BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:
In re: DOCKET NO. 20250029-GU

Petition for rate increase by
Peoples Gas & System, Inc.
_______________________________/

VOLUME 1
PAGES 1 - 302

PROCEEDINGS: HEARING

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

DATE: Tuesday, October 7, 2025

TIME: Commenced: 10:00 a.m.
Concluded: 10:30 a.m.

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

REPORTED BY: DEBRA R. KRICK
Court Reporter and
Notary Public in and for
the State of Florida at Large

PREMIER REPORTING
TALLAHASSEE, FLORIDA
(850) 894-0828

APPEARANCES:

J. JEFFRY WAHLEN, MALCOLM N. MEANS and VIRGINIA PONDER, ESQUIRES, Ausley Law Firm, Post Office Box 391, Tallahassee, Florida 32302; appearing on behalf of Peoples Gas System, Inc. (PGS).

WALT TRIERWEILER, PUBLIC COUNSEL; CHARLES REHWINKEL, DEPUTY PUBLIC COUNSEL; OCTAVIO PONCE, ESQUIRE, OFFICE OF PUBLIC COUNSEL, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, FL 32399-1400, appearing on behalf of the Citizens of the State of Florida (OPC).

JON C. MOYLE, JR. and KAREN A. PUTNAL, ESQUIRES, Moyle Law Firm, 118 North Gadsden Street, Tallahassee, FL 32301; appearing on behalf of Florida Industrial Users Group (FIPUG).

JACOB IMIG, MAJOR THOMPSON and ZACHARY BLOOM, ESQUIRES, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, FL 32399-0850, appearing on behalf of the Florida Public Service Commission (Staff).

ADRIA HARPER, GENERAL COUNSEL; MARY ANNE HELTON, DEPUTY GENERAL COUNSEL, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, Advisor to the Florida Public Service Commission.

I N D E X

EXHIBITS

NUMBER:		ID	ADMITTED
1	Comprehensive Exhibit List	13	13
99	As identified in the CEL	13	14

P R O C E E D I N G S

CHAIRMAN LA ROSA: All right. Let's go ahead and grab our seats and we will get started. I had to wipe the dust off this thing this week. I clearly don't use the gavel very often.

Good morning, again, everyone. Today is still October 7th, a little bit after 10:00 a.m., and let's go ahead and convene this hearing.

Staff, will you get us started by reading the notice?

MR. THOMPSON: Thank you, Mr. Chair.

By notice dated September 22nd, 2025, this time and place has been set for a hearing in Docket No. 20250029-GU. The purpose of the hearing is upset forth more fully in the notice.

CHAIRMAN LA ROSA: Excellent. Let's now go ahead and take appearance of counsel. We will start with Peoples Gas.

MR. WAHLEN: Good morning. I am Jeff Wahlen of the Ausley McMullen Law Firm, appearing with Malcolm Means and Virginia Pondered on behalf of Peoples Gas System, Inc.

CHAIRMAN LA ROSA: Great.

Office of Public Counsel.

MR. REHWINKEL: Good morning. Charles

Rehwinkel, Walt Trierweiler on behalf of the Office of Public Counsel and the customers of Peoples Gas. I would also like to enter an appearance for Octavio Ponce.

CHAIRMAN LA ROSA: Excellent. Great. Thank you.

FIPUG.

MS. PUTNAL: Thank you. Good morning, Karen Putnal on behalf of Florida Industrial Power Users Group. And I would like to enter an appearance for Jon Moyle.

CHAIRMAN LA ROSA: Thank you.

Staff.

MR. THOMPSON: Major Thompson, Jacob Imig and Zachary Bloom on behalf of Public Service Commission staff.

MS. HELTON: And Mary Anne Helton is here as your Advisor, along with Adria Harper, your General Counsel.

CHAIRMAN LA ROSA: Great. Thank you, counsel.

Staff, are there any preliminary matters that we need to address?

MR. THOMPSON: Yes, Mr. Chairman.

Commissioners, we are here today for Peoples Gas, OPC and FIPUG to present evidence in support of a 2025 Stipulation and Settlement Agreement which was signed by all parties to this docket. Staff is unaware of any outstanding preliminary matters.

CHAIRMAN LA ROSA: Do the parties have any other preliminary matters that need to be addressed?

MR. WAHLEN: No, no items.

CHAIRMAN LA ROSA: All right. Then let's go ahead and move to opening statements by the parties. Any party may, of course, waive their opening statement. Otherwise, please keep in mind that opening statements are set for five minutes.

Mr. Wahlen, you are recognized.

MR. WAHLEN: Good morning. Thank you, Chairman La Rosa, and good morning, Commissioners.

Today, Peoples Gas Systems, Inc., seeks approval of its 2025 Stipulation and Settlement Agreement. The 2025 agreement resolves all issues in the case, results in fair, just and reasonable rates and is in the public interest. Peoples urges you to approve it.

Peoples filed its petition for rate increase in this docket on March 31st, 2025. Since then, the company has responded to hundreds of interrogatories and produced over 18,000 pages of documents to assist the staff and the parties in their evaluation of the company's case.

The PSC staff conducted an audit of the company's initial rate case filing and issued a report, which is going into the record. The parties experts exchanged information and conducted extensive discovery, including over 13 depositions. The Commission held customer service hearings on July 14th, 15th and 17th of this year.

The 2025 agreement is a unanimous agreement of the parties in this docket. Each party has expressly agreed that the 2025 agreement is in the public interest, and results in fair, just and reasonable rates. The parties have agreed to support approval of the agreement by the Commission in that they will not appeal a final or order approving it. The parties also expressly agree that no individual provision by itself necessarily represents the position of any party in any future proceeding.

The major elements of the settlement are listed and explained in the company's motion to approve, which was filed August 13th, and in the matrix developed by your staff and identified as

Exhibit 98. The motion explains the evidence supporting the agreement and why the agreement and its major components are in the public interest. We hope that the motion provides a useful framework for evaluating the settlement.

The major elements of the 2025 agreement include a midpoint return on equity of 10.3 percent, with a range of plus or minus 100 basis points, 57.7 -- 54.7 percent equity ratio, a $66.7 million base rate increase, including cast iron/bare steel revenues in 2026, and a subsequent year adjustment of 25 million in 2027.

It also makes room for the possibility of an up to a $5 million increase if the company meets certain requirements associated with addressing isolated system pressure challenges caused by the addition of backup electric generators on its system.

Peoples appreciates the opportunity to be here and would like to thank your staff for the professional and diligent way they reviewed the settlement and developed the framework for this hearing.

We would also like to thank the Office of Public Counsel and FIPUG for their professionalism throughout this proceeding in their tough, but thoughtful and constructive approach to our settlement discussions.

We have two witnesses available to testify later on, but I will close by thanking you for your time and asking you to approve the agreement.

CHAIRMAN LA ROSA: Great. Thank you. And we will get to those witnesses soon.

Let's go to OPC.

MR. REHWINKEL: Thank you, Mr. Chairman, I know that you have a lot on your plate today, so I will be very brief.

As Mr. Wahlen said, the agreed motion to approve says it all, and we stand on that for our remarks in support of the agreement.

I do want to take an opportunity to thank your staff. During the case, they were deeply engaged in discovery, and what they did in the case highly informed the actual outcome of the settlement and facilitated it, and I want to thank them for that. And I also want to thank them for the efficient processing of this unanimous settlement agreement that gets us here today.

I do also want to thank Peoples Gas, and especially Mr. Buzard, who went the extra mile on behalf of the company to find a way to bring what looked like an impossible situation into where we are today, and I want to really thank him for that.

Our worthy adversaries with Ausley, Mr. Wahlen, Ms. Ponder, Mr. Means and Mr. Jones also helped make this process a worthwhile one, and a valuable one that yielded a good result for all parties.

The only thing I want to highlight from the agreement, Mr. Wahlen alluded to it in his comments, is the third year. The company filed for two years, including a subsequent year adjustment. The agreement results in a third year of stay-out with the limited opportunity that's capped at $5 million for the capacity issues related to standby generators.

There are specific guardrails and criteria for that. It is an up to $5 million. It's not an automatic $5 million increase, but it is a good compromise that balances the interests of the customers and the company in reaching what I view as a keystone element of this agreement. It is well-balanced. It serves the public interest, and it is fair to all, and it meets the three test -- the three prongs of the test that Mr. Wahlen set out at the beginning of his remarks, and we urge that you approve it.

Thank you.

CHAIRMAN LA ROSA: Thank you.

FIPUG.

MS. PUTNAL: Thank you. Good morning. Briefly.

FIPUG supports the settlement agreement as being in the public interest. FIPUG would like to thank the other parties, and in particular the Commission staff, for the hard work put into the case.

The settlement agreement, the result of give and take negotiations is fair, just and reasonable, and FIPUG respectfully requests that it should be approved as it is before the Commission today.

Thank you.

CHAIRMAN LA ROSA: Great. Thank you.

Let's go ahead and move to the record. Staff.

MR. THOMPSON: Thank you, Mr. Chair.

Staff has prepared a Comprehensive Exhibit List, which includes the prefiled exhibits attached to each witnesses' prefiled testimony and exhibits identified by staff and the parties. The list has been provided to the parties, Commissioners and the court reporter.

Staff requests that the list, itself, be marked as Exhibit 1 at this time, with all subsequent exhibits marked as indicated on the list.

CHAIRMAN LA ROSA: Excellent, so we will go ahead and mark the list as Exhibit 1, then we will -- the others marked 2 through 29.

(Whereupon, Exhibit Nos. 1-99 were was marked for identification.)

MR. THOMPSON: Thank you.

It is staff's understanding that the parties do not object and stipulate to the admission of the Comprehensive Exhibit List, which is Exhibit No. 1. Staff requests that this exhibit be admitted at this time.

CHAIRMAN LA ROSA: Okay. Just to correct what I said. I said 29, I meant 99.

Are there any objections? None?

MR. WAHLEN: No objection.

CHAIRMAN LA ROSA: All right. Then Exhibit 1 is then admitted.

(Whereupon, Exhibit No. 1 was received into evidence.)

MR. THOMPSON: Thank you.

It is staff's understanding that the parties do not object and stipulate to the admission of each of the remaining exhibits, 2 through 99. These exhibits include the prefiled exhibits attached to each witness's prefiled testimony and exhibits identified by staff and the parties. Staff requests that these exhibits be admitted at this time.

CHAIRMAN LA ROSA: No objections?

MR. WAHLEN: No objection.

CHAIRMAN LA ROSA: Seeing no objections, Exhibit 2 through 99 are admitted.

(Whereupon, Exhibit No. 2-99 were received into evidence.)

CHAIRMAN LA ROSA: Let's move to the witness testimony. Staff.

MR. THOMPSON: Thank you.

It is staff's understanding that the parties do not object and stipulate to the admission of the prefiled direct testimony of all the witnesses in this docket. Staff requests that the following witnesses' direct testimony be entered into the record as though read in the following order:

For PGS, Donna Bluestone, Luke Buzard, Jeff Chronister, Dylan D'Ascendis, Eric Fox, Andrew

Nichols, Timothy O'Connor, Christian Richard, John Taylor, Rebecca Washington and Helen Wesley.

For OPC, David Garrett and Lane Kollen.

For FIPUG, Jeffrey Pollock.

And for Commission staff, Angela Calhoun and Wesley Thurmond.

It is also staff's understanding that the parties do not object and stipulate to the admission of the prefiled rebuttal testimony for the following PCS witness, and those would be: Luke Buzard, Jeff Chronister, Dylan D'Ascendis, Andrew Nichols, Christian Richard, John Taylor and Helen Wesley.

Those are all the witnesses with prefiled testimony, Mr. Chair.

CHAIRMAN LA ROSA: Great. Thank you.

Seeing no objection to the prefiled testimony, that will be admitted and moved into the record as though read.

(Whereupon, prefiled direct testimony of Donna Bluestone was inserted.)

TECO
PEOPLES GAS
AN EMERA COMPANY

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
DONNA BLUESTONE

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PREPARED DIRECT TESTIMONY AND EXHIBIT

OF

DONNA BLUESTONE

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

DONNA BLUESTONE

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

A. My name is Donna Bluestone. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am the Vice President of Human Resources, and I am employed by Peoples Gas System, Inc. ("Peoples" or the "company").

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

A. I am responsible for the leadership and strategic direction of the Human Resources ("HR") function for Peoples. My duties include: (1) talent acquisition; (2) HR operations; and (3) leadership and organizational development. I am also responsible for coordinating the HR functions provided to Peoples by Tampa Electric Company ("Tampa Electric") via shared services.

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

A. I received a Bachelor of Science degree in Psychology from Longwood College in Farmville, Virginia and a Master of Business Administration from the University of Florida in Gainesville, Florida.

I joined Peoples in September 2022 as the Vice President of Human Resources. Prior to joining Peoples, I served as the Vice President of HR and Shared Services for Bloomin' Brands, Inc., where I was responsible for talent acquisition, leadership development, and shared services. I also provided strategic HR support to the Executive Leadership team. My background includes other HR leadership roles with varying levels of responsibilities.

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

A. The purposes of my direct testimony are to: (1) provide an overview of the company's HR activities; (2) explain the company's team member compensation system; (3) show that the company's proposed levels of operations and maintenance ("O&M") expenses related to HR for the 2026 projected test year are reasonable and prudent; (4) demonstrate that Peoples' payroll and benefits costs for the 2026 projected test year are reasonable; and (5) show that the additional O&M team members included in the rate case are appropriate.

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

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

Document No. 1	List of Minimum Filing Requirement Schedules Co-Sponsored by Donna Bluestone
Document No. 2	2023 Rate Case Team Member Count Reconciliation
Document No. 3	2023 Rate Case Positions Reconciliation
Document No. 4	Base Wage Adjustments for Union Members 2020-2025
Document No. 5	Total Annual Compensation Analysis for Exempt and Non-Covered/Non-Exempt Benchmarked Positions

Document No. 6	Description of TECO Peoples Gas Benefits Package
Document No. 7	TECO Benefits Valuation Executive Summary (2023 Mercer BENVAL)
Document No. 8	Average Annual Health Benefits Cost per Employee 2011-2024 (Mercer)
Document No. 9	Peoples' Retirement Results (2023 Mercer BENVAL)
Document No. 10	Peoples' FERC Account 926 Pension Benefits 2024-2026

I. HUMAN RESOURCES OVERVIEW

Q. Please describe the company's Human Resources department.

A. Peoples' Human Resources ("HR") department consists of three areas: (1) Talent Acquisition; (2) HR Operations; and (3) Leadership and Organizational Development. As of December 31, 2024, there were 12 team members within the HR Department. The Talent Acquisition area is responsible for attracting and hiring the right candidates. HR Operations oversees employee and labor relations. The Leadership and Organizational Development area creates and conducts training focused on leadership development and is responsible for the company's employee engagement survey.

Q. Do certain HR functions remain shared with Tampa Electric?

A. Yes. A few HR functions remain shared with Tampa Electric so we can benefit from the economies of scale available due to the transactional nature of the service, including: (1) HR Technology and Systems, (2) payroll, (3) benefit plan design and administration, and (4) compensation design. The company pays a shared services allocation to Tampa Electric for these functions. Peoples witness Andrew Nichols addresses the shared service allocation in his prepared direct testimony.

GUIDING PRINCIPLES

Q. Please describe the company's commitment to its team members.

A. Peoples' philosophy with respect to team members is rooted in the belief that they are the key drivers of our company's value to both our customers and the communities we serve. It is essential for our team members to be committed to maintaining a safe work environment to benefit the public, and to commit to safety every moment of every day.

Peoples is committed to hiring and retaining skilled team members who: (1) are dedicated to safety, collaboration, and innovation; (2) can adapt to the company's changing industry needs; and (3) embrace innovations that help the company deliver clean, affordable, and reliable energy safely. To support the retention of skilled team members beyond its compensation and benefits package, the company offers various programs such as leadership development, tuition reimbursement, and flexible work options for certain positions. Additionally, apprentices are eligible to earn up to 30 credit hours of college credit towards an associate degree should they choose to pursue that path.

Q. What are the company's core principles in the way it conducts business?

A. Peoples' core principles, as articulated in its Code of Conduct are:

1. Safety, health, and the environment;
2. Customers;
3. Integrity;
4. Respect and collaboration; and
5. Excellence.

Q. What leadership competencies does the company seek to develop in its team members?

A. The following leadership competencies serve to guide all team members and build upon Peoples' Code of Conduct:

1. Speaks up on Safety, Health, and the Environment;
2. Takes Ownership and Acts with Integrity;
3. Drives Operational Excellence for Customers;
4. Builds Strong, Collaborative Relationships;
5. Develops People and Teams;
6. Cultivates Innovation and Embraces Change; and
7. Thinks Strategically and Exercises Sound Judgment.

Q. What are the objectives of Peoples' total compensation and benefits programs?

A. The company recognizes that a fair and market-based compensation and benefits package is critical to attracting and retaining skilled and experienced team members. The company's total compensation and benefits programs include (1) base salary; (2) short-term incentive; (3) long-term incentive (where applicable); (4) pension/401k; (5) paid time off programs; (6) an Employee Common Share Purchase Plan; and (7) medical, dental and insurance plans. All team members, except for co-op/student team members, are eligible to participate in the company's medical, dental, and vision insurance plans. I will discuss Peoples' compensation system in more detail later in my direct testimony.

Q. What is the Peoples' philosophy with respect to staffing and building team member capability as the organization grows?

A. Peoples is very deliberate as we build our team. The company works to hire internally for skills that are necessary as our organization grows. For example, process improvement and change management skills are essential to building the organizational capability to be more productive and efficient. Another example is reflected in our recent insourcing of the locator role in Gas Operations. By hiring these team members we can significantly reduce the cost of external consultants or service providers, while also becoming more efficient.

<u>TEAM MEMBER OVERVIEW</u>

Q. How many team members are employed by Peoples?

A. As of December 31, 2024, Peoples employed 812 team members.

Q. Does Peoples have team members that are part of a collective bargaining unit?

A. Yes. Approximately 107 team members, as of December 31, 2024, were part of a collective bargaining unit. As of December 31, 2024, the company had Collective Bargaining Agreements ("CBAs") with four unions: (1) International Brotherhood of Electrical Workers 108 ("IBEW 108"); (2) United Food and Commercial Workers International Union Local 1625 ("UFCW"); (3) International Brotherhood of Electrical Workers 2072 ("IBEW 2072"); and (4) Office and Professional Employees International Union ("OPEIU"). The table below reflects the number of team members per union as of December 31, 2024.

Union	**Team Member Count**
IBEW (2072)	25
IBEW (108)	28
OPEIU (46)	11
UFCW (1625)	43
Grand Total	**107**

Q. Have there been changes to the collective bargaining units since December 31, 2024?

A. Yes. In February 2025, the IBEW 2072 officially decertified from union representation. This union previously covered 25 team members in Daytona, Eustis and Lakeland service areas. Also, in February 2025, the IBEW 108, which covers 28 team members in our Sarasota service area, submitted a notice of intent to decertify to the National Labor Relations Board. This bargaining unit will hold a decertification vote in April 2025 to determine its status. The decertification notifications signal that these team members recognize the value of the increased engagement support by leadership.

Q. With this recent decertification of the IBEW 2072, how many remaining covered team members do you have?

A. Following the decertification of IBEW 2072, we have 82 covered team members, which represents 10 percent of our team members.

Q. What is the status of the remaining three currently active union contracts: (1) IBEW 108; (2) UFCW 1625; and (3) OPEIU.

A. The contract for the IBEW 108 will expire on May 26, 2025, if the decertification process is not complete before that time. As previously mentioned, these members will vote in April on the decertification. UFCW's contract will expire on November 6, 2025. The company will engage in negotiations with this union at the appropriate time. The company recently successfully negotiated a new contract with the OPEIU, with terms effective January 1,2025 and terminating on December 31, 2027.

Q. What other team member categories does the company have beyond team members that are covered by a CBA as described above?

A. The company also has exempt, non-exempt, part-time and co-op student team members in addition to the company's "covered" team members.

Q. What does "exempt" and "non-exempt" mean?

A. The terms "exempt" and "non-exempt" refer to a team member's status under the Fair Labor Standards Act. Exempt team members are not subject to certain requirements of wage and hour laws, such as provisions governing when overtime must be paid. There are additional wage and hour laws that are applicable to non-exempt team members that the company must follow for such employees.

Q. How many non-exempt team members did the company have as of December 31, 2024?

A. The company had 374 noncovered non-exempt team members as of December 31, 2024.

Q. How many exempt team members did the company have as of December 31, 2024?

A. The company had 331 exempt team members as of December 31, 2024.

II. HR ACCOMPLISHMENTS AND UPDATES SINCE THE LAST RATE CASE

Q. How has Peoples addressed some of the HR needs identified in the prior rate case?

A. In 2023 and 2024, the company strengthened its HR area by: (1) reviewing internal processes and systems to ensure they effectively support the company's growth, (2) assisting the company's team members with career advancement goals, and (3) providing company leaders with tools to keep Peoples' team members engaged.

The HR department focused on improving internal processes and systems to better support the company's growth. In particular, the Talent Acquisition team:

1. Implemented proactive sourcing methods to identify candidates earlier in the recruitment process, which increased the number of qualified candidates,
2. Launched a stand-alone career website that showcases the company's culture and available career opportunities, thereby enhancing its ability to attract talent interested in the gas industry,
3. Introduced an initial candidate screening stage before the panel interview in the hiring process, allowing hiring managers to better evaluate candidates earlier in the process, and
4. Increased communication touchpoints with candidates to keep them engaged throughout the recruitment process.

