremental rate base amount reflects the December 31, 2026 Net Utility Plant in excess of the 2026 test year average Net Utility Plant and adjusted for the annualized accumulated depreciation, and is shown on page 1 of Document No. 2 to my exhibit, line 5,

The incremental depreciation expense included in the SYA calculation is the annualized December 31, 2026 based Plant In Service depreciation expense in excess of the 2026 test year depreciation expense and shown on page 1 of Document No. 2 to my exhibit, line 16.

The incremental property tax expense included in the SYA calculation is the estimated 2027 assessment, which is determined using the December 31, 2026 Net Utility Plant and 2026 NOI, in excess of the 2026 test year property tax expense, and is shown on page 1 of Document No. 2 to my exhibit, line 19.

Q. What annual amount of return on rate base should be approved for recovery through the 2027 SYA?

A. The Commission should approve $3,350,000 and $10,745,000 for the debt and equity components of the return on rate base, respectively, which totals $14,095,000. These amounts are shown on lines 9 and 13 of Document No. 2 of my exhibit.

The 2.23 percent rate of return for the debt component is based on the sum of the weighted average cost of long-term debt, short-term debt, and customer deposits as shown on MFR Schedule G-3, page 2. The 5.34 percent rate of return for equity is the weighted cost of equity shown on MFR Schedule G-3, page 2. The calculation of the NOI multipliers used for determining the debt and equity return components is shown on page 4 of Document No. 2 of my exhibit.

Q. Should the calculation of the 2027 SYA reflect additional revenues due to customer growth?

A. No. The inclusion of additional revenues due to customer growth would reduce the intended effects of the 2027 SYA and may cause the need for additional base rate relief in 2027 even if the reduced SYA is granted.

Q. What annual amount of incremental revenues should be approved for recovery through the 2027 SYA?

A. The Commission should approve $26,709,076 of annual incremental revenues for recovery through the 2027 SYA as shown in Document No. 2, page 1 to my exhibit.

Q. When should the 2027 SYA become effective?

A. The 2027 SYA should be effective with the first billing cycle in January 2027.

Q. If the Commission approves a 2027 SYA, when should the company submit proposed rates and tariffs to implement the SYA?

A. If the Commission approves a 2027 SYA, the company proposes to file proposed 2027 SYA rates and tariffs in September 2026 so that they will reflect the then-current billing determinants and the approved 2027 SYA revenue increase. This will allow the Commission to approve the tariffs implementing the 2027 SYA in time to become effective with the first billing cycle in January 2027.

IV. AFFILIATE TRANSACTIONS

A. <u>GENERAL</u>

Q. Please describe how Peoples fits into the organizational structure of Emera.

A. Peoples is a wholly owned subsidiary of TECO Gas Operations, Inc., which is a subsidiary of TECO Holdings, Inc., which is a wholly owned subsidiary of Emera U.S. Holdings, Inc., which is a wholly owned subsidiary of Emera. A diagram showing this structure is included in Document No. 3 of the exhibit of Peoples witness Helen Wesley (HW-1).

Q. With which of its affiliates does Peoples engage in affiliate transactions?

A. Peoples has affiliate transactions with Emera, TECO Holdings, Inc., Tampa Electric, TECO Energy, Inc. ("TECO"), New Mexico Gas Company, Emera Energy Services Inc., Emera Caribbean Inc., SeaCoast Gas Transmission, LLC ("SeaCoast"), and TECO Partners, Inc. ("TPI").

These entities are listed on pages 36a and 36b of the DIVERSIFICATION ACTIVITY section of the company's FPSC Annual Report. These pages show sales and purchases to and from affiliates, types of services and/or products involved, the Peoples FERC account numbers where the transactions are recorded, and the related annual dollar amounts. These two pages from the company's December 31, 2024 FPSC Annual Report are included as Document No. 3 of my exhibit.

Q. What do you mean by the term "affiliate transaction?"

A. An affiliate transaction generally means any transaction in which Peoples and an affiliate are each participants but does not include transactions related to filing a consolidated tax return.

Q. Please describe the types of activities that result in affiliate transactions at Peoples.

A. Peoples engages in affiliate transactions when Peoples performs work on behalf of Emera or one of Emera's affiliate companies and when work is performed on Peoples' behalf by Emera or one of Emera's affiliate companies.

When Peoples provides products or services to an affiliate, Peoples charges the affiliate. When Peoples receives products or services from an affiliate, the affiliate charges Peoples.

Even though Rule 25-6.1351, F.A.C. does not specifically apply to gas companies like Peoples, the company accounts for affiliate transactions by following this affiliate transaction rule as guidance.

Q. What types of products and services are exchanged between Peoples and affiliate companies?

A. Peoples sells natural gas to affiliate companies and provides services such as real property subleasing and labor services, including the processing of municipal public service taxes and franchise fees. Peoples purchases natural gas from affiliate companies and purchases services such as marketing, information technology, tax, payroll, and accounts payable.

Q. Does the company report affiliate transactions to the FPSC in any way other than the Diversification Activity report described above?

A. Yes. When Peoples files a request for a general base rate increase, it files a set of MFR Schedules, which include Schedules C-31, C-32, and G-2 pages 19f and 19g. These schedules were included in the MFR Schedules filed with the Commission in this case on March 31, 2025, specifically the volumes labeled PGSI-1 and PGSI-2. I sponsor these MFR Schedules.

Q. How does the company record the source data for the reporting described above in its accounting records?

A. The company records affiliate transactions separately in its general ledger. All affiliate transactions result in either a receivable from an affiliate company (if Peoples sells a product or service) or a payable to an affiliate company (if Peoples purchases a product or service). In accordance with the FERC Uniform System of Accounts, all affiliate receivables are posted to Account 146 and all affiliate payables are posted to Account 234. This ensures an accurate and complete recording of all transactions with affiliate companies and facilitates comprehensive reporting of all affiliate transactions.

Q. How do Peoples and its affiliates charge each other for products purchased from or sold to an affiliate?

A. The charges for product sales and purchases are based on the contract price of the product. Contract prices are determined and documented following the guidelines provided in Rule 25-6.1351.

Q. How do Peoples and its affiliates charge each other for services received from or rendered to an affiliate?

A. There are four possible charging approaches:

(1) assigned direct charges that are labor costs sent to an affiliate based on specific hours worked by individuals to provide a service to an affiliate as measured in a time-tracking system;

(2) attributed direct charges that are costs sent to an affiliate based on a percentage of work in a functional area that is attributable to an affiliate;

(3) assessed charges that use specified statistics like square feet or employee count to assess costs to an affiliate; and

(4) allocated charges based on versions of the Modified Massachusetts Method ("MMM") for allocating corporate overhead costs.

B. CHARGES BY TAMPA ELECTRIC TO PEOPLES

Q. Please explain and give examples of how Tampa Electric uses these charging approaches to charge costs to Peoples.

A. (1) Assigned Direct Charges. When an employee of Tampa Electric works on a specific project to Peoples, his or her fully loaded labor hourly rate is direct charged to Peoples based on specific hours as captured in Tampa Electric's time entry system. An example would be a Tampa Electric engineer who helps Peoples with a specific project, tracks his or her time spent on the project, and charges it directly to a Peoples work order. In most cases, Peoples pays directly for the materials and supplies and non-affiliate outside service costs for specific projects like this.

