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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 Andrew Nichols and Exhibit No. AN-1.

Thank you for your assistance with this matter.

(Document 10 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

ANDREW NICHOLS

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

ANDREW NICHOLS

I. INTRODUCTION

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

A. My name is Andrew Nichols. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Peoples Gas System, Inc. ("Peoples" or the "company") as Director, Business Planning.

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

A. I am responsible for budgeting and forecasting activities within the company, and preparation of Earnings Surveillance Reports filed with the Florida Public Service Commission ("FPSC" or "Commission").

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

A. I graduated from Saint Mary's University located in Halifax, Canada in 2014 with a Bachelor of Commerce degree. I began my professional career as an auditor with KPMG. I am a Certified Public Accountant licensed in the State of Illinois, Chartered Professional Accountant licensed in the province of Ontario, and a Chartered Financial Analyst.

Prior to joining Peoples, I worked six years at Liberty Utilities, where I held various financial planning roles with increasing responsibility. My last position at Liberty was Director of Financial Planning and Analysis, reporting out of Liberty's New Hampshire location. I have served in my current position as Director, Business Planning at Peoples since October 2024.

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

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

(1) Provide an overview of the company's request for rate relief in 2026;

(2) Explain why the company's proposal to use a 2026 projected test year for ratemaking purposes should be approved;

(3) Explain the budget process that we used to develop the financial projections for the 2026 test year;

(4) Explain the calculation of and adjustments we used to develop the company's 2026 test year rate base, 2026 capital

structure, and 2026 net operating income ("NOI"); and

(5) Present and explain the calculation of 2026 test year revenue requirement and test year revenue deficiency, i.e., our 2026 revenue increase request.

Q. Will you address any other topics?

A. Yes. As part of my testimony, I will explain:

(a) the work we performed to update the level of operations and maintenance ("O&M") expenses we capitalize;

(b) our proposal to make no changes to our storm damage reserve target and annual storm damage expense accrual;

(c) our proposal to transfer the investments and associated annual revenue requirement being recovered through our Cast Iron/Bare Steel Replacement Rider ("Rider CI/BSR") from the rider into base rates;

(d) how we have accounted in the test year for the investments we previously proposed to recover through an expanded Rider CI/BSR;

(e) our proposal to update the amortization period for our Work and Asset Management ("WAM") system from 15 to 20 years; and

(f) how we have accounted in the test year for projects that may be recoverable in the future through the proposed Natural Gas Facilities Relocation Cost Recovery Clause (pending rule adoption).

I will also explain the company's proposed level of O&M expense for the test year, describe how O&M expenses have been impacted by inflation and customer growth, detail how the company's 2026 O&M expenses compare to the Commission's O&M Benchmark, and show that the company's overall 2026 test year O&M expense is reasonable.

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

A. Yes. Exhibit No. AN-1 was prepared under my direction and supervision. The contents of my exhibit were derived from the business records of the company and are true and correct to the best of my information and belief. My exhibit consists of 12 documents, as follows:

Document No. 1	List of Minimum Filing Requirement Schedules Sponsored or Co-Sponsored by Andrew Nichols
Document No. 2	2025 and 2026 Capital Budgets
Document No. 3	Operations & Maintenance Expense Summary
Document No. 4	PA Consulting A&G Capitalization Study
Document No. 5	Rider CI/BSR Revenue Requirements

	Transferred to Base Rates
Document No. 6	Corporate Headquarters CPVRR Analysis
Document No. 7	2026 Calculation of Internal Revenue Code Required Deferred Income Tax Adjustment
Document No. 8	2026 Test Year Reconciliation of Capital Structure to Rate Base
Document No. 9	Revenue Summary
Document No. 10	O&M Benchmark Comparison by Function
Document No. 11	Justifications for Non-Trended O&M FERC Accounts
Document No. 12	Storm Reserve Analysis and 2022 Storm Study

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

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

Q. How does your testimony relate to the other prepared direct testimony filed by the company in this case?

A. I have organized my direct testimony to show the major components of the calculation of the company's proposed 2026 revenue requirement and incremental base revenue increase. I will support and justify the reasonableness and prudency of some items included in the revenue requirement calculation; however, in most cases, other witnesses provide the necessary support and justifications. I will refer to those witnesses in my discussion of the various elements of our 2026 rate base and NOI amounts.

Q. Are you sponsoring the calculation and justification of the company's proposed 2027 subsequent year adjustment ("SYA")?

A. No. Peoples witness Jeff Chronister will explain why we need our proposed 2026 rate increase and will discuss and justify the company's proposed 2027 SYA, but in doing so, he will rely on some of the financial information I am presenting for the 2026 test year.

II. OVERVIEW OF 2026 BASE RATE INCREASE

Q. Please summarize the company's proposed 2026 base rate increase.

A. Peoples requests a total annual revenue increase for 2026 of $103.6 million. Approximately $6.7 million of this amount is related to revenues currently being recovered via the company's Rider CI/BSR, so the company's proposed net incremental annual revenue increase is $96.9 million. These amounts were calculated using a 2026 projected test year, a 54.7 percent equity ratio (investor sources), and an 11.1 percent midpoint return on equity ("ROE").

Q. What was Peoples' earned ROE for 2024 and what is its projected ROE for 2025?

A. The ROE reflected on the company's December 2024 Earnings Surveillance Report was 10.37 percent and its projected ROE for 2025 is 7.86 percent, which is below the 9.15 percent bottom of the company's Commission-authorized ROE range.

Q. What is Peoples' projected ROE in the 2026 projected test year without rate relief?

A. With the proposed transfer of the Rider CI/BSR revenue requirement, the company projects an ROE of 5.70 percent in 2026. This return is far below both the 10.15 percent midpoint ROE that the Commission approved in the company's last rate case and the 11.10 percent ROE proposed in this proceeding by company witness Dylan D'Ascendis prepared direct testimony.

III. 2026 PROJECTED TEST YEAR

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

A. Peoples proposes to use the twelve-month period ending December 31, 2026, as the test year for ratemaking purposes in this case. The company's prepared direct testimony and MFR Schedules filed in this case reflect the levels of projected rate base, capital structure, net operating income, and revenue increase needed so that Peoples can continue to provide safe, reliable, and cost-effective service to its customers in 2026 and maintain its financial integrity.

Q. Were the MFR Schedules in this case, and the levels of projected rate base, capital structure, net operating income, and revenue deficiency reflected in them, prepared using the company's regular budgeting process?

A. Yes. The company developed all elements of its revenue requirement calculation for 2026 using the budgeting and forecasting process described later in my direct testimony.

Q. What effective date for its new rates and charges is Peoples proposing in this case?

A. The company proposes that its revised 2026 rates and charges become effective with the first billing cycle in January 2026.

Q. Should the Commission approve Peoples' projected test period for the twelve months ending December 31, 2026, for ratemaking purposes in this case?

A. Yes. Calendar year 2026 is appropriate for use as the test year in this case because it is representative of Peoples' projected levels of rate base, capital structure, revenues, and costs of service required to provide safe, reliable, and cost-effective service to its customers in 2026, *i.e.*, the period in which the company's proposed new rates and charges will be in effect. The company's proposed 2026 projected test year is more representative of the company's operations when its proposed rate will be in effect than a historic test year.

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

A. The historic base year is the twelve-month period ended December 31, 2024. All data related for this historical base year as reflected in the company's prepared direct testimony and MFR Schedules was derived from the company's books and records, which are kept in the regular course of the company's business in accordance with Generally Accepted Accounting

Principles, provisions of the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts, and the rules of the Commission.

IV. BUDGET PROCESS

Q. How did the company prepare the 2026 projected test year financial data?

A. Peoples prepared its 2026 projected test year financial data using the company's normal annual budget process, which includes developing forecasts for capital expenditures and other balance sheet items and all elements of its income statement. Our integrated budget process yields a comprehensive set of budgeted financial statements, including an income statement, balance sheet and statement of cash flows. The company used the budgeting processes that I explain in this portion of my testimony to develop the company's proposed 2026 rate base, 2026 capital structure, 2026 NOI, and 2026 revenue requirement and proposed revenue increase explained in Sections IV through VI of my testimony. The major assumptions we used to develop our 2026 budget are shown in MFR Schedule G-6 and are reasonable.

A. <u>BALANCE SHEET ASSETS</u>

Q. How did the company develop its forecast for balance sheet assets for 2026?

A. In general, the company budgeted its 2026 balance sheet by starting with actual balances as of December 31, 2024. We then budgeted balance sheet accounts by either forecasting monthly balances based on past trends or using forecasted monthly income statement activity, depending on the type of account. Peoples next generated a statement of cash flows identifying the company's capital structure funding requirements by showing our needs for short-term debt draws, long-term debt issuances, and equity infusions.

Q. What are the major components of the asset side of the company's projected 2026 balance sheet?

A. The largest component on the asset side of our 2026 budgeted balance sheet is the Net Utility Plant, which includes Gas Plant in Service, Property Held for Future Use, and Construction Work in Progress ("CWIP") less Accumulated Depreciation.

Net Utility Plant balances reflect the property, plant, and equipment already invested as well as the capital expenditures included in the company's 2025 and 2026 capital budget. The other major components of the 2026 balance sheet are the accounts that make up the allowance for working capital.

I will discuss the specific elements and projects (and related dollar amounts) that make up the company's proposed 2026 test year rate base later in my testimony.

Q. How did the company forecast the 2026 test year balances for Gas Plant in Service and CWIP?

A. The company began with December 31, 2024 actual balances and projected forward using the company's detailed 2025 and 2026 capital expenditures budget, which identifies when projects begin (and become part of CWIP) and are placed in service (and become part of Gas Plant in Service). The company forecasted plant retirements and removal costs based on historical trends.

Q. Please explain how Peoples forecasts capital expenditures.

A. Peoples generally separates its capital into two categories: (1) major projects and (2) recurring expenditures.

Major projects generally represent individual projects expected to cost more than $250,000. The company forecasts major projects based on the specifics of each project and its expected costs and timing.

Recurring expenditures are routine capital costs required to provide service to new customers and costs associated with the replacement and/or relocation of existing facilities and equipment. The company budgets recurring capital expenditures related to adding customers to the system using projected customer growth and recent cost per unit trends. This includes projected capital spending for items such as new revenue mains, meter sets, and service lines. Peoples trends recurring capital expenditures for routine maintenance capital and recurring general plant additions using recent actual spending data.

Peoples witness Christian Richard provides more detail on how the company develops its capital expenditure budget, including its use of an integrated resource planning process, in his prepared direct testimony.

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

A. Yes. Peoples classifies capital spending as: (1) Growth projects; (2) Reliability, Resiliency, and Efficiency ("RRE") projects; and (3) Legacy Pipe Replacement projects. The company also identifies projects eligible to accrue Allowance for Funds Used During Construction ("AFUDC") in accordance with Commission Rule 25-7.0141, Florida Administrative Code ("F.A.C."). Peoples did not include AFUDC-eligible projects in rate base when calculating the 2026 test year revenue requirement.

Q. Did the company's Board of Directors approve the 2025 and 2026 capital expenditure budgets?

A. Yes. Peoples' Board of Directors approved the company's 2025 and 2026 capital budgets in February 2025.

Q. What are the amounts of the company's 2025 and 2026 capital budgets used to produce the company's projected 2026 test year rate base?

A. The 2025 capital budget totaling $356.8 million is reflected on MFR Schedule G-1, page 23, as the sum of the total Construction Costs of $339.0 million and Cost of Removal of $17.8 million.

The 2026 capital budget totaling $474.6 million is reflected on MFR Schedule G-1, page 26, as the sum of the total

Construction Costs of $451.8 million and Cost of Removal of $22.8 million.

A summary of the 2025 and 2026 capital budgets is shown in Document No. 2 of my exhibit. These capital budgets are explained and supported by Peoples witnesses Timothy O'Connor (Gas Operations Capital Projects), Christian Richard (Engineering, Construction, and Technology Capital Projects), and Rebecca Washington (Customer Experience Enhancement Projects). I explain and support the company's new corporate headquarters project that is included in the 2025 capital budget.

Q. Please compare the company's actual capital expenditures for 2023 and 2024 to the amounts budgeted for those years in the company's prior rate case filing.

A. Peoples budgeted capital expenditures for years 2023 and 2024 of $397.1 million and $362.4 million, respectively. The company's actual capital expenditures for the years 2023 and 2024 were $360.3 million and $314.1 million, or $36.8 million and $48.3 million lower than the respective prior rate case budget amounts.

Q. Why were the actual amounts lower than the budgeted amounts?

A. The company’s actual capital spending in 2023 and 2024 was very close to budgeted amounts after adjusting out the Florida Gas Transmission (“FGT”) to Jacksonville Export Facility (“JEF”) and the Alliance Dairies RNG projects. FGT to JEF, which was budgeted in the prior case to be $32.6 million and $48.2 million in 2023 and 2024, respectively, has been deferred. This large AFUDC eligible project was budgeted to go into service after the 2024 test year, which meant it had no impact on the adjusted rate base and revenue requirements included in the company’s prior rate case filing. The Alliance Dairies RNG project was budgeted to be $0.7 million and moved below the line in the last rate case. Witnesses O’Connor, Richard and Washington also discuss 2024 capital expenditures in their prepared direct testimonies.

Q. How did the company project the test year balances for accumulated depreciation in 2025 and 2026?

A. The company started with the actual accumulated provision for depreciation balances as of December 31, 2024. Peoples then added the projected provision for depreciation expense and subtracted the projected retirements and costs of removal from the starting accumulated provision for depreciation balances. The projected provision for depreciation expense through December 31, 2026 is based on the company's current depreciation rates approved by the Commission in its last case. The projected retirements from plant-in-service and costs of removal are based on the forecasted amount for 2025 and 2026 based on historical trends.

I describe how the company budgets depreciation expense and the depreciation and amortization rates it proposes to use for the test year in this case in the budgeted income statement portion of my testimony.

Q. Please describe how the company budgeted the 2026 test year balance sheet working capital accounts.

A. The company employed the same process used in developing its annual budgeted balance sheet. These methods are described on an account-by-account basis in MFR Schedule G-6. The company began with actual December 31, 2024 account balances and projected individual line items through the projected test year. The company trended balance sheet accounts, including Accounts Receivable, Accounts Payable, and Unbilled Revenues, using known patterns of activity that occur in the normal course of business.

Q. How did the company forecast regulatory clause and rider accounts - Unrecovered Gas Costs, Rider CI/BSR, and

Conservation Cost Recovery for the 2026 test year?

A. The company forecasted the 2026 13-month average balances by rolling forward the detailed projections for the 2025 balances and targeting near zero balances by year-end 2026. The 2025 detailed projections reflect the company's updated cost projections and Commission approved rates. I discuss this process in more detail later in my testimony.

Q. Does the company's forecasted amounts of gas plant in service for 2025 and 2026 include amounts for the company's new corporate headquarters?

A. Yes. I will explain why our investment in this new facility should be included in 2026 rate base in the rate base section of this testimony.

B. <u>BALANCE SHEET LIABILITIES AND EQUITY</u>

Q. What are the major components of the liability and equity components of the company's projected 2026 balance sheet?

A. These items comprise the company's capital structure and include common equity, long-term debt, short-term debt, customers deposits, and accumulated deferred income taxes ("ADIT").

Q. How did the company forecast the balances of common equity for 2025 and 2026?

A. The company forecasts common equity by considering the cash flow expected from operations, its capital expenditure plans and timing, the net income reflected on its income statement, and the amount of equity it needs to maintain its 54.7 percent equity ratio (investor sources). It coordinates with Emera Incorporated ("Emera") to plan equity infusions to maintain its targeted 54.7 percent equity ratio and reflects those infusions in its budgeted balance sheet amounts for common equity. The company's 2025 and 2026 budgeted equity infusions are $118.0 million and $159.0 million, respectively.

Q. How did the company forecast the balances of long-term and short-term debt for 2025 and 2026?

A. The company forecasts long-term and short-term debt balances by considering the cash flow expected from operations, its capital expenditure plans and timing of the net income reflected on its income statement, and the amount of short- and long-term debt it needs to maintain its target equity ratio (investor sources). The company works with Emera's treasury department to forecast borrowing rates and to optimize the mix of short- and long-term debt and to issue long-term debt when appropriate. As shown on MFR Schedule G-3, page 8, the company's forecasted debt issuances are $125 million and $200 million for 2025 and 2026, respectively. I discuss the forecasted balances and cost rates for long-term debt and short-term debt in the capital structure portion of this testimony.

Q. How did the company forecast customer deposits for 2025 and 2026?

A. The company forecasted the level of customer deposits using information about anticipated customer and revenue growth. I discuss the 2026 amounts and cost rate for customer deposits in the capital structure portion of this testimony.

Q. How did the company forecast ADIT balances for 2025 and 2026?

A. The company budgeted deferred taxes and the related ADIT balances based on the projected book-tax temporary differences for the forecasted 2026 period. We also included the forecasted flow back of excess and deficient deferred taxes in our tax expense calculation and calculated the flow-back period consistent with the company's last rate case proceeding and the terms of the 2020 Stipulation and Settlement Agreement ("2020 Agreement"). I discuss the 2026 amounts and zero cost rate associated with ADIT in the capital structure portion of this testimony.

C. INCOME STATEMENT

Q. What are the major components of the company's projected 2026 budgeted income statement, and what testimony supports these budgeted components?

A. The major components of the income statement are operating revenues, O&M expenses, depreciation, property tax expenses, and income tax expenses.

Q. How did the company develop 2026 budgeted income statement?

A. Peoples' Finance department prepared the company's 2026 budgeted income statement under my coordination as Director, Business Planning. The Finance department assembled forecasted data prepared by numerous team members and consultants who specialize in different areas of operations. The company applied the same accounting principles, methods, and practices that the company employs for its historical data to its forecasted data to prepare the 2026 budgeted income statement.

The company developed the 2026 forecasted income statement using all forecasted revenues and other types of income. The major components of forecasted income are base revenues and the revenues from the cost recovery clauses. The 2026 income statement also contains projections for off-system sales net revenues and other operating revenues such as miscellaneous service revenues and revenue related to gas plant leased to others, including a Compressed Natural Gas ("CNG") station and Renewable Natural Gas ("RNG") facility considered by the Commission in our last rate case.

To complete the income statement, the Finance team accumulated all operating expenses, including O&M expenses, depreciation expenses, and property taxes, and prepared estimates of interest expenses, interest income, and all below-the-line items. Once the company determined all pre-tax components, the Finance team calculated income tax expense in consultation with the Corporate Tax Department of TECO Holdings, Inc. ("TECO Holdings") and used it to calculate the final forecasted 2026 net income. The company's Board of Directors approved Peoples' 2026 Budget in February 2025.

<u>1. Revenues</u>

Q. How did the company develop the 2026 base revenue forecasts for Residential and Small Commercial customer classes?

A. The company developed its forecast of base revenues for Residential and Small Commercial customers based on the results of a model with inputs from company witness Eric Fox. These model results determined customers and therms for each rate schedule. The company then applied customer charges and distribution per-therm charges and totaled them to arrive at base revenues for these customer classes. Peoples witness Luke Buzard provides additional information on this process and supports our base revenue forecast in his prepared direct testimony.

Q. How did the company develop the 2026 base revenue forecasts for Larger Commercial and Industrial classes?

A. Peoples uses customer-specific projected usage and applicable rates and charges to forecast revenues for Larger Commercial and Industrial classes. This process is discussed in the direct testimony of witness Buzard.

Q. How did the company budget other operating revenues for 2026?

A. We use different approaches to forecast the components of Other Operating Revenue. We budget miscellaneous service revenues and forfeited discounts using a combination of historical data and trends, as these revenues vary with rates, the economy, and customer growth. Rent revenue and revenue from gas plant leased to others are budgeted based on contract terms or specific calculations. Consistent with the last rate case, the amount of off-system sales ("OSS") net revenue budgeted for 2026 was based on expected market conditions and historical trends and at an appropriate level for setting the OSS incentive mechanism.

<u>2. O&M Expenses</u>

Q. How did the company forecast O&M expenses for the 2026 income statement?

A. The company developed its 2026 test year O&M expense budget using its detailed cost center level approach, which covers all operational areas, corporate departments, and intercompany O&M expense charges for shared and support services provided by Tampa Electric Company ("Tampa Electric") and Emera. The company budgeted O&M expenses by resource type (payroll, benefits, materials and supplies, outside services, etc.). The company budgeted payroll expenses by position and allocated those payroll costs between O&M, capital expenditures, clause recoverable, and charges to affiliates as appropriate. The company budgeted other resource types by cost center based on projected activity levels and requirements.

Q. Did the company also prepare its 2026 O&M budget on a FERC account basis?

A. Yes. The company calculated 2025 and 2026 O&M expenses by FERC account using the "trending methodology" prescribed by the Commission, adjusting for certain items where trend factors did not capture the projected changes in O&M expense. This version of our 2026 O&M budget is shown in MFR Schedule G-2, pages 12 through 19. I have prepared a comparison of the two O&M methodologies and included it as Document No. 3 of my exhibit.

Q. How does the detailed 2025 and 2026 O&M budget compare with the trended FERC O&M budget data on MFR Schedule G-2, pages 12-19?

A. There are only small differences. The difference, or unreconciled amount, between the detailed 2025 and 2026 O&M budgets and the 2025 and 2026 FERC O&M budget data on MFR Schedule G-2, page 18b is approximately $75,000 and $51,000, respectively. This is also presented on Document No. 3 of my exhibit. This is a difference of 0.03 percent relative to total 2026 O&M expense of $161.4 million. The differences are reflected as a line item labeled "Unreconciled budget items" in FERC Account 930.2 on MFR Schedule G-2, page 18a. As a result of reflecting the small unreconciled budget items in FERC Account 930.2, the total FERC O&M calculated using trending on MFR Schedule G-2, pages 12-19, for 2025 and 2026 equals the detailed 2025 and 2026 O&M budgets, or approximately $145.6 million for 2025 and $161.4 million for 2026.