These improvements in the Talent Acquisition process helped the company reduce the average time to fill a position from 59 days in 2023 to 45 days in 2024.

Additionally, HR made process improvements that reduced the time spent performing transactional items associated with internal transfers, offer approvals, offboarding checklist and onboarding communications.

HR developed a "Career Path Tool" for the Gas Operations team to assist team members with career advancement goals. This tool provides a detailed summary of roles, job descriptions, and career path opportunities within the company. It also includes a performance coach guide to facilitate discussions with team members about navigating their careers and supporting development plans. Moreover, the company developed and piloted an "Emerging Leader" Program to enhance career advancement opportunities and team member engagement. The Program prepares team members interested in leadership positions for future leadership roles within our organization. Each participant completes self-paced pre-work, attends facilitated sessions with fellow program members and completes post-work with their performance coach. The HR team facilitated two "Emerging Leader Program" cohorts by the end of 2024, with a total of 25 team members completing the program. Three additional cohorts will complete the program by the end of 2025, totaling approximately 36 team members.

Q. Did the company implement any new programs to support its team members since its last rate case?

A. Yes. Following Hurricanes Helene and Milton, Peoples, Tampa Electric, and TECO Partners, Inc., established an

"Employee Relief Fund" for team members with hurricane recovery needs. Both Tampa Electric and Peoples made the initial contributions to establish the fund, with Peoples donating $50,000. HR helped in the establishment of the fund and the process for team members to submit for financial assistance. This program is intended to assist team members with emergency relief grants when facing certain disaster events. A third party, E4E Relief LLC, administers the fund to ensure both confidentiality and equity in financial distributions.

Q. Has the company experienced any talent market challenges since the last rate case?

A. Yes. The talent market in Florida remains competitive. Compensation continues to be a challenge for us as the cost of living in the state continues to increase. To address these challenges, the company hired a few key roles to work remotely outside the state.

TEAM MEMBER SURVEYS

Q. In order to engage, develop, and retain team members, does the company use surveys or other means to get feedback from its team members?

A. Yes. The company typically conducts a team member engagement survey every two years, supplemented by a shorter "pulse" survey in the off years. Both surveys provide valuable feedback on many subjects, such as satisfaction with leadership, compensation, benefits, retention, opportunities for growth, and communication. The company benchmarks these survey results both internally and externally. In addition to the surveys, the company gathers feedback from town halls, roadshows, and leadership meetings. These events are well attended and encourage open two-way communication. In both 2023 and 2024, the company held five town hall meetings each year.

Q. What feedback did the company receive in the most recent 2023 engagement survey?

A. The feedback from the 2023 engagement survey revealed several key points, including that our team members (1) desire more career opportunities, (2) have a concern that compensation is not keeping pace with the economy, (3) would like more open and effective communication by leadership, and (4) have an interest in increased visibility from leadership. Despite these concerns, the survey results also indicated that responding team members feel engaged in meaningful work and appreciate the team-oriented culture.

Q. How has the company addressed the feedback from the 2023 engagement survey?

A. As discussed above, the company developed both the "Career Path Tool" and the "Emerging Leader Program" in direct response to team member feedback received in 2023. Both initiatives address concerns about career advancement opportunities. We created and rolled out the "Performance Coach Toolkit" to assist performance coaches in their discussions with team members regarding career opportunities.

The organization held town halls and conducted leadership roadshows to address the desire for more open and effective communication and leadership visibility. Peoples also revamped the way our functional directors interact to boost engagement from mid and senior-level leaders. Additionally, HR enhanced the monthly HR Newsflash to include more relevant information. The HR Newsflash serves to communicate company activities, share resources and education, recognize achievements, and highlight important information across the organization.

HR also implemented "drop-in calls" for performance coaches to share important and timely topics. These calls provide an opportunity to share detailed information and resources about key initiatives, enabling performance coaches to effectively engage and educate their team members.

TEAM MEMBER COUNT

Q. In the company's last rate case the Florida Public Service Commission ("Commission") approved a total employee count of 824 employees in 2024. You testified above that the company had 812 team members as of December 31, 2024. Please explain this variance.

A. On January 1, 2023, Peoples had 706 active team members. In 2023 and 2024, Peoples had 237 team members who were either hired, rehired or transferred into the company. In addition, we had 131 team members who terminated or transferred out of the company (to another affiliate). Document No. 2 of my exhibit provides a reconciliation of the Commission-approved team member count for 2024 of 824 and the actual team member count as of December 31, 2024, of 812.

Q. In the company's last rate case, the Commission found record evidence to support 142 positions between 2023 and 2024. Did the company fill all of the 142 approved positions?

A. No. Of the 142 positions approved by the Commission in the 2023 rate case, the company hired 102. Twenty-one of the 142 approved positions were repurposed as different positions or different locations to better align to the business needs and roles directly tied to staffing to meet customer demands. After careful consideration, the company postponed hiring or otherwise did not hire 19 of the 142 approved positions. In January 2024, the company updated the budget for 2024 that it prepared in 2022 and used in its last rate case. During the process, the company faced lower than expected revenues, and higher than expected costs for: transportation; insurance; and labor and employee benefits. We managed through these changes by slightly reducing the number of new employee positions to be filled in 2024, finding operating efficiencies, and updating the amount of administrative and general (A&G) expense we capitalize. Peoples witness Helen Wesley discusses these actions in her prepared direct testimony.

Document No. 3 of my exhibit provides a reconciliation of the Commission approved team member positions for 2023 and 2024 of 142 with the actual positions filled as of December 31, 2024.

Q. Which 16 positions were disallowed by the Commission in the 2023 rate case?

A. The Commission disallowed one Business Development Manager position in FERC Account 920, and the following fifteen positions in the non-finance general A&G area:

- Marketing - Coordinator
- Marketing - Manager
- Strategy – Coordinator
- Strategy - Co-op
- Marketing - Service Coordinator
- Marketing - Manager Strategic Communications and Media Relations
- Process Improvement – Lead Business Innovation Coordinator
- Analytics – Business Analytics and Insights Analyst
- Analytics – Co-op
- Regulatory Affairs – Senior Analyst (2 positions)
- Regulatory Affairs - Manager
- Real Estate – Manager
- Real Estate - Technician (2 positions)

Q. Did the company hire any of the 16 disallowed positions?

A. Yes. As shown on Document No. 3 of my exhibit, the company made a business decision to hire six of the disallowed positions. In 2023, before the Commission's decision, the company had already filled the (1) Regulatory Affairs Manager position and the (2) Marketing - Manager Strategic Communications and Media Relations positions. Following the Commission's decision, the company hired the following four positions to fill essential functions: Marketing - Manager, Regulatory Sr. Analyst, Regulatory Analyst and Business Development Manager.

Q. In the last rate case the Commission approved the following three team members for HR in 2023: an (1) Analyst Lead, (2) HR Business Partner, and (3) Talent Acquisition Specialist. Did the HR team hire these team members in 2023?

A. In December 2023, the HR Business Partner and the Talent Acquisition Specialist positions were filled. The Talent Acquisition Specialist started their position in January 2024.

The company made a business decision not to hire the

Analyst Lead position but instead hire the position of Learning & Development Specialist to allow the company to address talent management, assist with leadership development, and the needs of our growing workforce. The company hired this position in 2024 and the team member began work in January 2025. Therefore, this position is part of this rate case request.

Q. Did HR add any team members since the last rate case that were not part of the 2023 rate case?

A. Yes. In January 2025, the company added one additional position to the Leadership Development team. This "Technical Trainer" position is needed as we continue to prioritize leadership and team member development and enhance engagement among our team members. The addition of this position addresses feedback received from the engagement survey and is included in our current rate case request.

III. EMPLOYEE COMPENSATION

Q. What is Peoples' overall compensation philosophy?

A. The company recognizes that a competitive pay program is a critical component of a team member's total compensation. Peoples must have a reasonable and competitive compensation program to attract and retain skilled team members. The company evaluates the competitiveness of our pay program by focusing on total direct compensation, which includes base pay (salaried and hourly), short-term incentive plans ("STIP"), and long-term incentive plans ("LTIP"). All three elements are important, serve specific purposes, and work together.

Q. Please describe the company's general system for compensating its team members.

A. Peoples compensates its team members with a combination of direct compensation and benefits. The direct compensation component consists of three parts: base compensation, short-term incentive compensation, and long-term incentive compensation. Additionally, the company offers different types of health insurance and retirement plans as part of its benefits package. I will explain these compensation and benefits components later in my direct testimony.

All team members, whether hourly or salaried, are eligible to participate in the company's benefits program and short-term incentive pay program. The only exception is our co-op/students. In general, department directors and officers are also eligible to participate in the company's long-term incentive pay program. I will describe these programs further in my testimony.

Peoples' compensation system reflects a pay for performance model that emphasizes total compensation that aligns the interests of our team members and customers. We have designed our compensation system to reflect market values, promote internal equity, and be viewed as reasonable when we establish the rates to be paid by our customers. This approach keeps our compensation packages competitive by making an appropriate portion of a team member's total compensation "variable" or "at-risk" through incentive compensation programs that reward good performance. Peoples' incentive compensation programs encourage team members to prioritize safety, reliability, overall organizational performance, and improving the customer experience.

IV. COMPENSATION

BASE COMPENSATION

Q. What is base compensation?

A. Base compensation (or base pay) is the pay team members regularly receive biweekly and is either paid as hourly wages or salary.

Q. What is compa-ratio?

A. Compa-ratio is a measurement of pay that compares a team member's base compensation to the median compensation for similar positions within the target market. For example, a compa-ratio of 100 percent or 1.0 would mean that a team member's base compensation is considered "at market" because it is at the midpoint of compensation for that role.

Q. What is total direct compensation or TDC?

A. TDC is the relationship between the market and the total compensation package: (1) base pay (which includes base pay plus commissions); (2) STIP; and (3) LTIP, where applicable.

Q. Do non-covered team members automatically get a base pay increase each year?

A. No. Non-covered team members do not automatically receive an annual base pay increase but are eligible for an annual merit increase based on the company's talent management process.

Q. Are covered team members eligible for merit increases?

A. No. Team members who are covered by a CBA do not participate in the company's annual merit process. Team members who are covered by a CBA are eligible for a base pay increase based on the applicable CBA. The company negotiates with each union during each contract cycle, and an annual base wage adjustment is normally included in the final overall agreement. Confidential Document No. 4 of my exhibit summarizes the base wage adjustments for each union during the period 2023 to 2024.

Q. Please explain the company's process for making merit pay increases.

A. The company has an annual merit review process designed to offer team members an opportunity to earn an increase in their base pay based on performance. Our merit review process enables the company to retain strong performing team members and remain competitive with the market.

Our merit process is a component of our talent management process by which we assess the annual performance of each team member. The first part of the process includes goal setting and the second part requires assessment of performance or a performance review.

At the beginning of each year, team members establish performance goals with their performance coach. During this process, the team members and performance coaches ensure that the annual goals and position accountabilities align with their specific role and are aligned with the company's annual objectives as set out in the company's STIP program. The company evaluates a team member's performance against established goals at least twice a year, once at mid-year and again at the end of the year. Team members and performance coaches also discuss leadership competencies during the annual review process. We assess team members on a five-point scale based on expectations: Significantly Exceeds; Exceeds Many; Fully Meets; Meets Most; and Does Not Meet Job Expectations.

After the end of year performance reviews are complete, performance coaches can recommend a merit adjustment for each eligible non-covered/non-union team member based on established guidelines. The guidelines for recommending a merit increase are based on the performance rating scale, the position of the team member's base salary within the base salary range, and the annual merit budget.

Merit adjustments typically are a base pay increase; however, a team member may not be eligible for a base salary increase if the individual's performance does not meet expectations or if the team member's base salary is already positioned competitively relative to the salary grade mid-point. The company's officers review and approve each proposed merit increase, and the President and Chief Executive Officer approves the final total annual merit amount.

Q. How is the compensation set for those team members that participate in collective bargaining units?

A. Compensation for team members who are covered under a CBA is determined by the terms of the contract between the company and the labor union, which governs the working conditions. Specifically, the CBA addresses wage scales, working hours, training, health and safety, overtime, grievance mechanisms, and rights to participate in workplace or company affairs. Most of the company's "covered" team members are non-exempt, are paid by the hour, and are eligible for overtime or shift differential pay. The same market and benchmark comparable data is used during the collective bargaining process to ensure alignment.

SHORT-TERM INCENTIVE PLAN

Q. Please describe the company's short-term incentive plan or STIP.

A. The company's STIP compensates team members for the achievement of annual company objectives. This variable bonus plan rewards individual performance and individual contribution to the annual company goals. The objectives for STIP are centered around performance in the areas of Safety, People, Customer, Asset Management, and Financial. The STIP payment is calculated using four components:

1. Eligible Earnings (base pay, sales commission, and overtime, if applicable),
2. Incentive Target Level (a pre-defined percentage based on the job level and is standardized across the organization),
3. Balanced Scorecard ("BSC") Result Percentage

Achieved (annual goals achieved for the organization), and

4. Performance Multiplier (calculation to differentiate each eligible team member's level of performance).

The STIP links the company's success to financial incentives for Peoples' team members for achieving the company's annual goals and objectives. Team members who score higher on the annual performance review are entitled to a higher STIP payout as a percentage of base pay.

Q. How is the STIP applied to team members?

A. All eligible team members receive STIP payment based on company performance (the BSC) and their individual performance multiplier. Team members who have underperformed and received positive discipline (the name of the company's discipline process) and/or a performance rating of "1- Does Not Meet Expectations" are not eligible to receive an STIP payment.

Q. Please describe the Balanced Scorecard or BSC.

A. The company develops its BSC to define the organization's goals for that calendar year. The BSC includes threshold, target, and stretch goals across the five previously identified categories: Safety, People, Customer, Asset Management, and Financial Goals. The percentage of variable pay potential is based on the BSC results, job grade, and individual team members' performance. The payout ranges from 50 percent to 150 percent depending on the overall achieved results. The BSC is a key component of the STIP, linking the company’s success to financial incentives for the team members who achieve or exceed their annual performance goals.

LONG-TERM INCENTIVE PLAN

Q. Please describe the company’s long-term incentive plan, or LTIP.

A. The company’s LTIP is a compensation and retention program for team members in key senior leadership positions. The LTIP encourages team members to focus on delivering long-term value for customers and aligns the long-term incentive pay for senior leaders with corporate and shareholder goals. LTIPs like ours are commonly offered by companies that compete for senior leadership talent. The company’s LTIP is an important part of our competitive total compensation program for senior leaders. Together with our base pay and STIP, the company’s LTIP allows

Peoples to attract and retain skilled leaders.

LTIP is administered through the Emera Performance Share Unit ("PSU") Plan and the Emera Restricted Share Unit ("RSU") Plan. A PSU or RSU is an equity-based compensation granted to team members and refers to a unit equivalent value of an Emera common share. Each grant has a performance, or vesting, period of three calendar years. Both PSU and RSU grants are affected by the Emera share price. A PSU grant is subject to the achievement of pre-determined financial objectives. At the end of the three-year vesting or performance period, the grants for that period are paid out. A PSU payout factor is a comparison of Emera's performance results against the financial objectives set for that period. The purpose of these plans is to align leaders' long-term pay with Emera corporate goals that focus on creating and preserving long-term stakeholder value, which in turn, is guided by creating long-term customer value. Each year, team members at the director level or above are awarded PSUs based on a percentage of base pay.

<u>REASONABLENESS OF TOTAL DIRECT COMPENSATION</u>

Q. You have explained that Total Direct Compensation, or TDC, consists of base pay, STIP, and LTIP. What is the company’s “target” for TDC?

A. The company targets the median (middle) of the market. Using the market median is considered a compensation best practice and is better than using the mean or average because the median is less sensitive to outliers in the market data. Targeting the median helps balance the company’s desire to hire and retain quality team members and to maintain reasonable customer rates.

Q. What tools does the company use to align TDC with the market median?

A. To align TDC with the market, the company first benchmarks positions against the labor market using data from the U.S. Mercer Benchmark database and the Willis Towers Watson MMPS Survey. This determines the appropriate compensation range for specific positions. TDC, as previously explained, comprises base salary (or base pay), STIP, and LTIP. All three elements are important to ensure the company’s team members receive competitive compensation and that the company attracts and retains talented people. Peoples then calculates the TDC and measures it against the market to determine where the team members’ compensation falls. This is a standard HR practice that looks at the placement of an individual’s salary within a defined compensation range.

Q. How does Peoples’ compa-ratio compare to the market?

A. The company’s team members were at an average .96 compa-ratio in January 2025.

Q. Do you have any analyses showing how Peoples’ salary levels compare to the market over time?

A. Document No. 5 of my exhibit shows the total annual compensation analysis for exempt and non-exempt benchmarked positions as of December 22, 2024.

Q. Are the company’s compensation systems and levels for 2025 reasonable?

A. Yes. As explained above, the company benchmarks its total compensation against applicable markets using relevant and competitive benchmarks for compensation.

V. BENEFITS

Q. Please describe the company’s health and welfare benefits package.

A. Peoples' benefits are administered as a shared service through Tampa Electric and are held at the parent company (TECO Energy, Inc.) level. The Tampa Electric internal HR team actively manages these benefit plans, partnering with Mercer, to identify and address issues efficiently and implement solutions that operate the benefit programs effectively. The company's benefit package is designed to maintain a competitive position within the market so the company can attract, retain, and develop competent and qualified team members. Our benefits package includes the following: (1) health plans; (2) pharmacy plans, (3) employee family assistance plans; (4), dental and vision plans; (5) flexible benefits plans (Healthcare FSA, Dependent Care FSA, and Transportation and Parking FSA); (6) life insurance (basic life, accidental death & dismemberment, supplemental, spousal and child); (7) short term and long term disability insurance (part-time team members are not eligible for short-term disability); (8) long-term care insurance; (9) paid parental leave; (10) group retirement plans; (11) retiree medical, (12) holiday and paid time off; and (13) employee relief fund. Document No. 6 of my exhibit includes a more detailed description of these plans.

Q. How does the company manage the design and cost of its benefit programs?

A. The HR Shared Services team partners with Mercer to identify and address issues efficiently and implement solutions that operate the benefits programs effectively.

While the company has a broad benefits program, the cost is driven by two main components; medical and pharmacy. The company uses data from Mercer to ensure that it is aware of its competitive positioning on an ongoing basis. Mercer provides benchmarking data for the benefit program, updated annually, that includes both design details as well as program cost data. The cost data includes employee contributions as well as the company's gross and net costs. The company compares this data to its own information. Thus, the company consistently knows the programs' competitive positioning relative to relevant peer groups (e.g., industry, geography, etc.).

To manage the cost of medical programs, the company employs Blue Cross and Blue Shield ("BCBS") medical management programs. These programs identify and manage patients with chronic and acute conditions who are most likely to increase costs. They work with affected patients and medical providers to ensure optimal treatment in the most cost-effective setting.

For pharmacy cost management, the company participates in a collective purchasing agreement, which capitalizes on the purchasing power of over a million members to achieve a lower ingredient access cost and maximized net cost efficiency.

All health providers are routinely evaluated for ongoing cost management effectiveness through discount analyses across all relevant vendors. The company uses competitive bidding exercises every three to five years and routine audits to ensure claims are processing accurately according to plan design.

The organization also uses the Mercer Benefits Valuation Analysis ("BENVAL") study which was last performed in 2023. The company follows best practices and updates this study at least every five years. The company's BENVAL index score is shown in Document No. 7 of my exhibit.

The BENVAL study is a nationally recognized and accepted actuarial tool that compares the relative value of a company's overall benefit plan and its various components with other companies' plans contained within the Benefits

Data Source - United States database. The most recent group used for the comparison included 25 utility companies in addition to Peoples.

BENVAL uses consistent actuarial methods applied to a fixed population to determine a relative value index for each plan component. As a result, the differences in value among employer plans are exclusively a function of differences in the plan provisions. The BENVAL study includes a relative value index score for each company’s benefit plan components. The index score is calculated by analyzing and determining the value of each company’s benefit plan component and then dividing each company’s value by the average benefit plan value for each component among all the companies in the benchmark group. A relative index of 100 represents an average company value.

The company’s BENVAL index score for each benefit plan component is shown in Document No. 7 of my exhibit. The company’s index score is slightly above the market for retirement, dental, and short-term and long-term disability. These components of the company’s benefit plan allow it to be competitive in the marketplace and attract skilled team members

HEALTHCARE BENEFITS

Q. How does the company evaluate the design and cost of its health care programs?

A. The company manages its health plans with appropriate due diligence. The company assesses the design and costs of these plan using benchmark data provided by Mercer. This allows the company to evaluate its competitive positioning regarding to plan design, employee contributions, and aggregate costs, compared to various groups. Benchmark data is available for all of our benefit plans. The company then compares its current position against these benchmarks with its desired position as outlined in its total rewards philosophies, and adjustments are made as needed. Document No. 8 of my exhibit shows the average annual health benefits cost per employee.

The company employs Mercer, who uses underwriting techniques based on actuarial guidelines to project future plan costs for the self-funded plans. The key factor in projecting future results is the prior experience of the group. The process of forecasting past claims experience into the future considers plan designs, member demographics, trends, and group credibility. These processes are widely accepted within the insurance market as the standard for establishing budget and premium levels that are appropriate to cover future risks.