(2) Attributed Direct Charges. Tampa Electric provides a suite of Customer Experience services to Peoples on a shared basis. The costs of the Customer Experience functions (including labor, materials & supplies, and outside service providers) is attributed to Peoples based on the relative number of customers served by Tampa Electric and Peoples Gas. Peoples witness Rebecca Washington discusses this cost distribution approach, how the distribution percentage has changed as Peoples has grown, and the impact on Peoples' customer experience O&M expenses in her direct testimony. Peoples' accounting system reflects the Customer Experience costs attributed to Peoples as direct charges.

(3) Assessed charges. Some shared service costs incurred by Tampa Electric are assessed to Peoples based on metrics that reflect cost-causation such as employee

count or square footage. Examples of costs assessed to Peoples on this basis include IT, Benefits Administration, Employee Relations, Administrative Services, Emergency Management, Accounts Payable, Claims, Procurement, Payroll, and Document Services. The metrics used for these assessments are described in the TECO Holdings, Inc. cost allocation manual.

(4) Allocated Charges. Tampa Electric allocates other shared costs to Peoples using a variation of the MMM, which uses a combination of one third each total operating revenues, total operating assets, and net income. Tampa Electric allocates the costs associated with groups such as Legal, Finance, and Federal Affairs to Peoples using this MMM method.

Q. What is the total of assessed charges received from Tampa Electric in the 2024 historical base year and the 2026 projected test year?

A. The total amount of assessed charges from Tampa Electric included in FERC Account 930.2 is $9.9 million and $11.0 million in 2024 and 2026, respectively. These amounts are shown on MFR Schedule G-2, page 19b. Further details showing the Tampa Electric area sending the cost and the respective basis for distributing the costs to Peoples are shown on MFR Schedule G-2, page 19f.

Q. Why has the total amount of assessed charges for shared services from Tampa Electric included in FERC Account 930.2 increased from 2024 to 2026?

A. The change in the amount of shared service assessed charges from Tampa Electric from 2024 to 2026 primarily reflects (i) inflationary pressures causing overall cost increases at Tampa Electric to provide the related shared services (primarily in Information Technology) and (ii) an increase in the relative number of Peoples' employees and procurement activity causing the company to receive a higher percentage of costs starting in 2025. These are offset by a $140,000 reduction in 2026 Contract Administration services from Tampa Electric that are being moved to Peoples. Peoples witness Richard discusses changes in the company's Supply Chain team in his direct testimony.

Peoples prepared its 2026 forecasted amounts for shared services by escalating (trending) 2025 budgeted amounts using the trending factors discussed by Peoples witness Nichols in his direct testimony.

Peoples' portion of overall assessed charges is assumed to increase from 19.39 percent in 2024 to 21.05 percent in 2025 due to increased employee count and procurement activity and will decrease to 19.03 percent in 2026 primarily due to the Contract Administration services being moved to Peoples.

The projected amount of 2026 test year shared service assessed charges from Tampa Electric to Peoples was prepared using consistent methodologies that have been reviewed by the Commission in prior rate cases and is reasonable.

Q. Does Peoples receive any other charges from Tampa Electric?

A. Yes. Tampa Electric charges Peoples a fee primarily related to the depreciation expense 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, the cost 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 shared CRMB cost 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 is increasing from $2.188 million in 2024 to $2.611 million in 2026 as shown on MFR Schedule G-2, page 19b. The increase is primarily related to continued investments in CRMB and an increased allocation of CRMB costs due to the relative increase in Peoples customer count, which is further discussed in the testimony of Peoples witness Washington.

Peoples records asset-usage fees related to shared systems other than CRMB in A&G FERC Account 930.2 and they are projected to increase from $1.413 million in 2024 to $2.306 million in 2026 as shown on MFR Schedule G-2, page 19b. This increase is primarily caused by new investments in the shared systems, which is further discussed in the testimony of Peoples witness Richard. The company’s 2026 test year asset usage fees reflect a consistent allocation methodology that has been reviewed by the Commission in prior rate cases and is reasonable.

Q. How are Customer Experience related costs distributed between Tampa Electric and Peoples, and when was the distribution last updated?

A. As discussed earlier, Tampa Electric incurs shared O&M expenses associated with Customer Experience activities and CRMB system costs and distributes a portion of those costs to Peoples based on customer counts. Following a review performed in 2024 of the distribution, Tampa Electric and Peoples updated the distribution to reflect the growth in Peoples' customer count. As a result, Peoples will be distributed more Customer Experience O&M costs starting in 2025. Peoples witness Washington discusses these changes in her direct testimony.

C. <u>CHARGES BY EMERA TO PEOPLES</u>

Q. Please explain and give examples of how Emera uses the charging approaches you previously described to charge costs to Peoples.

A. (1) Direct Charges. Sometimes an employee of Emera works full-time for Peoples. The labor and related costs for these employees are direct charged by Emera to Peoples and is recorded by Peoples in the appropriate FERC account based on the functions the team member performs.

(2) Assessed Charges. Some costs incurred by Emera are assessed to Peoples based on metrics that reflect cost-causation such as employee count or reporting issuers. Examples of costs assessed to Peoples on this basis include the costs associated with Audit Services, the Emera Board of Directors, Safety, Emera's Office of Chief Data Officer, Human Resources, and Emera's Ethics, Legal, and Investor Relations activities.

(3) Allocated Charges. Emera allocates other shared costs to Peoples using a variation of the MMM, which uses a combination of one third each total revenues, adjusted net income, and net operating assets which excludes cash and cash equivalents and goodwill/acquisition adjustments. Emera allocates executive compensation to Peoples using this approach.

Costs allocated to Peoples from Emera for support services are included in A&G FERC Account 930.2 and are made pursuant to Nova Scotia Power's Cost Allocation Manual that is under the jurisdiction of the Nova Scotia Utility and Review Board, which monitors Nova Scotia Power, Inc. for compliance.

Q. What is the total of assessed and allocated charges received from Emera in the 2024 historical base year and the 2026 projected test year?

A. The total amount of assessed and allocated charges from Emera included in FERC Account 930.2 is $2.825 million and $3.599 million in 2024 and 2026, respectively. These amounts are shown on MFR Schedule G-2, page 19b. Further details showing the Emera area sending the cost and the respective basis for distributing the costs to Peoples are shown on MFR Schedule G-2, page 19g.

D. <u>CHARGES BY PEOPLES TO AFFILIATES</u>

Q. Please explain and give examples of how Peoples uses the charging approaches you previously described to charge costs to other affiliates.

A. (1) Direct Charges. When employees of Peoples work on a specific project for an affiliate, their labor is direct charged to the affiliate based on specific hours as captured in Peoples' time entry system. Examples of this type of charge would be work done by a Peoples engineer on a project for SeaCoast or work done by a Peoples operations employee inspecting a SeaCoast pipeline.