Q. What trending factors were used in MFR Schedule G-2, pages 12-19 to develop the 2025 and 2026 O&M expense amounts?

A. Peoples used the trending factors of payroll only, customer-growth plus inflation, and inflation only. This is consistent with Peoples' prior rate proceedings. Peoples used the May 2024 CPI-U forecast update from Moody's Analytics, which was the available forecast at the time the budgeting process began, for the inflation assumptions in the 2025 and 2026 budget. The company used a 4.0 percent annual merit increase for 2025 and 2026 payroll or labor cost trending. This assumption is supported by the prepared direct testimony of Peoples witness Donna Bluestone.

Q. What are Moody's inflation assumptions for 2025 and 2026 used in the budgets?

A. Moody's inflation forecast for 2025 and 2026 used in the budget is 2.50 percent and 2.33 percent, respectively. Moody's forecast reflects an assumed continued decline in inflation from actual CPI-U of 8.00 percent, 4.12 percent and 2.95 percent in 2022, 2023 and 2024, respectively.

Q. Did the company compare Moody's inflation forecast for 2025 and 2026 with any other forecasts?

A. Yes. The company also reviewed the CPI-U forecast issued as part of the State's National Economic Estimating Conference on July 12, 2024. That forecast projected 2.4 percent inflation in both 2025 and 2026, which was in line with Moody's forecast of 2.50 percent and 2.33 percent used for the 2025 and 2026 Budgets, respectively. Moody's January 2025 update of CPI-U forecast projects 2.60 percent and 2.75 percent for 2025 and 2026, respectively, which is higher than its prior forecast used in the budget assumptions. The 2.50 percent and 2.33 percent budget assumptions for 2025 and 2026 are, therefore, reasonable and conservative.

Q. How does the company budget labor and employee benefit costs?

A. The company forecasts labor and employee benefit costs using the labor increase percentages and actuarial information provided by an external actuarial firm. Witness Bluestone describes these matters more completely in her direct testimony.

Q. Did the senior leadership of Peoples review budgeted O&M expenses for reasonableness as part of the budget approval process?

A. Yes. Peoples' senior management team reviewed the overall O&M expense budget for reasonableness and for alignment with the overall company objectives described in the prepared direct testimony of Peoples witness Helen Wesley prior to finalizing the 2026 O&M budget.

Q. Which company witnesses support the proposed 2026 O&M expenses in direct testimony?

A. The components of the company's 2026 O&M expenses are supported by my direct testimony and the direct testimony of witnesses O'Connor, Richard, Bluestone, Buzard and Washington. My direct testimony summarizes the total 2026 O&M expense.

Q. Prior to preparing the 2026 test year O&M budget, did the company perform a comprehensive procedural review and associated cost study of the direct and indirect cost of providing resources to SeaCoast Gas Transmission, LLC ("SeaCoast") as directed to do so in Order No. PSC-2023-0388-FOF-GU?

A. Yes. The company performed a comprehensive procedural revenue ("CPR") and associated cost study of the direct and indirect cost being charged to SeaCoast in 2024. This study is discussed later in my testimony. Peoples added departments to the pool of indirect costs to be allocated as a result of the CPR. This resulted in increases to costs allocated from Peoples to SeaCoast for 2024 and in the budgeted amounts for 2025 and 2026.

Q. Did the company perform any other O&M expense analysis that affected the amount of O&M expense recognized in 2024 and budgeted for the 2026 test year?

A. Yes. On page 91 of our last rate case Order No. PSC-2023-0388-FOF-GU, the Commission stated that the company did not provide any necessary studies or analysis to support its proposed A&G transfer amount and made an adjustment that reduced our O&M expense and increased the amount of A&G expense capitalized as part of rate base. The company engaged PA Consulting to perform an A&G capitalization study in 2024 to evaluate its A&G expense capitalization methodology. A copy of this study is included in Document No. 4 of my exhibit.

Q. Did the company apply PA Consulting's method of determining an appropriate A&G transfer in the 2026 Budget?

A. Yes. The company consistently applied the PA Consulting methods and capitalized A&G expenses in the amount of $23.7 million in the 2026 Budget. This amount is shown as a credit to O&M expense in FERC Account 922 on Schedule G-2, page 19b. It also applied the new method in 2024 and 2025, which resulted in an O&M expense reduction of approximately $6.0 million in 2024.

Q. How did the company include amounts paid to and from affiliates ("Affiliate Transactions") in its 2026 budgeted income statement?

A. Peoples has a detailed and comprehensive system of procedures and accounting controls to account for Affiliate Transactions and used those procedures to prepare all of its budgeted information for 2026. These procedures led the company to update the relative customer count numbers used to assign Customer Experience shared services amounts to Peoples in 2025 and 2026. Witness Chronister explains this change and how the company accounts for Affiliate Transactions in his testimony. Witness Washington explains how the updated assignment percentage for Customer Experience impacts 2026 Customer Experience O&M amounts in her testimony.

3. <u>Depreciation and Amortization Expenses</u>

Q. How did the company forecast depreciation and amortization expense for the 2026 test year?

A. The company calculated the test year depreciation and amortization expense by applying the Commission approved depreciation and amortization rates in Order No. 2023-0388-FOF-GU to the 2026 monthly balances of gas plant-in-service.

Q. Should the currently prescribed depreciation rates be used to calculate the company's 2026 test year revenue requirement?

A. Yes. With the exception of the amortization period for its WAM system, the company believes that its current depreciation and amortization rates approved in its last rate case are reasonable and should be used to calculate its 2026 revenue requirement.

Q. Does the 2026 budgeted depreciation expense in this filing reflect the company's petition in Docket No. 20240157-GU to create a new FERC Sub-account 303.02 with a 20-year life and 5.0 percent depreciation rate for its WAM system effective January 1, 2025?

A. No. The company did not reflect moving the WAM asset to FERC Sub-account 303.02 in its 2025 and 2026 budgets, and it withdrew its petition in Docket No. 20240157-GU. The company, however, proposes to create a new Sub-account 303.02 in this proceeding for the WAM system with a 20-year life and 5.0 percent depreciation rate effective January 1, 2026.

This would result in an increase in asset life from 15 to 20 years and would reduce depreciation expense by $717,633 in 2026. The 2026 test year 13-month average rate base would be increased by $355,547 due to the reduction in accumulated depreciation. Commission approval of this change would lower the company's test year revenue requirement.

Q. Please explain how the company determined the original service life of 15 years for the WAM system.

A. The company included WAM in FERC Account 303.1 Custom Software – 15 years in its last revised depreciation study in Docket No. 20220219-GU on April 4, 2023 (the "Revised Study") within Appendix F-1, Summary of Plant in Service 2019-2024 (Bates

Page 145). The company determined FERC Account 303.1 Custom Software to be the most appropriate approved depreciation account in which to place it. WAM was not "included" in the Revised Study as an evaluated and analyzed asset but rather as a 2024 forecasted addition in the most appropriate account that had a designated service life of 15 years.

Q. Should the Commission approve the company's proposal to increase the amortization period of WAM from 15 to 20 years?

A. Yes. Witness Richard explains the reasons supporting this proposed change in his direct testimony.

Q. Should the company approve a new Sub-account for the company's WAM system?

A. Yes. If the Commission approves the company's proposal to change the amortization period for WAM from 15 to 20 years, the company also requests that the Commission also give the company permission to create a new sub-account named "Sub-account 303.02 – Customized Software - 20 Years" and to move its investment and associated reserve balances for customized WAM software as of December 31, 2025 out of Sub-account 303.01 (15 year amortization period) into the new sub-account effective as of January 1, 2026.

4. Property Tax Expense

Q. Please explain how the company budgeted the 2026 property tax expense.

A. Property tax expense represents payments made by the company to county governments for ad valorem taxes. The projected expense is a function of forecasted tax rates and the projected values that will be used by the counties to assess the company's tangible personal and real property. The assessment is 20 percent based on the company’s Net Utility Plant balances on January 1, 2026, and 80 percent based on a weighted average NOI based on the prior three years, with more weighting given to the most recent year in determining a negotiated NOI amount with the property tax appraisers. As our investment in assets and NOI grows, property tax expense also grows. In addition, as discussed in witness Chronister’s prepared direct testimony, there is a lag in property tax assessments reflecting test year capital investments and increases in NOI associated with the Commission approved revenue increases. As a result, the company projects that ad valorem property taxes in its base rate revenue requirements will grow by approximately $7.0 million from the $22.4 million Commission approved 2024 amount in the prior case to $29.3 million in the 2026 test year.

5. Income Taxes

Q. Please explain how the company budgeted income taxes for 2026.

A. The company computed income tax expense for the test year on a stand-alone basis consistent with the company's last rate case proceeding and long-standing Commission practice. Projected total income tax expense is a function of forecasted taxable income coupled with the Internal Revenue Service ("IRS") and Florida state tax rules expected to be in place during the test year and in compliance with the normalization requirements of the Internal Revenue Code ("IRC") and the rules of the Commission.

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

A. Yes. Peoples Gas System, Inc. is a wholly owned subsidiary of TECO Gas Operations, Inc., which is a wholly owned subsidiary of TECO Holdings", which is a wholly owned subsidiary of Emera United States Holdings, Inc. ("EUSHI"), which is a wholly owned subsidiary of Emera Incorporated. Peoples and other TECO Holdings companies file United States income tax returns on a consolidated basis with EUSHI. Peoples does not expect being included in a consolidated tax return will cause any benefit or detriment to Peoples or its customers in the 2026 test year.

D. BUDGET TREATMENT OF RIDERS AND CLAUSES

1. Cast Iron/Bare Steel Replacement Rider

Q. Did the company assume a transfer of Rider CI/BSR investments to rate base and related revenue requirements to base rates in its 2026 Budget?

A. Yes. The company proposes using the same methodology approved by the Commission in its last rate case and prepared its 2026 test year budgets on that basis.

Specifically, effective January 1, 2026, the company's 2026 Budget reflects the transfer of gross plant, accumulated depreciation, and construction work in progress to rate base for the amounts related to the cumulative Rider CI/BSR eligible investments made from January 1, 2024 (the reset date from the company's prior rate proceeding) through December 31, 2025. The net book value of the Rider CI/BSR investments accumulated in the rider during that period is projected to be approximately $53.4 million, which is shown in Document No. 5 of my exhibit.

The company also included the related depreciation, property tax expense, and return on the rate base effective January 1, 2026 in the calculation of the 2026 projected test year base rate revenue requirement.

The amount of Rider CI/BSR transferred revenue requirements to base rates is $6.7 million and is shown in Document No. 5 of my exhibit. Witness Richard is responsible for budgeting and executing Rider CI/BSR projects.

Q. Does the way the company budgeted Rider CI/BSR for 2026 and its Rider CI/BSR transfer proposal in this case reflect any change to the basic operation of the Rider CI/BSR program?

A. No. The Rider CI/BSR program will continue until all eligible infrastructure replacements have been made, even though the company proposes to reset the Rider CI/BSR surcharge to zero. Peoples accordingly reflected eligible replacement investments budgeted for 2026 and their related costs as recoverable through the reset Rider CI/BSR in 2026. The company excluded the first $1.0 million of capital expenditures for replacements in 2026 from recovery through the Rider CI/BSR surcharge in compliance with Commission Order No. PSC-2012-0476-TRF-GU, issued on September 18, 2012. Peoples included this $1.0 million in rate base for the 2026 test year. This treatment is consistent with the company's last two rate case filings.

Q. Does the company propose to maintain the true-up process approved by the Commission in the last rate case related to the transferred Rider CI/BSR revenue requirements?

A. Yes. The company proposes that any true-up should be included the company’s subsequent Rider CI/BSR annual true-up filing in August or September 2026. This is consistent with the Commission’s approach in the last two rate cases.

2. Rider CI/BSR Expansion

Q. Does the company’s proposed 2026 revenue requirement in this case reflect the proposed expansion of Rider CI/BSR eligible investments requested in Docket No. 20240107-GU and the transfer of additional plant investments to the rider?

A. No. The company withdrew its petition in Docket No. 20240107-GU and the company’s 2025 and 2026 rate base amounts only reflect Commission approved Rider CI/BSR eligible investments in the rider. To simplify this case, the company will evaluate whether to pursue an expansion of the Rider CI/BSR after this proceeding has been concluded.

3. Natural Gas Facilities Relocation Cost Recovery Clause

Q. Are there any other new riders or clauses that have a potential impact on the 2026 test year revenue requirements to be recovered through base rates?

A. Yes. The Commission is proposing to adopt the Natural Gas Facilities Relocation Cost Recovery Clause ("NGFRCRC") under Rule 25-7.150, F.A.C. When adopted, the NGFRCRC would allow for recovery of revenue requirements related to eligible facilities relocation investments.

Q. Do the company's 2026 budgets or its proposed 2026 base rates and charges reflect recovery of facilities relocation related revenue requirements through the proposed NGFRCRC?

A. No. The company did not assume any recovery of 2025 and 2026 test year revenue requirements related to facilities relocation investments through the proposed NGFRCRC. The company has included facilities relocation investments in rate base and the related costs in its calculation of its 2026 test year revenue requirement.

V. 2026 RATE BASE

Q. What amount of Rate Base for the 2026 test year should be approved?

A. The Commission should approve Peoples' 13-month average adjusted rate base for the 2026 test year of $2,954.4 million as detailed on MFR Schedule G-1, page 1. This amount reflects the transfer of approximately $53.4 million of projected net Rider CI/BSR investments as of December 31, 2025, into rate base effective January 1, 2026. It also reflects the company's position on the other rate base issues and topics explained in this portion of my testimony.

A. GENERAL

Q. Has Peoples made appropriate adjustments to remove all non-utility activities from Plant in Service, Accumulated Depreciation, and Working Capital in the 2026 test year?

A. Yes. The company has appropriately adjusted the 2026 test year regulated Plant in Service and Accumulated Depreciation for non-utility use of Common Plant as shown on MFR Schedule G-1, page 4. The non-utility use of Common Plant adjustments to Plant in Service and Accumulated Depreciation were $3.7 and $0.4 million, respectively. Pursuant to Order No. 2023-0388-FOF-GU, Alliance Dairies RNG project is a non-utility project. Peoples removed $13.5 million associated with this project from rate base for non-utility adjustments to the allowance for working capital as shown on MFR Schedule G-1, page 4, with further details shown on MFR Schedule G-1, pages 2 and 3.

Q. Has Peoples removed all costs attributable to SeaCoast from rate base for the 2026 test year?

A. Yes. There are no costs attributable to SeaCoast included in rate base for the 2026 test year. Witness Chronister describes the comprehensive procedural review and associated cost study of the support Peoples provides to SeaCoast required in the company's last rate case order in his prepared direct testimony.

Q. Has the company capitalized a reasonable amount of Administrative and General Expense for the 2026 test year?

A. Yes. The company prepared its 2026 forecasted balance sheet and rate base amounts using the PA Consulting methods I previously described and capitalized A&G expenses in the amount of $23.7 million. This amount is shown as a credit to O&M expense in FERC Account 922 on Schedule G-2, page 19b, is reasonable, and should be approved.

B. <u>GAS PLANT IN SERVICE</u>

Q. Should Peoples' proposed Gas Operations Capital Projects be included in the 2026 test year?

A. Yes. The proposed Gas Operations Capital Projects with capital expenditures of $62.7 and $79.3 million budgeted for years 2025 and 2026, respectively, should be included in the 2026 test year. Witness O'Connor explains and supports why these projects are prudent in his direct testimony.

Q. Should Peoples' proposed Engineering, Construction and Technology ("ECT") Capital Projects be included in the 2026 test year?

A. Yes. The proposed ECT Capital Projects with capital expenditures of $277.3 and $392.5 million budgeted for years 2025 and 2026, respectively, should be included in the 2026 test year. Witness Richard explains and supports why these projects are prudent in his direct testimony.

Q. Should Peoples' proposed Customer Experience ("CE") Enhancement Capital Projects be included in the 2026 test year?

A. Yes. The proposed CE Enhancement Capital Projects with capital expenditures of $2.0 and $2.9 million budgeted for years 2025 and 2026, respectively, should be included in the 2026 test year. Witness Washington explains and supports why these projects are prudent in her direct testimony.

Q. What amount of Gas Plant in Service should be approved for the 2026 test year?

A. The Commission should approve the company’s projected 2026 thirteen-month average balance of Gas Plant in Service of $3,993.7 million for the test year. This amount is the net amount of the Gas Plant in Service and Common Plant Allocated as shown on lines 1 and 4 of MFR Schedule G-1, page 1, and reflects the Gas Operations, ECT, and CE capital projects discussed above. It also includes the company’s investment in its new corporate headquarters.

Q. Please describe Peoples’ corporate headquarters project (“Corporate Headquarters”).

A. Tampa Electric witness Carlos Aldazabal discussed this topic in his direct testimony in our affiliate Tampa Electric’s last rate case in Docket No. 20240026-EI.

Peoples and Tampa Electric are relocating their corporate headquarters from TECO Plaza to a new 18-story tower in Midtown Tampa. Peoples will occupy three floors, Tampa Electric will occupy 6 floors, and employees of both companies will share two assembly floors containing meeting rooms and amenities for both companies. Each company will own its share of the new tower. Peoples will purchase its portion of the new tower as well as rights to 260 parking spaces. Construction of the new tower is still underway, and Peoples expects to receive a Certificate of Occupancy in Summer of 2025 with a budgeted in-service date of June 2025.

The Commission approved Tampa Electric's portion of the Corporate Headquarters in Order No. 2025-0038-FOF-EI. The Commission indicated that Tampa Electric has met its burden of proof by providing both a Cumulative Present Value Revenue Requirement ("CPVRR") analysis and detailed qualitative benefits that the new Midtown location will provide. The order stated that relocating employees to the new Corporate Headquarters will provide additional space for expansion and the structure will be more storm resilient and built to current building codes. Document No. 6 of my exhibit contains the Peoples focused CPVRR analysis like the one presented to the Commission in the Tampa Electric rate case. These analyses and benefits apply equally to Peoples and show that moving to the new Corporate Headquarters is prudent for Peoples as well.

Q. What qualitative benefits will the Corporate Headquarters provide to Peoples?

A. The Corporate Headquarters will provide the same qualitative benefits to Peoples that the Commission considered in Tampa Electric's last rate case. First, the Corporate Headquarters building will be more storm resilient because it is located more inland and is built to modern code standards. Second, the new building will offer modern facilities with more efficient floor layouts that will accommodate more team members and reduce space needs in the future. Third, the new building will provide more flexibility than Peoples' current office footprint within TECO Plaza. Fourth, TECO Plaza does not include dedicated employee parking, which presented a potential safety issue, because some team members walked to remote parking spaces. The Corporate Headquarters will address this problem by offering dedicated parking for Peoples team members. Finally, moving into a new building with modern and more efficient floor layouts and dedicated parking will make it easier for Peoples to attract and retain new team members. As was the case in the Tampa Electric rate case, these qualitative benefits show that the Corporate Headquarters building is a prudent investment and should be included in rate base in this case.

Q. How were the capital expenditures for the Corporate Headquarters apportioned between Peoples and Tampa Electric?

A. The capital expenditures were apportioned between Peoples and

Tampa Electric based on square footage requirements for team members that will be working at the Corporate Headquarters.

Q. What is Peoples' cost for the Corporate Headquarters?

A. Peoples' capital investment in the Corporate Headquarters is $66.9 million (excluding AFUDC charges), which includes the purchase of three entire floors and the pro-rated cost for the two floors in the tower shared with Tampa Electric, the rights to 260 parking spaces, and the completion of the interior floors. The company considers the Corporate Headquarters to be an RRE project.

Q. Should Peoples' proposed Corporate Headquarters Capital Project be included in Gas Plant in Service and Rate Base for the 2026 test year?

A. Yes. The company's proposed Corporate Headquarters Capital Project with a total capital cost of $66.9 million (excluding AFUDC charges), including capital expenditures of $14.8 million budgeted for year 2025, should be included in the 2026 test year without any adjustments. Document No. 6 of my exhibit includes the analyses used by Peoples and shows that this project is prudent for Peoples as well. Commission approval of Peoples' portion of the Corporate Headquarters would be consistent with the approval of Tampa Electric's portion of the Corporate Headquarters granted in Order No. 2025-0038-FOF-EI.

C. PROPERTY HELD FOR FUTURE USE

Q. What amount of Property Held for Future Use should be approved for the 2026 test year?

A. The company removed Property Held for Future Use from adjusted rate base as shown on MFR Schedule G-1, page 1. This approach is consistent with prior rate case proceedings. Therefore, no amount of Property Held for Future Use should be approved for the 2026 test year.

D. CONSTRUCTION WORK IN PROGRESS

Q. What amount of CWIP should be approved for the 2026 test year?

A. The Commission should approve the thirteen-month average CWIP balance of $36.2 million for the projected test year as shown on MFR Schedule G-1, page 1, line 2. This amount reflects the amounts and timing of capital projects expected to be in progress during the test year, was developed using the company's budgeting process, and is a reasonable and prudent amount for ratemaking purposes.