Q. Has the company evaluated its healthcare plan against the market?

A. Yes. The company annually benchmarks its medical, pharmacy, and dental plans using Mercer's proprietary database. Additionally, based on the results from Mercer BENVAL (described above) and as shown in Document No. 7 of my exhibit, the company's relative value index score of 100 (median value) for medical and 116 (above median value) for dental indicates market competitiveness for medical, and above market positioning for dental, because the company provides a richer dental plan compared to the median plan.

Q. How does the company's healthcare plan compare to industry standards?

A. The company uses Mercer's BENVAL which compares the market value of the company's benefit plan to those of peer organizations. Mercer displays the data by plan grouping and by individual plan, based on Mercer's national composite workforce, which consists of generic employee profiles, representing a typical employee population. The relative value is determined using consistently applied assumptions to estimate the dollar value attributed to all benefits offered by the employer; however, this value does not equate to direct employer costs. This approach removes influences of negotiating power, utilization, and other factors tied to cost so that the focus is on the value determined by plan design and employee cost-share. The group used for the comparison includes 25 utility companies. To compare our competitive position relative to the peer group, the charts referenced in Document No. 7 of my exhibit show where Peoples leads and lags according to the following criteria:

- Values: Shows the range of dollar values for all organizations in the peer group.
- Rank: Identifies your organization's plan value position relative to the peer group values.
- Quartile: Shows the distribution of the peer group's plan values by showing the 1st and 3rd quartiles and median dollar values.
- Index: Illustrates the relationship of your benefit values to the median values of the peer group (the median value equals an index of 100).

The charts reflect the average of the national composite workforce and the company's position is described in terms of the index:

- Above Median: Index of 106 and above.
- Aligned with Median: Index between 95 and 105.
- Below Median: Index of 94 and below.

As represented on Document No. 7 of my exhibit, the company's BENVAL Index score for its medical benefit program is 100, which indicates the company's plan provisions and cost share fall near the median of the peer group.

Q. What factors are driving healthcare costs in the United States ("U.S.")?

A. The main reasons for increased medical cost in the U.S. are (1) inflation in unit prices; (2) increases in the use of services (primarily due to population aging and the overall deterioration of the health of U.S. citizens); (3) the availability of advanced medical technology; and (4) the expense of high-cost claimants. The increases in cost for prescription drugs are similar, with specialty drugs representing a disproportionately higher percentage of the cost increases than non-specialty drugs. Key trend indices include new drug innovations, legislative changes, and patent expirations.

The current environment of higher inflation may impact healthcare costs, which makes it important to consider the potential additional impact of inflation on trends for the 2025 plan year. Since the provider contracts typically span multiple years, it may take some time for the full effects of inflation to emerge. At the end of 2024, we were at the end of a three-year period where a majority of contracts may have been renewed during an elevated inflationary environment. Those contract negotiations during 2023, 2024, and into 2025 will have the benefit of hindsight in securing higher increases to mitigate historically persistent inflationary pressures.

Ultimately, the cost increases negotiated by the carriers with network facilities and providers will be a key determinant of the magnitude of inflationary impact. The company is projecting an increase in its health benefit costs in 2025 and beyond. The projected increase in the company's healthcare costs is consistent with and caused by the same factors at work for healthcare costs in the U.S. generally.

Q. What specific actions has Peoples taken to ensure its healthcare costs are reasonable?

A. In partnership with industry experts such as Mercer and BCBS, the company has implemented initiatives to ensure its healthcare costs are reasonable. These initiatives include:

- Implementation of a pricing strategy to encourage cost effective plan selections;
- Annual review and increase in the monthly team member contributions;
- Promotion of team member and retiree awareness and education so that they can be smart consumers of the healthcare options available in their healthcare plans (i.e., health advocacy, telemedicine, carrier resources);
- Provision of the comprehensive disease management Personal Care Connections program for team members, which includes health coaching, to facilitate the effective medical treatment of plan participants with specific diseases that, if not properly managed, can generate expensive claim costs;
- Vendor analyses and determination that BCBS continues to show favorable results in cost

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containment due to network discounts, network breadth, and wellness credits;

- A prescription coverage collective financial review, confirming the current vendor offered the most competitive pricing and was the least disruptive; and
- Annual benchmarking of healthcare programs to ensure value and competitiveness is reasonable.

Q. How does the increase in Peoples' medical and dental costs per team member from 2023 to 2024 compare to the average national increase for those years?

A. For 2023 and 2024, Peoples' healthcare costs for active team members were \$7.9 million and \$9.9 million, which translates to \$10,902 and \$12,491 per team member, respectively. As shown in Document No. 8 of my exhibit, the average national healthcare cost per team member based on the most current data available was \$16,506 for 2021 and was \$17,056 for 2022. This shows that Peoples' healthcare costs are lower than the national average.

<u>PENSON AND RETIREMENT BENEFITS</u>

Q. Please describe the pension and retirement savings plans and how they compare to industry standards?

A. Peoples' team members participate in the following retirement plans:

1. TECO Energy Group Retirement Plan (a qualified defined benefit pension plan);
2. TECO Energy Group Retirement Savings Plan (a qualified defined contribution 401(k) plan);
3. TECO Energy Group Benefit Restoration Plan (a non-qualified defined benefit pension plan for applicable employees); and
4. TECO Energy Group Postretirement Health and Welfare Plan (a retiree medical plan).

Q. How does the company evaluate these plans for reasonableness?

A. The company uses an independent consultant, Mercer, to evaluate the competitive positioning of these qualified pension and savings plans. Mercer conducted a benchmarking study of 25 peer companies in 2023 and found that 11, including Peoples, provide an active defined benefit plan to newly hired team members. Of the plans that are offered today, the value of Peoples' combined and defined contribution program for non-union team members is at the 50th percentile of all 26 companies in the peer group.

Q. Is it common to use an independent actuarial firm to compute pension and post-retirement benefit costs?

A. Yes. Based on the benefits provided and team member demographics, an actuary for a defined benefit plan estimates the value of employer obligations. The calculation of liabilities considered several complex variables including expected future compensation increases, asset returns, rates of retirement, disability, death, and other reasons for termination. Actuaries use historical data and future expectations to make assumptions for these variables. Actuaries for defined benefit plans also ensure the employer is following laws and regulations regarding pension plans. This includes the timely certification of minimum contributions and the funded status under the Employee Retirement Income Security Act of 1974 ("ERISA"). As there are extensive variables and regulations to consider, it is common and often necessary for companies to engage actuarial firms to compute pension and post-retirement benefit costs.

Q. Do the actuarial assumptions and methods provide a reasonable basis for determining the level of pension costs to be included in the company's operating cost?

A. Yes. The actuarial assumptions and methods are reasonable and consistent with Financial Accounting Standards Board ("FASB") standards and industry practice and provide a reasonable basis for determining the level of pension cost included in the company's cost of service studies. The company's pension costs are reflected in FERC Account 926 on MFR Schedule G-2, page 18a.

Q. How does the company's pension plan and retirement savings plan compare to industry standards?

A. Based on the results from the 2023 Mercer Benefits Valuation Study, Peoples' relative value index score for the combination of the defined benefit and defined contribution plans is 102 for non-union (Exempt and NC/NE) team members, slightly above the index median of 100, which means the company's defined benefit and defined contribution plans are competitive relative to its peers. This is shown in Document No. 9 of my exhibit.

VI. 2026 TEST YEAR TOTAL COMPENSATION EXPENSES

Q. Please explain the company's process for deciding on which positions to budget for and fill.

A. A functional leader in each area of the company identifies the need to hire a new position or fill an existing vacant position (known as a "replacement" position). The company's decision to hire a new position or a replacement position is made after careful examination of the justifications provided by the functional leader for that position. Positions are prioritized across the organization based on business need.

Given the inflationary environment and our need to manage O&M expenses to minimize rate impacts on customers, both new and replacement positions are reviewed and approved by the functional executive leader. The President and Chief Executive Officer must approve all new positions within the company. Each position included in the budget is thoroughly considered to ensure it aligns with the specific business needs of that function.

Q. What is Peoples' projected employee count for 2025 and 2026?

A. Peoples' projected employee counts for 2025 and 2026 are 892 and 981, respectively. MFR Schedule G-2 pages 19c through 19e, lists all of the budgeted team member additions for 2025 and 2026, including new positions and replacements. As reflected in "Payroll not trended Item" of this MFR schedule, 46 replacement positions and 34 new positions are budgeted for 2025, and 89 new positions in 2026. These increases reflect a continued focus on in-sourcing where applicable to remove dependency on more expensive outside contractors.

The company budgeted its replacement positions as "not trended labor" as there was not a full year of labor expense in the historical base year to use as the starting point to budget for the projected 2026 test year.

Q. Why are the number of team members increasing in 2025 and 2026?

A. The company plans to increase the number of team members in 2025 and 2026 to support customer growth. Specifically, this increase will focus on several areas: (1) Gas Operations to support the increase in activity levels due to customer growth on Peoples' system and the addition of new capital assets; (2) Pipeline Safety to mitigate risk, and to ensure safety remains our top priority for the safety of our team members and customers; (3) Engineering and Construction to effectively manage increasingly complex systems and workload as we grow; and (4) Technology Support to provide Peoples with the ability to own, govern and effectively manage its data, enabling more informed business decisions. Some of the additions represent a deliberate move by the company to insource talent and decrease the use of outside services. Overall, these additions are essential to meet the demands of our growing customer base and to maintain our commitment to safety and operational efficiency.

Q. Does the HR area plan to add team members in 2025 and 2026?

A. Yes. In 2025, in addition to the new position of Learning & Development Specialist, discussed above, HR added a "Technical Trainer" position within HR's Leadership Development area. This position will address talent management gaps and support the learning and development of our team members. Additionally, this position will design tailored programs aimed at upskilling our team members which will enhance retention and engagement.

In 2026, HR will add a "Business Partner" position to support our workforce across the state. This role will handle complex HR issues, labor relations, employee engagement, and performance management. By adding this position, we will increase the support HR can provide to the business, improve overall effectiveness, and boost retention and engagement.

Q. Are you supporting any other employee additions in 2025 and 2026 as the leader of HR?

A. Yes. The company budgeted to add 12 A&G team members in the following functional areas that I am sponsoring: (1) Strategy, Marketing and Communications (five positions), and (2) Gas Supply and Development (seven positions).

Q. Please explain the responsibilities of the Strategy, Marketing and Communications ("SM&C") department and how many team members are currently employed in this area.

A. The SM&C team includes 13 team members and is responsible for long-range strategic planning, centralized data analytics, business and process improvement projects, and marketing and communications. As Peoples continues to grow and seeks better ways of working, it is imperative that functional support roles, such as those in SM&C, expand to assist with more complex ways of working, meeting internal and external customer needs, and responding to changes in market dynamics. Therefore, Peoples determined additional team members are necessary for these functions to keep pace with the rapidly changing business environment, foster long-term growth, and drive industry-leading initiatives.

Q. Please explain the five new positions in SM&C and why these new team members are necessary for the company.

A. The SM&C area will add one new position - a Director of Project Management and Change in 2025.

In 2026, this area will add the following four new positions: (1) a Lead Business Innovation Specialist, (2) a Data Scientist, (3) a Digital Communications Coordinator, and (4) a Communications Strategist.

1. **Director of Project Management and Change (New):** This new position is an example of the company's efforts to insource talent and minimize the use of consultants. This Director will work with ongoing business improvement projects and is needed for change leadership in our rapidly growing and evolving environment. The term "change leadership" refers to the process of leading an organization to manage change and process improvement effectively. This position will direct, lead, and manage

strategic business process improvement projects and organizational change management initiatives to drive transformation, improve business performance, and enhance customer service delivery. This position will oversee the Business Innovation team, which currently includes two team members, and collaborate with Business Strategy, Data Analytics, Communications, HR, and other areas within the company to further develop a change leadership and continuous improvement culture.

2. **Lead Business Innovation Specialist (New):** This position, which is part of the Business Innovation team, will support process improvement strategy implementation across the company. The specialist will expand the Business Innovation team's capacity to meet the organization's needs through increased process improvement and project management technical skills, collaborating at all organizational levels.

3. **Data Scientist (New):** The Data Scientist will join three existing Data Analytics team members. Adding another data scientist is crucial to enhancing our efforts to transform company data into actionable insights. This transformation will contribute to

more efficient operations, improved customer experiences, and optimized decision-making. This position will also strengthen our ability to integrate Artificial Intelligence ("AI") into our daily operations, improving efficiency and productivity across the business. It is essential to have team members educated in AI, including its applications, to maximize its benefits for the organization.

4. **Digital Communications Coordinator (New):** This position will join six existing team members in Marketing and Communications, serving as an additional resource and backup to the current Digital Communications Channel Manager. This team member will manage and optimize the company's communication strategies and channels in today's digital-first world. As digital engagement becomes increasingly vital for customer satisfaction and operational success, this role will help ensure that Peoples meets the expectations of our customers, stakeholders, and team members by delivering clear, relevant, and engaging communications across all digital platforms.

5. **Communications Strategist (New):** The Communications Strategist will be an addition to our existing Marketing and Communications team to ensure the effective implementation of the company's internal and external communication strategies across various platforms. This role supports our strategy of ensuring our messaging aligns with the company's mission and strategic goals. Clear, concise, and consistent messaging is crucial to fostering and maintaining strong relationships with customers, regulators, team members, the public, and other stakeholders.

Our Marketing and Communications team manages the company's websites, social media platforms, and internal communications platforms. This role involves content development and optimization, data analytics, maintenance, and technical support. These functions are difficult to outsource due to the need for specific company knowledge, timely execution, and adherence to security protocols.

Q. Please explain the responsibilities of the Gas Supply and Development ("GS&D") department and how many team members currently work in this area?

A. GS&D is comprised of two main areas: (1) Gas Supply and Trading, and (2) Large Commercial and Industrial Development. This department develops and implements business activities to meet the growing demand of unserved areas, works to expand the system to new customers, and integrates long-term system resource requirements with new customer growth.

This team focuses on the full utilization and optimization of the company's existing asset base, including the current gas pipeline system, upstream transportation capacity, and existing customer relationships. GS&D is made up of 26 team members who are responsible for negotiating contracts and overseeing natural gas services for major customers. They also negotiate the construction of expansion facilities to serve the increasing demand for pipeline transportation.

Q. Please explain the seven positions in GS&D and why they are needed.

A. In 2025, GS&D plans to add the following four replacement positions: (1) Manager, (2) Senior Gas Trader, (3) Fuels-Co-op, and (4) Compressed Natural Gas ("CNG") Business Development Manager. In addition, GS&D seeks to add three new positions in 2026:(1) Manager Business Planning and Analysis, (2) Senior Manager, Business Development, and (3) Program Manager. These positions are described in further detail below.

1. **Manager (Replacement).** The Manager of Business Development position will join nine existing team members in the Large Commercial and Industrial Development area. This replacement position fills a vacancy from 2024.

The company is experiencing significant interest from Renewable Natural Gas ("RNG") developers and customers seeking pipeline interconnection services. This position will focus on building relationships with RNG developers and customers and will serve as a primary point of contact for corporate or industrial customer representatives looking to utilize cleaner sources of natural gas. The Manager will play a key role in the origination, development, and management of RNG projects to deliver cleaner energy solutions. This team member will implement the company's tariff offerings for RNG interconnection services and coordinate planning and development activities to meet the growing demand for cleaner energy solutions.

2. **Senior Gas Trader (Replacement).** This replacement position joins 18 existing team members in the Gas Supply and Trading area and is essential for meeting the gas supply demands of our growing customer base. The role is primarily responsible for supporting the company's activities in gas supply and wholesale origination, focusing on the administration of gas supply and upstream transportation capacity activities. This position is responsible for ensuring that the company has adequate gas supply and pipeline transportation capacity to serve our expanding system needs.

3. **Fuels – Co-op (Replacement).** This replacement Co-op position in Gas Supply and Trading will provide an opportunity to assist in creating efficiencies for the fuels team by improving processes and procedures for data collection, data entry, models and reporting.

4. **CNG Business Development Manager (Replacement).** This replacement position in the Large Commercial and Industrial Development will fill a vacancy left in

2024. This position is necessary to meet existing CNG customer needs and manage workload associated with the continued growth in the CNG market that has evolved as a resilient source of energy for our customers. This replacement position restores the team back to its historical count of four team members.

5. **Manager Business Planning and Analysis (New).** This position replaces a previous position due to the internal promotion of an existing team member within the Gas Supply and Trading department. The purpose of this role is to create overall efficiencies in the GS&D department by managing data analysis, modeling, and gas planning to improve system reliability, optimize the portfolio, reduce expenses, and increase revenue for the company.

6. **Senior Manager, Business Development (New).** In response to growing demand, the new role of Senior Manager in the Large Commercial and Industrial Development area will support the addition of large volume customer load. The Senior Manager is responsible for (1) identifying opportunities to add load from existing and new large customers to the

system, (2) negotiating agreements with existing and new large customers, (3) preparing the business case for integrating large volumes of load to the system, and (4) coordinating with multiple internal functions required to ensure the needs of the large customer are met.

7. **Program Manager (New).** In response to the increase in customer growth initiatives, there is a need for a dedicated program manager in the Large Commercial and Industrial Development area. This new role will focus on administering contracts and ensuring proper billing setup for accurate customer bills and revenue tracking. The program manager will build and maintain customer relationships throughout the life cycle of a customer's contract. This position is responsible for managing contracts related to alternative fuels, including RNG, CNG, and Liquefied Natural Gas (LNG). The program manager will ensure adherence to all commercial contract terms, such as term, volume, and rates, while providing excellent customer service to facilitate proper billing. Additionally, the program manager will coordinate and implement all alternative fuel agreements with internal and external stakeholders, e.g., customers,

agents, engineering team, customer service team, accounting team, development team and gas supply team.

Q. What actions has Peoples taken since its last rate case in 2023 to manage the increase in the number of employees?

A. As previously mentioned in my testimony, Peoples' decision to hire a new or a replacement position is based on a careful examination of the justifications identified by the functional leader for that position. Positions are prioritized across the organization based on business needs. The new and replacement positions are reviewed and approved by the functional executive leader. The President and Chief Executive Officer must approve all new positions within the company. Each position the company budgets for is well thought through to ensure it meets the business need for that specific function.

Q. What number of employees should be approved for ratemaking purposes for the 2026 test year?

A. Peoples' is seeking approval for 981 team members in 2026.

Q. What is the projected gross average total compensation per active team member for the 2026 test year as compared to 2023?

A. Peoples' 2026 budgeted gross average total compensation per active team member is $102,061 as compared to $98,256 in 2023. This represents a compound average growth rate ("CAGR") of 1.3 percent since 2023. These increases are reasonable based on the market comparisons described in my testimony.

Q. What is the projected gross average compensation, benefits, and payroll tax cost per team member for 2026 as compared to 2023?

A. Peoples' 2026 budgeted gross average compensation, benefits, and payroll tax cost per active team member is $130,330 as compared to $124,775 in 2023. This represents a CAGR of 1.5 percent since 2023.

Q. You testified that the company's TDC in 2026 is reasonable and explained why. What level of merit increases is the company projecting for 2025 and 2026?

A. As shown on MFR Schedule G-2, pages 12 to 19, the company has budgeted 4.0 percent for merit increases for 2025 and

2026.

Q. What is the amount of O&M expenses for FERC Account 920: A&G Salaries for 2026 and how does it compare to 2024, and what was approved by the Commission for 2024?

A. The Commission approved costs in FERC Account 920 totaling approximately $22.7 million for 2024, and the actual 2024 was $23.6 million, or $0.9 million higher. The $0.4 million related to higher than budgeted STIP based on score card performance as well as variances in labor cost contributed to this variance.

The total O&M expenses for FERC Account 920 for 2026 is $28.4 million, which is $4.8 million higher than the $23.6 million for 2024. Approximately $1.2 million of this increase is administrative salaries that were budgeted on a trended basis using the 4.0 percent merit increase. Approximately $2.5 million of this increase is not trended labor cost consisting of new and replacement team member positions for 2025 and 2026, as shown on MFR Schedule G-2, page 19e. The not trended labor cost is addressed in the direct testimonies of Peoples witnesses Luke Buzard, Timothy O'Connor, Andrew Nichols, and Christian Richard. The remaining increase, or $1.7 million, is related to

STIP.

Q. What is the company's projected STIP cost for 2026 and how does that amount compare to the 2024 historic base year?

A. Peoples projected STIP costs for 2026 is $10.1 million, which is shown as a not trended item on MFR Schedule G-2, page 19b. This increase of $1.7 million is due to the budgeted team member hiring in 2025 and 2026.

Q. What is the company's projected LTIP cost for the 2026 projected test year and how does that amount compare to the 2024 historic base year?

A. The company's projected LTIP expenses for the 2026 projected test year is approximately $3.5 million. This compares to the 2024 historical base of $2.4 million. This represents a 50 percent increase in expenses. This increase is caused by added eligible senior level positions along with increases in stock price per the plan calculation.