(2) Assessed charges. Some costs incurred by Peoples are assessed to other affiliates based on metrics that reflect cost-causation such as employee count or square footage. For example, Peoples assesses TPI for the portion of Peoples' office used by TPI on a square foot basis.

(3) Allocated Charges. Peoples allocates other shared costs to other affiliates using a variation of the MMM, which uses a combination of one third each net revenues, payroll and benefit costs, and plant in service. Peoples charges a portion of its corporate overhead A&G expenses to its non-utility affiliates, SeaCoast and TPI, in this manner.

Q. Did the company perform a comprehensive procedural review and associated cost study of the direct and indirect cost of providing resources to SeaCoast as directed in Order No. PSC-2023-0388-FOF-GU?

A. Yes. In 2024, the company performed a comprehensive procedural revenue ("CPR") and associated cost study of the direct and indirect cost being charged to SeaCoast. The CPR summary document is included in my exhibit as Document No. 4.

Q. Please summarize the company’s conclusions from the CPR regarding its processes of attributing costs to SeaCoast from Peoples.

A. After adjusting its payroll and benefits factors included in Peoples’ MMM calculations, the company concluded that its methods for assigning costs to SeaCoast are reasonable and appropriately apply the cost allocation principles outlined in the National Association of Regulatory Utility Commissioners' "Guidelines for Cost Allocations and Affiliate Transactions”.

As noted on MFR Schedule C-6, the net amount of actual 2024 expenses subject to the MMM allocation to SeaCoast and TPI was $53.9 million, which in the last case for base year 2022 was $34.7 million (see MFR Schedule C-6, Docket No. 20230023-GU). As a result of the CPR, in 2024 the company has added several more departments’ costs in determining the amount to be allocated to SeaCoast and TPI. Charging SeaCoast directly for labor services when services are specifically provided to SeaCoast is appropriate. For Peoples’ individual team members that are routinely on standby to support SeaCoast activity, their time is appropriately being direct charged to SeaCoast through their individual payroll Standard Labor Distribution. For overhead and A&G departments that indirectly support SeaCoast, costs are reasonably allocated using the MMM calculation discussed above that was adjusted in 2024 to appropriately reflect that SeaCoast did not have any employees. Therefore, the costs assigned and allocated to SeaCoast from Peoples in the 2024 historical year are reasonable and appropriate.

Q. Are there any other changes to how costs will be attributed to affiliates in 2026?

A. Yes. Prior to 2025, Tampa Electric charged rent directly to TPI, and SeaCoast received an allocation of facility costs through Peoples' MMM allocation process. Starting in Summer 2025, the company will own its share of a new corporate headquarters building and SeaCoast and TPI will be charged rent directly from Peoples. For the 2026 Budget, Peoples is reflecting $1,073,707 of rent revenue from affiliates. The 2026 rent revenue reflects Peoples' costs, including depreciation expense and return requirements for the new building, that have been allocated to SeaCoast using the MMM allocation factor and to TPI based on team members working at the Corporate Headquarters.

Q. What amount of costs did Peoples charge or allocate to

SeaCoast during the 2024 historical base year?

A. The actual labor, benefits, and payroll tax costs directly charged or allocated to SeaCoast through a standard labor distribution in 2024 was $1,302,147. The actual costs allocated to SeaCoast through the MMM in 2024 was $2,407,000. These amounts are higher than the respective projected 2024 test year amounts of $1,114,451 and $1,792,911 that were included in the prior case Rebuttal Testimony of witness Rachel B. Parsons filed on July 20, 2023, and the MMMM allocation to SeaCoast approved by the Commission in Order No. PSC-2023-0388-FOF-GU. As stated previously, the addition of more departments’ costs in determining the MMM allocation was a major cause of the increase and was a conclusion made from the CPR.

Q. What amount of costs does Peoples expect to charge or allocate to SeaCoast for the 2026 test year?

A. In the 2026 Budget, the labor, benefits, and payroll tax costs directly charged or allocated to SeaCoast through a standard labor distribution is $2,321,444, and costs allocated to SeaCoast through the MMM is $3,062,916.

E. <u>AFFILIATE TRANSACTION CONCLUSION</u>

Q. What accounting or business policies and procedures are in place to ensure that the costs charged, assessed and allocated to and from Peoples and affiliates for the 2026 test year are reasonable?

A. There are several.

The company uses intercompany service agreements to reflect the work being done on behalf of an affiliate. The company reviews these agreements annually and updates them as needed.

The company uses cost allocation manuals that have been reviewed in rate proceedings before the FPSC.

Most of the affiliates charging costs to Peoples operate in a regulated environment and are subject to expense review, which provides additional comfort that the costs charged by affiliates to Peoples are reasonable.
Emera follows the cost allocation manual used by its subsidiary Nova Scotia Power, which is reviewed annually by Nova Scotia Power’s regulator.

Peoples reviews the dollar amounts charged to it each month by affiliates (using any of the four methods) for changes in amounts, changes in charging metrics, variances from prior months, variances from prior year periods, and variances from budgeted amounts.

These business practices and accounting controls focus considerable attention on affiliate transactions and promote the reasonableness of the related affiliate transaction amounts.

Q. Are the costs direct charged, assessed and allocated to and from Peoples and affiliates as reflected in the company's 2026 test year reasonable?

A. Yes. Peoples and its affiliates have controls and processes in place to ensure that the costs they incur and charge to affiliates are reasonable. Peoples and its affiliates use reasonable methods to account for affiliate transactions and to ensure that the costs charged, assessed and allocated to and from each are reasonable.

Q. What amount of assessed and allocated charges to and from affiliates should be approved for the 2026 test year?

A. The Commission should approve $10,952,154 of Assessed Charges, $4,850,818 of MMM Allocated Charges, $2,306,570 of non-CRMB asset-usage fees, and $2,611,432 of CRMB asset-usage fees for the 2026 test year received from Tampa Electric as shown on MFR Schedule G-2, page 19b. The Commission should approve $3,599,211 of assessed and allocated charges from Emera as shown on MFR Schedule G-2, page 19b. The Commission should also approve $3,707,041 of total MMM allocated charges sent to SeaCoast ($3,062,916) and TPI ($644,125) for the 2026 test year as shown on MFR Schedule G-2, page 19b.

V. SUMMARY

Q. Please summarize your direct testimony.

A. My direct testimony describes how Peoples' financial profile has changed since its last rate case, including the growth in plant in service and the corresponding growth in operating expenses. I discuss the importance of financial integrity and its interrelationships with equity ratio and the cost of debt. I also propose an SYA for 2027, given the financial outlook of the company. Finally, I discuss the affiliate transactions reflected in the company's filing and how the charges for them are determined.

Since its last rate case, Peoples has continued to invest in the resilience and reliability of its gas distribution system and to support the growing demand for natural gas in the state. Its customer-focused changes have also transformed the company’s financial profile. It is important to maintain the financial integrity of the company to access capital markets and achieve cost efficiency while providing exceptional customer service and meeting the growing and changing energy needs of Florida.