Q. Did the company remove AFUDC eligible CWIP in determining adjusted rate base?

A. Yes. The company removed $14.9 million of AFUDC eligible CWIP from rate base as shown on MFR Schedule G-1, page 4.

E. ACCUMULATED DEPRECIATION AND AMORTIZATION

Q. What amount of Accumulated Depreciation and Amortization should be approved for the 2026 test year?

A. The Commission should approve the thirteen-month average Accumulated Depreciation and Amortization amount of $1,047.0 million for the 2026 test year as shown on MFR Schedule G-1, page 1, line 7. This amount reflects the application of the company's currently approved depreciation and amortization rates applied to the company's plant balances, reflects the plant additions and retirements contained in the company's capital expenditure plans and budgets, and is a reasonable and prudent amount for ratemaking purposes.

F. WORKING CAPITAL

Q. What amount of Working Capital should be approved for the 2026 test year?

A. The Commission should approve a $1.1 million Working Capital

Allowance for the 2026 test year as shown on MFR Schedule G-1, page 1, line 11. This amount is lower than the net positive $8.9 million in working capital allowance for the 2024 base year and reflects a reasonable and prudent amount of working capital for the 2026 test year.

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

A. Peoples developed working capital using the balance sheet method which has been accepted by the Commission for many years. The company projected the various components that make up working capital using a variety of methods described in MFR Schedule G-6, pages 2 and 3, and in the rate base asset budgeting portion of my testimony.

Q. How did the company treat clause and rider over/under recoveries in calculating the projected 2026 allowance for working capital?

A. The company's competitive rate adjustment is projected to be under-recovered during 2026. Peoples deducted the under-recovery from working capital as an adjustment in accordance with Commission guidelines. The company's Purchased Gas Adjustment ("PGA") clause, Conservation Cost Recovery clause, and Rider CI/BSR are projected to have over-recoveries in the test year and are included in working capital.

Q. What amount of Unamortized Rate Case Expense should be included in working capital for the 2026 test year?

A. The company removed Unamortized Rate Case Expense from working capital and none is included in 2026 test year Working Capital. This approach is consistent with prior rate case filings.

G. <u>TOTAL 2026 RATE BASE</u>

Q. What amount of Total Rate Base should be approved for the 2026 test year?

A. The Commission should approve the thirteen-month average Total Rate Base balance of $2,954.4 million for the 2026 test year as shown on MFR Schedule G-1, page 1, line 12. This amount reflects a reasonable and prudent amount of rate base that will be used and useful serving customers in the 2026 test year.

VI. 2026 CAPITAL STRUCTURE

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

A. The components of the company's total capital structure are common equity, short-term debt, long-term debt, customer deposits and ADIT.

Q. What is the company's 2026 proposed overall weighted average cost-of-capital ("WACC")?

A. The company's proposed WACC for 2026 is 7.57 percent as detailed in MFR Schedule G-3, page 2. The 7.57 percent proposed cost-of-capital is based on a return on equity of 11.10 percent, which is supported by witness D'Ascendis and reflects a capital structure with an equity ratio of 54.7 percent equity and a debt ratio of 45.3 percent (investor sources).

A. <u>EQUITY RATIO AND RETURN</u>

Q. What equity ratio should be approved for use in the capital structure for ratemaking purposes for the 2026 test year?

A. The Commission should approve the company's proposed 54.7 percent equity ratio (investor sources). Continuing with the 54.7 percent equity ratio as approved by the Commission in prior rate cases will allow the company to maintain its financial integrity, attract capital on reasonable terms and conditions, and ensure uninterrupted access to capital markets to finance infrastructure improvements and manage unforeseen events. Witness Chronister discusses this in greater detail in his direct testimony.

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

A. The proposed capital structure equity ratio of 54.7 percent from investor sources is consistent with the Commission approved capital structure in Peoples' last general base rate proceeding and the two prior proceedings. Witness Chronister discusses this in greater detail in his direct testimony.

Q. What authorized ROE should be approved for use in establishing Peoples' revenue requirement for the 2026 test year?

A. The Commission should approve a mid-point return on equity of 11.10 percent with an allowed range of earnings of plus or minus 100 basis points, which is supported in the testimony of witness D'Ascendis.

B. <u>SHORT-TERM AND LONG-TERM DEBT</u>

Q. What amount and cost rate for short-term debt should be approved for use in the capital structure for the 2026 test year?

A. The Commission should approve $93.6 million of short-term debt with a cost rate of 4.24 percent for use in the capital structure for the 2026 test year as shown on MFR Schedule G-3, page 2. This amount of short-term debt is reasonable and reflects the level of short-term debt the company expects to be outstanding during the test year based on its forecasted capital expenditures, expected cash flows from operations, and the limits on its short-term credit facilities. The company uses short-term debt to finance its day-to-day operations and with the assistance of Emera's treasury team, issues long-term debt to replace short-term debt based on market considerations as its short-term debt balances grow. Witness Chronister explains and supports why this short-term debt rate is reasonable and prudent in his prepared direct testimony.

Q. What amount and cost rate for long-term debt should be approved for use in the capital structure for the 2026 test year?

A. The Commission should approve $1,082.6 million of long-term debt with a cost rate of 5.64 percent for use in the capital structure for the 2026 test year as shown on MFR Schedule G-

3, page 2. This amount is reasonable and reflects the level of long-term debt the company expects to be outstanding during the test year based on its forecasted capital expenditures, cash flows from operations, short-term debt balances, and target equity ratio of 54.7 percent. The company coordinates long-term debt issuances and equity infusions from its parent based on market considerations with Emera's treasury team based on its cash needs and its short-term debt balances. Witness Chronister explains and supports why this long-term debt rate is reasonable and prudent in his prepared direct testimony.

C. <u>CUSTOMER DEPOSITS</u>

Q. What amount and cost rate for customer deposits should be approved for use in the capital structure for the 2026 test year?

A. The Commission should approve the thirteen-month average customer deposit amount of $29.5 million with a cost rate of 2.52 percent as shown on MFR Schedule G-3, page 2. This amount is reasonable and reflects the level of customer deposits the company expects to have during the test year based on the budgeting process I previously described. This cost rate is the Commission-approved cost rate for customer deposits.

D. ADIT

Q. What amount of accumulated deferred taxes should be approved for use in the capital structure for the 2026 test year?

A. The Commission should approve the thirteen-month average ADIT amount of $327.8 million for use in the capital structure for the 2026 test year. This amount is reasonable and reflects the level of ADIT the company expects to have during the test year based on the budgeting process I previously described. This amount is shown on MFR Schedule G-3, page 2.

Q. Did the company make any capital structure adjustment to ADIT to comply with the IRC?

A. Yes. The company adjusted ADIT in the capital structure to reflect the IRC normalization adjustment required when a utility taxpayer uses a projected test period for ratemaking purposes. This adjustment reduced ADIT with an offset applied to investor sources of capital on a pro-rata basis. This adjustment is necessary to state the projected 2026 ADIT balance, which is treated as a zero-cost capital source, at the level required to comply with the forecast test period requirements as set forth in U.S. Treasury Regulation Section 1.167(l)-1.

The ADIT balances on MFR Schedule G-1, page 8 are based on a thirteen-month average of projected balances. However, the IRC requirements in this situation require a specific computation to determine the maximum amount of ADIT to be treated as zero-cost capital in the cost of capital calculation. The specific computation is shown on Document No. 7 of my exhibit as a reduction to deferred taxes in the amount of $3.2 million, which is included in the specific adjustment on MFR Schedule G-3, page 2. This adjustment is only required for accumulated deferred income taxes recorded in Account 282, net of the FAS 109 component, because this account includes the deferred taxes governed by the IRS normalization rules.

E. UNAMORTIZED INVESTMENT TAX CREDITS

Q. What amount and cost rate of the unamortized investment tax credits should be approved for use in the capital structure for the 2026 test year?

A. The Commission should approve $0 of unamortized investment tax credits approved for use in the capital structure for the 2026 test year as shown on MFR Schedule G-3, page 2.

F. RECONCILIATION TO RATE BASE

Q. Did the company properly reconcile the 2026 projected test year capital structure to 2026 test year rate base?

A. Yes. The reconciliation of the 2026 test year rate base to average capital structure is shown on Document No. 8 of my exhibit. The rate base adjustments I discussed earlier in my testimony require associated adjustments to capital structure to keep rate base and capital structure in sync. The company took the steps explained below to reconcile rate base and capital structure.

First, the company adjusted certain rate base items to specific capital structure items to which they are specifically related. These "specific adjustments" include property held for future use, investments in subsidiaries and common plant non-utility adjustments to rate base, each a specific adjustment to equity. Unamortized debt discount and expense amounts were also specifically adjusted out of long-term debt.

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

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

The remaining items were adjusted on a pro-rata basis over investor sources.

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

A. Yes. After Peoples made the above-described adjustments, the company adjusted income tax expense to reflect the appropriate amount of interest expense based on the amount and cost of debt in the capital structure that was synchronized to the rate base. This interest synchronization adjustment is shown on MFR Schedule G-2, page 3.

G. <u>2026 CAPITAL STRUCTURE SUMMARY</u>

Q. What capital structure and weighted average cost of capital should be approved for use establishing Peoples' revenue requirement for the 2026 test year?

A. The Commission should approve the Adjusted Capital Structure totaling $2,954.4 million and a weighted average cost of capital of 7.57 percent for the 2026 test year as shown on MFR Schedule G-3, page 2.

VII. 2026 NET OPERATING INCOME

A. <u>GENERAL</u>

Q. What amount of NOI should be approved for the 2026 test year?

A. The Commission should approve adjusted NOI for the 2026 test year of $147.0 million as shown on MFR Schedule G-2, page 1, line 17. I explain the major elements of the calculation of NOI later in my testimony.

Q. Did Peoples follow accounting guidance and make regulatory adjustments to its 2026 budgeted income statement to determine the 2026 test year NOI?

A. Yes. The company made accounting adjustments consistent with the Commission's rules and previous Commission directives and policies from Peoples' prior base rate proceedings, including the company's last rate case. The decision in the last case continued several accounting treatments that originated in the 2020 Agreement approved by the Commission in Order No. PSC-2020-0485-FOF-GU, issued December 10, 2020, in Docket Nos. 20200051-GU, 20200166-GU, and 20200178-GU.

Q. Please describe the 2020 Agreement's approved accounting guidance and adjustments that the company believes continue to be fair to customers and should be consistently applied to determine the company's 2026 test year NOI.

A. First, the 2020 Agreement required Peoples to make a parent debt adjustment to its income tax expense based on Emera's capital structure. Peoples followed this methodology in the company's last rate case, which resulted in the Commission approved parent debt adjustment amount of $3.2 million. The company proposes to follow the same methodology in the 2026 test year. The proposed parent debt adjustment for 2026 test year is $3.0 million.

Second, Commission approved an annual amortization expense of $1.0 million related to its Manufactured Gas Plant ("MGP") environmental remediation in both the 2020 Agreement and in the company's last rate case. The Commission determined that $1.0 million was an appropriate amount to be included in revenue requirements to accommodate the remaining environmental remediation costs and related costs already expended but not recovered from customers in base rates. The expected balance of the MGP related regulatory assets is $17.7 million as of January 1, 2026. The company proposes to continue the inclusion of $1.0 million of MGP amortization expense in its 2026 test year revenue requirements, which is shown on MFR Schedule G-2, page 1, line 7.

Third, the Commission approved an annual storm reserve accrual of $380,000 in both the 2020 Agreement and the company’s last rate case. Peoples’ storm reserve was exhausted due to storm costs incurred for Hurricanes Helene and Milton. The storm reserve is reflected on the company’s books as a regulatory asset balance of approximately $1.5 million as of December 31, 2024. The company proposes to maintain its annual storm reserve accrual at the approved $380,000 and its existing storm reserve target of $3.8 million in lieu of seeking Commission approval for a storm surcharge for costs associated with Hurricanes Helene and Milton. Peoples is making this proposal without prejudice to its ability to seek relief pursuant to Rule 25-7.0143(1)(j), Florida Administrative Code.

Fourth, the Commission allowed the company to use reserve accounting for its Transmission Integrity Management Program (“TIMP”) spending and record a levelized annual expense in the company's last two rate cases. The 2020 Agreement set the levelized annual expense at $1,437,475 and the Commission set it at $998,571 in the company's last rate case. Peoples was required to reflect any difference between the actual cumulative spending and cumulative expense accrual as a regulatory asset or liability, as appropriate. The basis for this adjustment was the projected volatility in annual TIMP related spending from year to year depending on timing of required transmission pipeline inspections. The company projects that a TIMP related regulatory asset of $3.5 million will be recorded on Peoples' books by January 1, 2026. This balance reflects cumulative TIMP costs from 2021 to 2025 of $9.8 million and cumulative accruals during that period of $6.3 million.

Peoples proposes to continue reserve accounting treatment and accrue a levelized TIMP expense to address expected continuing volatility in TIMP spending. Peoples also proposes to continue reflecting any difference between the actual cumulative spending and cumulative expense accrual as a regulatory asset or liability. Summing the $4.7 million of projected TIMP costs over the 2026-2028 period and the projected regulatory asset balance of $3.5 million as of January 1, 2026, results in a total of $8.2 million. Using the total of $8.2 million spread over a three-year period, the company proposes a levelized accrual expense of $2.7 million starting in the 2026 test year revenue requirements, which is an increase of $1.7 million from the last rate case. Witness Richard also discusses TIMP costs in his direct testimony.

Fifth, the Commission allowed Peoples to record non-capitalizable software implementation costs as a regulatory asset and amortize the costs over a five-year period in the company's last two rate cases. Peoples projects the unamortized non-capitalizable software implementation costs recorded as a regulatory asset will be $0.7 million by January 1, 2026. The company proposes to continue the accounting treatment for non-capitalizable software implementation costs in the projected test year and amortize the associated regulatory asset over the authorized five-year period. The 2026 test year reflects $0.3 million of annual amortization of the regulatory asset associated with non-capitalizable software implementation costs in FERC Account 930.2.

Sixth, the Commission approved a three-year period amortization period for rate case expenses in the company's last two rate cases. In our most recent rate case, the Commission approved amortization of these expenses over the years 2024 through 2026. The company has filed this rate case before completing the three-year amortization period approved in its last rate case, so for the 2026 test year, the company proposes to use a two-year amortization period for the current rate case expenses and the unamortized balance from its last rate case ($922,016 as of January 1, 2026), in the amount of total rate case expense to be recovered and amortized over two years in this case.

Q. Has Peoples made the appropriate test year NOI adjustments to remove gas revenues and expenses recoverable through the PGA?

A. Yes. The appropriate NOI adjustments to remove gas revenues and expenses recoverable through the PGA are shown on MFR Schedule G-2, page 2, lines 2 and 8.

Q. Has Peoples made the appropriate test year NOI adjustments to remove Rider CI/BSR revenues and expenses recoverable through the rider?

A. Yes. The appropriate NOI adjustments to remove Rider CI/BSR revenues and expenses are shown on MFR Schedule G-2, page 2, lines 4, 5 and 11.

Q. Has Peoples made the appropriate test year NOI adjustments to remove conservation revenues and conservation expenses recoverable through the Natural Gas Conservation Cost Recovery Clause?

A. Yes. The company reflected zero dollars for conservation revenues and conservation expenses in the MFR Schedules for the 2026 test year as noted on MFR Schedule G-2, page 1. These adjustments are shown on MFR Schedule G-2, page 2, lines 1 and 10, reflect zero dollars.

Q. Has Peoples made appropriate NOI adjustments to remove all non-utility activities, including SeaCoast, from NOI for the 2026 test year?

A. Yes. The company has appropriately adjusted out non-utility O&M and depreciation expense from NOI as shown on MFR Schedule G-2, page 2. The company has appropriately allocated costs to SeaCoast using the Modified Massachusetts Methodology ("MMM") with updated factors and directly charged SeaCoast for labor services provided. Witness Chronister explains this in greater detail in his testimony. Other non-utility operating revenues and expenses are recorded and budgeted to "below the line" FERC Accounts such as 408 and 416-418, which are excluded from the calculation of NOI.

Q. Has Peoples made appropriate adjustments to remove lobbying, charitable contributions, sponsorships, and institutional and image advertising from the calculation of NOI for the 2026 test year?

A. Yes. The company budgets and records lobbying, charitable contributions, sponsorships, and institutional and image advertising expenses in FERC Account 426, which is excluded from NOI. Peoples budgeted $1.0 million to FERC Account 426 in the 2026 test year for social/civic dues, charitable contributions, sponsorships and donations, image advertising, political contributions and lobbying costs in industry dues. Peoples excluded this amount from 2026 NOI.

Q. What are the inflation, customer growth, and other trend factors that should be approved for use in developing 2026 test year NOI?

A. The Commission should approve inflation factors of 2.50 percent and 2.33 percent for 2025 and 2026, respectively. The Commission should approve average customer growth factors of 3.9 percent and 3.5 percent for 2025 and 2026, respectively, as supported by witness Buzard. The Commission should approve a payroll trending factor of 4.0 percent for both 2025 and 2026, as supported by witness Bluestone.

B. <u>2026 OPERATING REVENUES</u>

Q. Are Peoples' forecasts of customers and therms by rate class for the 2026 test year appropriate?

A. Yes. These forecasts are discussed and supported by witnesses Fox and Buzard in their testimony and are reasonable and appropriate for ratemaking purposes.

Q. Has Peoples correctly calculated its projected revenues at current rates for the 2026 test year?

A. Yes. Peoples expects base revenues will be $459.1 million in the 2026 test year based on current rates. Customer classes and rates are discussed in witness Buzard's direct testimony. Document No. 9 of my exhibit shows base revenues by customer class that are included in adjusted NOI for the years 2024 through 2026. These revenues are reasonable and appropriate for ratemaking purposes.

Q. What amount of off-system sales net revenue did the company include in the 2026 test year to determine NOI?

A. The company included $2.6 million of OSS net revenue in the 2026 Budget. The company developed this amount using the sharing percentages that have been in place since its 2008 base rate proceeding, namely 25 percent of OSS net revenue being retained by the company and 75 percent going to offset expenses recovered through the PGA clause.

The $2.6 million budgeted for 2026 is in line with the level of OSS net revenues achieved in 2023 of $2.7 million and the $2.5 million budgeted for 2024 and approved in our last rate case proceeding. The company believes that this is an appropriate level of OSS net revenues for budget purposes and for use in the OSS incentive mechanism.

Q. How does the budgeted amount of OSS net revenues for 2026 compare to 2024 actual?

A. It is lower. Peoples experienced a significant increase in OSS net revenues in 2024 due to favorable natural gas price spreads and higher market demand conditions. These factors resulted in a $2.3 million increase above the $2.5 million OSS net revenues budgeted for 2024, which resulted in approximately $14.5 million offset to PGA expenses for customers. OSS net revenues budgeted for 2025 and 2026 assume that market conditions will moderate relative to 2024.

Q. Is the Commission considering any potential changes to the OSS sharing mechanism that would impact the projected 2026 net revenues retained by the company?

A. Yes. The company filed a petition on January 13, 2025 in Docket No. 20250026-GU that included a proposal to modify the sharing mechanism provided in Special Condition 3, Disposition of Net Revenues and Transaction Charges, of Rate Schedule OSS, from a 75/25 basis to a 50/50 basis as originally approved by the Commission. The change back to a 50/50 sharing mechanism would align the company with the off-system sales sharing mechanisms used by Florida Public Utilities Company and Florida City Gas, both of whom have maintained a 50/50 sharing since the inception of their OSS rate schedule in 1994 and 1996, respectively. If approved, the change to a 50/50 basis from 75/25 basis would increase the 2026 test year OSS net revenues from $2.6 million to $5.3 million and would reduce the amount of the company’s 2026 revenue requirement to be recovered through base rates.

Q. Are there any new sources of revenues included in Other Revenue in MFR Schedule G-2, page 8, since the last rate case?

A. No. The sources of revenues included in Other Revenue on MFR Schedule G-2, page 8 are consistent with what was approved by the Commission in the last case. This includes miscellaneous service revenue, forfeited discounts, rent, gas plant leased to others and fees. These amounts were developed using the budget process I previously described and are reasonable and appropriate for ratemaking purposes.

Q. What amount of Total Operating Revenues should be approved for the 2026 test year?

A. The Commission should approve 2026 test year adjusted Total Operating Revenues at current rates of $476.4 million as shown on MFR Schedule G-2, page 1. This reflects the $459.1 million base revenue, $2.6 million OSS margin and $14.7 million other operating revenue (after $0.1 million adjustment for lease of property held for future use shown on MFR Schedule G-2, page 2). Document No. 9 of my exhibit shows base revenues by customer class, OSS margin and other operating revenues included in adjusted NOI for years 2024 through 2026.

C. <u>2026 O&M EXPENSES</u>

1. <u>Overview and Reasonableness</u>

Q. What total amount of O&M expenses should be approved for the 2026 test year?

A. The Commission should approve adjusted total O&M expense of $161.2 million for the 2026 test year as shown on MFR Schedule G-2, page 1, and MFR Schedule E-6, page 4. This amount is reasonable and appropriate for ratemaking purposes.

Q. Please summarize the components of the O&M expense increase from the 2024 base year amount of $138.3 million to 2026 test year amount of $161.4 million reflected on MFR Schedule G-2, pages 12-19.

A. The primary components of the $23.1 million increase in O&M expense from the adjusted 2024 base year to the 2026 projected test year on MFR Schedule G-2, pages 12-19 are as follows:

Payroll	
(trended 4.0 percent/4.0 percent)	$4.4 million
Inflation	
(trended 2.50 percent/2.33 percent)	1.7 million
Customer Growth	
(trended 3.86 percent/3.58 percent)	2.0 million
Position replacements and additions	7.1 million
Other not trended, net (direct budget)	7.9 million
Total	$23.1 million

The percentages shown above in parentheses are the trending factors used to develop 2025 and 2026 amounts (2025/2026).