Q. Are the 2026 projected amounts for STIP and LTIP reasonable?

A. Yes. Based on the projected increase in employee count, these amounts are reasonable.

Q. Is the 2026 projected amount of base compensation reasonable?

A. Yes. The company's team members have maintained an average comp-ratio of 0.97 compa-ratio from 2022 through 2024, with the compa-ratio at 0.96 as of January 2025. This indicates that the company is paying team members just below the market median, which is reasonable.

Q. What level of merit increases is the company projecting for 2025 and 2026?

A. For the years 2025 and 2026, the merit increase is 4.0 percent for non-covered team members. These adjustments are reflected in the base pay component of projected 2026 salary and wages expenses. Based on national market sources such as Mercer, World at Work, and Gartner, salary increases are trending at between 3.5 to 4.0 percent.

Q. What level of payroll cost increases for covered employees were included in projected payroll costs for 2026?

A. The company negotiated increases included in the current CBA to calculate payroll increases for covered team members. These increases are reflected in confidential Document No. 4 of my exhibit. As previously mentioned in my testimony, Peoples may negotiate two CBAs in 2025, which could impact the budgeted payroll costs for 2025 and 2026.

Q. What is the company's gross benefits cost for the 2026 projected test year as compared to 2024?

A. Peoples' pension and benefits costs in O&M FERC Account 926 are projected to be approximately $16.6 million in 2026 as compared to $13.0 million in 2024. This increase is primarily attributed to projected employee additions.

Q. How do the gross benefits costs compare with the amounts the company has included in O&M FERC Account 926 Pension and Benefits?

A. A portion of benefits costs are capitalized with labor or are clause recoverable. Therefore, the amount in FERC Account 926 is lower than the gross benefits costs. Please see Document No. 10 of my exhibit which shows the capitalization of a portion of the FERC Account 926 costs.

Q. What is the company's projected healthcare cost for the 2026 test year?

A. The company's projected 2026 healthcare costs are $11.8 million.

Q. What is the appropriate amount of pensions and post-retirement benefits expense to include in the 2026 test year?

A. The total retirement expense for pension in the 2026 projected test year is approximately $3.9 million. The postretirement benefits in the 2026 projected test year is approximately $1.0 million. These projected expenses are included within the "Other Not Trended" portion of FERC Account 926 on MFR Schedule G-2, page 18.

Q. What is the appropriate amount of salaries and benefits to include in base rate O&M expense for the 2026 projected test year?

A. Peoples' projected total compensation and benefits for the 2026 projected test year is $92.5 million as shown on MFR Schedule G-2, pages 18a – 19b.

Q. Are the company's total compensation and benefits costs for 2026 reasonable?

A. Yes. As noted above, the company evaluates its total compensation and benefits by comparing them to relevant benchmarks. The results indicate that these costs are at the market median. Furthermore, the company's salaries align with the median of the market, supporting Peoples compensation philosophy aimed at attracting, retaining, developing and incentivizing talent. In addition, Peoples monitors its pay practices to ensure compliance with policy guidelines.

Q. What steps has the HR Department taken to promote affordability?

A. To enhance affordability, the HR Department has focused on cost avoidance and efficiency optimization. In 2024, the Talent Acquisition team enhanced recruitment processes to boost efficiency and avoid previous expenses when third-party recruitment firms were utilized. Additionally, HR identified hard to fill roles and utilized flexible hiring options, such as remote work arrangements. This enabled the recruitment of top-tier talent from outside Florida, thus reducing time-to-fill and outsourcing needs.

MFR SCHEDULES SPONSORED

Q. Are you sponsoring any MFR schedules?

A. Yes. I am co-sponsoring MFR Schedules C-38, G-2 and G-6.

Q. Please provide an explanation of the MFR schedules you are co-sponsoring.

A. MFR Schedules C-38, G-2, and G-6 detail O&M expenses for HR labor and employee pensions and benefits.

VII. SUMMARY

Q. Please summarize your prepared direct testimony.

A. Peoples' total compensation package is reasonable and benefits customers by ensuring the company attracts and retains skilled, talented, and customer-focused team members who can safely and reliably serve the company's customers. Peoples' pay program is structured to align with the market median and is based on total direct compensation, making it a reasonable approach.

The company's O&M expenses related to HR in the company's

2026 projected test year are reasonable and prudent. Additionally, the company's benefits and retirement programs are reasonable and competitive and allow the company to retain and attract high quality team members who are committed to safely and reliably serving Peoples' customers.

Finally, additional O&M resources are required and will create business value, protect the company from risk, enable business improvements, and ensure the safe and reliable delivery of natural gas to our customers.

Q. Does this conclude your prepared direct testimony?

A. Yes.

(Whereupon, prefiled direct testimony of Luke Buzard was inserted.)

TECO PEOPLES GAS
AN EMERA COMPANY

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

LUKE BUZARD

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PREPARED DIRECT TESTIMONY AND EXHIBIT

OF

LUKE BUZARD

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 20250029-GU
FILED: 03/31/2025

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

LUKE BUZARD

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

A. My name is Luke Buzard. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Peoples Gas System, Inc. ("Peoples" or the "company") as Vice President of Regulatory and External Affairs, and interim Vice President of Finance.

Q. Please describe your duties and responsibilities as Vice President of Regulatory and External Affairs.

A. As Vice President of Regulatory and External Affairs, I am responsible for overseeing all aspects of rates, compliance, and regulatory issues governed by the Florida Public Service Commission ("Commission") and Federal Energy Regulatory Commission ("FERC") for Peoples. This includes base rate design, tariff administration, cost recovery clauses, riders, load forecasting, revenue forecasting, and regulatory filings before the Commission and FERC. Additionally, I oversee the External Affairs area which is responsible for maintaining the company's relationships with local governments, community groups, trade associations, and non-profit organizations.

Q. Please describe your duties and responsibilities as the interim Vice President of Finance.

A. As Interim Vice President of Finance, I am responsible for maintaining the financial books and records of the company and for determining and implementing accounting policies and practices for Peoples, which includes general accounting, regulatory accounting, and financial reporting. I am also responsible for budgeting and forecasting activities within the company, which include business planning, financial analytics and long-term forecasting.

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

A. I earned my Bachelor of Science degree with a concentration in Accounting and my Master of Accountancy degree from the College of Business Administration at the University of South Florida. Before my current position, I served as the Director, Pipeline Safety and Operational

Services, where I was responsible for technical training, compliance, standards, and technical services, as well as employee and contractor safety. Additionally, I previously held the Director of Internal Audit position at TECO Energy. I am also a Certified Public Accountant in the state of Florida and hold a Certified Internal Audit designation from the Institute of Internal Auditors.

Q. Have you testified before the Commission in a previous docket? If so, please describe.

A. Yes. I testified in the company's last rate case in Docket Number 20230023-GU.

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

A. The purposes of my testimony are to:

(1) describe the functions and job responsibilities of the Regulatory, External Affairs and Finance departments;

(2) demonstrate that the Regulatory, External Affairs and Finance operations and maintenance expense ("O&M") levels for the 2026 test year are reasonable and prudent;

(3) describe the current status of Peoples recent filings

before the Commission;

(4) explain Peoples' revenue forecasting process and compare the 2024 actuals to the prior rate case test year projections;

(5) present the revenue forecast used in the company's test year budget that supports its request for a base rate increase in this case;

(6) propose modifications to the company's miscellaneous service charges;

(7) propose modifications to the company's annual residential billing class volume review and describe the changes to the rate design;

(8) discuss the impact of the proposed rate increase to customer bills;

(9) propose and support tariff modifications as part of the company's request for a base rate increase in this proceeding;

(10) support the economic development expenses; and

(11) describe the Minimum Filing Requirement Schedules I am sponsoring or co-sponsoring.

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

A. Yes. I am sponsoring Exhibit No. LB-1, entitled "Exhibit of Luke Buzard", consisting of 11 documents, 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 following documents:

Document No. 1.	List of Minimum Filing Requirement ("MFR") Schedules Sponsored or Co-Sponsored by Luke Buzard
Document No. 2.	Historical and Forecasted Customers, Therms & Revenue
Document No. 3.	2023 & 2024 Customer Reconciliation
Document No. 4.	2023 & 2024 Residential and Small Commercial Average Use Reconciliation
Document No. 5.	2023 & 2024 Revenue Reconciliation
Document No. 6.	Residential & Small Commercial Actual & Weather Normalized Sales
Document No. 7.	Customer Growth by Service Area
Document No. 8.	2024 Forecast vs Actuals
Document No. 9.	Comparison of Current and Proposed Residential and Business Rates, including Miscellaneous Charges.
Document No. 10	2027 Subsequent Year Adjustment

Supplemental Schedules
Document No. 11 Proposed Tariff Modifications
(Legislative Version)

I. REGULATORY, EXTERNAL AFFAIRS AND FINANCE OVERVIEW

Q. Have your duties and responsibilities changed since the last rate case?

A. Yes. On April 1, 2024, after a company reorganization, I took over the External Affairs team from Peoples witness Timothy O'Connor, while the Safety & Compliance team, which was previously under my control, shifted to witness O'Connor. These changes were to better align functional responsibilities and provide professional growth across the organization. Additionally, as stated above, I am currently serving as the interim Vice President of Finance.

A. <u>THE REGULATORY TEAM</u>

Q. Please describe the company's Regulatory team and the duties they perform.

A. The Regulatory team manages all filings and proceedings before the Commission and FERC. These duties include: (1) developing and implementing regulatory activities related to the company's rates; (2) tariff administration; (3) rate design activities; (4) audits; (5) the management of cost recovery clauses and riders; (6) load forecasts; (7) revenue forecasts; and (8) FERC compliance activities and interstate pipeline rate cases. Additionally, the Regulatory team oversees and manages all aspects of a rate case filing including the preparation of testimony, discovery responses, witness training, witness depositions, hearing preparation, and implementing final rates.

Q. How many team members work in Regulatory?

A. The Regulatory department consists of 10 team members. The team includes a Director of Regulatory Affairs and three Regulatory Affairs Managers who oversee clauses and riders, load forecasting, and cost of service. Additionally, there is a supervisor for conservation programs, three Regulatory Analysts, and two customer-facing team members who process payments for energy conservation allowances or rebates for customers.

Q. What regulatory functions does Tampa Electric Company ("Tampa Electric") provide to Peoples as a shared service?

A. Tampa Electric provides regulatory coordination services to Peoples. These coordination services include but are not limited to: (1) docketing and managing deadlines for Commission filings, (2) ensuring compliance with filing requirements, (3) submission of official filings, (4) maintaining file management systems, and (5) maintaining version control of the company's tariff.

B. THE EXTERNAL AFFAIRS TEAM

Q. Please describe the External Affairs team and the duties they perform.

A. The External Affairs team develops and maintains relationships with local governments, trade associations, non-profit organizations, and community groups across the 43 counties that Peoples serves. A core function of the team is to work with local governments to understand their planned construction activities so the company may coordinate with other utilities and diminish disruption and duplication of work. This team also leads the negotiation of franchise agreements, overseeing approximately 121 franchise agreements with local governments. External Affairs engages with nearly 100 chambers of commerce and economic development organizations, boards and partnerships which is vital for understanding the economic landscape, identifying opportunities for collaboration, and supporting local community initiatives. They take part in natural gas industry groups and associations, including the American Gas Association, the Southern Gas Association, and the Florida Natural Gas Association, to facilitate industry best practices. They assist with coordination of communications and operational support with Emergency Operations Centers during storm events or other emergencies to provide updates and assist stakeholders in preparation and response efforts.

Q. How many team members did the External Affairs department have as of December 31, 2024?

A. As of December 31, 2024, the External Affairs team consisted of five team members: a Director of External Affairs and four External Affairs (Regional) Managers.

C. <u>THE FINANCE TEAM</u>

Q. Please describe the Finance team and the duties they perform?

A. The Finance team maintains the financial books and records of the company and determines and implements accounting policies and practices for Peoples, including general accounting, regulatory accounting, and financial reporting. The team is also responsible for budgeting and forecasting activities within the company, which include business planning, long-term forecasting, and financial analytics.

Q. How many team members did the Finance department have as of December 31, 2024?

A. As of December 31, 2024, the Finance team had 24 team members. Three Director positions exist including a Controller, Director of Business Planning and a Director of Financial Analytics. Five Manager positions support the Finance department, and the balance of the team are varying levels of analysts and specialists.

Q. In the company's last rate case, the Commission approved three replacement positions and five new positions in the finance area in FERC Account 920 – Administrative and General Salaries. Did the company hire these positions?

A. Yes. With the exception of one replacement position that the company reclassified from a Senior Portfolio Analyst to a Senior Strategic Financial Analyst, Peoples filled the positions as approved by the Commission.

II. REGULATORY, EXTERNAL AFFAIRS AND FINANCE – NON-TRENDED LABOR O&M EXPENSES – 2026 TEST YEAR

Q. What are the forecasted non-trended labor O&M amounts you are responsible for, and are these amounts reasonable?

A. The projected non-trended labor O&M expenses for 2025 and 2026 are approximately $0.4 million and $0.7 million, respectively. These projected expenses are reasonable and relate to non-trended labor in FERC Account 920, as detailed on MFR Schedule G-2, page 19e. These costs are explained below.

A. <u>REGULATORY DEPARTMENT</u>

Q. Will the Regulatory department be adding team members in 2025 and 2026?

A. Yes. The Regulatory department will add one position in 2025 and one position in 2026.

In 2025, the Regulatory department will add a Director of Rates, Cost of Service, and Financial Analysis to play a critical role in performing activities related to pricing gas distribution rates, conducting comprehensive cost-of-service studies, and engaging in regulatory financial analysis that accurately reflects the company's cost to serve. By hiring this position, the company will significantly enhance its internal expertise, and cultivate a more robust, self-sufficient approach to its regulatory financial operations.

In 2026, we plan to add a Regulatory Manager to address the increased workload associated with on-going and anticipated regulatory activity, enhanced regulatory research and analysis, and general legislative and Commission activities. The Regulatory Manager will support traditional regulatory filings, coordinate filings between outside counsel and the Commission, prepare and file discovery, and manage necessary platforms, including our case management software and TariffShark.

Both positions benefit customers by providing ongoing analyses of the company's cost of service, rate design and tariff. Additionally, hiring these positions will decrease the company's reliance on external consultants which will generate cost savings in the long-term.

B. EXTERNAL AFFAIRS DEPARTMENT

Q. Will the External Affairs department add team members in 2025 and 2026?

A. Yes. The External Affairs department will fill two vacancies and add one additional team member for a total of eight team members in the External Affairs department.

Q. Please describe these positions?

A. In 2025, the company will fill two vacancies, an External Affairs (Regional) Manager and a Business Strategy Analyst. The company recently filled the External Affairs Manager position. This role is responsible for developing, cultivating, and managing relationships with elected officials, governmental staff, business and community leaders, economic development organizations and customers for the North Region in the company's service area. This position also supports operations including permits, franchise agreement negotiation, outreach on infrastructure projects, assistance with customer matters and emergency response functions.

The company will fill a vacancy for a Business Strategy Analyst this year to support the External Affairs team in developing and implementing strategies to advocate for interests of the company. This position will (1) serve as a primary contact with local government, various stakeholder groups and community leaders, (2) identify local government issues impacting the company and (2) assist with franchise agreement management.

In 2026, External Affairs plans to add an External Affairs Manager to serve as a key resource with a responsibility to enhance the company's interactions with the Commission, other regulatory agencies, and various stakeholders. Additionally, this position will monitor regulatory developments, docketed activity and legislative initiatives. This role is vital for maintaining effective communication and representation of the company before the Commission.

C. <u>FINANCE DEPARTMENT</u>

Q. Will the Finance department add team members in 2025 and 2026?

A. Yes. Peoples plans to add two team members in 2025 and one team member in 2026 to the Finance team.

Q. Please explain why the additional Finance team members are necessary.

A. One of the two Finance team member additions in 2025 is a co-op student, which is a replacement for a vacant position as of the end of 2024. The Finance co-op assists with various accounting and financial activities while receiving an opportunity for practical experience and professional growth. The second position for 2025 is a Fixed Assets Accountant, who will be responsible for supporting the growing volume of transactional data related to the company's expanding capital assets.

In 2026, the Finance team plans to add a Business Planning Analyst, which is needed to provide additional financial support as the company's operational activities increase with the growing pipeline system and customer base.

D. <u>STEPS TAKEN TO PROMOTE AFFORDABILITY</u>

Q. What steps have the Regulatory, External Affairs and Finance departments taken to promote affordability?

A. The Regulatory department promotes affordability by managing costs, evaluating cost recovery, analyzing revenue and bills, managing customer offerings and monitoring natural gas service affordability. Since 2023, we focused on promoting affordability by helping customers save over four million therms of natural gas through conservation programs. We connected more than 17,000 residential customers to energy-saving opportunities through our online audit and launched an on-site energy audit for commercial customers. Additionally, the Regulatory team coordinates the overall management of the Purchased Gas Adjustment Clause with the goal of reliability and efficiency in providing natural gas.

The External Affairs team enhances customer affordability by negotiating adequate franchise agreements, improving permitting processes and contributing to the economic development opportunities within the communities we serve. By providing expertise to chambers and economic development organizations, the External Affairs team assists with maximizing the value of Peoples' distribution system. This team is instrumental in evaluating and providing natural gas services to new businesses and existing governmental agencies, addressing their essential energy requirements.

The Finance team is responsible for accurately tracking costs, ensuring affiliate charges are appropriate and properly accounting for the business transactions of the organization. This team ensures the accurate development of budgets and forecasts. Accurate and reliable budgeting and forecasting helps ensure our business is being financially prudent while also maintaining safe and reliable service for customers.

Q. What measures has the company implemented to maintain competitive and affordable customer bills?

A. Peoples regularly reviews its natural gas bills against other gas utilities in Florida, considers alternative fuel options such as propane, and ensures that natural gas constitutes a very reasonable portion of a customer's total household utility expenses.

III. STATUS OF OTHER PENDING DOCKETS BEFORE THE COMMISSION

A. <u>CAST IRON/BARE STEEL PIPE REPLACEMENT RIDER MODIFICATION</u>

Q. What is the status of the company's petition filed in Docket No. 20240107-GU filed on July 26, 2024?

A. On March 3, 2025, the company voluntarily dismissed its petition for approval to modify its Cast Iron/Bare Steel Pipe Replacement Rider ("Rider CI/BSR"). The petition sought approval to expand the definition of eligible replacements under the Rider CI/BSR to include additional safety-driven activities and to rename the rider as the Safety of Facilities and Infrastructure Replacement Rider. On March 6, 2025, staff submitted a memorandum to the Commission Clerk, Document No. 01378-2025, recommending that the docket be administratively closed.

Q. What is the company's proposal regarding the additional safety-driven activities in this proceeding?

A. The company prepared its 2026 test year annual revenue requirement increase request, assuming the investments associated with its proposed additional activities will be recovered through the base rates to be established in this proceeding. The dismissal of our Rider CI/BSR petition eliminates any need to make adjustments in this base rate proceeding and there is no potential for "double recovery" of any investments.

B. <u>WORK AND ASSET MANAGEMENT PETITION</u>

Q. What is the status of the company's petition filed in Docket No. 20240157-GU filed on November 13, 2024?

A. Peoples filed a petition to establish a new regulatory subaccount for its Work and Asset Management ("WAM") system and to increase the amortization period for WAM from 15 to 20 years, effective January 1, 2025. Peoples voluntarily dismissed its petition without prejudice on March 3, 2025, in order for the company's proposal to be considered in this proceeding. On March 7, 2025, staff submitted a memorandum, Document No. 01408-2025, to the Commission Clerk recommending that the docket be administratively closed.

Q. What is the company's proposal regarding WAM cost recovery treatment in this proceeding?

A. The company prepared its 2026 test year net operating income and annual revenue requirement increase request based on the 15-year amortization period for the WAM system in FERC Account 303.01 approved in the company's last rate case. As part of this proceeding, Peoples requests the Commission (1) authorize the creation of a new sub-account for WAM, (2) increase the amortization period for WAM to 20 years, and (3) if it approves the 20-year amortization period, reflect a $717,633 reduction to WAM amortization expense for the 2026 test year when calculating the final 2026 test year revenue requirement in this proceeding.

C. OFF SYSTEM SERVICE SHARING MECHANISM MODIFICATION

Q. What is the status of the company's petition filed in Docket No. 20250026-GU filed on January 13, 2025?

A. Peoples' petition for approval of modifications to its Swing Service Charge, Individual Transportation Service rate schedule, and the sharing mechanism provided in the Off System Service rate schedule, from a 25/75 basis to a 50/50 basis is pending before the Commission.

Q. What is the company's proposal regarding the Off System Service ("OSS") sharing mechanism in this proceeding?

A. The modification to the OSS sharing mechanism relates to the amount of other operating revenue forecasted for the 2026 test year. The company prepared its 2026 test year annual revenue requirement increase request using the currently approved 25/75 OSS sharing mechanism. Accordingly, the company proposes to update its 2025 revenue increase request in this proceeding if the Commission approves the 50/50 sharing and schedules allow.

D. ADOPTION OF RULE 25-7.150, FLORIDA ADMINISTRATIVE CODE

Q. On March 6, 2025, in Order No. PSC-2025-0068-NOR-GU, the

Commission proposed the adoption of Rule 25-7.150, Florida Administrative Code, relating to the Natural Gas Facilities Relocation Cost Recovery Clause ("NGFRCRC" or the "NGFRCRC Rule"). What is the company's proposal regarding relocation costs as contemplated under the NGFRCRC in this proceeding?