Q. Does this conclude your direct testimony?

A. Yes, it does.

EXHIBIT

OF

JEFF CHRONISTER

Table of Contents

List of Minimum Filing Requirement Schedules Sponsored or Co-Sponsored by Jeff Chronister

MFR Schedule	Page No.	MFR Title
A-01	P. 1	Executive Summary – Magnitude Of Change – Present Vs. Prior Rate Case
A-02	P. 1	Executive Summary – Analysis Of Permanent Rate Increase Requested
A-03	P. 1	Executive Summary –Analysis Of Jurisdictional Rate Base
A-04	P. 1	Executive Summary – Analysis Of Jurisdictional Net Operating Income
A-05	P. 1	Executive Summary – Overall Rate Of Return Comparison
A-06	P. 1	Executive Summary – Financial Indicators
C-26	P. 1	Parent(s) Debt Information
C-32	P. 1	Transactions With Affiliated Companies
D-02	P. 1	Long-Term Debt Outstanding
D-03	P. 1	Short Term Debt
D-04	P. 1	Preferred Stock
D-05	P. 1	Common Stock Issues – Annual Data
D-07	P. 1	Sources And Uses Of Funds
D-08	P. 1	Issuance Of Securities
D-09	P. 1	Subsidiary Investments
D-10	P. 1	Reconciliation Of Average Capital Structure To Average Jurisdictional Rate Base
D-11	P. 1	Financial Indicators – Calculation Interest And Preferred Dividend Coverage Ratios
D-11	P. 2	Financial Indicators – Calculation Of Percentage Of Construction Funds Generated Internally
D-11	P. 3	Financial Indicators – AFUDC As Percentage Of Income Available For Common
D-12	P. 1	Applicant's Market Data
G-03	P. 1	Historic Base Year + 1 – Cost Of Capital
G-03	P. 2	Projected Test Year – Cost Of Capital
G-03	P. 3	Projected Test Year – Long-Term Debt Outstanding
G-03	P. 4	Projected Test Year – Short-Term Debt Outstanding

MFR Schedule	Page No.	MFR Title
G-03	P. 5	Projected Test Year – Preferred Stock
G-03	P. 6	Projected Test Year – Common Stock Issues – Annual Data
G-03	P. 8	Financing Plans – Stock And Bond Issues
G-03	P. 9	Projected Test Year – Financial Indicators
G-03	P. 10	Projected Test Year – Financial Indicators (Contd.)
G-03	P. 11	Projected Test Year – Financial Indicators (Contd.)
G-06	P. 1-9	Projected Test Year – Major Assumptions

PEOPLES GAS SYSTEM, INC.
2027 SYA

LINE NO.	DESCRIPTION	$000s AMOUNT		DATA SOURCE
1	2026 YE NET UTILITY PLANT	$3,105,644		Page 3 of this document
2	LESS: 2026 TEST YEAR AVERAGE NET UTILITY PLANT	($2,953,333)		Page 2 of this document
3	EQUALS: 2026 YE NET UTILITY PLANT IN EXCESS OF 2026 AVERAGE	$152,310		
4	LESS: ANNUALIZATION OF SUBSEQUENT YEAR ACCUMULATED DEPRECIATION (line 16 / 2)	($3,267)		
5	EQUALS: INCREMENTAL NET UTILITY PLANT AT END OF TEST YEAR (w/ ANNUALIZATION OF ACCUM. DEP)	$149,043		
6	RATE OF RETURN - DEBT (PORTION OF 7.57% REQUESTED RATE)	2.23%		MFR G-3, page 2 (Debt Components)
7	NOI REQUESTED - DEBT (line 5 * line 6)	$3,324		
8	NOI MULTIPLIER - DEBT	1.0079		Page 4 of this document
9	EQUALS: RETURN ON RATE BASE- DEBT		$3,350	
10	RATE OF RETURN - EQUITY (PORTION OF 7.57% REQUESTED RATE)	5.34%		MFR G-3, page 2 (Equity Component)
11	N.O.I. REQUESTED - EQUITY (line 5 * line 10)	$7,959		
12	NOI MULTIPLIER - EQUITY	1.3501		Page 4 of this document
13	EQUALS: RETURN ON RATE BASE- EQUITY		$10,745	
14	ADD: ANNUALIZED YEAR-END PLANT IN SERVICE DEPRECIATION	$112,687		Dec 2026 balance MFR G-1, p 10
15	LESS: 2026 TEST YEAR DEPRECIATION (As filed)	($106,153)		MFR G-2, p 23
16	EQUALS: INCREMENTAL DEPRECIATION EXPENSE		$6,534	
17	ADD: 2027 PROPERTY TAX BASED ON YE 2026 NET UTILITY PLANT	$35,403		Separate supporting Excel file
18	LESS: 2026 TEST YEAR APPROVED PROPERTY TAX (As filed)	($29,323)		Direct Testimony of witness Nichols
19	EQUALS: INCREMENTAL PROPERTY TAX EXPENSE		$6,080	
20	TOTAL REVENUE REQUIREMENT		$26,709.076	

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 20250029-GU
EXHIBIT NO. JC-1
WITNESS: CHRONISTER
DOCUMENT NO. 2
PAGE 1 OF 4
FILED: 03/31/2025

COMPARATIVE YEAR END 2026 NET UTILITY PLANT ($000s)

Peoples Gas System, Inc.
Docket No. 20250029-GU
YE 2026 Net Utility Plant with Equivalent YE Company Adjustments
PTY 12/31/26

	TOTAL PER BOOKS	COMPANY ADJS	COMPANY ADJUSTED	DATA SOURCE
UTILITY PLANT				
PLANT IN SERVICE	4,261,060			MFR G-1, p. 7
Adjust for Non-Utility Common Plant		(3,857)		MFR G-1, p. 18
2026 CI/BS Rider		(54,523)		2026 Surv Report Input Tab
Total Plant In Service	4,261,060	(58,380)	4,202,679	
ACQUISTION ADJUSTMENT	-			MFR G-1, p. 7
TOTAL ACQUISITION ADJUSTMENT	-	-	-	
CONSTRUCTION WORK IN PROGRESS	20,356			MFR G-1, p. 7
2024 CI/BS Rider		(5,518)		2025 Surv Report Input Tab
Remove AFUDC - Eligible CWIP		(8,052)		2026 Surv Report Input Tab
TOTAL CONSTRUCTION WORK IN PROGRESS	20,356	(13,570)	6,786	
TOTAL UTILITY PLANT	4,281,415	(71,950)	4,209,465	
DEDUCTIONS				
ACCUM DEP & AMORT - PLANT & ACQ ADJ.	(1,073,817)			MFR G-1, p. 7
Adust for Non-Utility Plant		407		2026 Surv Report Input Plant Tab
2026 CI/BS Rider		393		2026 Surv Report Input Tab
TOTAL ACCUM DEP & AMORT - PLANT & ACQ ADJ	(1,073,817)	799	(1,073,017)	
CUSTOMER ADVANCES FOR CONSTRUCTION	(30,804)			MFR G-1, p. 8
TOTAL CUSTOMER ADVANCES FOR CONSTRUCTION	(30,804)	-	(30,804)	
TOTAL DEDUCTIONS	(1,104,621)	799	(1,103,822)	
NET UTILITY PLANT	3,176,794	(71,151)	3,105,644	