Q. Has Peoples analyzed overall O&M expense since the last general base rate proceeding in comparison to the 2024 historical base year?

A. Yes, we have analyzed the company's 2024 historical base year O&M expense using the "O&M benchmark" approach the Commission uses to analyze the growth of adjusted O&M expense as compared to customer-growth and the CPI inflationary measures published by the U.S. Bureau of Labor Statistics.

The adjusted O&M expense for the 2024 historic base year was $138.1 million, which is $5.4 million below the calculated O&M benchmark of $143.5 million. The variance amounts by functional area are detailed on MFR Schedule C-34. The overall favorable variance compared to the benchmark reflects the company's efforts in 2024 to contain costs during a period of higher prices while meeting the strong demand for natural gas service with average customer growth at 4.23 percent in 2024, as shown on MFR Schedule C-37.

Q. Have you performed an analysis to support the reasonableness of the 2026 test year O&M expense?

A. Yes. I calculated an O&M benchmark comparison by function for 2026 using the Commissions' methodology applied on MFR Schedules C-34 and C-37 that consider customer growth and inflation. This analysis extends the historic base year analysis described above through 2026 using the company's 2025 and 2026 Budget assumptions for customer growth and inflation and an O&M compound multiplier through 2026 of 1.3228. This analysis is shown on Document No. 10 of my exhibit.

Q. What does this extended analysis for 2026 show?

A. The extended analysis shows that the company's proposed 2026 overall O&M expense amount is reasonable. The company's proposed 2026 O&M expense of $161.2 million is below the 2026 benchmark amount of $163.0 million by approximately $1.7 million. My calculation of the 2026 benchmark included an adjustment to normalize out a $1.1 million credit from 2022 actual O&M expense related to the amortization of 2021 State Tax Reform impacts through FERC Account 407.

2. Functional Area Expenses

Q. What functions are reflected in Peoples' O&M expense and what witnesses are supporting the company's 2026 O&M expense?

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

Witnesses O'Connor and Richard support the Distribution and Other O&M expense related to its leased CNG station (FERC Account 413) and a portion of A&G expenses in their direct testimony.

Witness Washington supports Customer Accounts and Sales O&M expense in her direct testimony.

Witness Bluestone supports A&G costs classified in FERC Account 926 (Employee pension and benefits) and FERC Account 920 (Administrative & General Salaries) in her direct testimony.

My direct testimony primarily supports the company's remaining A&G O&M expenses, bad debt expense, and FERC Account 407 regulatory debits and credits. Witness Chronister's testimony provides an overview of affiliate charges and the policies that guide how those charges are determined and supports the amounts charged to and from affiliates in the 2026 test year.

Q. What amount of Distribution O&M expenses should be approved for the 2026 test year?

A. The Commission should approve Distribution O&M expense of $51.7 million for the 2026 test year as shown on MFR Schedule E-6, page 3. This amount is reasonable and appropriate for ratemaking purposes.

Q. What amount of Customer Accounts O&M expenses should be approved for the 2026 test year?

A. The Commission should approve Customer Accounts O&M expense of $21.8 million for the 2026 test year as shown on MFR Schedule E-6, page 4. This amount is reasonable and appropriate for ratemaking purposes.

Q. What amount of Customer Service & Information and Sales O&M expenses should be approved for the 2026 test year?

A. The Commission should approve Customer Service & Information and Sales O&M expense of $10.1 million for the 2026 test year as shown on MFR Schedule E-6, page 4, sum of lines 7 and 8. This amount is reasonable and appropriate for ratemaking purposes.

Q. What amount of A&G O&M expenses should be approved for the

2026 test year?

A. The Commission should approve A&G O&M expenses of $77.2 million for the 2026 test year as shown on MFR Schedule E-6, page 4, sum of lines 9 and 10. This amount is reasonable and appropriate for ratemaking purposes.

Q. What amount of Other O&M expenses should be approved for the 2026 test year?

A. The Commission should approve Other O&M expenses of $0.5 million for the 2026 test year as shown on MFR Schedule E-6, page 4, sum of lines 11 and 12. This amount is reasonable and appropriate for ratemaking purposes.

3. Not Trended Items

Q. What O&M expense items were not projected using the trending factors and how are those items reflected on MFR Schedule G-2, pages 12-19?

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

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

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

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

A. I am supporting the company's proposed 2026 amounts in FERC Account Nos. 904, 912, 920, 922, 923, 924, 925, 928, 930.2, and 407. Document No. 11 of my exhibit explains these FERC Accounts and why the company's forecasted amount are reasonable.

4. <u>Salaries and Benefit Expenses</u>

Q. What amount of salaries and benefits expense, including incentive compensation, should be approved for the 2026 test year?

A. The Commission should approve salaries and benefits expense, including incentive compensation, for the 2026 test year in the amount of $92.5 million. This is the sum of 2026 test year (i) Payroll trended ($58.7 million) and Payroll not trended ($7.1 million) amounts as shown on MFR Schedule G-2, page 18b, (ii) net benefits costs included in FERC Account 926 ($16.6 million) as shown on MFR Schedule G-2, page 19b, and (iii) short-term employee incentive compensation included in FERC Account 920 ($10.1 million) as shown on MFR Schedule G-2, page 19b. These amounts reflect the employee count information supported by witnesses O'Connor, Richard, Washington, and Buzard and are reasonable. The dollar amounts are supported in the direct testimony of witness Bluestone.

Q. Does Peoples' pension and Other Post Employment Benefit ("OPEB") expense properly reflect capitalization credits in the 2026 test year? If not, what adjustments, if any, should be made?

A. Yes. The company's pension and benefits expenses for the 2026 test year of $16.6 million as shown in FERC Account 926 on MFR Schedule G-2, page 18a appropriately reflect capitalization credits and no adjustments should be made.

Details of gross FERC Account 926 benefit costs totaling $26.4 million in 2026, including pension and OPEB expense, which is reduced by $9.8 million of capitalization and clause related credits, are addressed in testimony of witness Bluestone.

Q. What amount of pension and OPEB expense should be approved for the 2026 test year?

A. The Commission should approve $3.1 million of pension and OPEB expense for the 2026 test year. This amount is included in FERC Account 926 O&M expense and is net of capitalization credits of $1.9 million from the gross $5.0 million of pension and OPEB expense in the 2026 Budget. This amount is reasonable and appropriate for ratemaking purposes.

Q. Did the company hire all of the positions/people approved in the company's last rate case?

A. Witness Bluestone addresses this question for the company as a whole and for the positions she supported in the last rate case in her direct testimony. Witness Buzard addresses this question for the finance area as interim Vice President of Finance. Witnesses O'Connor and Richard address this question for their areas in their testimony.

Q. What impact did adding replacement and new payroll positions have on 2025 and 2026 O&M expenses?

A. As shown on MFR Schedule G-2, page 18b, the "Payroll not trended" total O&M expense that reflects the replacement and added Peoples payroll positions in 2025 and 2026 is $3.0 million and $7.1 million, respectively. As reflected in the detail by FERC Account on MFR Schedule G-2, pages 19c-19e, this represents 80 positions to be filled by the end of 2025, and another 89 positions to be filled in 2026. The payroll costs for many of these positions are not all charged to O&M expense and the O&M expense impact per employee replaced or added can vary greatly depending on the position. These positions are discussed further by the witnesses indicated on MFR Schedule G-2, pages 19c-19e.

Q. Does filling some of these payroll positions at Peoples have any offsetting reductions in 2026 O&M expense levels?

A. Yes. There are Contract Administration related positions that result in a $140,000 reduction in shared services from Tampa Electric in 2026. Peoples also plans to add operations-related positions for locating, meter technicians, and meter reading that will reduce costs paid to outside contractors. This insourcing of operations resources is discussed in the direct testimony of witness O'Connor. Moreover, several positions included in witness Bluestone's testimony will have skills and capabilities that would otherwise be procured through more expensive outside contractors.

5. Affiliate Transactions

Q. Does Peoples' 2025 and 2026 O&M expenses include affiliate charges from Tampa Electric?

A. Yes. Peoples' O&M expense includes charges for various shared services provided by Tampa Electric. Costs are either charged as direct costs charged to an affiliate ("Direct Charges"); indirect costs for services assessed to more than one affiliate using one or more formulas for assessment ("Assessed Charges"); or allocated to multiple affiliates ("Allocated Charges") using a variant of the MMM. Tampa Electric also distributes Customer Experience shared services costs to Peoples. This topic is addressed in the direct testimony of witness Chronister.

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

A. As shown on MFR Schedule G-2, page 19b, the Commission should approve $11.0 million of Assessed Charges, $4.9 millon of MMM

Allocated Charges, $2.3 millon of non-CRMB asset-usage fees, and $2.6 millon 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 $3.6 million of direct and assessed charges from Emera.

As shown on MFR Schedule G-2, page 19b, the Commission should approve $3.7 million of total MMM allocated charges sent to SeaCoast ($3.1 million) and TECO Partners, Inc. ($0.6 million) for the 2026 test year. All of these amounts are reasonable and are supported in the direct testimony of witness Chronister.

6. <u>Rate Case Expenses</u>

Q. What amount of rate case expenses does the company expect to incur for this case?

A. As reflected in MFR Schedule C-13, the company projects $2.7 million of rate case expense for this case in addition to the $0.9 million of unamortized rate case expense as of December 31, 2025, from the prior rate case. The $2.7 million of rate case expense incurred for this case is reasonable given the expected complexity of this case, the company’s prudent use of outside witnesses, and the actual $2.8 million cost of the company’s last rate case.

Q. What amount and amortization period for Peoples' rate case expense should be approved for the 2026 test year?

A. The Commission should approve an unamortized rate case expense of $3.6 million, which includes the $2.7 million of rate case expense Peoples expects to incur for this case plus the unamortized rate case expense balance from the prior rate case of $0.9 million, as shown on MFR Schedule C-13. The Commission should approve an amortization period of two years and $1.8 million of amortized rate case expense for the 2026 test year.

7. Storm Cost Accrual and Reserve Target

Q. Is an annual storm expense accrual of $380,000 and storm reserve target of $3.8 million approved by the Commission in the last rate case still reasonable?

A. Yes. The annual accrual of $380,000 is supported by (i) a 10-year history of Incremental Cost and Capitalization Approach methodology ("ICCA") storm costs updated through 2024, and (ii) the 2022 Storm Damage Self-Insurance Reserve Study filed with the Commission in January 2022 ("2022 Study"), which are both included in Document No. 12 of my exhibit.

The 2022 Study assumed the current annual reserve accrual of

$380,000 and determined Peoples expected annual storm cost to be $364,000 with a 22 percent chance of exceeding $400,000 in any year. Peoples' distribution system was impacted by three storms following completion of the 2022 Study, including Hurricane Ian in 2022 and Hurricanes Helene and Milton in 2024. The average annual ICCA costs (as specified in Rule 25-7.0143, F.A.C.) over the past 10 years have been approximately $690,000. Excluding Hurricane Michael, the average annual ICCA costs over the past 10 years have been approximately $370,000. The annual storm expense accrual of $380,000 approved by the Commission in the last rate case is therefore still reasonable and should be approved by the Commission in this case.

Q. What amount of annual storm damage accrual and storm damage reserve target should be approved for the 2026 test year?

A. The Commission should approve an annual storm damage accrual of $380,000 and a storm reserve target of $3.8 million.

8. Economic Development Expenses

Q. What amount of Economic Development expense should be approved for the 2026 test year and for future surveillance reporting purposes?

A. The Commission should approve economic development expenses for the 2026 test year of $388,740, which, pursuant to Rule 25-7.042, F.A.C., is 95 percent of the expenses to be incurred for the 2026 test year. The removal of the 5 percent of economic development expenses incurred ($20,460) is shown on MFR Schedule G-2, page 2. The unadjusted amount of economic development expense in the 2026 test year is $409,200 as compared to $366,780 in 2024.

In accordance with Rule 25-7.042, F.A.C., Peoples also proposes that for subsequent years its economic development expense amounts reported for surveillance reports and earnings review calculations be limited to the greater of: (a) $388,740 escalated for customer growth since 2026 or (b) 95 percent of the expenses incurred for the reporting period, so long as such does not exceed the lesser of 0.15 percent of gross annual revenues or $3 million (approximately $1.2 million for 2026).

Witness Buzard discusses Economic Development expenses further in his direct testimony.

9. Officers and Directors Liability Expenses

Q. What amount of Directors and Officers Liability Insurance and Board of Director expense for the 2026 test year should be approved?

A. The Commission should approve $73,000 of Directors and Officers Liability Insurance expense and $137,253 of the company's Board of Directors expense for the 2026 test year These amounts are reasonable and appropriate for ratemaking purposes.

D. <u>2026 DEPRECIATION AND AMORTIZATION EXPENSES</u>

Q. Should the currently prescribed depreciation rates be used to calculate the company's 2026 test year revenue requirement?

A. Yes. The Commission approved depreciation rates in Order No. 2023-0388-FOF-GU should be used to calculate the 2026 test year revenue requirement. The Commission, however, should also consider the company's proposal for creating Sub-account 303.02 for its WAM system discussed earlier in my testimony.

Q. Should Peoples' proposal to establish a new Sub-account and change the amortization period from 15 to 20 years for its WAM system be approved? If so, what amortization rate and implementation date should be approved?

A. Yes. The new Sub-account 303.02 with an amortization rate of 5.0 percent should be approved for its WAM system with an effective date of January 1, 2026. The impact would be a reduction to the 2026 test year depreciation and amortization expense of $0.7 million as explained earlier in my testimony.

Q. Is vehicle related depreciation expense included in the $106.2 million of unadjusted depreciation and amortization expense shown on MFR Schedule G-2, page 1?

A. No. As shown on the supporting MFR Schedule G-2, page 23, vehicle depreciation is not included in the $106.2 million of unadjusted depreciation and amortization expense shown on the recap MFR Schedule G-2, page 1. Vehicle depreciation expense is charged through a transportation cost allocation to O&M and capital expenditures and is not included in depreciation expense in determining NOI. This is consistent with the approach in the company’s prior rate cases.

Q. What amount of depreciation and amortization expense should be approved for the 2026 test year?

A. The Commission should approve an adjusted depreciation and amortization expense of $105.7 million for the 2026 test year as shown on MFR Schedule G-2, page 1, line 6. This excludes the impact of the company’s proposal to create a new Sub-account 303.02 for the WAM system, which would be a reduction of $0.7 million in the 2026 test year.

E. 2026 TAXES OTHER THAN INCOME TAXES

Q. What total amount of Taxes Other Than Income Taxes should be approved for the 2026 test year?

A. The Commission should approve adjusted total Taxes Other Than Income Taxes of $37.7 million for the 2026 test year as shown on MFR Schedule G-2, page 1. This includes $29.3 million for property taxes that I discussed earlier in my testimony and $8.4 million for other taxes.

F. 2026 INCOME TAX EXPENSE

Q. What amount of Parent Debt Adjustment is required by Rule 25-14.004, Florida Administrative Code, for the 2026 test year?

A. The Commission should approve a Parent Debt Adjustment as contemplated by Rule 25-14.004, F.A.C., of $3.0 million for the 2026 test year, which is shown on MFR Schedule C-26. Peoples calculated the Parent Debt Adjustment using the capital structure of Emera and same methodology used in the prior case. Per Rule 25-14.004, F.A.C., the equity amount used in the Parent Debt Adjustment calculation excludes the company's retained earnings. The Parent Debt Adjustment decreased the company's 2026 revenue requirement by approximately $4.0 million.

Q. What total amount of Income Tax expense should be approved for the 2026 test year?

A. The Commission should approve adjusted Income Tax expense totaling $24.1 million for the 2026 test year, as shown on MFR Schedule G-2, page 1, sum of lines 10-13.

G. <u>OTHER</u>

Q. Has the company had any gains or losses on the disposition of plant or property that is being amortized in the 2026 test year?

A. Yes. The company had two transactions during 2022 resulting in a net gain on disposition of plant or property that will continue to be amortized in 2026 and which are shown on MFR Schedule C-16. These gains will increase 2026 NOI and decrease the company's proposed 2026 incremental annual revenue increase. The company has included approximately $0.2 million of amortized net gain on sale in the 2026 test year as shown on MFR Schedule G-2, page 1. The company has amortized the net gain on sale of plant or property over a four-year period in accordance with page 7 of Commission Order No. 2003-0038-FOF-GU, issued on January 6, 2003, in Docket No. 20020384-

GU.

H. 2026 TOTAL OPERATING EXPENSES

Q. What amount of Total Operating Expense should be approved for the 2026 test year?

A. The Commission should approve adjusted Total Operating Expense of $329.4 million for the 2026 projected test year as shown on MFR Schedule G-2, page 1.

VIII. 2026 REVENUE REQUIREMENT

Q. What annual revenue increase is Peoples requesting for 2026?

A. The company seeks a total incremental annual revenue increase for 2026 of $103.6 million and a net incremental annual revenue increase of $96.9 million. The difference arises from the company's proposal to transfer approximately $6.7 million of revenue requirements related to Rider CI/BSR investments into base rates and to reset the Rider CI/BSR surcharge, which is discussed earlier in my testimony and shown in Document No. 5 to my exhibit.

Q. Please explain how you calculated the company's proposed 2026 revenue requirement and revenue deficiency?

A. The derivation of the company’s projected 2026 revenue deficiency is summarized in MFR Schedule G-5. I determined the 2026 revenue deficiency by multiplying the projected test year rate base by the proposed overall rate of return to arrive at the NOI required. I then compared the required 2026 NOI and the forecasted 2026 NOI to identify the 2026 NOI deficiency. I then multiplied the 2026 NOI deficiency by the NOI Multiplier, which accounts for income tax gross-ups, bad debt expense, and regulatory assessment fees, to determine the forecasted base revenue deficiency.

Q. What revenue expansion factor or NOI multiplier, including the appropriate elements and rates, should be approved for the 2026 test year?

A. As shown on MFR Schedule G-4, the Commission should approve a revenue expansion factor and NOI Multiplier of 0.740704 and 1.3501, respectively, for the 2026 test year based on the following elements and rates: regulatory assessment fee (0.5 percent), bad debt rate (0.2830 percent), state income tax rate (5.5 percent) and federal income tax rate (21.0 percent).

Q. Why is the company’s proposed 2026 incremental revenue increase needed?

A. The total $103.6 million revenue increase is necessary for Peoples to: (i) continue to provide safe and reliable natural gas distribution service at customer service levels its customers have come to expect; (ii) maintain the company's financial integrity and access to reasonably priced debt capital while funding investments to serve customers; and (iii) have the opportunity to earn a fair return on its investment. Witness Chronister explains these and other reasons for our rate increase request in his direct testimony.

Q. What amount of annual operating revenue increase should be approved for the 2026 test year?

A. The Commission should approve the $103.6 million annual operating revenue increase for the 2026 test year as shown on MFR Schedule G-5. This reflects moving $6.7 million of Rider CI/BSR-related revenues into base rates, as discussed earlier in my testimony.

Q. Should Peoples be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

A. Yes.

IX. SUMMARY

Q. Please summarize your prepared direct testimony.

A. My testimony supports the company's proposed 2026 projected test year for ratemaking purposes. I discussed the 2025 and 2026 budgeting process used to develop the operating and capital expenditures necessary to safely and reliably serve Peoples' customers. I presented the calculation and adjustments used in determining the company's 2026 test year revenue requirement, as well as the methodology for transferring Rider CI/BSR revenue requirements to base rates. I supported and discussed the company's Rate Base, Capital Structure, Cost-Of-Capital, Net Operating Income, Revenue, O&M Expense, and Income Taxes. I also explained the adjustments and regulatory accounting treatments being carried forward from prior rate proceedings.