A. Although the company's financial forecasts for 2025 and 2026 include reasonable projected natural gas facilities relocation costs that would be eligible for cost recovery through the NGFRCRC, the company included those costs in calculating its 2026 test year revenue requirement and revenue increase request. The company will evaluate whether to file a petition to transfer those costs to the new NGFRCRC once the rule becomes effective and will ensure that the costs will not be recovered through both base rates and the NGFRCRC, i.e., no double recovery.

IV. PEOPLES' REVENUE FORECASTING PROCESS

Q. Please describe the company's revenue forecasting process.

A. The revenue forecasting process involves comprehensive analysis that includes examining historical trends, weather behavior, current market conditions, and detailed knowledge of residential and small commercial development at the field level.

The company considers "Residential" to include customers that take service under these six rate classes: (1) Residential-1 (RS-1), (2) Residential-2 (RS-2), (3) Residential-3 (RS-3), (4) Residential Standby Generator (RS-SG), (5) Residential Gas Heat Pump (RS-GHP), and (6) Residential Transportation Gas Heat Pump (RTP).

Peoples denotes "Small Commercial" to include customers that take service under these 14 rate classes: (1) Small General Service (SGS), (2) Small General Service Transportation (SGT), (3) General Service 1 (GS-1), (4) General Service 2 (GS-2), (5) General Service 3 (GS-3), (6) General Service-1 Transportation (GT-1), (7) General Service-2 Transportation (GT-2),(8) General Service-3 Transportation(GT-3), (9) Commercial Gas Heat Pump (CS-GHP), (10)Commercial Transportation Gas Heat Pump (CTP), (11) Commercial Standby Generator (CS-SG), (12) Commercial Transportation Standby Generator (CTG), (13) Commercial Street Lighting (CSLS), and (14) Commercial Street Lighting Transportation (CSLT).

Finally, the company classified "Large Customers" to include General Service-4 (GS-4), General Service-5 (GS-5), General Service-4 Transportation (GT4), General Service-5 Transportation (GT5), Wholesale (WHS), Wholesale Transportation (WHT), Small Interruptible Service (SIS), Small Interruptible Transportation Service (SIT), Interruptible Service (IS), Interruptible Transportation Service (ITS), Interruptible Large Volume (ISLV), Contract Interruptible Service (CIS) and Contract Transportation Service (CTS) rate schedules, or service pursuant to a special contract.

Furthermore, the analysis considers the specific projections for customers requiring complex, large volume gas service. While coordinated by our regulatory team, this process includes the involvement of external and internal specialists. Internally, we coordinate with the company's (1) Business Intelligence and Analytics team within the Strategy, Marketing and Communications department, (2) the Business Development area in the Gas, Supply and Development department, and (3) the Finance department.

Externally, we work with TECO Partners, Inc. ("TPI"), who is responsible for the residential sales on behalf of Peoples. Our forecasting process has consistently demonstrated reliability and accuracy in relation to our overall budget and actual performance. In my testimony, I will detail our historical projection process, assess the reliability and accuracy of these projections, and provide justification for the revenue projections for 2025 and 2026.

Q. Please describe how Peoples' customer and therm forecasts are developed.

A. Using Itron's Statistical Adjusted End-Use ("SAE") models, Peoples' forecast process is a joint effort between our load forecasting team and multiple departments within the company. Each of the company's service areas throughout Florida is forecasted individually and then aggregated to get total company-level forecasts. The company has 14 individual service areas: (1) Miami, (2) Tampa, (3) St. Petersburg, (4) Orlando, (5) Eustis, (6) Jacksonville, (7) Lakeland, (8) Daytona, (9) Avon Park, (10) Sarasota, (11) Jupiter, (12) Panama City, (13) Ocala, and (14) Fort Myers. The forecast process has two tracks of work that go on simultaneously. One track is specific to the Residential and Small Commercial rate classes, and the second track is for the higher usage Large Customers, which are forecasted individually.

TRACK ONE: This track is based on regression modeling techniques and is done by the company's load forecasting team with input from multiple departments across the organization. The regression modeling techniques are further discussed by company witness Eric Fox in his prepared direct testimony.

Before regression modeling can take place, it is imperative to obtain a clear understanding of the data to be forecasted (the dependent variable) and the variables that influence the data (independent variables). The primary areas reviewed include recent trends in customer growth, usage patterns, and weather for each service area. Customer (bill) counts and consumption (therms) data for each service area are collected from the company's billing system. The billing data and weather, in terms of degree days, for each service area are reviewed to determine if any abnormal events (e.g., COVID-19, hurricanes, etc.) occurred that affected customers and/or therm consumption. Any data anomalies are investigated, and action plans are developed to appropriately address them during the modeling process.

The forecasting team also conducts a detailed analysis of the major assumptions to be used in the forecast process for reasonableness and consistency with recent trends. Witness Fox's direct testimony discusses this further.

Once historical trends and assumptions are vetted, the data and assumptions are prepared for import into Itron's forecasting software, which utilizes advanced statistical methods for regression analysis and forecasting. This modeling approach is further described in witness Fox's direct testimony.

TRACK TWO: This track represents a collaboration between the company's Regulatory, Business Development, Gas Supply and Finance teams. The forecasts developed in track two do not utilize economic modeling and regression techniques. Given the relatively small number of customers, Peoples uses customer-specific projected usage and applicable rates to forecast revenues for Large Customers. These forecasts are based on an analysis of recent customer usage trends and, when necessary, input from customers.

The forecasts for the RS-RHP, RTP, CS-GHP, CTP, CS-SG, CTG, CSLS, and CSLT rates are based on recent historical usage data. Additionally, projections for new customers, therm usage, and revenue from known or anticipated projects are incorporated into the forecast.

As of December 31, 2024, Peoples served 396 Large Customers which includes industrial and power generation customers. By December 31, 2026, Peoples expects to serve approximately 418 Large Customers, including industrial and power generation customers. This is illustrated in Document No. 2 of my exhibit.

Q. Describe how Peoples prepares the OSS forecast.

A. As further explained in the direct testimony of Peoples witness Andrew Nichols, the projected net revenue from OSS for 2026 is approximately $2.6 million, based on expected market conditions and historical OSS net revenues. In 2024, Peoples experienced a considerable increase in OSS revenues due to favorable natural gas price spreads and heightened market demand. These factors contributed to a $2.3 million increase above the budgeted $2.5 million margin in the last rate case. However, the OSS revenues budgeted for 2026 reflect less favorable market conditions and an appropriate level for setting the OSS sharing mechanism.

V. 2024 TEST YEAR CUSTOMER AND AVERAGE USE RESULTS VS. 2024 TEST YEAR CUSTOMER GROWTH FORECAST

Q. Please describe and compare the company's customer growth since the last base rate proceeding in 2023.

A. In the company's last rate case, the customer growth forecast for 2023 and 2024 projected an overall increase of 3.6 percent and 3.2 percent, equating to approximately 16,638 and 15,184 customers, respectively. However, as illustrated in Document No. 3 of my exhibit, the company experienced significant customer growth during 2023 and 2024, with actual increases of 4.7 percent and 3.8 percent, or 21,776 and 18,538 customers, respectively, over this period.

In the last rate case, the Residential customer growth forecast for 2023 and 2024 projected an increase of 3.8 percent and 3.3 percent, equating to approximately 15,984 and 14,605 customers, respectively. Residential actual increases equated to 4.9 percent and 4.0 percent, or 20,905 and 17,845 customers, respectively, over this period.

In the last rate case, the Small Commercial customer growth forecast for 2023 and 2024 projected an increase of 1.7 percent and 1.5 percent, equating to approximately 648 and 580 customers, respectively. Small Commercial actual increases equated to 2.3 percent and 1.7 percent, or 884 and 689 customers, respectively, over this period.

Q. Please describe and compare the company’s experience with average use for Residential and Small Commercial Customers.

A. As illustrated in Document No. 4 of my exhibit, in the last rate case, the Residential average use forecast for 2023 and 2024 projected 251.6 and 249.2 therms per customer, respectively. Actual Residential average usage was 226.4 and 234.7 therms per customer, respectively, over this period. This demonstrates a (25.2) therms per customer variance in 2023 and a (14.4) therms per customer variance in 2024.

In the company’s last rate case, the Small Commercial average use forecast for 2023 and 2024 projected 8,073.0 and 8,291.2 therms per customer, respectively. This is shown in Document No. 4 of my exhibit. Actual Small Commercial average usage was 7,713.6 and 7,760.6 therms per customer, respectively. This demonstrates a (359.5) therms per customer variance in 2023 and a (530.5) therms per customer variance in 2024. The company initially expected that commercial businesses would return to pre-COVID usage levels, as described by witness Fox. However, as businesses resumed operations, the average use among Small Commercial customers has now stabilized at a "new normal". The company forecasts that this new level of usage will persist into 2026. Document No. 6 of my exhibit contains historical data on weather-normalized average use. As stated later in my testimony, even considering the above variances in growth and usage, the overall revenue forecast only varied by 0.3 percent to actuals in 2024.

VI. CUSTOMER GROWTH, USAGE AND REVENUE FORECAST USED IN 2026 TEST YEAR

Q. Please summarize the customer growth and customer usage forecast results.

A. As shown in Document 3 of my exhibit, the projected total customer growth in 2025 and 2026 is 3.9 percent and 3.5 percent, equating to 19,870 and 18,351 customers, respectively. Residential projected customer growth in 2025 and 2026 is 4.1 percent and 3.6 percent, equating to 19,141 and 17,642 customers, respectively. Small Commercial projected customer growth in 2025 and 2026 is

1.8 percent and 1.7 percent, equating to 718 and 698 customers, respectively.

As explained earlier in my testimony and the testimony of witness Fox, Residential and Small Commercial customer usage has declined post-COVID, which the company believes represents a "new normal." Based on this new normal and a 10-year weather normal forecast, Peoples forecasts Residential customer usage at 231.1 therms per customer in 2025 and 230.8 therms per customer in 2026. Small Commercial customer usage is forecasted to be 7,614 therms per customer in 2025 and 7,629.3 therms per customer in 2026. These forecasts are illustrated in Document 4 of my exhibit.

Q. What factors are causing the projected decrease in average use for 2026 compared to 2024?

A. Actual sales in 2024 were influenced by colder weather in January, February, and December, as well as increased tourism in April and May. The company expects therm consumption to return to normal levels by 2026, based on 10-year normal weather conditions and typical tourism rates. Additionally, due to the conclusion of a short-term sale to Florida Public Utilities Company and a reduction in production reported by a large customer in 2026, the Large Commercial and Industrial sector is also expected to decline.

Q. Does the company expect average use per customer to continue to decrease in the future?

A. The company assumes that customers have acclimated to a "new normal" in the aftermath of COVID-19; additionally, appliance efficiency improvements continue to stabilize.

A. <u>EXOGENOUS ADJUSTMENT</u>

Q. Did the company make an exogenous adjustment to Residential customer growth?

A. Yes. Although the model has proven highly reliable, the company identified an exogenous adjustment that was necessary to meet anticipated future growth expectations within specific Residential service areas. The company included an exogenous adjustment that captures data from areas within and outside the company that have an in-depth understanding of Residential customer growth in the company's service areas. The company's load forecasting team works with and considers data from TPI as well as Peoples' Engineering and Construction team ("E&C") within the Engineering, Construction and Technology department.

Q. Did the company make any exogenous adjustments to Small Commercial customer growth?

A. Yes. Similar to Residential, the model for Small Commercial customer growth has proven highly reliable; however, the company determined that an exogenous adjustment was necessary to align anticipated future growth expectations for Small Commercial customers with Residential growth trends. Accordingly, as with Residential, the company included an exogenous adjustment that captures data from E&C and TPI, who have an in-depth understanding of Small Commercial customer growth in the company's service areas.

Q. Please describe how the company coordinates and incorporates these exogenous adjustments.

A. The company incorporates an exogenous adjustment into the customer models for construction activity and market projections to derive accurate Residential and Small Commercial customer growth by service area. As stated above, determining these explanatory variables is a joint effort between the sales team at TPI and the company's load forecasting and E&C teams. These teams collaborate and analyze the historical trends and compare them to known project activities derived from field intelligence.

The sales team at TPI provides qualitative insights, including projected activity from builders and developers, as well as market forecasts gathered from multiple sources. Meanwhile, the E&C provide data on current and historical workloads for services and mains, covering a period of up to three years. By combining quantitative regression analysis with field-specific intelligence, they create a comprehensive customer forecast.

Q. Please further explain why an exogenous adjustment that captures construction activity and market projections is necessary.

A. The reliance on the exogenous adjustment is necessary because the company's statistical models do not have explanatory variables that capture known construction activity and market conditions. As described in the testimony of witness Fox, separate forecasts are developed for each of the 14 service areas using regression models that utilize historical actuals through

October 2024 combined with predictive variables (coefficients), such as regional household and population data. Florida development, and more specifically natural gas installations at new homes, is highly geographically specific, so it is necessary to adjust these projections based on known construction activity and market conditions. Including this field intelligence from TPI and the E&C teams improves the accuracy of the forecast.

Q. Does the use of exogenous adjustments proven to enhance the accuracy of the forecast?

A. Yes. As demonstrated in Document No. 8 of my exhibit, incorporating these exogenous adjustments in April 2024 into the forecast resulted in an actual variance of 0.5 percent, or (2,380) customers.

Q. Please provide an example of how the company applies an exogenous update.

A. The Daytona service area provides a good example and is illustrated in Document No. 7 of my exhibit. This service area experienced significant Residential growth over the past seven years due to a major residential development. That development slowed in 2024 due to the full utilization of available lots and the absence of significant new developments in the foreseeable future. By working with E&C and TPI, the company was able to reduce the projected growth rate based on known activity.

The Ocala service area is another example, as shown in Document No. 7 of my exhibit. The Ocala service area experienced significant growth due to a large residential development. Construction on this development concluded in the first quarter of 2025. Currently, no new large developments are anticipated. Therefore, based on our use of field specific knowledge and capturing data of known construction activity, it was necessary to lower the projected growth rate for 2026.

Q. Does the company use these forecasts for purposes other than rate case proceedings?

A. Yes. The forecast is used for conservation and demand-side management clause projection filings, purchased gas adjustment projection filings, the cast iron/bare steel pipe replacement rider, and future capital plans. For the company's long-term strategic planning, it is crucial to account for the anticipated future changes. Ignoring these adjustments and their impact on future load growth could impair the company's ability to provide reliable service to customers. Moreover, it would obstruct the appropriate planning for future infrastructure needs.

B. OTHER FACTORS INFLUENCING PROJECTED THERMS AND BASE REVENUE AMOUNTS

Q. What additional factors, beyond customer growth, are influencing the projected therms and base revenue amounts for 2025 and 2026?

A. As elaborated in the testimony of witness Fox, weather conditions significantly influence projected therms and base revenue figures. The actual therm consumption and base revenue for 2024 account for the colder-than-average weather encountered in January, February, and December 2024. In contrast, the forecasts for 2025 and 2026 are predicated upon a 10-year normal weather pattern. Furthermore, the robust tourism season observed in the second quarter of 2024 contributed to an uptick in commercial usage, thereby affecting base revenue. Nevertheless, it is anticipated that commercial usage will revert to standard levels in 2025 and 2026, as tourism activities are expected to moderate during these years.

Q. Are there any other impacts to projected therms and base revenue amounts in 2025 and 2026?

A. Base revenue for the Industrial customer class is expected to decline slightly from 2025 to 2026 due to the ending of a short-term sale to a third party and reduced production by a large customer in 2026.

Q. Was Peoples' revenue forecast for the 2024 rate case test year submission reasonable comparing to actuals?

A. Yes. Document No. 5 of my exhibit shows the Residential revenue forecast deviated by 0.4 percent, Small Commercial by -3.0 percent, and total revenue by 0.3 percent.

Q. Is the forecast for customer additions, load forecast, and base revenue for 2025 and 2026 both appropriate and reasonable?

A. Yes. The forecasts are theoretically and statistically sound. The average annual growth rates for customers and therms align with recent growth trends and are consistent with model assumptions, and tariff rates are accurately applied in the revenue model.

VII. FORECASTED BASE REVENUES

Q. How did the company develop the 2025 and 2026 base revenue forecasts for Residential, Small Commercial, and Large Customer classes?

A. The base revenue is developed in Microsoft Excel spreadsheets. Each of the company's 14 service areas has its own model and are aggregated to arrive at the total base revenue projections.

The inputs to this model are:

1. The most recent approved tariff rate schedules of customer charges and per-therm distribution charges;
2. Forecasted Residential and Small Commercial therms-per-customer from the regression models;
3. Forecasted customer and therms from non-regression techniques;
4. Exogenous adjustment for Residential and Small Commercial customer growth not accounted for in the regression models; and
5. Billing determinant allocation factors.

I explained the revenue model inputs one through five earlier in my testimony. The sixth input, known as billing determinant factors, represents the percentage of customers and therms allocated to each rate schedule outlined below, which the model configures automatically.

Within the revenue models, Residential, Small Commercial, and Large Customers are represented. These forecasts are based on an analysis of recent customer usage trends and, when necessary, input from customers.

Forecasting therms for base revenues for Large Customers is a joint effort between the following departments within the company: (1) Regulatory, (2) Gas Supply and Development, and (3) Finance. This segment of the company's overall revenue forecast does not necessitate the use of economic modeling and regression techniques, as described by witness Fox for Residential and Small Commercial customers. Rather, since a large volume of demand is concentrated in a small number of Large Customers, the company develops its Large Customer demand and revenue forecast by examining prior and expected usage on a customer by-customer basis. As part of this process, members of our Gas Supply and Development team communicate directly with our Large Customers about their planned natural gas usage and transportation needs for the budget period and beyond. Peoples uses customer-specific projected usage and applicable rates and charges to forecast revenues for the customers taking service under our GS-4, GS-5, WHS, SIS, IS, ISLV, and CIS rate schedules, or service pursuant to a special contract.

The company includes therms and revenue projections for new Large Customers in our financial forecasts based on the specific service characteristics of the new customer, including projected demand, and the in-service date of any facilities being built to serve a new customer.

Once the model has allocated customer and therm consumption to all the rate schedules, the resulting customer charges and distribution per-therm charges are applied and totaled to arrive at the 2026 base revenue.

Q. What is the anticipated increase in base revenues for the year 2026?

A. Based on current rates, base revenues are expected to increase by 0.4 percent, or $1.9 million in 2025 and 3.0 percent, or $13.8 million in the 2026 projected test year. Document No. 5 of my exhibit shows base revenues by customer class included in the adjusted net operating income for the years 2024 through 2026.

VIII. MISCELLANEOUS SERVICE CHARGES

Q. Is the company proposing any new miscellaneous service charges?

A. No. The company is not proposing any new miscellaneous service charges.

Q. Is the company proposing changes to its current miscellaneous service charges?

A. Yes. The company proposes to modify five of its current six miscellaneous service charges:

1) Meter Turn On/Service Initiation Charge
2) Meter Reconnection/Service Restoration Charge
3) Trip Charge/Collection At Customer Premises
4) Failed Trip Charge At Customer Premises
5) Temporary Meter Turn-Off Charge.

These service charges are reflected on Tariff Sheet Nos. 5.101 and 5.101-1 of the legislative versions of the revised tariff sheets contained in MFR Schedule E-9. The company reviewed its miscellaneous service charges and the cost of performing each utility service. The cost associated with each activity is reflected in MFR Schedule E-3. A comparison of the company’s current and proposed miscellaneous service charges may be found as part of Document No. 9 of my exhibit. The resulting revenue increases are included in the cost of service and accounted for in the company's final rates as presented in MFR Schedule H.

Q. Please describe the methodology used to perform the cost study of each utility service.

A. The company performed a time study and cost analysis for each utility service. The time study involved the capture and review of the detailed tasks involved. The tasks included: (1) customer communications, (2) order handling, (3) travel times, and (4) job times. The time study incorporated a review and analysis of the labor and material costs required to complete each activity which were integrated into a per-service cost.

Q. What labor and material costs were used in developing the cost of each utility service?

A. The company used payroll and purchasing data as the basis for the labor and material costs. As detailed in MFR Schedule E-3, the labor and material costs were adjusted to reflect the 2026 projected test year assumptions. Cost adjustments were based upon year-over-year cost projections.

Q. Where did you obtain the assumptions used to determine the 2026 projected test year rates and costs?

A. The labor rate assumptions used for the 2026 projected test year as listed in MFR Schedule G-2, page 12a. Material rate assumptions are based on the current rates experienced by the company.

Q. Why are the miscellaneous service charges for Residential and Commercial Meter Turn-on, Commercial Meter Reconnect, and Failed Trip increasing?

A. The proposed charges demonstrate an increase over current rates due to extended travel times in congested areas, elevated labor costs, higher transportation expenses, and additional costs for contractors supplementing the workforce.

Q. Why is the Residential Meter Reconnect charge being reduced?

A. The Residential Meter Reconnect Charge is being reduced primarily due to lower material costs, which results from eliminating certain materials and using prefabricated parts.

Q. Why is the Account Opening Charge being reduced?

A. The Account Opening Charge is being reduced primarily due to a decrease in the average time required to complete orders and a reduction in the allocation of administrative labor, because of lower average labor costs.

Q. Why is the Trip Charge being reduced?

A. The Trip Charge is being reduced primarily due to the discontinuation of using contractors for these orders and the removal of related costs from the charge calculation.