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 20250029-GU
EXHIBIT NO. JC-1
WITNESS: CHRONISTER
DOCUMENT NO. 2
PAGE 2 OF 4
FILED: 03/31/2025

COMPARATIVE 2026 AVERAGE RATE BASE ($000s)

Peoples Gas System, Inc.
Docket No. 20250029-GU
PTY 12/31/26

	TOTAL PER BOOKS	COMPANY ADJS	COMPANY ADJUSTED	DATA SOURCE
UTILITY PLANT				
PLANT IN SERVICE	4,021,684			MFR G-1, p. 7
Adjust for Non-Utility Common Plant		(3,665)		MFR G-1, p. 18
2026 CI/BS Rider		(24,345)		2026 Surv Report Input Tab
Total Plant In Service	4,021,684	(28,010)	3,993,674	
ACQUISTION ADJUSTMENT	0			MFR G-1, p. 7
TOTAL ACQUISITION ADJUSTMENT	0	-	0	
CONSTRUCTION WORK IN PROGRESS	54,400			MFR G-1, p. 7
2024 CI/BS Rider		(3,345)		2025 Surv Report Input Tab
Remove AFUDC - Eligible CWIP		(14,889)		2026 Surv Report Input Tab
TOTAL CONSTRUCTION WORK IN PROGRESS	54,400	(18,234)	36,166	
TOTAL UTILITY PLANT	4,076,084	(46,244)	4,029,840	
DEDUCTIONS				
ACCUM DEP & AMORT - PLANT & ACQ ADJ.	(1,047,438)			MFR G-1, p. 7
Adust for Non-Utility Plant		357		2026 Surv Report Input Plant Tab
2026 CI/BS Rider		124		2026 Surv Report Input Tab
TOTAL ACCUM DEP & AMORT - PLANT & ACQ ADJ	(1,047,438)	481	(1,046,956)	
CUSTOMER ADVANCES FOR CONSTRUCTION	(29,551)			MFR G-1, p. 8
TOTAL CUSTOMER ADVANCES FOR CONSTRUCTION	(29,551)	-	(29,551)	
TOTAL DEDUCTIONS	(1,076,988)	481	(1,076,507)	
NET UTILITY PLANT	2,999,096	(45,763)	2,953,333	MFR G-1, p. 1 (excl.uding PHFFU)

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 20250029-GU
EXHIBIT NO. JC-1
WITNESS: CHRONISTER
DOCUMENT NO. 2
PAGE 3 OF 4
FILED: 03/31/2025

PEOPLES GAS SYSTEM, INC.
NOI MULTIPLIER APPLICATION TO SYA EQUITY AND DEBT COMPONENTS

	As Filed By Company	Gross Up For Fees and Bad Debt
Assume pre-tax income of	100.0000%	100.0000%
Regulatory Assessment	0.5000%	0.5000%
Bad Debt Rate	0.2830%	0.2830%
Net Pretax Subtotal	99.2170%	99.2170%
State Income Tax - 5.5%	5.45693%	0.00000%
Taxable Income for Federal Income Tax	93.7600%	99.2170%
Federal Income Tax - 21.0%	19.6896%	0.0000%
Revenue Expansion Factor	74.0704%	99.2170%
NOI Multiplier	1.3501	1.0079
	SYA Equity	*SYA Debt*

*Data Per MFR Schedule G-4

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 20250029-GU
EXHIBIT NO. JC-1
WITNESS: CHRONISTER
DOCUMENT NO. 2
PAGE 4 OF 4
FILED: 03/31/2025

Name of Respondent	For the Year Ended
Peoples Gas System	Dec. 31, 2024

SUMMARY OF AFFILIATED TRANSFERS AND COST ALLOCATIONS

Grouped by affiliate, list each contract, agreement, or other business transaction exceeding a cumulative amount of $300 in any one year, entered into between the Respondent and an affiliated business or financial organization, firm, or partnership identifying parties, amounts, dates, and product, asset, or service involved.
(a) Enter name of affiliate.
(b) Give description of type of service, or name the product involved.
(c) Enter contract or agreement effective dates.
(d) Enter the letter "p" if the service or product is purchased by the Respondent: "s" if the service or product is sold by the Respondent.
(e) Enter utility account number in which charges are recorded.
(f) Enter total amount paid, received, or accrued during the year for each type of service or product listed in column (c). Do not net amounts when services are both received and provided.

Name of Affiliate (a)	Type of Service and/or Name of Product (b)	Relevant Contract or Agreement and Effective Date (c)	"p" or "s" (d)	Total Charge for Year: Account Number (e)	Total Charge for Year: Dollar Amount (f)
TECO Partners, Inc	Real property sublease		s	493	95,976
	Corp Allocation		s	922	534,000
	Labor services		s	146	148,461
	Marketing		p	912	8,383,815
	Marketing Service		p	107	1,150,000
TECO Energy Inc.	Labor services		s	146	14,767
	Real property sublease		s	146	1,595
Tampa Electric Co.	Real property sublease		s	146	12,891
	Labor & Other Services		s	146	1,836,274
	Natural Gas sales		s	489/146	10,344,129
	Real property sublease		p	931/multiple	884,020
	Labor services		p	930.2/multiple	12,847,808
	Natural Gas purchases		p	801	15,419
	IT Usage Fee		p	930.2/multiple	3,868,282
	Telecom		p	930.2/multiple	167,868
	Facilities		p	930.2/multiple	386,896
	Corporate Overhead Allocation		p	930.2	2,710,639
	IT Assessment		p	930.2	7,046,129
	Benefits Admin Assessment		p	930.2	365,723
	Employee Relations Assessment		p	930.2	26,672
	Administrative Services Assessment		p	930.2	268,923
	Emergency Management Assessment		p	930.2	81,647
	Accounts Payable Assessment		p	930.2	588,757
	Claims Assessment		p	930.2	642,317
	Procurement Assessment		p	930.2	464,778
	Payroll Svc Assessment		p	930.2	221,678
	Doc Services Assessment		p	930.2	158,130
New Mexico Gas Company	Labor and IT Services		p	930.2	40,509
SeaCoast Gas Transmission	Labor services		s	146	1,269,373
	Corp Allocation		s	922	2,407,001
	Natural Gas Sales		s	146	1,012,061
	Natural Gas Purchases		p	801	7,734,491
Continued on next page (36b)					

Name of Respondent: Peoples Gas System

For the Year Ended: Dec. 31, 2024

SUMMARY OF AFFILIATED TRANSFERS AND COST ALLOCATIONS

Grouped by affiliate, list each contract, agreement, or other business transaction exceeding a cumulative amount of $300 in any one year, entered into between the Respondent and an affiliated business or financial organization, firm, or partnership identifying parties, amounts, dates, and product, asset, or service involved.