Peoples requests a base revenue increase of $103.6 million, or an incremental amount of $96.9 million after considering the transfer of $6.7 million related to Rider CI/BSR, effective the first billing cycle of January 2026. This proposed increase is critically important to enable the company to maintain its financial integrity and support the growth of Florida while continuing to provide safe, reliable, responsible, and efficient service and to meet customer expectations.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

EXHIBIT

OF

ANDREW NICHOLS

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Peoples Gas System, Inc.
2025 and 2026 Capital Budget

Project/Spend Type	2024 Actual	2025 Budget	2026 Budget
New Revenue Mains	$ 55,330,502	$ 59,575,821	$ 87,353,788
New Revenue Mains - AFUDC	431,351	-	-
New Revenue Services	64,553,998	63,907,851	62,695,336
New Revenue Meters and Regulators	29,402,109	25,710,006	24,641,602
New Revenue Measuring and Regulation Station Equipment	2,257,555	983,781	1,810,783
CNG & RNG Interconnection Pipeline	6,296,823	25,541,419	9,473,633
Total Growth	**158,272,338**	**175,718,879**	**185,975,142**
Distribution System Improvements	3,960,693	22,376,667	60,670,453
Main Replacements	19,409,453	23,513,793	25,776,018
Main Replacements - Downtown Tampa - AFUDC	-	4,308,651	27,600,000
Service Line Replacements	6,788,806	14,496,694	14,364,228
Municipal Improvements	16,453,319	18,325,584	16,303,268
Municipal Improvements - US 98 Relocation - AFUDC	23,843,996	5,872,059	-
Meters and Regulators	3,634,050	4,529,431	3,474,356
AMI Pilot	-	2,200,000	4,000,000
Measuring and Regulation Station Equipment	343,479	1,899,102	17,048,696
Measuring and Regulation Improvements	-	-	150,000
Cathodic Protection	2,850,639	2,294,169	2,719,400
Improvements to Property	2,831,019	4,133,428	13,025,168
PGS Project Tampa Building - AFUDC	31,841,875	14,753,518	-
Communication Equipment	41,153	13,000	13,000
Misc. Non-Revenue Producing	41,685	-	-
Office Equipment	246,023	596,095	518,000
Power Operated Equipment	434,707	876,000	1,239,560
Testing and Measuring Equipment	825,779	657,629	610,264
Tools and Shop Equipment	1,016,619	787,700	1,040,692
Transportation Vehicles	8,268,951	4,617,425	6,500,000
Technology Projects	5,173,014	14,391,429	21,880,000
Technology Projects (Shared)	3,459,766	3,874,506	7,365,636
Total Reliability, Resiliency, and Efficiency	**131,465,027**	**144,516,881**	**224,298,739**
Cast Iron/Bare Steel Pipe Replacement	7,593,574	4,535,613	3,919,350
Problematic Plastic Pipe Replacement	16,802,030	32,014,587	60,437,371
Total Legacy	**24,395,604**	**36,550,200**	**64,356,720**
TOTAL	**$ 314,132,968**	**$ 356,785,959**	**$ 474,630,601**

Business Area	2024 Actual	2025 Budget	2026 Budget	Witness
Gas Operations Capital Projects	$ 44,320,477	$ 62,737,202	$ 79,262,157	O'Connor
Engineering, Construction and Technology Capital Projects	236,830,773	277,282,240	392,497,444	Richard
Customer Experience Enhancement Projects	1,139,844	2,013,000	2,871,000	Washington
Corporatate Headquarters Project	31,841,875	14,753,518	-	Nichols
	$ 314,132,968	**$ 356,785,959**	**$ 474,630,601**	

Peoples Gas System, Inc.
Operating & Maintenance Expense Summary
($ in 000s)

		Actual 2024	Budget 2025	Budget 2026
1	Operations	$ 55,290	$ 55,693	$ 59,972
2	Engineering	9,105	9,926	13,680
3	Pipeline Safety and Operational Services	5,297	6,226	7,857
4	Customer Experience	12,632	14,959	15,364
5	Marketing	7,534	8,479	9,255
6	Business Development	1,942	1,598	1,814
7	Information Technology and Technology Support	18,487	18,936	21,559
8	Corporate / Support	35,396	37,704	39,966
9	Modified Massachusetts Methodology ("MMM") Allocation	2,711	3,527	4,851
10	Benefits and Incentive Compensation	29,031	31,933	36,485
11	Less: A&G Capitalized	(18,349)	(20,900)	(23,700)
12	Less: Benefits Loading of Labor in Cost Centers	(20,798)	(22,513)	(25,669)
13	Total O&M expense per detailed budget *	$ 138,278	$ 145,568	$ 161,434
14	Difference or "Unreconciled budget items" **	-	75	(51)
15	Total O&M expense calculated on MFR Schedule G-2, pages 12-19, excluding "Unreconciled budget items"	$ 138,278	$ 145,643	$ 161,383
16	% Difference - MFR calculation and detail budget	0.000%	0.05%	-0.03%

** Excludes pass through energy conservation clause O&M expense . Data is before surveillance adjustments.*

*** The "Unreconciled budget items" represents the difference between the detailed budget and the trended FERC O&M calculated on MFR Schedule G-2, pages 12-19. The Unreconciled budget items are included in FERC account 930.2 on MFR Schedule G-2, page 18a, to tie to the detail O&M budgets.*

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 20250029-GU
EXHIBIT NO. AN-1
WITNESS: NICHOLS
DOCUMENT NO. 4
PAGE 1 OF 16
FILED: 03/31/2025

A&G Capitalization Study

Peoples Gas System

August 30th, 2024

Bringing Ingenuity to Life
paconsulting.com

Contents

Executive Summary

Corporate services providers, which typically charge their time and expenses to Administrative and General ("A&G") accounts, play an important role in a utility's construction program. Activities ranging from planning and budgeting for capital expenditures and raising new capital to finance the expenditures to recruiting and training a workforce to perform the construction work, processing invoices, providing risk management and insurance services for construction work, auditing the work, and completing the property accounting activities to close work orders – among others – are all essential elements of successful construction projects. Further, active involvement in the construction program by executive management to provide leadership and oversight are also important elements of a successful construction program.

Accounting for construction project related costs properly is important. Understanding the full cost of a project provides important information to all involved in the process and charging appropriate amounts of A&G costs to capital contributes to intergenerational equity among customers.

PA Consulting ("PA") was retained by Peoples Gas System ("PGS" or the "Company") to perform the 2024 A&G capitalization study ("Study"). The objective of this study was to determine the dollar amount of A&G costs incurred in support of construction activities and eligible to be capitalized ("A&G Pool") for FY 2024. Once established, the A&G Pool is then applied to individual capital projects as an overhead cost. On a monthly basis, administrative and general expenses applied to individual capital projects are credited to Uniform System of Accounts ("USoA") Account 922 consistent with commonly accepted industry practices and Federal Energy Regulatory Commission ("FERC") / National Association of Regulatory Utility Commissioners ("NARUC") guidance.

The study that PA performed included an analysis of labor expenses charged to FERC account 920 - Administrative and General Salaries as well as non-labor expenses charged to other A&G accounts, including costs direct charged or allocated by Emera and TECO, to determine the extent to which these expenses relate to construction activities. Consistent with the direction provided by both FERC and NARUC, we used a combination of cost center surveys and statistical analyses to develop our estimates of the percentage of labor and non-labor expenses that support construction activities.

Based on the results of this study, PA identified $18.35 million of administrative and general expenses related to construction activities.

While we expect the pool of A&G costs to be capitalized to vary from period to period based on levels of construction activity, the nature of A&G costs suggests that these costs are both fixed and variable. Therefore, the amount to be capitalized in the future should not vary from period to period in direct proportion to changes in construction activity, as the company anticipates future capital programs.

We believe the results of the Study are reasonable and align with observed industry practices based on our understanding of the Company's organizational structure and level of construction activity; our experience with regulated utilities and their parent companies throughout North America; our understanding of FERC regulatory accounting (i.e., the USoA); and our understanding of similar practices at other North American regulated utility companies. On a go forward basis, we recommend the Company review the results of this capitalization study annually and update the A&G capitalization pool as needed to reflect any significant changes in operating activities, organizational structures, costs, and cost drivers.

1 Background and Framework

1.1 Study Background

PA was retained by PGS to identify the level of support currently provided by corporate (i.e., administrative and general) resources to construction activities and develop an updated A&G capitalization pool based on the current cost of providing that support. The A&G capitalization pool is applied to individual capital projects through the Company's existing A&G capitalization overhead process.

The A&G overhead process is the mechanism PGS uses to assign an appropriate portion of administrative and general costs to construction work orders. Administrative and general costs such as finance, accounting, human resources, procurement, legal, information technology, and executive management, all make important contributions to the efficiency and effectiveness of the Company's construction program. The loading of a portion of the A&G costs on construction work orders is an appropriate recognition of these contributions.

1.2 Our Framework

PA's approach to completing the Study is based on regulatory guidelines. Our guiding principle for determining if costs can be capitalized includes all "costs which would not be incurred if construction were not undertaken," and not just those costs directly assigned to projects. The basis of that opinion is guidance by both the FERC and NARUC Uniform Systems of Accounts.

Utility Plant Instruction No. 3 included in the Uniform System of Accounts states:

> *(12) General administration capitalized includes the portion of the pay and expenses of the general officers and administrative and general expenses applicable to construction work.*

Utility Plant Instruction No. 4 included in the Uniform System of Accounts states:

> *A. All overhead construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision by others than the accounting utility, law expenses, insurance, injuries and damages, relief and pensions, taxes and interest, shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such*

> *costs and that the entire cost of the unit, both direct and overhead, shall be deducted from the plant accounts at the time the property is retired.*
>
> *B. As far as practicable, the determination of pay roll charges includible in construction overheads shall be based on time card distributions thereof. Where this procedure is impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities to the end that only such overhead costs as have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted.*
>
> *C. The record supporting the entries for overhead construction costs shall be so kept as to show the total amount of each overhead for each year, the nature and amount of each overhead expenditure charged to each construction work order and to each utility plant account, and the bases of distribution of such costs.*

Interpretation No. 59 of the NARUC USoA states:

> *IN GENERAL, IT IS BELIEVED THAT THE INCREMENTAL COST BASIS IS THE PREFERRED METHOD OF DETERMINING AMOUNTS OF ADMINISTRATIVE AND GENERAL EXPENSES WHICH SHOULD BE CAPITALIZED. UNDER THIS METHOD ONLY THE COSTS SPECIFICALLY INCURRED FOR CONSTRUCTION - COSTS WHICH WOULD NOT BE INCURRED IF CONSTRUCTION WERE NOT UNDERTAKEN - ARE CHARGEABLE TO CONSTRUCTION. THE USE OF THIS PLAN WILL AVOID THE EFFECT OF SHOWING GREATER NET INCOME MERELY BECAUSE OF INCREASED CONSTRUCTION WORK. WHERE THE INCREMENTAL COST BASIS IS NOT EMPLOYED, GENERAL AND ADMINISTRATIVE EXPENSES CAN PROPERLY BE DISTRIBUTED TO CONSTRUCTION ONLY IF STUDIES ARE MADE TO DETERMINE THE AMOUNTS THEREOF WHICH RELATE TO CONSTRUCTION ACTIVITIES. IN THE CASE OF COMPENSATION FOR PERSONAL SERVICES, SUCH STUDIES SHOULD BE BASED UPON TIME RECORDS OR PERIODIC SURVEYS OF THE ACTIVITIES OF EMPLOYEES. WHERE DAILY TIME REPORTS ARE NOT IN EFFECT, PERIODIC STUDIES SHOULD BE MADE AT LEAST ONCE A YEAR AND MORE FREQUENTLY IF CONSTRUCTION ACTIVITIES FLUCTUATE CONSIDERABLY. SUCH STUDIES SHOULD SHOW EACH EMPLOYEE'S ACTIVITIES AND THE PROPORTION OF HIS TIME WHICH IS INCLUDIBLE IN CONSTRUCTION ACCOUNT. WHERE THE EXPENDITURES RELATE TO OTHER THAN COMPENSATION FOR PERSONAL SERVICES, IT MUST BE SHOWN (1) THAT THE EXPENDITURE HAS A RELATIONSHIP TO CONSTRUCTION ACTIVITIES AND (2) THAT A REASONABLE BASIS HAS BEEN EVOLVED FOR DETERMINING THE AMOUNT OF PROPORTION PROPERLY CAPITALIZABLE. IN NO EVENT IS IT PERMISSABLE TO ASSIGN TO CONSTRUCTION A PROPORTION OR PERCENTAGE OF A PARTICULAR CLASS OF EXPENDITURES WITHOUT FIRST HAVING ESTABLISHED THE RELATIONSHIP OF THE EXPENDITURES IN QUESTION TO CONSTRUCTION WORK.*
>
> *THE RECORDS SUPPORTING ALLOCATIONS OF ADMINISTRATIVE AND GENERAL EXPENSES TO CONSTRUCTION SHOULD; THEREFORE, SHOW (1) THE RELATIONSHIP OF THE PARTICULAR FUNCTION TO CONSTRUCTION ACTIVITIES, (2) THE PROPORTION OF EACH EMPLOYEE'S TIME OR EACH PARTICULAR EXPENDITURE ALLOCABLE TO CONSTRUCTION, AND (3) THE METHOD OF DETERMINING (2), THAT IS TIME STUDIES, DAILY TIME REPORTS, ETC.*

While the following list is not exhaustive, examples of A&G activities that may be attributed to construction in PA's opinion include:

- Providing leadership regarding capital expenditure resource allocation decisions and spend levels (i.e., senior executives)
- Developing long-term plans and forecasts of capital expenditures

- Developing capital budgets
- Processing, validating, correcting timecards with charges to construction projects
- Processing, validating, correcting vouchers for charges to construction projects
- All tasks associated with closing construction and retirement work orders
- Monitoring actual expenditures compared to budget for capital expenditures and explaining budget variances
- Recruiting and hiring employees performing construction activities
- Labor negotiations for represented employees performing construction activities
- Providing insurance coverage for construction activities
- Auditing construction activities
- Workers comp claims for field workers
- Time spent arranging financing for capital projects
- Legal work for construction contracts
- Land rights legal work
- Manage IT infrastructure (e.g., networks, telecommunications, computer hardware, etc.) and information systems directly or indirectly supporting construction
- Time spent by Procurement on capital related projects
- Time devoted to Resource Planning, Scheduling and Dispatching related to capital projects
- Directing and supervising employees with responsibilities for any of the above

To ensure completeness and accuracy in our review, we considered the work performed by all A&G departments and employees whose labor and expenses are ultimately charged to an A&G account in the FERC / NARUC Uniform System of Accounts.

2 Approach

2.1 Introduction

The objective of this Study was to calculate the dollar amount of administrative expenses that are construction related (i.e., the A&G capitalization cost pool) consistent with FERC and NARUC guidance and commonly accepted industry practices based on an assessment of current practices.

PA's approach used to complete the 2024 A&G Capitalization Study was to develop a "periodic survey" as provided for under Interpretation No. 59 of the NARUC USoA. The survey asks for a description of the activities performed by each department, a description of the activities that are construction related, and the percentage of productive time by employee class that are construction-related. The guidance we provided during our training sessions prior to the distribution of the survey was that the cost center managers consider the question "What A&G work and/or costs would be eliminated if the construction program were eliminated?" when identifying construction-related activities. If no construction-related activities are identified, then the question should be answered "None", and none of their salaries and expenses will be included in the pool of A&G costs to be capitalized.

To complete the assessment of the support provided by PGS's administrative and general cost centers for construction activities, PA undertook the below actions which are further detailed in Our Approach section below:

- Determine costs and cost centers considered "in-scope"
- Provide training to survey participants
- Develop and distribute survey templates and instructions
- Provide ad-hoc support to survey participants
- Determine cost centers better suited for a statistical study approach
- Collect surveys and verify data
- Model the survey and statistical results using five months of 2024 actuals and 7 months of forecast to develop the final A&G capitalization cost pool.

2.2 Our Approach

The completion of the 2024 A&G Capitalization Study was a collaborative effort between PA Consulting (PA) and the PGS team led by the Controller and VP of Finance. Together, the team performed the following 8 steps in completing this Study.

STEP 1: DETERMINE COSTS AND COST CENTERS CONSIDERED "IN-SCOPE"

The Study included cost centers within PGS whose employees predominantly charge their time to A&G accounts, as well as administrative functions at both Emera and Tampa Electric Company whose apportioned costs to PGS are recorded to an A&G account. These cost centers include most traditional Administrative and General functional areas. Cost centers for which some employee time was charged to A&G were excluded from the scope of this analysis based on their limited use of Account 920, and predominant use of non-A&G accounts.

STEP 2: DEVELOP AND DISTRIBUTE A&G CAPITALIZATION STUDY SURVEY

For each in-scope cost center, we needed to develop an estimate of the annual percentage of work activity performed by that cost center in support of construction. In order to facilitate the collection of that information we developed a survey designed to collect the required information. Prior to distributing the surveys, PA provided training sessions to cost center leads to explain the rationale for the study and provide an overview of the survey process and requested data points. The survey was designed to be completed by every Cost Center head for each full-time PGS employee, within their Cost Center, who was considered within the scope of the project. These surveys were used to collect information about the nature of an individual's work activity during calendar 2024. The survey template included fields to provide basic identifying information in addition to the portion of time spent on construction related activity in 2024. Each survey was accompanied by a set of instructions that describe the overall process for completing the survey. A brief overview of what the survey included is summarized below. Appendix A provides a sample of the full survey template.

- Describe the responsibilities and activities performed by the Cost Center;
- Describe the activities performed in the Cost Center that are in support of construction;
- For each employee within the Cost Center, provide the percentage of productive time spent supporting construction as well as the basis for the percentage provided; and,
- Identify non-labor costs by Cost Center and the percentage of these costs that relate to construction activities.

A NOTE ON SEACOAST AND TECO PARTNERS

Seacoast Gas Transmission LLC ("SGT") and TECO Partners, Inc. ("TPI") are related entities with Peoples Gas System, Inc. SGT, TPI, and PGS provide and receive services to / from one another under the Emera umbrella. Because we were performing a survey of PGS personnel, we embedded within the survey a series of questions to understand the extent of services provided by PGS A&G personnel to both SGT and TPI. The information gathered as it related to time spent on SGT and TPI including direct charging of time was intended to be used only as a reference point for PGS in future planning and analysis.

STEP 3: ADMINISTER, COLLECT, AND VALIDATE THE SURVEY RESULTS

PA answered questions raised by the Cost Centers as they completed the survey, performed a quality assurance review of survey responses, and compiled the completed results. Completed surveys were reviewed by both PA and the PGS Controller to ensure that the instructions were followed and that the "percentage of productive time spent on construction" appeared reasonable based on the activities described, our understanding of the work activities of the department, and prior study results. In some instances, this required follow-up meetings with the cost center managers.

STEP 4: IDENTIFY COST CENTERS SUITED FOR STATISTICAL ANALYSIS

For some administrative and general functions, identifying the percentage of time in support of construction requires the use of statistical techniques. For example, Accounts Payable (under the General Accounting cost center) employees cannot reasonably track time spent processing construction-related vouchers due to the significant volume of transactions processed. Accordingly, to determine the Accounts Payable capitalization rate, we identified the number of vouchers processed that are construction-related compared to the total number of vouchers processed to calculate the percentage of time spent of construction-related activities. Similarly, certain Human Resources and Information Technology functions provide support to the entire organization and distinguishing the level of resources required to support construction work versus non-construction cannot be done meaningfully through a time survey process. In these cases, the use of appropriate statistical methods tailored to the services provided was used in the Study.

STEP 5: CALCULATE CONSTRUCTION-RELATED PERCENTAGES BY COST CENTER

The percentage of time spent on construction activities for each cost center was based on survey responses and statistical analyses. PA calculated the construction-related percentage for each Cost Center based on a simple average of time spent supporting construction for each of the employees within the Cost Center using the capitalization percentages provided in the survey results.

As described above, for those cost centers for which we used a statistical approach, we developed appropriate cost causative capitalization percentages based on statistical data provided by the Company.

For PGS's IT department, the calculation of the amount of IT labor and non-labor costs included in the A&G capitalization cost pool was based on analysis of who benefited from the IT services and/or systems.

To determine the capitalization amount of Emera/TECO costs apportioned to PGS, PA reviewed a detailed breakdown of the costs charged from Emera/TECO to PGS.

1. For services provided to PGS by TECO's IT department, the calculation of the amount of labor and non-labor costs included in the A&G capitalization cost pool was based on analysis of who benefited from those services and/or systems (similar to the approach used for PGS's IT department).
2. For those services provided by Emera to PGS, PA worked with the PGS team to determine the extent to which those services provided support to construction activities. We then applied an appropriate capitalization rate in calculating the portion of the cost of services provided by Emera to be included in the A&G capitalization cost pool.
3. For all other services provided by TECO including, for example, Accounts Payable, Corporate Accounting and Treasury, we used appropriate cost drivers for the services provided, including the completion of the capitalization survey form by TECO employees, as appropriate, to identify those costs to be included in the A&G capitalization cost pool.

STEP 6: APPLY COST CENTER PERCENTAGES TO LABOR CHARGES (INCLUDING PAYROLL BENEFITS AND TAXES LOADINGS)

PA applied the weighted average percentages of time spent on construction activities by cost center to the A&G labor amounts. For each cost center, these amounts included direct labor, benefits, and payroll taxes.

STEP 7: APPLY CONSTRUCTION-RELATED PERCENTAGES TO NON-LABOR COSTS

To the extent specific construction-related percentages were provided in the survey response for individual non-labor charges, PA applied these percentages to the individual cost items. For all other significant non-labor costs identified in the cost center reports, we applied the calculated percentages of time spent on construction activities by Cost Center or percentages developed using statistical analyses to the remaining non-labor amounts for each Cost Center.

STEP 8: CALCULATE TOTAL POOL OF CONSTRUCTION-RELATED A&G COSTS

The amounts of A&G costs associated with construction activity were compiled to calculate the total pool of construction-related A&G costs.

3 Results and Discussion

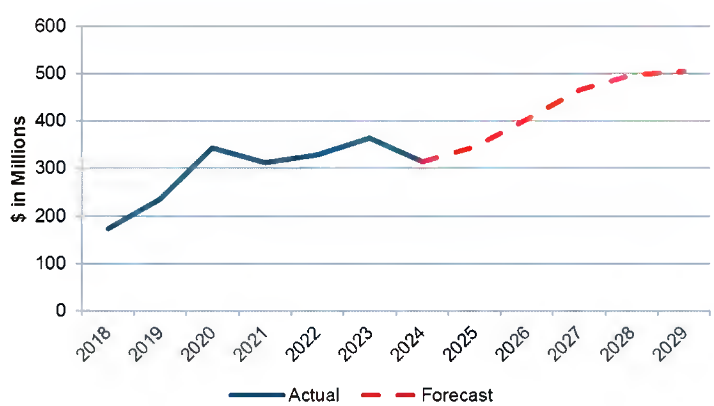
3.1 Introduction

Based on results of the completed fiscal year 2024 A&G Capitalization Study, PA identified $18.35 million dollars in capitalizable A&G costs. Consistent with the FERC / NARUC Uniform System of Accounts, costs from this A&G cost pool will be credited to account 922 and charged to specific capital projects based on direct charges to these specific capital projects during the accounting period.