Q. Are Peoples' proposed miscellaneous service charges appropriate?

A. Yes, the proposed miscellaneous service charges are appropriate.

IX. CURRENT RESIDENTIAL BILLING CLASSES AND THE ANNUAL VOLUME REVIEW

Q. What are the current billing classes for a residential customer?

A. As shown on Tariff Sheet No. 7.201, the current residential billing classes are as follows:

Billing Class:	Annual Consumption:
RS-1	0 to 99 Therms
RS-2	100 to 249 Therms
RS-3	250 to 1,999 Therms

Q. When did the company establish three residential billing classes?

A. The company moved from one Residential billing class to three separate billing classes based on annual consumption in our 2008 rate case. As part of this change to three billing classes, the company developed the annual volume review process to ensure customers were classified (or reclassified) in the correct Residential billing class based on usage.

Q. Did the company propose refinements to the annual volume review process in its last rate case?

A. Yes. The Commission approved the company’s proposal of the application of a 10 percent band during the annual volume review to avoid unnecessary rate reclassifications which resulted in complexities for customers and revenue instability for the company. In other words, this modification was instituted to better align customers with the RS-1, RS-2 or RS-3 schedules.

Q. Please describe how a customer is reclassified under the current annual volume review.

A. The usage from the most recent 12 months is compared to the current billing class of the customer. If in one twelve-month period, a customer uses more or less than the current consumption parameters of their billing class but is within the 10 percent band, they remain in their current billing class. If in one 12-month period, a customer uses more or less than the current consumption parameters of their billing class and beyond the 10 percent band, they are reclassified. If in two consecutive years, a customer uses more or less than the consumption parameters for their billing class and is within the 10 percent band, they will be reclassified to the new appropriate billing class for such usage.

Q. What has been the impact of the change to the annual review process made in the last case?

A. While the refinement reduced the number of reclassifications, it did not achieve the intended outcomes of reduced customer confusion, decreased administrative burden, or rate stability.

Q. What factors influence usage and can cause a customer to be reclassified?

A. Several factors impact usage for residential customers, including general household size and adding or removing an appliance. Additionally, weather is a key factor influencing usage for residential customers with some experiencing seasonal fluctuations as they are part-time residents. While these factors impact usage and can cause a customer to be reclassified, they do not impact or change the cost to serve these customers.

X. RATE DESIGN AND RATE SCHEDULE MODIFICATIONS

A. RATE DESIGN MODIFICATIONS

Q. What changes is the company proposing to its rate design structure in this case?

A. As described by company witness John Taylor’s prepared direct testimony, the company plans to close RS-1 to new customers and merge or consolidate RS-2 and RS-3 into a single, unified RS-2 rate class. This consolidation of two classes is an initial step to align costs across all residential billing classes' cost of service. An analysis of the customer’s bill impact is included as part of MFR Schedule E-5, and a comparison of current versus proposed rates for residential and business customers, including miscellaneous charges, is included in Document No. 9 of my exhibit.

Q. Please discuss why the company is proposing this consolidation of billing classes.

A. The proposed consolidation of RS-2 and RS-3 will better align with actual cost-of-service principles, reducing intra-class subsidies. By merging these two billing classes, Peoples will streamline the residential rate structure and improve rate transparency for customers. The reduction in the number of billing classes will also (1) alleviate the administrative burden associated with the annual volume review and reclassification of customers, and (2) diminish the revenue instability that resulted from the annual volume review and declining use per customer trend.

The consolidation moves the company towards ensuring residential customers pay their fair share of system costs rather than segmenting them based on fluctuating consumption levels that have little to no impact on the cost to serve. The goal is to gradually move to a single residential billing class while reducing the impact of rate adjustments on customers. This process will create a more stable, predictable, and equitable rate structure. Witness Taylor provides further details in his testimony regarding the rate structure.

Q. What impact will the requested 2026 base rate increase have on the bills of typical Residential customers?

A. As shown in Document No. 9 of my exhibit, based on the company's current gas commodity price forecast and the proposed base rate increase for 2026, we expect the typical monthly bills for current residential classes to be approximately $37 for RS-1, $60 for RS-2, and $98 for RS-3. Once RS-2 and RS-3 are consolidated into one customer class, we anticipate the typical monthly bill for that class to be approximately $72 a month.

Q. How does the impact on Residential customers' bills for 2026 compare to other energy alternatives such as electricity or propane?

A. As shown in Document No. 9, our proposed 2026 Residential RS-2 bill of $70 (less tax considerations of $2 for purposes of comparison) is $35 less than the energy equivalent electricity bill and approximately $43 less than the energy equivalent propane bill. These comparisons illustrate that the proposed 2026 rates are reasonable and offer value to customers.

Q. What impact will the requested 2026 base rate increase have on Commercial Bills?

A. The company anticipates that the typical monthly bill for Commercial (GS-1 to GS-5) customers in 2026 will increase between 1% to 11% depending upon usage and the cost of the gas commodity. These increases are also influenced by changes in the cost of service methodology proposed, which has a moderating effect on these billing classes. Under the prior cost of service methodology, these customers would have experienced a larger increase.

Although the Small General Service customer class is experiencing an 18% increase to their bill, it is due to ensuring all classes are closer paying for the costs they cause on the system.

B. RATE SCHEDULE MODIFICATIONS

Q. Please describe the proposed revisions to the company's rate schedules.

A. The rate schedules and riders in Section 7 of the company's proposed tariff reflect the new rates developed and supported by witness Taylor's prepared direct testimony. The company is submitting proposed revisions to its tariff to achieve the proposed revenues for all rate classes as required in both legislative and clean format in MFR Schedule E-9. The rate schedule and rider revisions described herein are filed with the Commission pursuant to the file and suspend provisions of Section 366.06, Florida Statues.

1. Modifications to Rate Schedule Residential Service

Q. Please describe the proposed changes to the Residential billing classes based on the request in this rate case.

A. The company proposes several modifications to Tariff

Sheets 7.201 and 7.201-1 to effectuate its request to consolidate to two billing classes.

Effective January 1, 2026, the company proposes to move the customers in the RS-3 Billing Class into the RS-2 Billing Class. The RS-1 Billing Class will be closed to new customers. All new customers since July 1, 2025, and existing customers without 12 months of usage as of July 1, 2025, will automatically be placed in the RS-2 Billing Class.

The proposed billing classes will be reflected as follows:

Billing Class:	Annual Consumption:
RS-1	0 to 99 Therms
RS-2	100 to 1,999 Therms

As stated above, new residential customers will not be added to the RS-1 billing class subsequent to July 1, 2025. Only those customers that existed in RS-1 prior to July 1, 2025 will remain in RS-1 unless their annual consumption review requires a reclassification into RS-2.

Q. Please describe the tariff modifications in Sheet No.

7.201-1 related to the annual volume review.

A. The annual volume review will only analyze RS-1 customers' annual consumption to determine if these customers qualify for reclassification into RS-2. The company contemplates that the review of the RS-1 Billing Class will continue to occur at the end of June each year.

2. Modifications to the Customer Choice Programs

Q. Please explain the change to the termination fee for the Natural Choice Transportation ("NCTS") program.

A. The company proposes to increase the NCTS termination fee due to a rise in direct labor costs associated with administering the NCTS program to 27,456 customers as of March 2025. The fee is charged when a pool manager terminates service to a customer.

Q. Please explain the change to the Individual Transportation Administration Fee for the Individual Transportation Service Rider ("Rider ITS").

A. The company proposes an increase in the Rider ITS Administration Fee due to higher direct labor costs associated with (1) managing the ITS program and (2) operating and maintaining the telemetry equipment for the 360 ITS meters. This fee includes associated costs for the data collection system service agreement, gas management system, ITS materials such as volume correctors, battery and modem replacements, and vehicle costs.

C. REASONABLENESS OF PROPOSED MODIFICATIONS

Q. Are Peoples' proposed modifications to the rate schedules appropriate?

A. Yes. Peoples' proposed modifications to the rate schedules are appropriate.

XI. SUBSEQUENT YEAR ADJUSTMENT

Q. Did the company develop a set of illustrative customer rates that reflect the proposed 2027 Subsequent Year Adjustment ("SYA")?

A. Yes. Document No. 10 of my exhibit contains supplemental schedules E-1, E-2, and E-5, showing how adding the proposed 2027 SYA annual revenue increase to the company's proposed 2026 revenue increase would impact customer rates in 2027. These schedules for 2027 were prepared using the cost-of-service study, class revenue allocation percentages, and billing determinants that Peoples witness Taylor used to develop the company’s proposed 2026 customer rates and charges. These schedules are included in the company’s petition filed on March 31, 2025, in Document No. 16 (2027 Subsequent Year Adjustment Supplemental Schedules), and are for illustrative purposes should the Commission approve a SYA in this case, the company proposes to file proposed 2027 SYA rates and tariffs in September 2026 so that they will reflect the then-current billing determinants and the approved 2027 SYA revenue increase. This will allow the Commission to approve the tariffs implementing the 2027 SYA in time to become effective with the first billing cycle in January 2027.

XII. NON-RATE TARIFF CHANGES

CUT AND CAP

Q. Please describe the company’s proposed changes to Cut and Cap in Section 5 of its tariff?

A. The company proposes language to clarify that regardless of the circumstance under which Cut and Cap is performed, the customer is responsible for paying for the restoration of gas service.

CUSTOMER INSTALLATION

Q. Is the company proposing any modifications to Article II, Customer's Installation, in Section 5 of its tariff?

A. Yes. The company proposes a modification related to a customer's installation to clarify that the customer is responsible for installing and maintaining carbon monoxide or methane gas detectors on the customer's premises.

DEPOSITS

Q. Please describe the company's proposed changes to Deposits in Section 5 of its tariff.

A. The company proposes language to clarify that a cash deposit and the accrued interest may be returned either to the customer or to an agency if the agency paid the deposit on behalf of the customer.

DELIVERY OF CUSTOMER BILL

Q. Describe the modifications made in Section 5 of the company's tariff to delivery of bill provisions.

A. The company proposes changes to modernize the tariff, allowing bills to be sent by mail or other means chosen by the customer. Other changes to this section include correcting a reference to the Florida Administrative Code ("F.A.C.") and clarifying language related to bill adjustments for meter errors.

BUDGET BILLING

Q. Please describe the company's proposed changes to the Budget Billing program in Section 5 of its tariff.

A. The company proposes language to define good financial standing, clarify Budget Billing program eligibility, and provide that the budgeted payment amount may be recalculated periodically. Additionally, Peoples proposes that customers who voluntarily terminate participation in the program may not rejoin for at least 12 months.

MEASUREMENT

Q. Describe the modifications made in Section 5 of the company's tariff to Measurement.

A. The company proposes adding language to its tariff correcting a reference to the F.A.C. and that customers must provide a convenient, safe, and accessible location to install meters, regulators, and ancillary equipment.

LIABILITY AND COMPANY'S RESPONSIBILITIES

Q. Please describe the changes the company is proposing to the provisions on (1) limits of the company's responsibility; (2) limitation on consequential damages; and (3) indemnity to the company.

A. Each of these proposed modifications represents an effort to clarify the company's liability circumstances and protect against undue risk that may arise in the conduct of our business.

CONTRACT INTERRUPTIBLE SERVICE

Q. What change is Peoples proposing to the Contract Interruptible Service (CIS) Tariff?

A. The company proposes adding economic development as a qualifying condition for offering the CIS rate.

OFF-SYSTEM SERVICE

Q. What change is Peoples proposing to the Off-System Service Tariff?

A. The company proposes removing the limitation that the Distribution Charge, as specified in this schedule, shall be no greater than 90 percent of the currently applicable firm distribution rate.

Q. How does this change benefit customers?

A. This change benefits customers by removing the cap on the distribution charge for this service. As a result, the charge will be determined by competitive conditions. This adjustment could potentially increase the amount of dollars that flow back to customers as a reduction to the Purchased Gas Adjustment Clause. Additionally, it ensures Peoples is on a level playing field with Florida Public Utilities Company and Florida City Gas, both of which are not bound by this restriction.

<u>GAS SUPPLY AGREEMENT</u>

Q. What change is Peoples proposing to the Gas Supply Agreement?

A. Peoples proposes to remove unused information from the Gas Supply Agreement and add boxes to capture other information to facilitate the collection of information needed for its work and asset management system. We are also adding language clarifying that to the extent that the customer identified in this agreement is the State of Florida, one of its agencies, or one of its subdivisions, nothing herein shall be construed or interpreted as a waiver of sovereign immunity beyond the waiver provided in Section 768.28 Florida Statutes, or any successor statute.

GAS TRANSPORTATION AGREEMENT

Q. What change is Peoples proposing to the Gas Transportation Agreement?

A. Peoples is proposing several clarifying revisions to this form agreement. The modifications include (1) defining certain costs for which the customer may reimburse Peoples; (2) specifying that Appendix D applies to interruptible customers; (3) simplifying the language in Appendix D regarding the alternatives available to customers under Appendix D in the event of an interruption or curtailment.

ITS AGENT AGREEMENT

Q. What change is Peoples proposing to the ITS Agent Agreement?

A. Peoples proposes to add language that to the extent the customer identified in this agreement is the State of Florida, one of its agencies, or one of its subdivisions, nothing herein shall be construed or interpreted as a waiver of sovereign immunity beyond the waiver provided in Section 768.28 Florida Statutes, or any successor statute.

DATA ACCESS AGREEMENT

Q. What change is Peoples proposing to the Data Access Agreement?

A. Peoples is proposing adding language that to the extent the subscriber identified in this agreement is the State of Florida, one of its agencies, or one of its subdivisions, nothing herein shall be construed or interpreted as a waiver of sovereign immunity beyond the waiver provided in Section 768.28 Florida Statutes, or any successor statute.

MINIMUM VOLUME COMMITMENT AGREEMENT

Q. What change is Peoples proposing to the Minimum Volume Agreement?

A. The company proposes several clarifying revisions to this form agreement. The modifications include (1) defining certain costs for which the customer may reimburse Peoples; (2) specifying that Appendix D applies to interruptible customers; (3) simplifying the language in Appendix D regarding the alternatives available to customers under Appendix D in the event of an interruption or curtailment. There are also corrections for typos and formatting.

Q. Are Peoples' non-rate-related tariff changes appropriate?

A. Yes, Peoples' non-rate-related tariff changes are appropriate.

MINOR REVISIONS

Q. Please describe the proposed modifications the company considers to be editorial corrections and clarifications.

A. The company is requesting approval by the Commission for the following tariff corrections and clarifications.

COMPANY STREET ADDRESS

Peoples will update certain Tariff standard forms that contain the company's street address. During the summer of 2025, the company will move from 702 Franklin Street to 3600 Midtown Drive.

COUNTIES AND COMMUNITIES SERVED

The proposed changes to the counties and communities served is an updated list that reflects the new areas in which Peoples has extended its service in response to customer demand.

TERRITORY SERVICE

The proposed change to the territory served section is an updated map that reflects the new areas served by Peoples since its last general base rate proceeding.

Q. In your opinion, are the company's proposed editorial changes reasonable?

A. Yes.

Q. What is the appropriate effective date of Peoples' revised rates and charges?

A. The appropriate effective date is for the first billing cycle of January 2026.

XIII. ECONOMIC DEVELOPMENT EXPENSES

Q. What amount of economic development expense did the Commission approve in the company's last rate case for 2024?

A. At the hearing in Docket No. 20230023-GU, the Commission approved a type 2 stipulation of $265,498 as the appropriate economic development expense for 2024, as reflected in Order No. PSC-2023-0388-FOF-GU. This amount reflected the $367,920 stated in the direct testimony of witness O'Connor less a reduction of $102,422 for certain adjustments.

Q. What were the actual economic development expenses in 2024?

A. The actual amount of economic development expense for 2024 was $348,441.

Q. What level of economic development expense is Peoples proposing to spend for 2025?

A. The company has budgeted $380,000 of economic development adjusted expense in 2025.

Q. What level of economic development expense is Peoples asking the Commission to approve for the company based on its 2026 test year?

A. The company has budgeted $388,740 as adjusted, of economic development expense in 2026.

Q. What economic development activities will the company perform at this level of spending?

A. This level of spending supports the company's membership dues and participation in Chamber and economic development groups. These groups are dedicated to fostering an environment that attracts new businesses, and boosts job growth and the economy. Utilities are an essential component of economic development throughout Florida. Natural gas provides affordable, reliable, and safe energy that supports economic development for customers and businesses. The economic development expenditures, which are recoverable pursuant to Rule 25-7.042, F.A.C., will enhance and support the economic vitality in the major metropolitan and rural areas served by the company.

Q. Why is this level of economic development expense reasonable and prudent?

A. The proposed economic development spending is reasonable and prudent, as it invests in Florida's quality of life by supporting industrial development, job growth, and energy reliability for state businesses. The proposed economic development spending is well within the limitations of Rule 25-7.042, F.A.C.

XIV. MINIMUM FILING REQUIREMENTS

Q. Are you sponsoring any MFR Schedules?

A. Yes. I am the sponsor or co-sponsor of the following MFR

Schedules: C38 - O&M Expense by Function, E3 - Cost Study Connections and Reconnections; E9 - Tariff Sheets, G-2 Budget Historic Base Year 1 and Projected Test Year, and G-6 - Projected Test Year - Major Assumptions.

Q. Please explain the MFR Schedules you are sponsoring or co-sponsoring.

A. MFR Schedule E3 - Connections and Reconnections include those costs associated with the amount of time and the cost for the initial connection of Residential and/or commercial customers; time and costs for the reconnection of a Residential and/or commercial customers, after disconnection for a cause, temporary disconnection costs as well as administrative costs associated with these tasks.

MFR Schedule E9 - Tariff Sheets, provides copies of the proposed tariff sheets in legislative format.

MRF Schedule C38 - O&M Expense by Function includes O&M expenses by function for the historic base year, the benchmark year, and the variance for each functional variance.

MFR Schedule G2 - Budget Historic Base Year + 1 and Projected Test Year, provides the calculation of net operating income per books for the historic base year, the projected net operating income for the historic base year + 1, and the projected test year.

MFR Schedule G6 - Projected Test Year – Major Assumptions depicts the major assumptions used to develop the projected test year ending on December 31, 2026.

XV. SUMMARY

Q. Please summarize your prepared direct testimony.

A. Peoples' forecasting process is reliable and projected customer growth, customer usage, and resulting revenue forecasts for the 2026 test year reflect the expected economic and operating conditions and are reasonable and prudent. The proposed revisions to Peoples' existing tariff sheets are necessary to address current and anticipated business and customer needs. Taken together with the proposals in the prepared testimony of witness Taylor, these proposed tariff revisions will permit Peoples to recover its prudent costs of providing safe and reliable natural gas service. The proposed rate increase in this petition is reasonable and the company's rates remain competitive compared to other energy sources. Finally, the O&M expenses related to the Regulatory, External Affairs, and Finance departments in the company's 2026 test year are reasonable and prudent.

Q. Does this conclude your prepared direct testimony?

A. Yes.

(Whereupon, prefiled direct testimony of Jeff Chronister was inserted.)

TECO PEOPLES GAS
AN EMERA COMPANY

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20250029-GU

IN RE: PETITION FOR RATE INCREASE

BY PEOPLES GAS SYSTEM, INC.

PREPARED DIRECT TESTIMONY AND EXHIBIT

OF

JEFF CHRONISTER

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PREPARED DIRECT TESTIMONY AND EXHIBIT

OF

JEFF CHRONISTER

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 20250029-GU
FILED: 03/31/2025

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

JEFF CHRONISTER

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

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

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

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

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

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

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

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

Q. Please summarize your educational background and business experience.

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

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

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

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

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

(1) Docket No. 20130040-EI, Tampa Electric Company's Petition for An Increase in Base Rates and Miscellaneous Service Charges;
(2) Docket No. 20080317-EI, Tampa Electric Company's Petition for An Increase in Base Rates and Miscellaneous Service Charges;
(3) Docket No. 19960007-EI, Tampa Electric's Environmental Cost Recovery Clause;
(4) Docket No. 19960688-EI, Tampa Electric's environmental compliance activities for purposes of cost recovery;
(5) Docket No. 20170271-EI, Petition for recovery of costs

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

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

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

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

Q. What are the purposes of your direct testimony?

A. The purposes of my direct testimony are to:

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

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

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

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

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

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

A. Yes, Exhibit JC-1, entitled the Exhibit of Jeff Chronister, was prepared under my direction and supervision. The contents of my exhibit were derived from the business records of the company and are true and correct to the best of my information and belief. It consists of four documents, as follows:

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

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

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

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

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

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

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

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

I. FINANCIAL PROFILE CHANGES SINCE LAST RATE CASE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. <u>FINANCIAL INTEGRITY</u>

Q. What is financial integrity?

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

Q. How is financial integrity measured?

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

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

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

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

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

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

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

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

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

B. CREDIT RATINGS

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

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

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

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

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

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

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

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

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

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

Q. How are credit ratings determined?

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

Q. How does regulation affect ratings?

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

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

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

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

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

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

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

Q. When did this rating become effective?

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

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

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

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

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

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

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

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

C. EQUITY RATIO

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

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

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

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

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

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

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

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

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

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

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

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

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

D. DEBT RATES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

III. 2027 FINANCIAL OUTLOOK AND REGULATORY OPTIONS

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

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

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

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

A. There are two primary causes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. 2027 SUBSEQUENT YEAR ADJUSTMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. When should the 2027 SYA become effective?