(a) Enter name of affiliate.
(b) Give description of type of service, or name the product involved.
(c) Enter contract or agreement effective dates.
(d) Enter the letter "p" if the service or product is purchased by the Respondent: "s" if the service or product is sold by the Respondent.
(e) Enter utility account number in which charges are recorded.
(f) Enter total amount paid, received, or accrued during the year for each type of service or product listed in column (c). Do not net amounts when services are both received and provided.

Name of Affiliate (a)	Type of Service and/or Name of Product (b)	Relevant Contract or Agreement and Effective Date (c)	"p" or "s" (d)	Total Charge for Year: Account Number (e)	Total Charge for Year: Dollar Amount (f)
Continued from page 36a					
TECO Holdings, Inc.	Labor services		S	146	2,113
Emera Energy Services Inc.	Natural Gas Sales		s	146	5,851,937
	Natural Gas Purchases		p	801	23,530,902
Emera Inc.	Labor Services/Benefits		s	146	25,053
	Labor Services		p	930.2/Multiple	2,118,303
	Other-Services/Allocations		p	930.2/Multiple	2,155,950
Emera Carribean Inc.	Labor Services		p	930.2/Multiple	42,515

COMPREHENSIVE PROCEDURAL REVIEW

SEACOAST GAS TRANSMISSION COST ASSIGNMENT AND ALLOCATION

SeaCoast Gas Transmission Operations Overview

SeaCoast Gas Transmission, LLC ("SeaCoast") designs, constructs and operates intrastate natural gas transmission pipelines in Florida. SeaCoast provides extensive access to diverse natural gas supply sources across the state. SeaCoast received tariff approval from the Florida Public Service Commission in November 2008 as a non-rate regulated transmission company. SeaCoast is a wholly owned subsidiary of TECO Gas Operations, Inc., which is a wholly owned subsidiary of TECO Holdings, Inc, which is a wholly owned subsidiary of Emera United States Holdings, Inc., which is a wholly owned subsidiary of Emera Incorporated ("Emera"). SeaCoast is a sister company to Peoples Gas System, Inc. ("PGS") in that both entities are wholly-owned subsidiaries of TECO Gas Operations, Inc. SeaCoast's assets and operations encompass the following four intrastate pipelines.

SeaCoast Pipeline

Completed in 2010, the 25-mile SeaCoast Pipeline was the first intrastate pipeline constructed in the state. The pipeline provides long-term transportation of natural gas to Jacksonville Electric Authority's Greenland Energy Center from the Florida Gas Transmission and Southern Natural Gas transmission pipelines in northeast Florida.

Callahan Intrastate Pipeline

A joint pipeline between SeaCoast and Peninsula Pipeline Company, a subsidiary of Chesapeake Utilities Corporation, the Callahan Pipeline brings additional natural gas capacity to Nassau and

Duval Counties. Facilities include a 26.5-mile-long joint natural gas pipeline, which initiates from a gate station near Crawford Road in Callahan, Florida, to Radio Avenue and Highway 17 in Yulee, Florida. SeaCoast's partner in the project, Peninsula Pipeline Company, fully maintains this pipeline. The project was completed in the fall of 2020.

Seminole Palatka Pipeline

The 21-mile Seminole Lateral in Putnam County transports natural gas from the Florida Gas Transmission interstate pipeline to Seminole Electric Cooperative's Palatka power plant. Service is provided under a 34-year contract with renewal options for an additional 16 years. This project was in-service in the spring of 2022.

SW Lakeland Expansion

The 3.5-mile SW Lakeland pipeline in Hillsborough and Polk Counties serve as a back feed to Peoples Gas' Lakeland distribution system to help supply existing commercial and residential customers and support future expansion of large industrial infrastructure in the surrounding area. This expansion was also completed in 2022.

Operations

SeaCoast is limited to these four pipelines and therefore does not have its own dedicated employees. The four SeaCoast pipelines are operated and maintained by PGS, third party contractors, and Peninsula Pipeline Company in the case of the Callahan pipeline. Some indirect shared service support is provided to SeaCoast by Tampa Electric Company and Emera.

I. PURPOSE OF ASSIGNMENT OF COSTS

The purpose of assigning costs to operating companies is to distribute appropriately all the costs of doing business to each of the applicable operating companies. It is also to prevent subsidization of a non-regulated affiliate product or service by a regulated affiliate or subsidization of a regulated affiliate by another regulated affiliate. With regard to shared services, the cost to provide such services shall be assigned to the companies benefiting from such services. Through the allocation process, the financial result of operations of each operating company reflects the costs of each operating company as though each had operated independently of all others. This purpose is consistent with the cost allocation principles outlined in the National Association of Regulatory Utility Commissioners' "Guidelines for Cost Allocations and Affiliate Transactions" in that the general method for charging affiliates should be on a fully allocated cost basis. Cost assignment methods utilized by PGS, Tampa Electric Company and Emera supporting SeaCoast are based on selected cost drivers using the following criteria:

- cost causative,

- measurable,
- objective,
- stable or predictable, and,
- consistent and applicable.

The cost allocation methodology employed herein has been designed to be flexible for Peoples and SeaCoast. Flexibility is necessary to allow for changes in the application of a different assignment methodology based on a review of the five criteria above.

As changes in organizational structure or allocation methodology occur, PGS will update this Comprehensive Procedural Review ("CPR") accordingly.

II. ASSIGNMENT OF DIRECT AND INDIRECT COSTS TO SEACOAST

The costs are attributed to SeaCoast in one of four 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 distribute a fixed percentage of their time to SeaCoast, which are periodically reviewed and adjusted for any changes in an individual's support of SeaCoast. Both of these are considered direct costs for each team member's support of SeaCoast. Third, for some Shared Services provided by Tampa Electric, costs to affiliates including SeaCoast that receive the service using a cost causative statistical driver (assessment). The last is through an overhead allocation using a Modified Massachusetts Method ("MMM."). Further discussion of each is provided below.

Direct costs are those labor and non-labor costs (e.g., non-labor costs can include services purchased from third party providers) that are specifically identifiable and associated with services provided to SeaCoast. When labor costs are direct charged to SeaCoast from PGS and other affiliates, a benefits allocation at 29% of labor cost and payroll taxes at 8% of labor cost are added. Direct costs to SeaCoast may include an allocation of the non-labor costs equal to a percentage of the direct labor charges incurred for that affiliate.