As can be seen in the following chart, capital expenditures have increased significantly from 2019, the date of the prior study, and are expected to continue through the end of the forecast period.

While we expect the pool of A&G costs to be capitalized to vary from period to period based on levels of construction activity, the nature of A&G costs suggests that these costs are both fixed and variable. Therefore, the amount to be capitalized in the future should not vary from period to period in direct proportion to changes in construction activity, as the company anticipates future capital programs as illustrated in **Figure 1** below.

Figure 2: Peoples Gas – Trend in CapEx



3.2 Summary of Results and Impact

As discussed in the methodology chapter of this report, we applied labor capitalization and non-labor capitalization percentages to costs within the A&G accounts to determine total dollars to be included in the A&G capitalization cost pool for 2024 based on our analysis of five months actuals and seven months forecasted calendar year 2024 costs. The following table presents the percentages of departmental resources spent in support of construction activities by A&G Cost Center based on the study results.

A&G Cost Center Description	A&G Capitalization Cost Pool Percentage[1]
CC_390010 - PGS Regional Affairs - Southeast	27 1%
CC_390030 - PGS Regional Affairs - Southwest	27.1%
CC_390040 - PGS Regional Affairs - Northeast	27.1%
CC_390050 - PGS Regional Affairs - Tampa	27.1%
CC_390080 - PGS Regional Affairs - Orlando	27.1%
CC_390100 - CRP Procurement	9.0%
CC_390120 - CRP Risk Management	14.0%
CC_390140 - CRP Human Resources	32.8%
CC_390170 - CRP Legal	48.3%
CC_390190 - PGS Supply Chain	57.8%
CC_390200 - CRP General Accounting	48.8%
CC_390240 - CRP Regulatory	24.8%
CC_390280 - CRP Settlements Acc	0.0%
CC_390300 - CRP Marketing-PGS	5.0%
CC_390350 - PGS Communications & Marketing	0.0%
CC_390415 - Technical & Operations Standards	0.0%
CC_390430 - Tech Services	0.0%
CC_390435 - Strategy & Innovation	30.2%
CC_390444 - Work & Capital Management	0.0%
CC_390480 - Emergency Management	26.6%
CC_390481 - Pipeline Ops Compliance	0.0%
CC_390490 - Damage Prevention	16.1%
CC_390491 - Technology Support	42.9%
CC_390505 - OPS Operations Processes	0.0%
CC_390506 - Sustainable Operations	8.3%
CC_390540 - Safety	18.2%
CC_390600 - CRP Info Tech-IT	39.1%
CC_390601 - CRP Telecom Services	29.4%
CC_390605 - CRP Facilities	21.8%
CC_390690 - Shared Info Tech-IT	25.3%

[1] Note: Some of the cost centers with 0% subject to an A&G allocation listed here charge costs to the Engineering & Supervision (E&S) overhead work order as their activities are more directly supporting construction activities.

CC_390900 - CRP Executive	21.8%
CC_390903 - CRP Shared-Insurance, dues, etc. (primarily short-term incentive comp)	25.8%
CC_390906 - Benefits	11.0%
CC_397210 - Commercial Development & Fuels	0.0%
2024 A&G Capitalization Percentage	**25.28%**

The survey results and non-labor expense analysis indicate the following dollar amounts should be included in the A&G capitalization cost pool for 2024 based on the percentages shown in the immediately preceding table. For some cost centers shown below, construction-related time is directly charged to the Engineering and Supervision capital clearing account. In these instances, any cost center expenses remaining in A&G were not considered for capitalization through the A&G capital clearing account process.

A&G Cost Center Description	Total A&G Costs	A&G Capitalization Cost Pool Amounts
CC_390010 - PGS Regional Affairs - Southeast	$1,610,132	$437,036
CC_390030 - PGS Regional Affairs - Southwest	$14,438	$3,919
CC_390040 - PGS Regional Affairs - Northeast	$63,684	$17,286
CC_390050 - PGS Regional Affairs - Tampa	$25,014	$6,789
CC_390080 - PGS Regional Affairs - Orlando	$72,802	$19,761
CC_390100 - CRP Procurement	$654,100	$58,807
CC_390120 - CRP Risk Management	$8,666,142	$1,210,751
CC_390140 - CRP Human Resources	$2,767,509	$907,936
CC_390170 - CRP Legal	$2,566,294	$1,239,586
CC_390190 - PGS Supply Chain	$925,661	$534,826
CC_390200 - CRP General Accounting	$5,430,595	$2,651,405
CC_390240 - CRP Regulatory	$973,233	$241,338
CC_390280 - CRP Settlements Acc	$45,701	$0.00
CC_390300 - CRP Marketing-PGS	$965,336	$48,267
CC_390350 - PGS Communications & Marketing	$394,198	$0.00
CC_390415 - Technical & Operations Standards	$109,439	$0.00
CC_390430 - Tech Services	$82,862	$0.00
CC_390435 - Strategy & Innovation	$1,256,477	$379,188
CC_390444 - Work & Capital Management	$47,602	$0.00
CC_390480 - Emergency Management	$129,785	$34,582
CC_390481 - Pipeline Ops Compliance	$928,669	$0.00
CC_390490 - Damage Prevention	$1,851,305	$297,355

CC_390491 - Technology Support	$2,008,167	$861,829
CC_390505 - OPS Operations Processes	$2,752,598	$0.00
CC_390506 - Sustainable Operations	$936,596	$78,050
CC_390540 - Safety	$2,083,144	$379,257
CC_390600 - CRP Info Tech-IT	$4,679,076	$1,828,968
CC_390601 - CRP Telecom Services	$626,542	$184,347
CC_390605 - CRP Facilities - Final	$1,064,486	$231,538
CC_390690 - Shared Info Tech-IT	$7,624,629	$1,931,554
CC_390900 - CRP Executive (900)	$5,527,221	$1,204,172
CC_390903 - CRP Shared-Insurance, dues, etc. (short-term incentive comp) (903)	$14,270,772	$3,674,756
CC_390906 - Benefits	$(1,035,356)	$(113,885)
CC_397210 - Commercial Development & Fuels	$2,468,689	$0.00
A&G 2024 Capitalization Total	**$72,587,541**	$18,349,419

3.3 Conclusion

PA believes the above approach is both auditable and replicable, that the approach is consistent with regulatory requirements and industry practices, and that the results are within utility industry norms for administrative and general costs in support of construction programs.

On a going forward basis, we recommend the Company review the results of the capitalization study annually and update the A&G capitalization cost pool as needed to reflect changes in operating and construction activity, organizational structures, and costs.

Appendix A – Survey Tool Template

Part 1 – Description of Cost Center Functions

	Response
Cost Center Number:	
Cost Center Name:	
Name and Title of Individual Completing the Survey:	
Date Completed:	
Describe in detail the responsibilities of and activities performed by the cost center.	
Describe the activities performed that are related to services provided to TECO Partners and / or Seacoast Gas Transmission (Seacoast), if any or "N/A".	
Are any of these activities direct-charged to TECO Partners or Seacoast, if any?	
Describe the activities performed that are PGS capital program-related.	
Are any of these activities direct-charged to PGS-specific capital work orders?	

Part 2 – A&G Labor Not Directly Charged to Affiliates or Specific Capital Projects

In this section of the survey, please identify the percentage of time not direct charged to affiliates or specific capital projects by category shown below based on work activities completed during the first five months of 2024 and expected to be completed during the remaining seven months of 2024.

Please refer to the "2024 Cost Center Cost Detail" tab for the total non direct charged expenses of this cost center.

Portions that are direct charged to capital or TPI/SGT should NOT be considered productive time and excluded from the time reported in the table below.

Position Description (Please add as many rows as needed)	Number of Employees by Position in the 2024 Budget	Percent of Productive Time Spent on Services Provide to Seacoast	Percent of Productive Time Spent on Services Provide to TECO Partners	Percent of Productive Time Spent on Capital Program Activities	Percent of Productive Time Spent on Other Activities	Total (should equal 100%)	Describe Bases for Determining the Percentages Reported. Attach supporting documentation as appropriate.

Part 3 - Non-Labor Charges

For all significant non-labor charges in your cost center budget (excluding employee-related expenses such as office supplies, travel, training and subscriptions), please provide the detail shown in the table below.

Vendor	Description	Total Amount	Capital program-related Percentage	Describe in detail the basis used to determine the amounts that are capital-related. Attach supporting documentation as appropriate.

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About PA.

We believe in the power of ingenuity to build a positive human future.

As strategies, technologies, and innovation collide, we create opportunity from complexity.

Our diverse teams of experts combine innovative thinking and breakthrough technologies to progress further, faster. Our clients adapt and transform, and together we achieve enduring results.

We are over 4,000 strategists, innovators, designers, consultants, digital experts, scientists, engineers, and technologists. And we have deep expertise in consumer and manufacturing, defense and security, energy and utilities, financial services, government and public services, health and life sciences, and transport.

Our teams operate globally from offices across the US, UK, Ireland, Nordics, and Netherlands.

PA. Bringing Ingenuity to Life.

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FERC 922 - Capitalized A&G Credit Comparison of 2024 (Budget and Actual) to 2025 and 2026 Budget

		PA Consulting Conclusion					
	2024B [1]	**2024A [2]**	**Change**	**2025B**	**YoY**	**2026B**	**YoY**
A&G Cost Pool ($000's) [1], [2]	72,588	72,588		80,219	7,631	92,493	12,274
A&G (%) [3]	18.1%	25.3%	7.2%	26.1%	0.8%	25.6%	-0.4%
A&G ($000's)	13,125	**18,349**	5,224	**20,900**	2,551	**23,700**	2,800

Notes:

[1] 2024B had a solved A&G credit dollar amount per Order No. PGS-2023-0388-FOF-GU. However, it is not clear what total cost pool was used to determine the ~$13.1M amount. Therefore, for comparative purposes the 2024B and 2024A use the 2024 Q3F forecasted pool and the A&G percentage in 2024B is imputed.

[2] 2024A Cost Pool was an estimate based on 2024 Q3F (most available data at the time PA Consulting A&G study was conducted).

[3] Minor changes to the effective A&G percentage as this is a weighted average of all cost centers that attract the A&G credit. Therefore, as the proportion of dollars going into cost centers change year-over-year, it is reasonable to expect the total A&G percentage to change slightly.

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WITNESS: NICHOLS
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DOCKET NO. 20250029-GU
EXHIBIT NO. AN-1
WITNESS: NICHOLS
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Peoples Gas System, Inc.
Cast Iron/Bare Steel Replacement (CI/BSR) Revenue Requirement Transferred to Base Rates
Calculation of the Projected Amount for the Period
January 2026 to December 2026 Revenue Requirements
Return on Capital Investments, Depreciation and Taxes for Year End 2025 Cumulative Investments

Line	Description	Beginning of Period Amount	Budget January	Budget February	Budget March	Budget April	Budget May	Budget June	Budget July	Budget August	Budget September	Budget October	Budget November	Budget December	End of Period Total
1.	Investments														
	a. Eligible Replacements - Mains														$ -
	b. Eligible Replacements - Services		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	c. Eligible Replacements - Regulators		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	d. First $1,000,000 Adjustment to Rate Base		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	e. Clearings to Plant		$ 829,999	$ 622,500	$ 466,875	$ 350,156	$ 262,617	$ 196,963	$ 147,722	$ 110,792	$ 83,094	$ 62,320	$ 46,740	$ 35,055	$ 3,214,832
2.	Gross Plant-in-Service/Depreciation Base	$ 50,336,845	$ 51,166,845	$ 51,789,344	$ 52,256,219	$ 52,606,375	$ 52,868,992	$ 53,065,955	$ 53,213,677	$ 53,324,468	$ 53,407,562	$ 53,469,882	$ 53,516,622	$ 53,551,677	
3.	Less: Accumulated Depreciation	$ (276,407)	$ (352,515)	$ (429,868)	$ (508,156)	$ (587,143)	$ (666,655)	$ (746,562)	$ (826,764)	$ (907,187)	$ (987,777)	$ (1,068,492)	$ (1,149,299)	$ (1,230,177)	
4.	CWIP - NonInterest Bearing	$ 3,319,998	$ 2,489,998	$ 1,867,499	$ 1,400,624	$ 1,050,468	$ 787,851	$ 590,888	$ 443,166	$ 332,375	$ 249,281	$ 186,961	$ 140,221	$ 105,165	
5.	Net Book Value (Lines 2 + 3 + 4)	$ 53,380,436	53,304,328	$ 53,226,974	$ 53,148,687	$ 53,069,700	$ 52,990,187	$ 52,910,281	$ 52,830,079	$ 52,749,655	$ 52,669,066	$ 52,588,351	$ 52,507,544	$ 52,426,666	
6.	Average Net Book Value		$ 53,342,382	$ 53,265,651	$ 53,187,830	$ 53,109,193	$ 53,029,944	$ 52,950,234	$ 52,870,179	$ 52,789,867	$ 52,709,361	$ 52,628,708	$ 52,547,947	$ 52,467,104	
7.	Return on Average Net Book Value														
	a. Equity component Grossed up for taxes (A)		320,423	319,962	319,495	319,022	318,547	318,068	317,587	317,104	316,621	316,136	315,651	315,166	$ 3,813,782
	b. Debt component (B)		98,955	98,812	98,668	98,522	98,375	98,227	98,079	97,930	97,780	97,631	97,481	97,331	$ 1,177,791
			419,378	$ 418,774	$ 418,163	$ 417,544	$ 416,922	$ 416,295	$ 415,666	$ 415,034	$ 414,401	$ 413,767	$ 413,132	$ 412,497	$ 4,991,573
8.	Investment Expenses														
	a. Depreciation Expense		$ 76,108	$ 77,353	$ 78,287	$ 78,987	$ 79,513	$ 79,907	$ 80,202	$ 80,424	$ 80,590	$ 80,714	$ 80,808	$ 80,878	953,770
	b. Amortization		-	-	-	-	-	-	-	-	-	-	-	-	-
	c. Property Taxes (C)		$ 65,663	$ 65,663	$ 65,663	$ 65,663	$ 65,663	$ 65,663	$ 65,663	$ 65,663	$ 65,663	$ 65,663	$ 65,663	$ 65,659	$ 787,952
	d. Depreciation Savings		0	0	0	0	0	0	0	0	0	0	0	0	-
9.	Total Revenue Requirements (Lines 7 + 8)		561,149	$ 561,790	$ 562,113	$ 562,194	$ 562,098	$ 561,865	$ 561,531	$ 561,121	$ 560,654	$ 560,144	$ 559,603	$ 559,034	$ 6,733,295

Notes:
(A) Line 7a = Line 6 x 7.2083% x 1/12. Based on ROE of 11.10%, and weighted income tax rate of 25.345%, Net Operating Income Multiplier of 1.3501
(B) Line 7b = Line 6 x 2.2261% x 1/12
(C) Depreciation rates: 1.8% Mains Plastic, 2.4% Mains Steel, 3.1% Services Plastic, 4.3% Services Steel; 3.0% Regulator Station (prior: 1.6% Mains Plastic, 2.1% Mains Steel, 2.7% Services Plastic, 4.0% Services Steel, 2.7% Regulator Stations)
(D) Ad Valorem Tax Rate is 1.574%

Headquarters Evaluation
Summary of Analysis

	Plaza Lease	Plaza Purchase	Midtown Purchase
Total Capital	$154.7M	$216.9M *	$255.0M
Avg. Maintenance Capital	$0.6M	$0.6M	$0.1M
Average O&M	$10.4M	$8.8M	$3.6M
AFUDC Earned	-	-	$16.0M
Terminal Value Assumed	$0.0M	$62.2M	$255.0M
Financial Results:			
IRR	5.88%	6.10%	8.51%
NPV	($14.4M)	($13.0M)	$32.7M
Financial Impact to Customers:			
30 Year NPV of Revenue Requirement	$283.1M	$274.9M	$284.1M
60 Year NPV of Revenue Requirement	$331.8M	$325.4M	$345.6M

* includes $62.2M for Plaza purchase in 2044

Peoples Gas System, Inc. Portion

	Plaza Lease	Plaza Purchase	Midtown Purchase
Total Capital	$40.2M	$56.4M *	$66.3M
Avg. Maintenance Capital	$0.2M	$0.2M	$0.0M
Average O&M	$2.7M	$2.3M	$0.9M
AFUDC Earned	-	-	$4.2M
Terminal Value Assumed	$0.0M	$16.2M	$66.3M
Financial Results:			
IRR	5.88%	5.88%	8.51%
NPV	($3.7M)	($2.3M)	$8.5M
Financial Impact to Customers:			
30 Year NPV of Revenue Requirement	$73.6M	$71.5M	$73.9M
60 Year NPV of Revenue Requirement	$86.3M	$84.6M	$89.8M

* includes $16.2M for Plaza purchase in 2044

Peoples Gas System
IRS Pro-Rata Requirement
Account 282 (Method/Life)
Effective Date of Rate Change
1/1/2026

2026 Calculation of Internal Revenue Code Required Deferred Income Tax Adjustment

Month	Account	Year 2024 Monthly Change	Days To Prorate	Calendar Days In Future Test Period	Account 282 Prorated	Cumulative Prorated Balance	MFR 13 month Average	Prorata Adjustment
Annual Increase	282	($16,559,794)						
1/31/2026		($1,379,983)	335	365	(1,266,560)	(1,266,560)	(1,379,983)	
2/28/2026		($1,379,983)	307	365	(1,160,698)	(2,427,257)	(2,759,966)	
3/31/2026		($1,379,983)	276	365	(1,043,494)	(3,470,751)	(4,139,949)	
4/30/2026		($1,379,983)	246	365	(930,071)	(4,400,822)	(5,519,931)	
5/31/2026		($1,379,983)	215	365	(812,867)	(5,213,689)	(6,899,914)	
6/30/2026		($1,379,983)	185	365	(699,443)	(5,913,132)	(8,279,897)	
7/31/2026		($1,379,983)	154	365	(582,239)	(6,495,371)	(9,659,880)	
8/31/2026		($1,379,983)	123	365	(465,035)	(6,960,407)	(11,039,863)	
9/30/2026		($1,379,983)	93	365	(351,612)	(7,312,019)	(12,419,846)	
10/31/2026		($1,379,983)	62	365	(234,408)	(7,546,427)	(13,799,828)	
11/30/2026		($1,379,983)	32	365	(120,985)	(7,667,412)	(15,179,811)	
12/31/2026		($1,379,983)	1	365	(3,781)	(7,671,192)	(16,559,794)	
Total		$ (16,559,794)			$ (7,671,192)	$ (66,345,038)	$ (107,638,662)	
					Months	13	13	
					13 Month Average	(5,103,464)	(8,279,897)	3,176,433

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For the purpose of determining the maximum amount of Accumulated Deferred Income Taxes to be excluded from the rate base, or to be included as no-cost capital, Treasury Regulation 1.167(l)-1 requires the ADIT balance at the beginning of the future test period be adjusted by the pro rata portion of any projected monthly increase or decrease charged to this reserve. Per certain Private Letter Rulings, the pro ration begins in the month of the test year that the new rates are expected to take effect. The rulings also set forth a model for calculation of the adjustment. Failure to follow the normalization requirements under IRC section 167(l) for public utility property may result in the forfeiture of accelerated depreciation tax deductions.