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

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

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

IV. AFFILIATE TRANSACTIONS

A. GENERAL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A. There are four possible charging approaches:

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

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

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

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

B. <u>CHARGES BY TAMPA ELECTRIC TO PEOPLES</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The largest asset-usage fee received from Tampa Electric is the company's shared SAP customer relationship management and billing system ("CRMB"). Although the CRMB system is shared with Tampa Electric, the cost of the asset is recorded on Tampa Electric's books and Peoples is charged an asset-usage fee for using the system to manage

Peoples' customer accounts. Peoples' portion of the shared CRMB cost is based on the approximate ratio of Peoples customers to the total Peoples and Tampa Electric combined customers.

The asset-usage fee related to the CRMB system is charged to FERC Account 903. The CRMB asset-usage fee is increasing from $2.188 million in 2024 to $2.611 million in 2026 as shown on MFR Schedule G-2, page 19b. The increase is primarily related to continued investments in CRMB and an increased allocation of CRMB costs due to the relative increase in Peoples customer count, which is further discussed in the testimony of Peoples witness Washington.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SeaCoast during the 2024 historical base year?

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

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

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

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

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

A. There are several.

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

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

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

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

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

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

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

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

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

V. SUMMARY

Q. Please summarize your direct testimony.

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

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

Q. Does this conclude your direct testimony?

A. Yes, it does.

(Whereupon, prefiled direct testimony of Dylan D'Ascendis was inserted.)

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

DYLAN D'ASCENDIS

ON BEHALF OF

PEOPLES GAS SYSTEM, INC.

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PREPARED DIRECT TESTIMONY

OF

DYLAN D'ASCENDIS

ON BEHALF OF PEOPLES GAS SYSTEM, INC.

DOCKET NO. 20250029-GU
WITNESS: D'ASCENDIS

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

DYLAN D'ASCENDIS

ON BEHALF OF PEOPLES GAS SYSTEM, INC.

I. INTRODUCTION

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

A. My name is Dylan D'Ascendis. My business address is 1820 Chapel Avenue W., Suite 300, Cherry Hill, NJ 08003. I am employed by ScottMadden, Inc. as a Partner.

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

A. I am a graduate of the University of Pennsylvania, where I received a Bachelor of Arts degree in Economic History. I also received a Master of Business Administration with high honors and concentrations in Finance and International Business from Rutgers University.

I have offered expert testimony on behalf of investor-owned utilities before more than 40 state regulatory commissions in the United States, the Federal Energy Regulatory Commission, the Alberta Utility Commission, an American Arbitration Association panel, and the Superior Court of Rhode Island on issues including, but not limited to, common equity cost rate, rate of return, valuation, capital structure, class cost of service, and rate design.

On behalf of the American Gas Association ("AGA"), I calculate the AGA Gas Index, which serves as the benchmark against which the performance of the American Gas Index Fund ("AGIF") is measured on a monthly basis. The AGA Gas Index and AGIF are a market capitalization weighted index and mutual fund, respectively, comprised of the common stocks of the publicly traded corporate members of the AGA.

I am a member of the Society of Utility and Regulatory Financial Analysts ("SURFA"). In 2011, I was awarded the professional designation "Certified Rate of Return Analyst" by SURFA, which is based on education, experience, and the successful completion of a comprehensive written examination.

I am also a member of the National Association of Certified Valuation Analysts ("NACVA") and was awarded the professional designation "Certified Valuation Analyst" by the NACVA in 2015.

The details of my educational background and expert witness appearances are provided in Document No. 12 to my direct testimony.

Q. What is the purpose of your prepared direct testimony in this proceeding?

A. The purpose of my direct testimony is to present evidence, provide the Florida Public Service Commission ("Commission") with a recommendation regarding Peoples Gas System, Inc.'s ("Peoples" or the "company") return on common equity ("ROE") for its natural gas operations, and to provide an assessment of the capital structure to be used for ratemaking purposes, as proposed in the direct testimony of Peoples witness Andrew Nichols.

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

A. Yes. Exhibit No. DD-1 was prepared by me or under my direction and supervision. My analyses and conclusions are supported by the data presented in Document Nos. 1 through 12 of my exhibit, entitled:

Document No. 1 Summary of Common Equity Cost Rate

Document No. 2	Financial Profile of the Utility Proxy Group
Document No. 3	Application of the Discounted Cash Flow Model
Document No. 4	Application of the Risk Premium Model
Document No. 5	Application of the Capital Asset Pricing Model
Document No. 6	Basis of Selection for the Non-Price Regulated Companies Comparable in Total Risk to the Utility Proxy Group
Document No. 7	Application of Cost of Common Equity Models to the Non-Price Regulated Proxy Group
Document No. 8	Derivation of the Flotation Cost Adjustment to the Cost of Common Equity
Document No. 9	Derivation of the Indicated Size Premium for Peoples Relative to the Utility Proxy Group
Document No. 10	Referenced Endnotes for the Prepared Direct Testimony of Dylan W. D'Ascendis
Document No. 11	Fama & French – Figure 2
Document No. 12	Resume and Testimony Listing of Dylan W. D'Ascendis

II. SUMMARY

Q. What is your recommended common equity cost rate?

A. I recommend that the Commission authorize Peoples the opportunity to earn an ROE of 11.10 percent on its jurisdictional rate base, based on its proposed ratemaking capital structure. The company's requested ratemaking capital structure consists of 41.69 percent long-term debt and 54.70 percent common equity, to which my recommended ROE of 11.10 percent would apply. That common equity ratio is consistent with the company's historical equity ratios, and the equity ratios maintained by the Utility Proxy Group (discussed below) and their operating subsidiary utility companies. The overall rate of return is summarized on page 1 of Document No. 1.

Q. Please summarize your recommended ROE.

A. My recommended ROE of 11.10 percent is summarized on page 2 of Document No. 1. I have assessed the market-based common equity cost rates of companies of relatively similar, but not necessarily identical, risk to Peoples. Using companies of relatively comparable risk as proxies is consistent with the principles of fair rate of return established by the U.S. Supreme Court in two cases: (1) *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) *("Hope")*; and (2) *Bluefield Water Works Improvement Co. v. Public Serv. Comm'n*, 262 U.S. 679 (1923) *("Bluefield")*. No proxy group can be identical in risk to any single company. Consequently, there must be an evaluation of relative risk between the company and the proxy group to determine if it is appropriate to adjust the proxy group's indicated rate of return.

My recommendation results from the application of several cost of common equity models, specifically the Discounted Cash Flow ("DCF") model, the Risk Premium Model ("RPM"), and the Capital Asset Pricing Model ("CAPM"), to the market data of a proxy group of seven natural gas distribution utilities ("Utility Proxy Group") whose selection criteria will be discussed below. In addition, I applied the DCF model, RPM, and CAPM to a Non-Price Regulated Proxy Group similar in total risk to the Utility Proxy Group. To be conservative, I did not consider the analytical results applied to my Non-Price Regulated Proxy Group in the determination of my recommended range. The results derived from each are summarized on page 2 of Document No. 1.

As shown in Document No. 1, I adjusted the indicated common equity cost rate to reflect the effect of flotation costs, as well as Peoples' specific business risks. These adjustments resulted in a company-specific indicated range of common equity cost rates between 10.78 percent and 11.46 percent. The indicated range of ROEs applicable to the Utility Proxy

Group excluding the Predictive Risk Premium Model ("PRPM") from the calculation of the market risk premium is 10.78 percent to 11.45 percent. Given the Utility Proxy Group and company-specific ranges of common equity cost rates, I recommend the Commission adopt an ROE of 11.10 percent for ratemaking purposes in this case.

III. GENERAL PRINCIPLES

Q. What general principles have you considered in arriving at your recommended common equity cost rate of 11.10 percent?

A. In unregulated industries, marketplace competition is the principal determinant of the price of products or services. For regulated public utilities, regulation must act as a substitute for marketplace competition. Assuring that the utility can fulfill its obligations to the public, while providing safe and reliable service at all times, requires a level of earnings sufficient to maintain the integrity of presently invested capital. Sufficient earnings also permit the attraction of needed new capital at a reasonable cost, for which the utility must compete with other companies of comparable risk, consistent with the fair rate of return standards established by the U.S. Supreme Court in the previously cited *Hope* and *Bluefield* cases.

The U.S. Supreme Court affirmed the fair rate of return standards in *Hope* when it stated:

> The rate-making process under the Act, *i.e.,* the fixing of 'just and reasonable' rates, involves a balancing of the investor and the consumer interests.
>
> Thus we stated in the *Natural Gas Pipeline Co.* Case that 'regulation does not insure that the business shall produce net revenues.' 315 U.S. at page 590, 62 S.Ct. at page 745. But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. *Cf. Chicago & Grand Trunk R. Co. v. Wellman*, 143 U.S. 339, 345, 346 12 S.Ct. 400,402. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the

enterprise, so as to maintain its credit and to attract capital.[1]

In summary, the U.S. Supreme Court has found a return that is adequate to attract capital at reasonable terms enables the utility to provide service while maintaining its financial integrity. As discussed above, and in keeping with established regulatory standards, that return should be commensurate with the returns expected elsewhere for investments of equivalent risk. The Commission's decision in this proceeding, therefore, should provide the company with the opportunity to earn a return that is: (1) adequate to attract capital at reasonable cost and terms; (2) sufficient to ensure its financial integrity; and (3) commensurate with returns on investments in enterprises having corresponding risks.

Lastly, the required return for a regulated public utility is established on a stand-alone basis, *i.e.*, for the utility operating company at issue in a rate case. Parent entities, like other investors, have capital constraints and must look at the attractiveness of the expected risk-adjusted return of each investment alternative in their capital budgeting process. That is, utility holding companies that own many utility operating companies have choices as to where they will invest their capital within the holding company family. Therefore, the opportunity cost concept applies regardless of the source of the funding, public funding or corporate funding.

It therefore is important that the authorized ROE reflects the risks and prospects of the utility's operations and supports the utility's financial integrity from a stand-alone perspective, as measured by its combined business and financial risks. Consequently, the ROE authorized in this proceeding should be sufficient to support the operational (*i.e.*, business risk) and financing (*i.e.*, financial risk) of the company's utility subsidiary on a stand-alone basis.

Q. Within that broad framework, how is the cost of capital estimated in regulatory proceedings?

A. Regulated utilities primarily use common stock and long-term debt to finance their permanent property, plant, and equipment (*i.e.*, rate base). The fair rate of return for a regulated utility is based on its weighted average cost of capital, in which, as noted earlier, the costs of the individual sources of capital are weighted by their respective book values.

The cost of capital is the return investors require to make an investment in a company. Investors will provide funds to a firm only if the return that they *expect* is equal to, or greater than, the return that they *require* to accept the risk of providing funds to the firm.

The cost of capital (*i.e.*, the combination of the costs of debt and equity) is based on the economic principle of "opportunity costs." Investing in any asset (whether debt or equity securities) represents a forgone opportunity to invest in alternative assets. For any investment to be sensible, its expected return must be at least equal to the return expected on alternative, comparable risk investment opportunities. Because investments with like risks should offer similar returns, the opportunity cost of an investment should equal the return available on an investment of comparable risk.

Whereas the cost of debt is contractually defined and can be directly observed as the interest rate or yield on debt securities, the cost of common equity must be estimated based on market data and various financial models. Because the cost of common equity is premised on opportunity costs, the models used to determine it are typically applied to a group of "comparable" or "proxy" companies.

In the end, the estimated cost of capital should reflect the return that investors require in light of the subject company's business and financial risks, and the returns available on comparable investments.

Q. Is the authorized return set in regulatory proceedings guaranteed?

A. No, it is not. Consistent with the *Hope* and *Bluefield* standards, the ratemaking process should provide the utility a reasonable opportunity to recover its return of, and return on, its reasonably incurred investments, but it does not guarantee that return. While a utility may have control over some factors that affect the ability to earn its authorized return (*e.g.*, management performance, operating and maintenance expenses, etc.), there are several factors beyond a utility's control that affect its ability to earn its authorized return. Those may include factors such as weather, the economy, and the prevalence and magnitude of regulatory lag.

A. <u>BUSINESS RISK</u>

Q. Please define business risk and explain why it is important for determining a fair rate of return.

A. The investor-required return on common equity reflects investors' assessment of the total investment risk of the subject firm. Total investment risk is often discussed in the context of business and financial risk.[2]

Business risk reflects the uncertainty associated with owning a company's common stock without the company's use of debt and/or preferred stock financing. One way of considering the distinction between business and financial risk is to view the former as the uncertainty of the expected earned return on common equity, assuming the firm is financed with no debt.

Examples of business risks <u>generally</u> faced by utilities include, but are not limited to, the regulatory environment, mandatory environmental compliance requirements, customer mix and concentration of customers, service territory economic growth, market demand, risks and uncertainties of supply, operations, capital intensity, size, the degree of operating leverage, emerging technologies, the vagaries of weather, and the like, all of which have a direct bearing on earnings.

Although analysts, including ratings agencies, may categorize business risks individually, as a practical matter, such risks are interrelated and not wholly distinct from one another. When determining an appropriate return on common equity, the relevant issue is where investors see the subject company in relation to other similarly situated utility companies (*e.g.*, those in the Utility Proxy Group). To the extent investors view a company as being exposed to higher risk, the required return will increase, and vice versa.

For regulated utilities, business risks are both long-term and near-term in nature. Whereas near-term business risks are reflected in year-to-year variability in earnings and cash flow brought about by economic or regulatory factors, long-term business risks reflect the prospect of an impaired ability of investors to obtain both a fair rate of return on, and return of, their capital. Moreover, because utilities accept the obligation to provide safe, adequate, and reliable service at all times (in exchange for a reasonable opportunity to earn a fair return on their investment), they generally do not have the option to delay, defer, or reject capital investments. Since those investments are capital-intensive, utilities generally do not have the option to avoid raising external funds during periods of capital market distress, if necessary.

Because utilities invest in long-lived assets, long-term business risks are of paramount concern to equity investors. That is, the risk of not recovering the return on their investment extends far into the future. The timing and nature of events that may lead to losses, however, also are uncertain and, consequently, those risks and their implications for the required return on equity tend to be difficult to quantify. Regulatory commissions (like investors who commit their capital) must review a variety of quantitative and qualitative data and apply their reasoned judgment to determine how long-term risks weigh in their assessment of the market-required return on common equity.

B. FINANCIAL RISK

Q. Please define financial risk and explain why it is important for determining a fair rate of return.

A. Financial risk is the additional risk created by the introduction of debt and preferred stock into the capital structure. The higher the proportion of debt and preferred stock in the capital structure, the higher the financial risk to common equity owners (*i.e.*, failure to receive dividends due to default or other covenants). Therefore, consistent with the basic financial principle of risk and return, common equity investors require higher returns as compensation for bearing higher financial risk.

Q. Can bond and credit ratings be a proxy for a firm's combined business and financial risks to equity owners (*i.e.*, investment risk)?

A. Yes, similar bond ratings/issuer credit ratings reflect, and are representative of, similar combined business and financial risks (*i.e.*, total risk) faced by bond investors.[3] Although specific business or financial risks may differ between companies, the same bond/credit rating indicates that the combined risks are roughly similar from a debtholder perspective. The caveat is that these debtholder risk measures do not translate directly to risks for common equity.

Q. Do ratings agencies account for company size in their bond ratings?

A. No. Neither Standard & Poor's Ratings Services ("S&P") nor Moody's Investors Service ("Moody's") have minimum company size requirements for any given rating level. This means, all else being equal, a relative size analysis must be conducted for equity investments in companies with similar bond ratings.

IV. PEOPLES AND THE UTILITY PROXY GROUP

Q. Are you familiar with Peoples' operations?

A. Yes. Peoples, a wholly owned subsidiary of TECO Gas Operations, Inc. whose ultimate parent is Emera Incorporated ("Emera"), provides natural gas distribution service to approximately 508,000 residential, commercial, industrial and electric power generation customers in the state of Florida.[4] Peoples has a long-term issuer rating of A- from Fitch Ratings; the company is not rated by Moody's or S&P. Emera has electric generation, transmission and distribution operations, natural gas transmission and distribution operations, and non-regulated energy marketing operations in the U.S., Canada, and Caribbean Islands.[5] Emera is publicly traded on the Toronto Stock Exchange under ticker symbol EMA.

Q. Why is it necessary to develop a proxy group when estimating the ROE for the company?

A. Because the company is not publicly traded and does not have publicly traded equity securities, it is necessary to develop groups of publicly traded, comparable companies to serve as "proxies" for the company. In addition to the analytical necessity of doing so, the use of proxy companies is consistent with the *Hope* and *Bluefield* comparable risk standards, as discussed above. I have selected two proxy groups that, in my view, are fundamentally risk-comparable to the company: a Utility Proxy Group, and a Non-Price Regulated

Proxy Group that is comparable in total risk to the Utility Proxy Group.[6]

Even when proxy groups are carefully selected, it is common for analytical results to vary from company to company. Despite the care taken to ensure comparability, because no two companies are identical, market expectations regarding future risks and prospects will vary within the proxy group. It therefore is common for analytical results to reflect a seemingly wide range, even for a group of similarly situated companies. At issue is how to estimate the ROE from within that range. That determination will be best informed by employing a variety of sound analyses that necessarily must consider the sort of quantitative and qualitative information discussed throughout my direct testimony. Additionally, a relative risk analysis between the company and the Utility Proxy Group must be made to determine whether or not explicit company-specific adjustments need to be made to the Utility Proxy Group's indicated results.

Q. Please explain how you selected the companies in the Utility Proxy Group.

A. The companies selected for the Utility Proxy Group met the following criteria:

- They were included in the Natural Gas Utility Group of *Value Line's Standard Edition* ("*Value Line*");
- They have 60 percent or greater of fiscal year 2023 total operating income derived from, and 60 percent or greater of fiscal year 2023 total assets attributable to, regulated gas distribution operations;
- At the time of preparation of this testimony, they had not publicly announced that they were involved in any major merger or acquisition activity (*i.e.*, one publicly-traded utility merging with or acquiring another) or any other major development;
- They have not cut or omitted their common dividends during the five years ended 2023 or through the time of preparation of this testimony;
- They have *Value Line* and Bloomberg Professional Services ("Bloomberg") adjusted Beta coefficients ("beta");
- They have positive *Value Line* five-year dividends per share ("DPS") growth rate projections; and
- They have *Value Line*, Zacks, or S&P Capital IQ consensus five-year earnings per share ("EPS") growth rate projections.

Q. Please identify the companies that met the above-stated criteria.

A. The following seven companies met these criteria: Atmos Energy Corporation (Ticker: ATO); New Jersey Resources Corporation (Ticker: NJR); NiSource Inc. (Ticker: NI); Northwest Natural Gas Company (Ticker: NWN); ONE Gas, Inc. (Ticker: OGS); Southwest Gas Holdings, Inc. (Ticker: SWX) and Spire Inc. (Ticker: SR).

Q. Please describe Document No. 2, page 1.

A. Page 1 of Document No. 2 contains comparative capitalization and financial statistics for the Utility Proxy Group for the five years from 2019 to 2023.

During the five-year period ending December 31, 2023, the historically achieved average earnings rate on book common equity for the group was 8.41 percent, the average common equity ratio based on total permanent capital (excluding short-term debt) was 48.03 percent, and the average dividend payout ratio was 67.03 percent.

Total debt to earnings before interest, taxes, depreciation, and amortization for the years 2019 to 2023 ranges between 4.81 and 5.72 times, with an average of 5.34 times. Funds from operations to total debt range from 11.51 percent to 27.32 percent, with an average of 15.50 percent.

V. CAPITAL STRUCTURE

Q. What is Peoples' requested capital structure?

A. Peoples' requested capital structure consists of 41.69 percent long-term debt and 54.70 percent common equity, as shown in my Document No. 1 that is based on data included in the company's MFR Schedule G-3, page 2.

Q. What are the typical sources of capital commonly considered in establishing a utility's capital structure?

A. Common equity and long-term debt are commonly considered in establishing a utility's capital structure, because they are the typical sources of capital financing for a utility's rate base.

Q. Please explain.

A. Long-lived assets are typically financed with long-lived securities, so that the overall term structure of the utility's long-term liabilities (both debt and equity) closely match the life of the assets being financed. As stated by Brigham and Houston:

> In practice, firms don't finance each specific asset with a type of capital that has a maturity

equal to the asset's life. However, academic studies do show that most firms tend to finance short-term assets from short-term sources and long-term assets from long-term sources.[7]

Whereas short-term debt has a maturity of one year or less, long-term debt may have maturities of 30 years or longer. Although there are practical financing constraints, such as the need to "stagger" long-term debt maturities, the general objective is to extend the average life of long-term debt. Still, long-term debt has a finite life, which is likely to be less than the life of the assets included in rate base. Common equity, on the other hand, is outstanding into perpetuity. Thus, common equity more accurately matches the life of the going concern of the utility, which is also assumed to operate in perpetuity. Consequently, it is both typical and important for utilities to have significant proportions of common equity in their capital structures.

Q. Why is it important that the company's requested capital structure, consisting of 41.69 percent long-term debt and 54.70 percent common equity, be authorized in this proceeding?