The ERP (SAP) system allows PGS employees to directly charge their labor to SeaCoast. As part of a PGS A&G study also conducted in 2024, a thorough review and survey of PGS employee time spent supporting SeaCoast was conducted. Due to the limited amount of assets, the relatively young age of the four pipelines, and the absence of any new capital project in development or construction since 2022, the survey results showed that actual PGS employees' time directly involved in supporting SeaCoast operations or project development was limited to certain departments. The PGS departments that routinely provide direct support to SeaCoast, such as Gas Control, Commercial Development & Fuels and Gas Operations, charge SeaCoast directly for their labor hours. Labor hours can be directly charged through positive time entry on timesheets or through a Standard Labor Distributions that reflects a reasonable estimate of what the individual routinely works on. For example, Commercial Development & Fuels team members that are on standby to evaluate potential SeaCoast projects include an allocation of their time to SeaCoast in their Standard Labor Distributions. When projects move forward for development or are under construction, additional PGS Commercial Development & Fuels, Engineering and Construction and Supply Chain employees supporting those efforts directly charge SeaCoast on their timesheets.

In addition to affiliate support, SeaCoast routinely contracts directly with third parties for major maintenance activities and when a project is under construction, it is performed by third parties. A separate purchase order is required for SeaCoast in most cases, which allows SeaCoast to be invoiced directly. In the case of a third-party payment that is made by PGS, but shared with SeaCoast, a manual journal entry may be required to transfer the appropriate share of costs to SeaCoast.

Indirect costs are those labor and non-labor costs incurred in providing services to affiliates, but which do not relate to a specific, individual affiliate. For indirect support and overhead, costs are allocated to SeaCoast by PGS, Tampa Electric and Emera using MMM calculations. The PGS MMM is driven by three factors: (i) Net Revenue, (ii) Payroll and Benefits, and (iii) Property, Plant and Equipment. The calculated MMM percentage is applied to the budgeted expense of the cost centers that provide overhead support to SeaCoast.

In PGS' last rate case, the company determined that the Payroll and Benefits component needed to be modified because SeaCoast did not have its own employees and not including any payroll and benefits did not fairly reflect the scale of SeaCoast operations. Therefore, the payroll and benefits costs sent to SeaCoast from PGS and other affiliates was applied as SeaCoast's Payroll and Benefits component factor in determining the PGS MMM allocation of indirect overhead costs. PGS evaluated this methodology change as part of this CPR and concluded that it was the most practical and appropriate adjustment to the Payroll and Benefits component of the MMM allocation. Therefore, the modification was included in PGS' 2024 MMM calculations. Also, as a result of the CPR, additional departments (i.e., cost centers) providing indirect support to Seacoast were added to the pool of corporate dollars that are allocated from PGS to SeaCoast (see MFR schedule C-6). This change increased the MMM allocation to SeaCoast.

Some Shared Service costs are assessed by Tampa Electric to the affiliates receiving those services using cost causation principles linked to the relationship of the type of service provided or cost being assessed. As an example, SeaCoast receives an assessment of Shared Service accounts payable department costs from Tampa Electric, based on the number of invoices, and is an example of an assessment based on statistical cost drivers.

III. ALLOCATION BASIS

Below is an example of the MMM allocation used in 2024:

PGS and SeaCoast Only*	PGS		SGT		TOTAL	
	$	%	$	%	$	%
Net Revenue	381,183	92.9%	29,016	7.1%	410,199	100.0%
Payroll and Benefits	77,657	98.6%	1,124	1.4%	78,781	100.0%
PP&E (gross)	3,224,650	94.2%	197,392	5.8%	3,422,042	100.0%
Average		95.2%		4.8%		100.0%

Below is the base that the MMM percentage is applied to. Those cost centers that directly charge SeaCoast or are not relevant (such as customer experience) are excluded from the base:

	2024 Budget	Less Adj	Allocable	SeaCoast Percentage	SGT Portion	TPI Percentage	TPI Portion
Customer Experience - related	4,406,509	-	4,406,509	0.0%		4.0%	176,260
PGS External Affairs	2,318,796		2,318,796	4.8%	110,282	0.0%	-
Procurement	1,809,060		1,809,060	4.8%	86,039	0.0%	-
Human Resources	2,750,465	-	2,750,465	4.6%	126,989	4.5%	124,844
Finance	5,374,004		5,374,004	4.8%	255,588	0.0%	-
Energy Risk Management	197,322		197,322	4.8%	9,385	0.0%	-
Regulatory	624,840		624,840	4.8%	29,717	0.0%	-
Gas Accounting	70,829		70,829	4.8%	3,369	0.0%	-
Settlements Acc	39,131		39,131	4.8%	1,861	0.0%	-
Real Estate	270,064		270,064	4.8%	12,844	0.0%	-
Strategy & Innovation	1,385,781		1,385,781	4.8%	65,908	0.0%	-
Corp Engineering	803,371		803,371	4.8%	38,208	0.0%	-
Admin & Special Projects	(196,614)		(196,614)	4.8%	(9,351)	0.0%	-
Work & Capital Management	27,062		27,062	4.8%	1,287	0.0%	-
Emergency Management	195,589		195,589	4.6%	9,030	4.5%	8,878
Technology Support	2,827,717		2,827,717	4.6%	130,556	4.5%	128,350
Safety	2,118,608		2,118,608	4.6%	97,816	4.5%	96,164
Info Tech-IT	5,690,768		5,690,768	4.8%	270,653	0.0%	-
Telecom Svcs	629,080		629,080	4.8%	29,919	0.0%	-
Facilities - Final	1,059,432		1,059,432	4.8%	50,387	0.0%	-
Shared Info Tech-IT	9,159,325		9,159,325	4.8%	435,617	0.0%	-
Executive	6,287,474		6,287,474	4.8%	299,032	0.0%	-
Shared	14,541,252	(7,141,252)	7,400,000	4.8%	351,944	0.0%	-
	69,096,060		55,248,614		2,407,080		534,495

IV. EXPECTED CHANGES IN 2025 FROM CURRENT PROCEDURE

SeaCoast currently receives rent and associated costs allocated from Tampa Electric via the PGS Facilities cost center which is included in the PGS MMM allocation. Beginning in mid-2025, SeaCoast will receive rent expense directly from PGS. The allocation of the rent charge from PGS will include the associated depreciation, taxes, interest and the most recent Commission approved return on equity. The shared building maintenance and other costs will be allocated through the MMM as they currently are.