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Peoples Gas System
2026 Test Year Reconciliation of Capital Structure to Rate Base
13-Month Average December 2026
($ in 000s)

DESCRIPTION	Adjustments L.T.DEBT	S.T.DEBT	DEPOSITS	EQUITY	DEF. TAX	All PRORATA	Investor PRORATA	NET
AVERAGE CAPITAL STRUCTURE (PER BOOKS)								$ 3,038,529
RECONCILING ITEMS:								
Investment in Subsidiaries				(1,168)				(1,168)
Temporary Cash Investments							(3)	(3)
Other Accounts Receivable							(1,199)	(1,199)
Accounts Receivable Associated Companies							(9,520)	(9,520)
Unamortized Debt Discount and Expense	(2,637)							(2,637)
Unamortized Rate Case Expense					(683)		(2,013)	(2,696)
Competitive Rate Adjustment					(1,443)		(4,250)	(5,693)
Dividends Declared				-				-
AFUDC - Eligible CWIP						(14,889)		(14,889)
Cast Iron/Bare Steel Rider (CI/BSR)					(6,987)	(20,579)		(27,566)
CI/BSR True-up		-						-
Unrecovered Gas Costs		-						-
Conservation True-Up		-						-
Property Held For Future Use				(1,940)				(1,940)
Common Plant Non-utility adjustments				(2,470)	(838)			(3,308)
RNG Alliance Non-utility adjustment							(13,468)	(13,468)
Deferred Tax Normalization					(3,176)		3,176	-
TOTAL RECONCILING ITEMS	(2,637)	-	-	(5,578)	(13,127)	(35,468)	(27,277)	(84,087)
AVERAGE RATE BASE (ADJUSTED)								$ 2,954,442

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Peoples Gas System
Revenue Summary
2024 Base Year to 2026 Test Year

AVERAGE NUMBER OF CUSTOMERS	Residential [1]	Commercial [2]	Industrial [3]	Off System Sales	Total
Actual 2024	459,486	40,656	53	4	500,199
Budget 2025	478,102	41,351	53	4	519,510
Budget 2026	495,986	42,059	53	4	538,102

TOTAL THERMS (X 1000)*	Residential [1]	Commercial [2]	Industrial [3]	Off System Sales	Total
Actual 2024	107,863	563,913	1,358,305	98,234	2,128,315
Budget 2025	110,478	564,839	1,281,247	65,700	2,022,265
Budget 2026	114,476	588,236	1,281,150	65,700	2,049,562

TOTAL BASE REVENUES, OSS AND OTHER OPERATING REVENUE ($ in 000s)*	Residential [1]	Commercial [2]	Industrial [3]	Off System Sales Margin	Other Operating Revenue [4]	Total [5]
Actual 2024	$178,680	$224,559	$39,219	$4,838	$13,883	$461,180
Budget 2025	$182,415	$223,229	$40,128	$2,607	$14,170	$462,549
Budget 2026	$189,361	$229,739	$39,956	$2,646	$14,654	$476,356

* Includes unbilled

(1) Includes rate schedules Residential Service 1-3 (RS1-3), Residential General Service 1-3 (GS1-3), Residential Standby Generator (RS-SG) and Residential Gas Heat Pump (RS-GHP)

(2) Includes rates schedules Small General Service (SGS), General Service 1-5 (GS1-5), Commercial Standby Generator (CS-SG), Natural Gas Vehicle (NGVS),Commercial Street Lighting (CSLS), Wholesale (WHS) and Commercial Heat Pump (CS-GHP)

(3) Includes rate schedules Small Interruptible Service (SIS), Interruptible Service (IS) and Large Volume Interruptible Service (ISLV) and Special Contracts

(4) Includes miscellaneous service revenue, late fees, revenues from gas plant leased to others (one CNG Station and Brightmark RNG facility), rent and other revenue. Excludes rent revenue related to Property Held for Future Use

(5) Reflects Operating Revenues included in adjusted Net Operating Income that excludes clause and rider revenue, franchise fees and gross receipts tax

2026 O&M BENCHMARK COMPARISON BY FUNCTION
2022 PRIOR HISTORICAL BASE YEAR TO 2026 TEST YEAR
Continuation of MFR Schedule C-34 calculations through 2024*

LINE NO.	FUNCTION	COL 1 2026 TEST YEAR O & M (MFR G-2, p. 19a) (CURRENT CASE)	COL 2 ADJUSTMENTS (MFR G-2, p. 2)	COL 3 ADJUSTED 2026 TEST YEAR O & M (MFR G-2, p. 1 total) (CURRENT CASE)	COL 4 12/31/2022 BASE YEAR ADJUSTED O & M (MFR C-36) (PRIOR CASE)	COL 5 COMPOUND MULTIPLIER THRU 2026[1]	COL 6 HISTORIC BASE YEAR BENCHMARK (COL 4 X 5)	COL 7 BENCHMARK VARIANCE (MFR C-38) (COL 6 - 3)
1	DISTRIBUTION	$51,700,494	($6,204)	$51,694,290	$41,247,171	1.3228	$54,560,635	$2,866,346
2	CUSTOMER ACCT. & COLLECT.	21,777,872		21,777,872	15,567,069	1.3228	20,591,695	(1,186,177)
3	CUSTOMER SVCE & INFORMATION	-		-	-	1.3228	-	-
4	SALES PROMOTION EXPENSE	10,109,143		10,109,143	9,000,367	1.3228	11,905,441	1,796,298
5	ADMINISTRATIVE & GENERAL	77,377,413	(179,371)	77,198,042	57,291,851	1.3228	75,784,103	(1,413,939)
6	OTHER EXPENSES	468,936		468,936	(724,696)	1.3228	(958,608)	(1,427,543)
7	TOTAL	$161,433,857	($185,576)	**$161,248,281**	$122,381,762		**$161,883,266**	**$634,985**
8	ADJUSTMENT - State Tax Reform Impact Amortization[2]				1,104,661		1,104,661	
9		$161,433,857	($185,576)	**$161,248,281**	$123,486,423		**$162,987,927**	**$1,739,646**

Totals may be affected due to rounding.

(1) See page 2 calculation of O&M Multiplier through 2026 using company's budget assumptions.
(2) Amortization of State Tax Reform impacts on NOI were amortized thru FERC account 407 (Other Expenses) and is a credit of $1,104,661 in 2022 (See MFR schedule G-2, page 19b, line 1 in Docket No 20230023-GU). Adjusting this credit out is appropriate for comparison purposes.

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2026 O&M BENCHMARK COMPARISON BY FUNCTION
O&M COMPOUND MULTIPLIER CALCULATION
2022 PRIOR HISTORICAL BASE YEAR TO 2026 TEST YEAR
Continuation of MFR Schedule C-37 calculations through 2026*

LINE NO.		TOTAL CUSTOMERS (AVERAGE)			AVERAGE CPI			INFLATION & GROWTH COMPOUND MULTIPLIER
	YEAR	AMOUNT	% INCREASE	A COMPOUND MULTIPLIER	AMOUNT	% INCREASE	B COMPOUND MULTIPLIER	(A X B)
1	2022	457,351		1.0000	292.7		1.0000	1.0000
2	2023	479,905	4.93%	1.0493	304.7	4.12%	1.0412	1.0925
3	2024	500,199	4.23%	1.0937	313.7	2.95%	1.0719	1.1723
4	2025 Budget**	519,510	**3.86%**	1.1359	*Budget Assumption*	**2.50%**	1.0987	1.2480
5	2026 Budget**	538,102	**3.58%**	1.1766	*Budget Assumption*	**2.33%**	1.1243	**1.3228**
6								

* Data for 2022 to 2024 per MFR Schedule C-37.
** 2025 and 2026 customer growth reflects revenue forecast (see Document No. 3 to Exhibit No. JED-1) and inflation is based Moody's Analytics forecast used to prepare 2025 and 20

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Peoples Gas System, Inc.
Justification of Non-Trended O&M FERC Accounts shown on MFR G-2, pages 19b and 19e
2024 Historical Base Year to 2026 Test Year

FERC Account	Item	2024	2026	Explanation
407	***Regulatory Debits and Credits***	$ 388,935	$ 388,936	In 2023, the Florida corporate income tax rate was increased to 5.5 percent from 3.535 percent in 2022. In the company's prior rate case proceeding the Commission allowed the company to amortize the approximate $1.2 million State Tax Reform NOI impact over a three-year period through O&M expense. As shown on MFR schedule G-2, page 19b, line 1, the company has used account 407.4 Regulatory Debits to amortize the State Tax Reform impact of $388,936 annually, which is consistent with the company's prior rate case proceeding.
904	***Uncollectible Accounts Expense***	$ 1,630,819	$ 1,815,103	The 2026 bad debt expense of $1,815,103 shown on MFR schedule G-2, page 19b, was based on the four-year average write-off percentage of 0.2830 percent as shown on line 4 of MFR schedule G-4. This approach is consistent with that used in the company's previous base rate proceedings.
912	***Demonstration & Selling Expense***	$ 8,383,821	$ 8,848,780	The Other not-trended amount shown on MFR schedule G-2, page 19b, reflects expected costs per the Marketing Services agreement between Peoples and its subsidiary TPI.
920	***Administrative & General Salaries***			As shown on MFR schedule G-2, page 19e, 3 positions totaling $133,503 of O&M expense are related to labor resources needed in the Finance area. This includes replacing an entry level co-op position that provides a vehicle for developing staff with industry knowledge, adding a Fixed Asset Accountant to help administer the plant accounting for the company's growing distribution system and volume of work orders, and adding a Business Planning Analyst to assist the growing operations areas in managing expenditures and budgeting. The Other non-trended item in FERC account 920 is a year 2024 legal expenditure that is not expected to be incurred in the future.
	- Payroll Not Trended	$ -	$ 133,503	
	- Non-recurring legal expenses	$ 518,678	$ -	
922	***Administrative Expense Transferred***			As discussed in my direct testimony, the budgeted amount of A&G expense transferred to construction costs in 2026 is $23.7 million versus $18.349 million in 2024. The 2024 actual amount reflects the PA Consulting Study conclusion, which is approximately $5.2 million greater than the $13.125 million amount approved by the Commission for the 2024 test year in the last rate case. As discussed in my testimony, for the 2026 Budget, the company consistently applied the PA Consulting methods and capitalized A&G expenses in the amount of $23.7 million. See Document No. 4 to my exhibit that includes a summary of the 2024-2026 Capitalized A&G amounts in this case and the 2024 Commission approved amount. Also as discussed in the testimony of witness Chronister, the total amount of allocated charges to Seacoast and TPI increased from $2.941 million in 2024 to $3.707 million in 2026.
	- Capitalized A&G	$ (18,349,149)	$ (23,700,000)	
	- Intercompany Allocation	$ (2,941,000)	$ (3,707,041)	
923	***Outside Service Employed***			The Other not trended increase in this account is primarily driven by approximately $0.8 million higher audit fees in 2026 primarily due to increased scope of audit work starting in 2025 related to reporting on effectiveness of Emera and its subsidiaries internal controls as required for U.S. publicly traded companies under Section 404 of Sarbanes-Oxley Act. In 2025, Emera plans to become dual listed on the Toronto Stock Exchange and New York Stock Exchange ("NYSE"). The stronger internal controls required to be listed on the NYSE will help the company be even more cost effective as we conduct our day-to-day business. Other increases include higher information technology ("IT") contractor costs in 2026 related to software systems discussed in witness Richard's direct testimony, and leadership development programs discussed in witness Bluestone's testimony. These increases are partially offset by approximately $350,000 of legal expenses incurred in 2024 that are not expected to be incurred in 2026.
	Audit fees	$ 534,000	$ 1,319,938	
	Non-recurring legal expenses	$ 349,575	$ -	

Peoples Gas System, Inc.
Justification of Non-Trended O&M FERC Accounts shown on MFR G-2, pages 19b and 19e
2024 Historical Base Year to 2026 Test Year

FERC Account	Item	2024	2026	Explanation
924	***Property Insurance***	$ 380,000	$ 380,000	The Other not trended for this account includes the expense recognition for storm costs. As discussed in my direct testimony, the company is proposing to maintain the annual accrual for the storm reserve of $380,000 in the 2026 test year.
925	***Injuries & Damages***			Injuries and Damages (“I&D”) expense includes the liability insurance premium costs and the self-insured or deductible component of legal claims, including adjustments to the I&D reserve for the self-insured portion of claims incurred but not paid. Legal fees related to claims and a portion of the company’s damage prevention efforts are also included in FERC account 925. Regarding general-liability exposure, the company maintains a $1 million self-insurance or deductible limit. To determine the I&D claims and related legal expenses in the 2025 and 2026 budgets, the company factored in the past five years’ actual I&D claims related expense activity included in FERC account 925. Over this period, the dollar value of claims incurred, legal expenses and I&D reserve adjustments have fluctuated significantly, so an approximate average over the five-year period was determined. As shown on MFR schedule G-2, page 19b, the 2026 Budget for I&D claims related expense is lower than 2024 actuals due to a higher-than-average amount of expense recognition in 2024, which was primarily due to settlement of I&D claims recognized in 2024 legal expenses (approximately $2.025 million) plus an increase in the I&D reserve (approximately $0.963 million) recognized as O&M expense in 2024. The 2026 budgeted liability insurance costs included in FERC account 925 were based on premium estimates from the company’s outside insurance broker, Marsh. Marsh’s estimates reflect continued increases in insurance premiums primarily due to tight insurance market conditions resulting from deteriorating industry claims. In 2024, the company increased its total liability insurance limits of coverage from $400 million to $450 million, with a $400 million sublimit for wildfire events. These increases in coverage limits have been made in response to the higher frequency of severe industry loss events and the company’s relative exposure due to growth. As shown on MFR schedule G-2, page 19b, Marsh’s estimates for total insurance premiums and fees reflects an increase in expense from approximately $8.8 million in 2024 to $9.9 million and $10.7 million in 2025 and 2026, respectively. Overall, as shown on MFR schedule G-2, page 17, FERC account 925 I&D total expenses are projected around $14.7 million in both 2024 and 2026 as the premium increases are offset by lower expected I&D claims related expenses.
	Insurance premiums and fees	$ 8,839,383	$ 10,742,729	
	I&D reserve balance adj.	$ 963,611	$ -	
	Non-recurring legal expenses	$ 2,025,867	$ -	
928	***Regulatory Commission Expense***	$ 922,016	$ 1,797,193	The non-trended increases in this account from 2024 to the 2026 test year of $0.875 million is related to amortizing the rate case expense projected for this general base rate proceeding over a two-year period along with the unamortized expense from the last case, which I discussed in my direct testimony.

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Peoples Gas System, Inc.
Justification of Non-Trended O&M FERC Accounts shown on MFR G-2, pages 19b and 19e
2024 Historical Base Year to 2026 Test Year

FERC Account	Item	2024	2026	Explanation
930.2	***Miscellaneous General Expense***			This account includes the cost of labor and expenses incurred in connection with the general management of the utility not provided for elsewhere, including general expenses which apply to the utility as a whole. As mentioned in my testimony and discussed in witness Chronister's testimony, this includes shared services from Tampa Electric and support services from Emera. The increase from 2024 to 2026 in account 930.2 Other not trended of approximately $4.9 million is primarily driven by increases in shared services from Tampa Electric, non- SAP customer relationship management and billing system (“CRMB”) asset usage fees from Tampa Electric, and support services from Emera that I discussed in my testimony. Due to approximately $840,000 of non-recurring legal related expenditures in 2024, the change in the remaining Other not trended items from 2024 to 2026 shown on MFR G-2, page 19b net to an increase of approximately $5,000. Included in this net increase is approximately $10,000 of higher facilities related O&M expense from 2024 to 2026, as the company moves from TECO Plaza to the new Corporate Headquarters. Also, as discussed in my testimony, in 2026 this account includes $306,900 of amortization of the regulatory asset related to software implementation costs. The remaining Other not trended items relate to IT contractor support and software license fees that are discussed in the testimony of witness Richard.
	Non-CRMB asset usage fee	$ 1,413,215	$ 2,306,570	
	TEC MMM allocated charges	2,710,639	4,850,818	
	TEC assessed charges	9,871,532	10,952,154	
	Emera direct & assessed charges	2,825,624	3,599,211	
	subtotal affiliate charges	$ 16,821,011	$ 21,708,754	
	Non-recurring legal expenses	$ 840,370	$ -	
	SW implementation Reg Asset.	402,866	306,900	
	Facilities O&M Expense	1,136,542	1,146,008	
	IT related items	-	932,000	
	subtotal other items	2,379,777	2,384,908	
	Grand total Not Trended 930.2	$ 19,200,788	$ 24,093,662	

Peoples Gas System, Inc.
Storm Reserve Analysis

Account 228.1/182.3 Storm Reserve
Debit/(Credit)
2281081/ 1823113

Year Ending	Accrual	Incremental Storm Costs: Mathew	Irma	Michael	Dorian	Ian	Nicole	Idalia	Helene	Milton	Total	Recovery Surcharge Michael	Ending Balance
2009	$ (33,542)										-		$ (33,542)
2010	(57,500)										-		(91,042)
2011	(57,500)										-		(148,542)
2012	(57,500)										-		(206,042)
2013	(57,500)										-		(263,542)
2014	(57,500)										-		(321,042)
2015	(57,500)										-		(378,542)
2016	(57,500)	103,023									103,023		(333,019)
2017	(57,500)		354,520								354,520		(35,999)
2018	(57,500)			3,132,023							3,132,023		3,038,523
2019	(57,500)			148,676	66,644						215,320	(3,280,699)	(84,356)
2020	(57,500)										-		(141,856)
2021	(380,000)										-		(521,856)
2022	(380,000)					1,590,244	58,250				1,648,493		746,638
2023	(380,000)					(2,864)		162,256			159,391		526,029
2024	(380,000)					15,894			672,337	668,747	1,356,978		1,503,007
Total	$ (2,186,042)	$ 103,023	$ 354,520	$ 3,280,699	$ 66,644	$ 1,603,273	$ 58,250	$ 162,256	$ 672,337	$ 668,747	$ 6,969,748	$ (3,280,699)	

Average annual storm cost over 10-year period	$ 696,975
rounded	**$ 700,000**
Average annual storm cost over 10-year period (excluding Michael)	$ 368,905
rounded	**$ 370,000**

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In Reply Refer to:
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January 14, 2022

VIA E-PORTAL FILING
Mr. Adam J. Teitzman
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Storm Damage Self-Insurance Reserve Study
Undocketed: 20220000-OT

Dear Mr. Teitzman:

Attached for electronic filing in the above docket, on behalf of Peoples Gas System, please find its Storm Damage Self-Insurance Reserve Study pursuant to the new requirement under F.A.C. 25-7.0143(1)(l).

Your assistance in this matter is greatly appreciated.

Sincerely,

Andrew M. Brown

AB/plb
Attachment
cc: Ms. Paula K. Brown
Ms. Kandi M. Floyd
Mr. Derrick S. MacDonald

TECO
PEOPLES GAS
AN EMERA COMPANY

Peoples Gas System

Hurricane Cost and Reserve Performance Analyses

ABS Consulting
AN ABS GROUP COMPANY

ABS Consulting Project Number: 4698039

300 Commerce Drive, Suite 150 - Irvine, CA 92602, USA - (714) 734-4242 - FAX (714) 734-4272

Executive Summary

The Peoples Gas System (PGS) system is exposed to and in the past has incurred significant costs from hurricanes. After hurricane events, PGS is required to respond to reported safety hazards such as gas leaks and blowing gas lines, and to perform damage assessments of the PGS system. The exposure to these potential hurricane costs are modeled and quantified.

Two analyses were performed. A Hurricane Cost Analysis (“Cost Analysis”) was performed using a computer catastrophe simulation model that estimates the average annual costs from hurricane perils. A Reserve Performance Analysis was performed using a dynamic financial simulation model to estimate the performance of the reserve subject to the annual hurricane cost probabilities determined in the Cost Analysis

The hurricane exposure is analyzed from a probabilistic approach. The model simulates a large number of hurricane events, covering the full range of potential hurricane characteristics, and determines their corresponding costs. Factors considered in the analysis include the location of PGS’s customers, the probability of hurricanes of different intensities and landfall points impacting those customers, the vulnerability of those customers to hurricane damage, and the costs to perform post hurricane inspection assessment activities.

The frequencies and computed costs for a large set of simulated hurricanes are combined to calculate the expected annual cost and the annual aggregate exceedance relations. The expected annual cost represents the average of all hurricane years over a long period of time.

There is an approximate 10% probability that inspection costs from all hurricanes in one year could exceed $1,000,000, and a 1% probability that costs could exceed $4,400,000.

The Reserve Performance Analysis simulates the performance of PGS’s reserve fund over a five-year prospective period and is based on the probabilistic derived costs and frequencies of occurrence of hurricanes as determined in the Cost Analysis.

The analysis provides two cases with assumptions on when negative reserve balances, due to hurricane costs, are recovered:

1. In years with negative balances, the costs are not recovered within the five-year simulation, and
2. In years with negative balances, the costs are recovered in one (1) year after the loss.

The analysis case with no recoveries of negative reserve balances shows the reserve fund balance is expected to decline from the initial $522,000 to $302,000 at the end of five years. There is a 40.8% probability that the reserve could have inadequate funds to cover hurricane costs in one or more years of the five-year simulation.

The analysis case with one (1) year recovery of negative reserve balances shows the reserve fund balance is expected to increase from the initial $522,000 to a $934,000 at the end of five years. There is a 40.6% probability that the reserve could have inadequate funds to cover hurricane costs in one or more years of the five-year simulation.

A summary of the analyses performed of PGS's hurricane cost exposure and reserve performance are provided in the risk profile shown in Table E-1 below.

Table E-1

Peoples Gas System Risk Profile

OWNER	Peoples Gas System	
COSTS	"Make Safe" customer service inspections, damage assessments of the PGS system, and repairs.	
LOCATION	All located within the State of Florida	
PERILS	Hurricanes, Category 1 to 5	
Hurricane Cost Analysis		
EXPECTED ANNUAL COST	$364,000	
1% AGGREGATE COST EXCEEDANCE VALUE	$4,400,000	
Reserve Performance Analyses		
$522,000 Initial Balance, and Annual accrual of $380,000	Mean (Expected) Balance at 5 years	5th Percentile Balance at 5 years
No Recovery of Negative Reserve Balances	$302,000	Negative ($4,148,000)
One (1) Year Recovery of Negative Reserve Balances	$934,000	Negative ($1,541,000)

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1. Hurricane Cost Analysis

The Peoples Gas System (PGS) is exposed to and in the past has incurred significant costs from hurricanes. After hurricane events, PGS is required to respond to reported safety hazards such as gas leaks and blowing gas lines, and to perform damage assessments of the PGS system. The exposure to these potential hurricane costs are quantified. The Cost Analysis was performed using the CoreLogic computer model simulation program *Risk, Quantification and Engineering (RQE®)* as well as the portfolio data of customer locations provided by PGS.

Hurricane exposure is analyzed using a probabilistic approach, which considers the full range of potential hurricane characteristics and corresponding costs. Probabilistic analyses identify the probability of damage to customer premises and the cost of performing “Make Safe” inspections.

Probabilistic annual costs are computed using the results of over 110,000 hurricanes events. Annual cost estimates are developed for each simulated hurricane due to damage at individual customer premise locations and aggregated to provide overall portfolio cost amounts.

Factors considered in the analyses include the location of PGS’s customers, the probability of hurricanes of different intensities and/or landfall points impacting those assets, the vulnerability of those customer premises to hurricane damage, and the costs to inspect customers’ and PGS system assets.

Hurricane Estimation Methodology

The basic components of the hurricane risk analysis include:

- **Customer Locations at Risk:** Define and locate
- **Hurricane Hazard**: Apply a probabilistic hurricane model for the region
- **Customer Vulnerabilities:** Severity (wind speed/storm surge) versus damage and inspection cost
- **Portfolio Analysis:** Probabilistic analysis – based on aggregate inspections and associated costs

These analysis components are summarized herein.