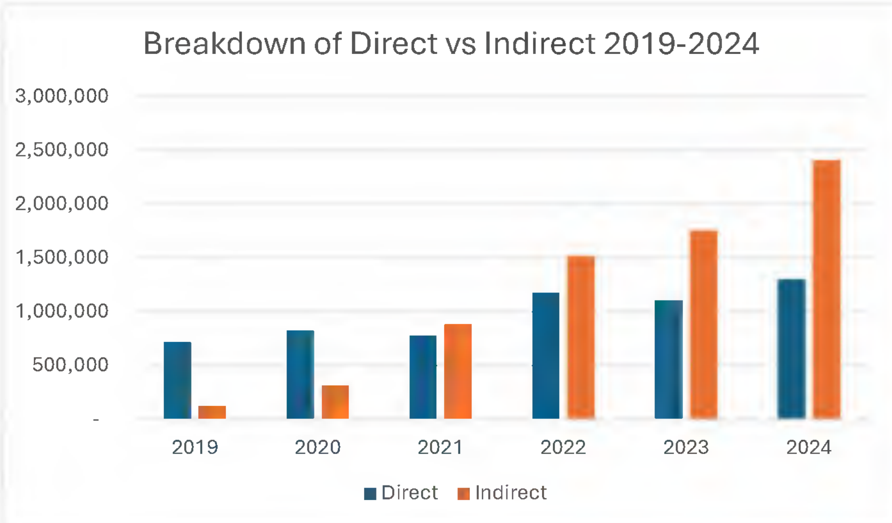
IV. CONCLUSION

The current methods for assigning costs to SeaCoast are reasonable and appropriately apply the cost allocation principles outlined in the National Association of Regulatory Utility Commissioners' "Guidelines for Cost Allocations and Affiliate Transactions". Charging SeaCoast directly for labor services when services are specifically provided to SeaCoast is appropriate. For PGS individual team members in the Commercial Development & Fuels department that routinely are on standby to support the evaluation and assessment of potential SeaCoast projects, their time is appropriately being direct charged to SeaCoast through their individual Standard Labor Distribution. For whole departments supporting SeaCoast on a day-to-day basis and there are cost causative statistical drivers available, those costs are reasonably allocated based on those available statistics. For all other departments that indirectly support SeaCoast, costs are reasonably allocated using the MMM calculation discussed above that was adjusted in 2024 to appropriately reflect that SeaCoast did not have any employees. In conclusion, the costs assigned and allocated to SeaCoast from PGS and other affiliates in 2024 are reasonable and appropriate.

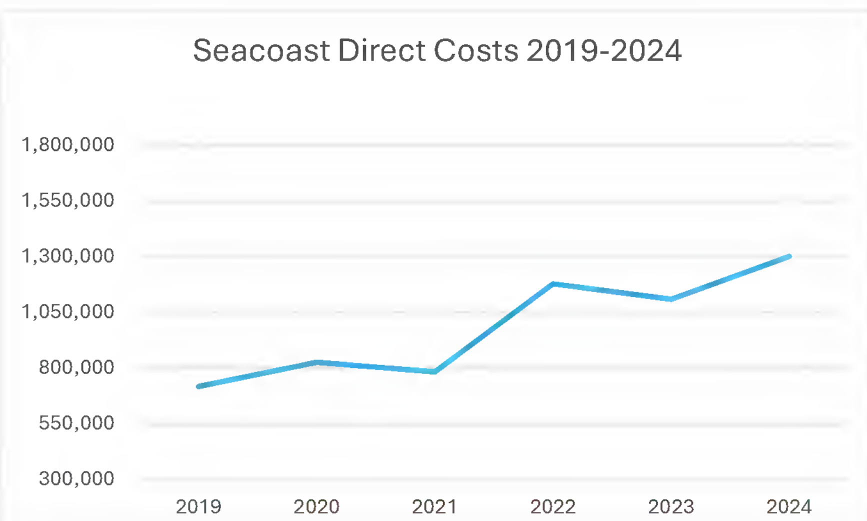
SUPPLEMENTAL ASSOCIATED COST STUDY INFORMATION:

Summary of Direct and Indirect charges to Seacoast 2019-2024
Includes Straight time, Fringe and Payroll tax

Direct Charges	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
O&M	380,326	479,089	625,429	1,010,840	1,066,531	1,309,841
Capital	337,754	347,814	157,460	167,940	42,577	(7,695)
Direct Total	718,080	826,903	782,889	1,178,779	1,109,108	1,302,147
Indirect Charges	125,000	316,000	885,000	1,518,352	1,757,519	2,407,001
Total Direct and Indirect	**843,080**	**1,142,903**	**1,667,889**	**2,697,131**	**2,866,627**	**3,709,147**



SeaCoast capital projects drive increases in labor (Real Estate, Legal, Engineering) and outside services/consultants. The Callahan project, which was fully managed by Peninsula Pipeline, was completed in 2020. Additionally, the Seminole Palatka Pipeline and SW Lakeland projects were both completed in 2022. The fluctuations in labor in the graph below are in line with capital project timing. The amounts below do not include outside services.



DIRECT CAPITAL & O&M

Summary for Direct Capital & O&M by Cost Center
Fringe and Payroll are included

Cost Center	Cost Center Name	2019	2020	2021	2022	2023	2024	Grand Total
H397210	Commercial Development & Fuels	154,187	223,700	328,231	655,493	647,503	803,045	2,812,159
H397325	Gas Control	124,010	137,817	156,450	166,478	201,357	228,743	1,014,856
H390442	Measurement & Regulation	60,479	88,297	69,480	111,242	94,495	103,979	527,972
H390440	Corporate Engineering	115,897	101,897	53,579	77,725	4,599	-	353,698
H234061	TEC Real Estate	45,949	44,553	46,851	50,508	37,397	-	225,257
	TEC Environmental	-	28,239	-	-	-	-	28,239
H390360	Real Estate	65,836	44,799	46,711	27,332	-	-	184,677
H390443	Admin/Special Projects	89,949	83,667	3,626	-	-	-	177,242
H390200	CRP General Accounting (200)	17,664	2,598	16,073	47,049	45,232	52,665	181,281
H390438	Transmission	8,411	22,684	26,900	16,583	49,030	2,536	126,145
H306400	JAX Operations	1,433	10,760	386	1,607	4,788	44,301	63,275
H230086	Corporate Tax	-	3,704	5,756	8,988	8,858	19,524	46,831
H252001	Regulatory Affairs 01	4,830	5,176	5,442	5,190	7,390	8,696	36,724
H230092	Legal Services	-	6,224	5,944	7,639	6,801	7,297	33,905
H390445	Integrity Management	-	1,408	-	-	-	29,810	31,218
H390410	Gas Control	18,006	-	-	-	-	-	18,006
H390500	Gas Delivery Admin	3,849	11,037	2,931	-	-	-	17,817
H230062	Corporate Secretary	-	4,180	4,094	2,903	959	950	13,087
H351100	EST Operations Support	-	1,046	9,165	-	-	-	10,211
H232034	TEC procurement		5,058					5,058
H303400	TP Operations	1,783	-	1,226	-	-	1,327	4,337
H130062	Corporate Secretary	4,099	-	-	-	-	-	4,099
H262004	Corporate	-	-	-	-	568	(4,044)	(3,476)
H130086	Corporate Tax	1,649	-	-	-	-	-	1,649
H305400	EUS Operations	-	-	-	-	-	1,436	1,436
H390481	Pipeline Ops Compliance	-	-	-	-	-	1,633	1,633
H302400	TPA Operations	-	-	-	-	93	249	342
H313400	JPT Operations	6	59	-	-	-	-	65
H304400	ORL Operations	-	-	-	42	-	-	42
H133551	Payroll & HRIS	41	-	-	-	-	-	41
H221110	Work & Asset Management	-	-	3	-	37	-	41
H233555	Training & Development	-	-	38	-	-	-	38
Grand Total		718,080	826,903	782,889	1,178,779	1,109,108	1,302,147	5,917,906