2. Post Hurricane Customer Service, and System Inspection Costs

Customer Locations at risk

After hurricane events, PGS is required to respond to reported safety hazards such as gas leaks and blowing gas lines. These emergency leak orders require PGS to conduct leak surveys, disconnect and reconnect customers, cut and cap service lines, remove meters, and replace damaged facilities. PGS field staff also performs damage assessments of the PGS system after significant hurricane events.

PGS's customer premises are distributed unevenly across its Florida service territory. PGS provides service to approximately 442,000 customers' premises in over 30 Florida counties. A large portion of these customers are located in Hillsborough, Orange, Broward, Miami-Dade, Manatee, and Pinellas Counties. The PGS customer premises are geo-located in the RQE hurricane model to capture the spatial distribution and concentration of these customer premises and their vulnerability to hurricane and storm surge risk.

3. Hurricane Hazard in Florida

The historical record for hurricanes on the Gulf and Atlantic coasts of the United States consists of over 100 years for which reasonably accurate information is available. Historically approximately 500 tropical or subtropical cyclones have affected the state of Florida. Since 1900, there have been 29 hurricanes of Saffir-Simpson Intensity (SSI) 3 or greater (see Table 3-1 for description of the Saffir-Simpson Intensity scale) which have made landfall in the state of Florida. Going back further, written descriptions of hurricanes are available, but it becomes increasingly difficult to estimate actual hurricane intensities and track locations in a reliable manner consistent with the later data. For this reason all hypothetical hurricanes used in this analysis, as well as their corresponding frequencies, have been based only on hurricanes that have occurred since 1900.

Since the historical record is too sparse to simply extrapolate future hurricane landfall probabilities, a series of hypothetical hurricanes was generated in the RQE probabilistic hurricane data base, essentially “filling in” the gaps in the historical data. This provides an estimate of future potential hurricane locations (landfall), track, severity and frequency consistent with the observed historical data.

The hurricane model was developed (Reference 1), using the National Oceanic and Atmospheric Administration (NOAA) model as the base, to determine individual hurricane wind speeds. The NOAA model was designed to model only a few specific types of hurricanes. While the eye of the hurricane follows the selected track, the model uses up to a dozen different hurricane parameters to estimate wind speeds at all distances away from the eye. RQE is based in part on the Florida Commission on Hurricane Loss Projection Methodology’s Official Storm Set, which includes hurricanes affecting Florida during the period of 1900 to 2017.

The hurricane intensities used for the analyses conform to basic NOAA information regarding hurricane intensity recurrence relationships corresponding to locations along the coast. Much of PGS’s service territory includes coastal areas where these hurricanes have made landfall.

The historical annual frequency of hurricanes has varied significantly over time. There are many causes for the temporal variability in hurricane formation. One of the primary climate cycles having a significant correlation with hurricane activity is the Atlantic Multidecadal Oscillation (AMO). It has been suggested that the formation of hurricanes in the Atlantic Ocean off the coast of Africa is related to the amount of rainfall in the Western African Sahel region. Years in which rainfall is heavy have been associated with the formation of a greater number of hurricanes. The AMO cycle consists of a warm phase, during which the tropical and sub-tropical North Atlantic basins have warmer than average temperatures at the surface and in the upper portion relevant to hurricane activity, and a cool phase, during which these regions of the ocean have cooler than average temperatures. In the period of 1900 to the present, the AMO has gone through the following phases:

1900 to 1925	Cool	(Decreased Hurricane Activity)
1926 to 1969	Warm	(Increased Hurricane Activity)
1970 to 1994	Cool	(Decreased Hurricane Activity)
1995 to the Present	Warm	(Increased Hurricane Activity)

These AMO phases are illustrated by the plot of Sea Surface Temperature (SST) Anomalies (deviation from the mean) in the Atlantic Basin over the past 150 years in Figure 3-1.

The NOAA believes that we entered a warm phase of AMO around the mid-1990s which can be expected to continue for at least several years. Historically, each phase of AMO has lasted approximately 20 to 40 years.

Probabilistic Annual Cost is computed using the results of thousands of random variable hurricanes considering the current Near-Term warm period of hurricane hazard.

Table 3-1

The Saffir-Simpson Intensity Scale (SSI)
(Note That Windspeeds Given Are 1-Minute Sustained)

SSI	Central Pressure (mb)	Maximum Sustained Winds (mph)	Storm-Surge Height (ft)	Damage
1	≥ 980	74-95	4-5	Damage mainly to trees, shrubbery, and unanchored mobile homes
2	965-979	96-110	6-8	Some trees blown down; major damage to exposed mobile homes; some damage to roofs of buildings
3	945-964	111-130	9-12	Foliage removed from trees; large trees blown down; mobile homes destroyed; some structural damage to small buildings
4	920-944	131-155	13-18	All signs blown down; extensive damage to roofs, windows, and doors; complete destruction of mobile homes; flooding inland as far as 6 mi.; major damage to lower floors of structures near shore
5	< 920	> 155	> 18	Severe damage to windows and doors; extensive damage to roofs of homes and industrial buildings; small buildings overturned and blown away; major damage to lower floors of all structures less than 15 ft. above sea level within 500m of shore

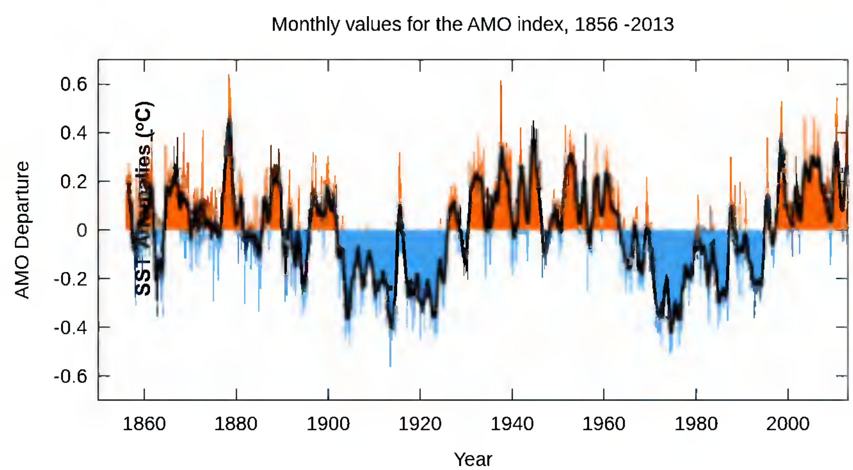

Figure 3-1: Atlantic Multidecadal Oscillation index computed as the linearly detrended North Atlantic sea surface temperature anomalies 1856-2013.

Storm Surge Analyses

The storm surge hazard model is supported by the same stochastic hazard event set within RQE to develop wind field and hurricane parameter descriptions, and is additionally integrated with bathymetry data at the Atlantic coastline of the United States from Canada to Mexico.

The phenomenon of storm surge is mainly caused by the wind stress towards the coastline from an approaching tropical cyclone and the atmospheric pressure depression. The main parameters inducing storm surge along the coast are peak gust wind, bathymetry (shallowness), rotation of the earth (Coriolis force), waves and pressure gradient developed in the Tropical Cyclone.

In surge phenomenon, the wind stress coefficient has been identified as the dominant parameter among various model and shelf parameters, because of the stress from the tangential component of the wind, which provides the main driving force for the surge.

The US coast is divided into five zones and bathymetry data has been digitized from coastal Texas to Maine. Grids have been constructed all along the coast in the ocean shelf. The important inputs to the model are the bathymetry of the region at these grid points and cyclone data. The model uses the finite element method to simulate the surge flow by solving vertically an integrated form of shallow water gravity equations. The surge model provides a best estimate of the height of storm surge at the coastal interface.

The model solves the equations of motion for the near-shore sea water, including the wind stress from the standard *RQE* wind field model and the bottom stress as boundary conditions. The bathymetry (ocean depth) is defined on a grid, and the equations of motion are numerically solved at each nodal point of the grid, resulting in the peak storm surge height at a series of coastal boundary points.

For each hurricane event, the probabilistic distribution of storm surge inundation depth is calculated for each location in the portfolio, using the probabilistic distributions of all important storm and location parameters. Inundation is modeled in two zones: the high-velocity zone (typically the first few hundred meters from the coast), where wave action and debris can severely damage structures, and farther inland, where the main problem is flooding as opposed to structural damage. For each hurricane event, the width of the high-velocity zone is calculated at each coastal boundary point using a run-up model. The elevation of the storm surge water surface farther inland is a function of the surge height at the coast and the local distance to the coast.

The storm surge model is run for the probabilistic event set to compute the storm surge at the portfolio asset location. The frequency of each event with the storm surge is calculated.

4. Customer Vulnerabilities

Structures have suffered damage in past hurricanes. Structure damage patterns tend to be most severe in coastal areas where buildings can be exposed to both wind and storm surge perils. Damage at inland locations tends to be less severe with contributions to damage from only wind perils. Structure damage varies with hurricane wind speeds and depths of storm surge. Damage to structures has in past hurricanes resulted in damage to gas lines, meters, and to other equipment that has required PGS inspection to ensure safe conditions.

Vulnerability of customer premises is based upon typical Florida construction, modeled wind speeds, and storm surge from simulated hurricanes. PGS data on the cost of "Make Safe" inspections and costs to inspect system assets are utilized in the modeling of hurricane costs. PGS's cost data from the 2016 Hurricane Matthew, 2017 Hurricane Irma, and 2018 Hurricane Michael provide data on recent hurricane costs from moderate to extreme intensity events. These hurricane cost experiences include the effects of many factors, including the post hurricane costs of labor, fleet equipment, and accommodations associated with the hurricane inspection processes utilized by PGS.

5. Hurricane Cost Analysis Results

PGS's customer premise locations were analyzed using the proprietary computer program, *RQE* subject to a suite of probabilistic hurricanes. The probabilistic hurricane analyses provide the expected annual costs, and non-exceedance probabilities over a range of cost levels.

Storm Probabilistic Analysis

The probabilistic cost analysis is performed using RQE. The hurricane hazard uses the RQE probabilistic stochastic hurricane database which contains approximately 110,000 simulations of possible hurricanes affecting the eastern United States, along both the Gulf and the Atlantic coasts. Each hurricane in the database has been defined by associating a central pressure with a unique hurricane track. In addition, each hurricane is assigned an annual frequency of occurrence, which depends on the hurricane track location and the hurricane intensity as measured by central pressure. For each customer location in the portfolio, the wind speed is calculated, the degree of structure damage and the inspection cost is estimated. The sum of the cost for each customer location is an estimate of the mean cost for each hurricane simulation.

Aggregate Cost Exceedance and Expected Annual Cost

Aggregate cost exceedance calculations are developed by keeping a running total of costs from all possible events in a year. At the end of each year, the aggregate cost for all events is then determined by probabilistically summing the cost distribution from each event, taking into account the event frequency. The process considers the probability of having zero events, one event, two events, etc. during a year.

A series of probabilistic analyses were performed, using the vulnerability curves derived for PGS's customer premises in RQE. A summary of the analysis is presented in Table 5-1, which shows the aggregate cost exceedance probability for cost layers between $0 and more than $4,400,000.

For each cost layer shown, the probability of cost exceeding a specified value is shown. For example, the probability of costs exceeding $400,000 in one year is 22.0%. The analysis calculates the probability of costs from all hurricanes and aggregates the total cost and exceedance probabilities.

The expected annual cost (EAC) from hurricanes is $364,000. This value represents the average cost from all simulated hurricanes. The EAC is not expected to occur every year. Some years will have no costs from hurricanes, some years will have small costs and a few years will have large costs. The EAC represents the average of all hurricane years over a long period of time.

Table 5-1

PEOPLES GAS SYSTEM
AGGREGATE COST EXCEEDANCE PROBABILITIES

Damage Layer ($x1,000)	1 Year Exceedance Probability
> 200	30.4%
400	22.0%
600	16.9%
800	13.4%
1,000	11.1%
1,200	9.10%
1,400	7.68%
1,600	6.61%
1,800	5.69%
2,000	4.92%
2,200	4.31%
2,400	3.76%
2,600	3.26%
2,800	2.87%
3,000	2.56%
3,200	2.25%
3,400	1.97%
3,600	1.79%
3,800	1.62%
4,000	1.44%
4,200	1.27%
4,400	1.10%

6. Reserve Performance Analysis

A dynamic financial analysis of potential costs from hurricanes was performed to determine their impact on the performance of PGS's reserve. The analysis included the costs from all simulated hurricane events.

The expected annual cost from the hurricane Cost Analysis is $364,000. The expected annual cost estimate represents the average annual cost associated with hurricane inspections for service restoration over a long period of time.

Analysis

The Reserve performance analysis consisted of performing 10,000 iterations of hurricane cost simulations within the PGS service area, each covering a 5-year period, to determine the effect of the costs on the PGS Reserve. Monte Carlo simulations were used to generate cost samples for the analysis. The analysis provides an estimate of the Reserve assets in each year of the simulation, accounting for the annual accrual, borrowing costs when fund balances are negative, and hurricane costs, as determined in the Cost Analysis, using a dynamic financial model.

The analysis provides estimates of the fifth percentile and ninety-fifth percentile reserve balances. At the fifth percentile reserve balance, only five percent of the simulated outcomes have smaller values. Similarly, for the ninety-fifth percentile reserve balance, only five percent of simulated outcomes have values which would be greater than that value. The fifth percentile represents an extremely adverse five years of hurricane experience where costs would far exceed the reserve funds available.

Assumptions

The analysis performed included the following assumptions:

- An initial Reserve balance of $521,856.
- Expected Annual Cost from hurricane hazard is $364,000.
- An annual accrual of $380,000 each year.
- The Reserve balance has a maximum balance of $3,800,000.

- Two cost recovery cases for negative reserve balances were analyzed:
  - No cost recovery within the five (5) year simulation, and
  - A one (1) year recovery period for negative reserve balances.
- Hurricane costs were assumed to increase by 6.82% per year; 3% per year due to inflation, and 3.82% per year due to system growth.
- Negative reserve balances were assumed to be financed with an unlimited line of credit costing 2.5%.

Analysis Results

Reserve analyses were performed for two cases. The results show the annual reserve accrual amount, the mean (expected) reserve fund balance as well as the probability that the reserve fund balance will be negative in any one or more of the five years of the simulated time horizon.

The analysis case with no recoveries of negative reserve balances shows that the reserve fund balance is expected to decline from the initial $522,000 to $302,000 at the end of five years. There is a 40.8% probability that the reserve could have inadequate funds to cover hurricane costs in one or more years of the five-year simulation.

The analysis case with one (1) year recovery of negative reserve balances shows the reserve fund balance is expected to increase from the initial $522,000 to a $934,000 at the end of five years. There is a 40.6% probability that the reserve could have inadequate funds to cover hurricane costs in one or more years of the five-year simulation.

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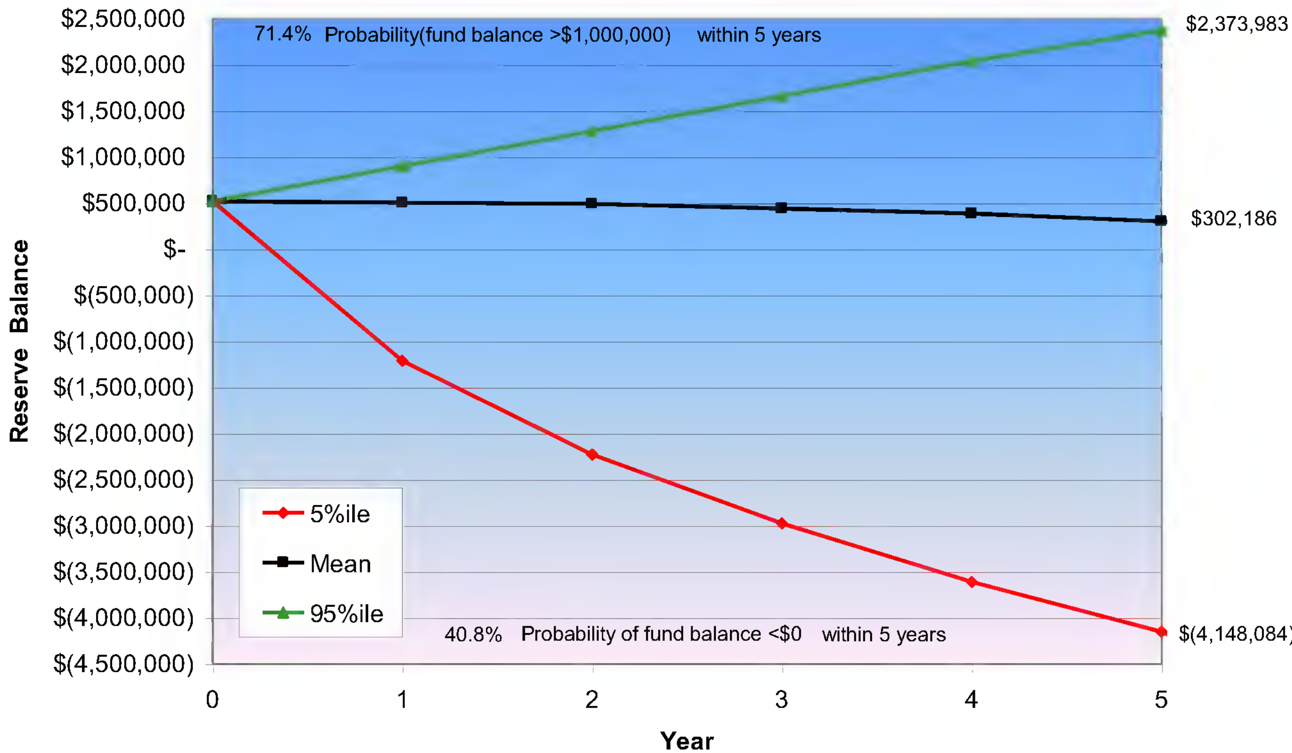

Figure 6-1: Reserve Performance Analysis: $521,856 Initial Balance, No Recovery of Negative Balances

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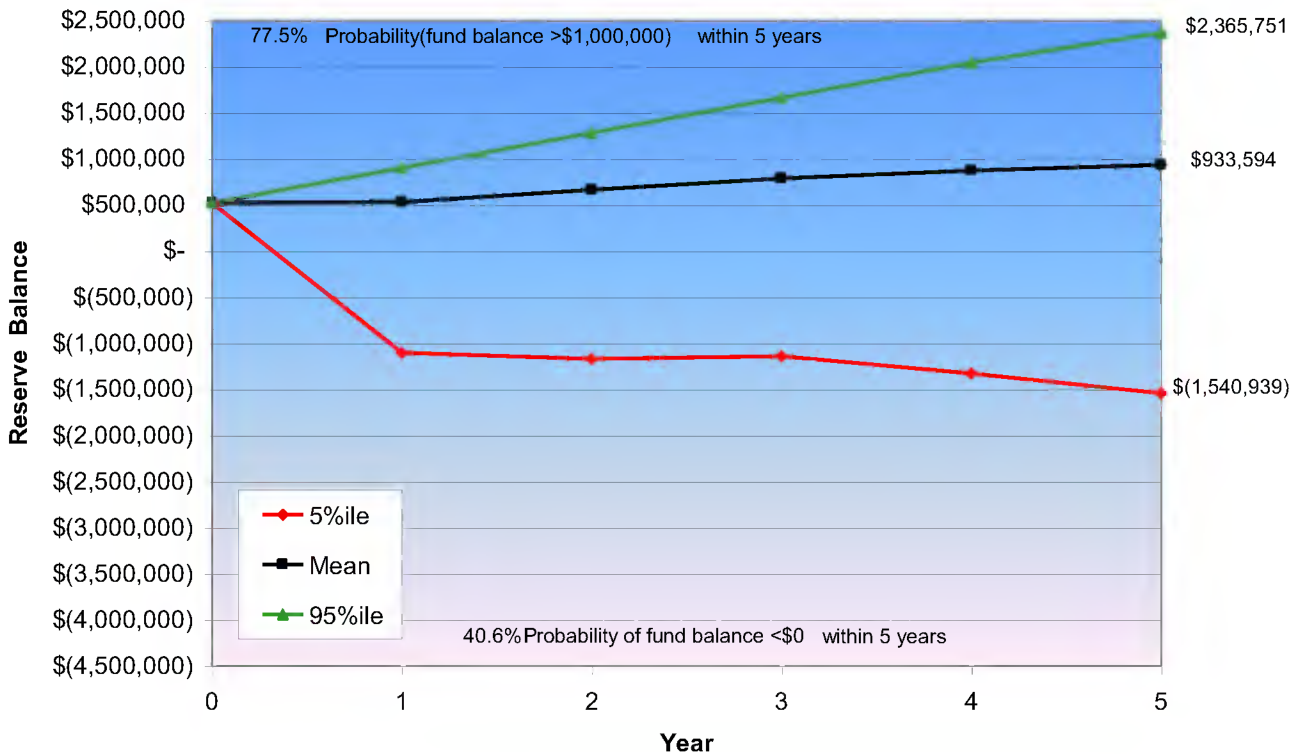

Figure 6-2: Reserve Performance Analysis: $521,856 Initial Balance, A One (1) Year Recovery of Negative Balances

7. References

1. "Florida Commission on Hurricane Loss Projection Methodology, CoreLogic North Atlantic Hurricane Model in Risk Quantification and Engineering™ November 2020 Submission, April 30, 2021 Version"

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