A. In order to continue to provide safe and reliable service to its customers, Peoples must meet the needs and serve the interests of its various stakeholders, including its customers, shareholders, and bondholders. The interests of these stakeholder groups are aligned with maintaining a healthy balance sheet, strong credit ratings, and a supportive regulatory environment, so that the company has access to capital on reasonable terms in order to make necessary investments.

Safe and reliable service cannot be maintained at a reasonable cost if utilities do not have the financial flexibility and strength to access competitive financing markets on reasonable terms. The authorization of a capital structure that understates the company's actual common equity will weaken the financial condition of its operations and adversely impact the company's ability to address expenses and investments, to the detriment of customers and shareholders. Safe and reliable service for customers cannot be sustained over the long term if the interests of shareholders and bondholders are minimized such that the public interest is not optimized.

Q. How does the company's requested common equity ratio of 54.70 percent compare with the common equity ratios maintained by the Utility Proxy Group?

A. The company's requested ratemaking common equity ratio of 54.70 percent is reasonable and consistent with the range of common equity ratios maintained by the Utility Proxy Group.

As shown on page 2 of Document No. 2, common equity ratios for the Utility Proxy Group range from 40.23 percent to 62.38 percent for fiscal year 2023.[8] I also considered *Value Line* projected capital structures for the Utility Proxy Group for 2027-2029. That analysis showed a range of projected common equity ratios between 44.00 percent and 60.00 percent for the Utility Proxy Group (*see*, pages 2 through 8 of Document No. 3).

In addition to comparing the company's proposed common equity ratio with common equity ratios currently and expected to be maintained by the Utility Proxy Group, I also compared the company's proposed common equity ratio with the equity ratios maintained by the operating subsidiaries of the Utility Proxy Group. As shown on page 3 of Document No. 2, common equity ratios of the operating utility subsidiaries of the companies in the Utility Proxy Group range from 37.70 percent to 60.41 percent for fiscal year 2023.

Q. Given the range of equity ratios present within the Utility Proxy Group, is the equity ratio of 54.70 percent proposed by

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Peoples appropriate for ratemaking purposes?

A. Yes, it is. The company's equity ratio of 54.70 percent is appropriate for ratemaking purposes in the current proceeding because it is within the range of the common equity ratios currently maintained, and expected to be maintained, by the Utility Proxy Group and their utility operating subsidiaries.

VI. COMMON EQUITY COST RATE MODEL

Q. Is it important that cost of common equity models be market-based?

A. Yes. While a public utility operates a regulated business within the states in which it operates, it still must compete for equity in capital markets along with all other companies of comparable risk, which includes non-utilities. The cost of common equity is thus determined based on equity market expectations for the returns of those companies. If an individual investor is choosing to invest their capital among companies of comparable risk, they will choose a company providing a higher return over a company providing a lower return.

Q. Are your cost of common equity models market-based?

A. Yes. The DCF model uses market prices in developing the model's dividend yield component. The RPM uses bond ratings and expected bond yields that reflect the market's assessment of bond/credit risk. In addition, betas (β), which reflect the market/systematic risk component of equity risk premium, are derived from regression analyses of market prices. The Predictive Risk Premium Model ("PRPM") uses monthly market returns in addition to expectations of the risk-free rate. The CAPM is market-based for many of the same reasons that the RPM is market-based (*i.e.*, the use of expected bond yields and betas). Selection criteria for comparable risk, non-price regulated companies are based on regression analyses of market prices and reflect the market's assessment of total risk.

Q. What analytical approaches did you use to determine the company's ROE?

A. As discussed earlier, I have relied on the DCF model, the RPM, and the CAPM, which I applied to the Utility Proxy Group described above. I also applied these same models to a Non-Price Regulated Proxy Group described later in this section.

I rely on these models because reasonable investors use a variety of tools and do not rely exclusively on a single source of information or single model. Moreover, the models on which I rely focus on different aspects of return requirements and provide different insights to investors' views of risk and return. The DCF model, for example, estimates the investor-required return assuming a constant expected dividend yield and growth rate in perpetuity, while Risk Premium-based methods (*i.e.*, the RPM and CAPM approaches) provide the ability to reflect investors' views of risk, future market returns, and the relationship between interest rates and the cost of common equity. Just as the use of market data for the Utility Proxy Group adds the reliability necessary to inform expert judgment in arriving at a recommended common equity cost rate, the use of multiple generally accepted common equity cost rate models also adds reliability and accuracy when arriving at a recommended common equity cost rate.

Q. Has the Commission approved the use of multiple methods in determining the cost of equity during past rate cases of Peoples?

A. Yes. In Docket No. 20080318-GU, the Commission stated that there are several models which satisfy the terms for determining a fair rate of return as laid out by *Hope* and *Bluefield*:

While the logic of the legal and economic concepts of a fair rate of return are fairly straight forward, the actual implementation of these concepts is more controversial. Unlike the cost rate on debt that is fixed and known due to its contractual terms, the cost of equity must be estimated. **Financial models have been developed to estimate the investor-required ROE for a company.** Market-based approaches such as the Discounted Cash Flow (DCF) model and the Capital Asset Pricing Model (CAPM) are generally recognized as being consistent with the market-based standards of a fair return enunciated in Hope, 320 U.S. 591 and Bluefield, 262 U.S. 679. [Emphasis added][9]

More recently, in Order No. PSC-2023-0388-FOF-GU, issued on December 27, 2023, the Commission considered the results of the witnesses DCF, CAPM, and RPM analyses to determine the appropriate range of ROEs in which to set Peoples' authorized return.[10]

A. DISCOUNTED CASH FLOW

Q. What is the theoretical basis of the DCF model?

A. The theory underlying the DCF model is that the present value of an expected future stream of net cash flows during the investment holding period can be determined by discounting those cash flows at the cost of capital, or the investors' capitalization rate. DCF theory indicates that an investor buys a stock for an expected total return rate, which is derived from the cash flows received from dividends and market price appreciation. Mathematically, the dividend yield on market price plus a growth rate equals the capitalization rate (*i.e.*, the total common equity return rate expected by investors), as depicted in the formula below:

$$K_e = (D_0\ (1+g))/P + g$$

Where:

K_e = the required return on common equity;

D_0 = the annualized dividend per share;

P = the current stock price; and

g = the growth rate.

Q. Which version of the DCF model did you use?

A. I relied on the single-stage constant growth DCF model in my analyses.

Q. Please describe the dividend yield you used in applying the constant growth DCF model.

A. The unadjusted dividend yields are based on the proxy companies' dividends as of January 15, 2025, divided by the average closing market price for the 60 trading days ended January 15, 2025 (*see*, Column 1, page 1 of Document No. 3).

Q. Please explain your adjustment to the dividend yield.

A. Because dividends are paid periodically (*e.g.*, quarterly), as opposed to continuously (daily), an adjustment must be made to the dividend yield. This is often referred to as the discrete, or the Gordon Periodic, version of the DCF model.

DCF theory calls for using the full growth rate, or D_1, in calculating the model's dividend yield component. Since the companies in the Utility Proxy Group increase their quarterly dividends at various times during the year, a reasonable assumption is to reflect one-half the annual dividend growth rate in the dividend yield component, or $D_{1/2}$. Because the dividend should be representative of the next 12-month period, this adjustment is a conservative approach that does not overstate the dividend yield. Therefore, the actual average dividend yields in Column 1, page 1 of Document No. 3 have been adjusted upward to reflect one-half the average projected growth rate shown in Column 5.

Q. Please explain the basis for the growth rates you apply to the Utility Proxy Group in your constant growth DCF model.

A. Investors are likely to rely on widely available financial information services, such as *Value Line*, Zacks, and S&P Capital IQ. Investors realize that analysts have significant insight into the dynamics of the industries and individual companies they analyze, as well as companies' abilities to effectively manage the effects of changing laws and regulations, and ever-changing economic and market conditions. For these reasons, I used analysts' five-year forecasts of earnings per share growth in my DCF analysis.

Over the long run, there can be no growth in dividends per share without growth in earnings per share. Security analysts' earnings expectations have a more significant influence on market prices than dividend expectations. Thus, using projected earnings growth rates in a DCF analysis provides a better match between investors' market price appreciation expectations and the growth rate component of the DCF.

Q. Please summarize the constant growth DCF model results.

A. As shown on page 1 of Document No. 3, the application of the constant growth DCF model to the Utility Proxy Group results in a range of indicated ROEs from 6.64 percent to 11.74 percent. The mean of those results is 10.49 percent, the median result is 10.50 percent, and the average of the two is 10.50 percent.

In arriving at a conclusion for the constant growth DCF-indicated common equity cost rate for the Utility Proxy Group, I relied on an average of the mean and the median results of the DCF, specifically 10.50 percent, applicable to the Utility Proxy Group. This approach takes into consideration all proxy company results while mitigating high and low side outliers of those results.

B. THE RISK PREMIUM MODEL

Q. Please describe the theoretical basis of the Risk Premium Model.

A. The RPM is based on the fundamental financial principle of risk and return; namely, that investors require greater returns for bearing greater risk. The RPM recognizes that common equity capital has greater investment risk than debt capital, as common equity shareholders are behind debt holders in any claim on a company's assets and earnings. As a result, investors require higher returns from common stocks than from bonds to compensate them for bearing the additional risk.

While it is possible to directly observe bond returns and yields, common equity returns required by investors cannot be directly determined or observed. According to RPM theory, one can estimate a common equity risk premium over bonds (either historically or prospectively) and use that premium to derive a cost rate of common equity. The cost of common equity equals the expected cost rate for long-term debt capital, plus a risk premium over that cost rate, to compensate common shareholders for the added risk of being unsecured and last-in-line for any claim on the corporation's assets and earnings upon liquidation.

Q. Please explain the total market approach RPM.

A. The total market approach RPM adds a prospective public utility bond yield to an average of: (1) an equity risk premium that is derived from a beta-adjusted total market equity risk premium, (2) an equity risk premium based on the S&P Utilities Index, and (3) an equity risk premium based on authorized ROEs for natural gas distribution utilities.

Q. Please explain how you determined the expected bond yield applicable to the Utility Proxy Group.

A. The first step in the total market approach RPM analysis is to determine the expected bond yield. Because both ratemaking and the cost of capital, including the common equity cost rate, are prospective in nature, a prospective yield on similarly rated long-term debt is essential. I relied on a consensus forecast of about 50 economists of the expected yield on Aaa-rated corporate bonds for the six calendar quarters ending with the first calendar quarter of 2026, and *Blue Chip's* long-term projections for 2026 to 2030 and 2031 to 2035. As shown on line 1, page 1 of Document No. 4, the average expected yield on Moody's Aaa-rated corporate bonds is 5.18 percent.

Because that 5.18 percent estimate represents a corporate bond yield and not a utility specific bond yield, I adjusted the expected Aaa-rated corporate bond yield to an equivalent A2-rated public utility bond yield, I made an upward adjustment of 0.42 percent, which represents a recent spread between Aaa-rated corporate bonds and A2-rated public utility bonds (as shown on line 2 and explained in note 2 on page 1 of Document No. 4). Adding that recent 0.42 percent spread to the expected Aaa-rated corporate bond yield of 5.18 percent results in an expected A2-rated public utility bond yield of 5.60 percent.

I then reviewed the average credit rating for the Utility Proxy Group from Moody's to determine if an adjustment to the estimated A2-rated public utility bond was necessary. Since the Utility Proxy Group's average Moody's long-term issuer rating is A3, another adjustment to the expected A2-rated public utility bond is needed to reflect this difference in bond ratings. An upward adjustment of 0.06 percent, which represents one-third of a recent spread between A2-rated and A3-rated public utility bond yields, is necessary to make the A2 prospective bond yield applicable to an A3-rated public utility bond (as shown on line 4 and explained in note 3 on page 1 of Document No. 4). Adding the 0.06 percent to the 5.60 percent prospective A2-rated public utility bond yield results in a 5.66 percent expected bond yield applicable to the Utility Proxy Group as shown on page 1 of Document No. 4.

To develop the total market approach RPM estimate of the appropriate return on equity, this prospective bond yield is then added to the average of the three different equity risk premiums, which I now discuss, in turn.

Q. Please explain how the beta-derived equity risk premium is determined.

A. The components of the beta-derived risk premium model are: (1) an expected market equity risk premium over corporate bonds, and (2) the beta. The derivation of the beta-derived equity risk premium that I applied to the Utility Proxy Group is shown on lines 1 through 8, on page 6 of Document No. 4. The total beta-derived equity risk premium I applied is based on an average of three historical market data-based equity risk premiums, two *Value Line*-based equity risk premiums, and a Bloomberg-based equity risk premium. Each of these is described below.

Q. How did you derive a market equity risk premium based on long-term historical data?

A. To derive an historical market equity risk premium, I used the most recent holding period returns for the large company common stocks less the average historical yield on Moody's Aaa/Aa-rated corporate bonds for the period 1928 to 2023. The use of holding period returns over a very long period of time is appropriate because it is consistent with the long-term investment horizon presumed by investing in a going concern, *i.e.*, a company expected to operate in perpetuity.

The long-term arithmetic mean monthly total return rate on large company common stocks was 12.05 percent and the long-term arithmetic mean monthly yield on Moody's Aaa/Aa-rated corporate bonds was 5.95 percent. As shown on line 1, page 6 of Document No. 4, subtracting the mean monthly bond yield from the total return on large company stocks results in a long-term historical equity risk premium of 6.10 percent.

I used the arithmetic mean monthly total return rates for the large company stocks and yields (income returns) for the Moody's Aaa/Aa-rated corporate bonds, because they are appropriate for the purpose of estimating the cost of capital as noted in Kroll's Stocks, Bonds, Bills, and Inflation ("SBBI") Yearbook 2023 ("SBBI - 2023").[11] The use of the arithmetic mean return rates and yields is appropriate because historical total returns and equity risk premiums provide insight into the variance and standard deviation of returns needed by investors in estimating future risk when making a current investment. If investors relied on the geometric mean of historical equity risk premiums, they would have no insight into the potential variance of future returns; the geometric mean relates the change over many periods to a <u>constant</u> rate of change, thereby obviating the year-to-year fluctuations, or variance, which is critical to risk analysis.

Q. Please explain the derivation of the regression-based market equity risk premium.

A. To derive the regression-based market equity risk premium of 7.03 percent shown on line 2, page 6 of Document No. 4, I used the same monthly annualized total returns on large company common stocks relative to the monthly annualized yields on Moody's Aaa/Aa-rated corporate bonds as mentioned above. I modeled the relationship between interest rates and the market equity risk premium using the observed monthly market equity risk premium as the dependent variable, and the monthly yield on Moody's Aaa/Aa-rated corporate bonds as the independent variable. I then used a linear Ordinary Least Squares ("OLS") regression, in which the market equity risk premium is expressed as a function of the Moody's Aaa/Aa-rated corporate bond yield:

$$RP = \alpha + \beta \ (R_{Aaa/Aa})$$

Where:

RP = the market equity risk premium;

α = the regression intercept coefficient;

β = the regression slope coefficient; and

$R_{Aaa/Aa}$ = the Moody's Aaa/Aa-rated corporate bond yield.

Q. Please explain the derivation of the PRPM equity risk premium.

A. The PRPM, published in the *Journal of Regulatory Economics*,[12] was developed from the work of Robert F. Engle, who shared the Nobel Prize in Economics in 2003 "for methods of analyzing economic time series with time-varying volatility" or autoregressive conditional heteroskedasticity ("ARCH")[13] Engle found that volatility changes over time and is related from one period to the next, especially in financial markets. Engle discovered that volatility of prices and returns clusters over time and is, therefore, highly predictable and can be used to predict future levels of risk and risk premiums.

The PRPM estimates the risk-return relationship directly, as the predicted equity risk premium is generated by predicting volatility or risk. The PRPM is not based on an estimate of investor behavior, but rather on an evaluation of the results of that behavior (i.e., the variance of historical equity risk premiums).

The inputs to the model are the historical returns on large company stocks minus the historical monthly yield on Moody's Aaa/Aa-rated corporate bonds from January 1928 through December 2024. Using a generalized form of ARCH, known as generalized autoregressive conditional heteroskedasticity ("GARCH"), I calculated each of the projected equity risk premium using Eviews© statistical software. When the GARCH model is applied to the historical return data, it produces a predicted GARCH variance series and a GARCH coefficient. Multiplying the predicted monthly variance by the GARCH coefficient and then annualizing it produces the predicted annual equity risk premium. The resulting PRPM predicted a market equity risk premium of 7.56%.[14]

Q. Please explain the derivation of projected equity risk premiums based on the *Value Line* Summary & Index for your RPM analysis.

A. As noted above, because both ratemaking and the cost of capital are prospective, a prospective market equity risk premium is needed. The derivation of the forecasted or prospective market equity risk premium can be found in note 4, page 6 of Document No. 4. Consistent with my calculation of the dividend yield component in my DCF analysis, this prospective market equity risk premium is derived from an average of the three- to five-year median market price appreciation potential by *Value Line* for the 13 weeks ended January 17, 2025, plus an average of the median estimated dividend yield for the common stocks of the 1,700 firms covered in *Value Line* (Standard Edition) (as explained in detail in note 1, page 2 of Document No. 5).

The average median expected price appreciation is 40 percent, which translates to a 8.78 percent annual appreciation, and when added to the average of *Value Line's* median expected dividend yields of 2.01 percent, equates to a forecasted annual total return rate on the market of 10.79 percent. The forecasted Moody's Aaa-rated corporate bond yield of 5.18 percent is deducted from the total market return of 10.79 percent, resulting in an equity risk premium of 5.61 percent, as shown on line 4, page 6 of Document No. 4.

Q. Please explain the derivation of an equity risk premium based on the S&P 500 companies.

A. Using data from *Value Line*, Bloomberg, and S&P Capital IQ, I calculated an expected total return on the S&P 500 companies using expected dividend yields and long-term growth estimates as a proxy for capital appreciation. The expected total return for the S&P 500 is 16.33 percent. Subtracting the prospective yield on Moody's Aaa-rated corporate bonds of 5.18 percent results in a 11.15 percent projected equity risk premium.

Q. What is your conclusion of a beta-derived equity risk premium for use in your RPM analysis?

A. I gave equal weight to all five equity risk premiums based on each source (historical, *Value Line* Summary & Index, and aggregate *Value Line*, Bloomberg, and S&P Capital IQ Market DCF) in arriving at a 7.49 percent equity risk premium, as shown on page 6 of Document No. 4.

After calculating the average market equity risk premium of 7.49 percent, I adjusted it by beta to account for the risk of the Utility Proxy Group. As discussed below, beta is a meaningful measure of prospective relative risk to the market as a whole, and is a logical way to allocate a company's, or proxy group's, share of the market's total equity risk premium relative to corporate bond yields. As shown on page 1 of Document No. 5, the average of the mean and median beta for the Utility Proxy Group is 0.79. Multiplying this beta by the market equity risk premium of 7.49 percent results in a beta-adjusted equity risk premium for the Utility Proxy Group of 5.92 percent.

Q. How did you derive the equity risk premium based on the S&P Utility Index and Moody's A2-rated public utility bonds?

A. I estimated three equity risk premiums based on S&P Utility Index holding period returns, and one equity risk premiums based on the expected returns of the S&P Utilities Index, using *Value Line*, Bloomberg, and S&P Capital IQ data. Turning first to the S&P Utility Index holding period returns, I derived a long-term monthly arithmetic mean equity risk premium between the S&P Utility Index total returns of 10.59 percent and monthly Moody's A2-rated public utility bond yields of 6.42 percent from 1928 to 2024, to arrive at an equity risk premium of 4.16 percent (as shown on line 1, page 9 of Document No. 4). I then used the same historical data to derive an equity risk premium of 4.91 percent based on a regression of the monthly equity risk premiums. The final S&P Utility Index holding period equity risk premium involved applying the PRPM using the historical monthly equity risk premiums from January 1928 to December 2024 to arrive at a PRPM-derived equity risk premium of 4.72 percent for the S&P Utility Index.

I then derived an expected total return on the S&P Utilities Index of 11.14 percent using data from *Value Line*, Bloomberg, and S&P Capital IQ and subtracted the prospective Moody's A2-rated public utility bond yield of 5.60 percent (derived on line 3, page 1 of Document No. 4). This resulted in equity risk premium of 5.54 percent. As with the market equity risk premiums, I averaged the four risk premiums to arrive at my utility-specific equity risk premium of 4.83 percent, as shown on page 9 of Document No. 4.

Q. How did you derive an equity risk premium of 4.79 percent based on authorized ROEs for gas utilities?

A. The equity risk premium of 4.79 percent shown on page 10 of Document No. 4 is the result of a regression analysis based on regulatory awarded ROEs related to the yields on Moody's A2-rated public utility bonds, and contains the graphical results of a regression analysis of 848 rate cases for distribution natural gas utilities, which were fully litigated during the period from January 1, 1980 through January 15, 2025. It shows the implicit equity risk premium relative to the yields on A2-rated public utility bonds immediately prior to the issuance of each regulatory decision. It is readily discernible that there is an inverse relationship between the yield on A2-rated public utility bonds and equity risk premiums. In other words, as interest rates decline, the equity risk premium rises and vice versa, a result consistent with financial literature on the subject.[15] I used the regression results to estimate the equity risk premium applicable to the projected yield on Moody's A2-rated public utility bonds. Given the expected A2-rated utility bond yield of 5.60 percent, it can be calculated that the indicated equity risk premium applicable to that bond yield is 4.79 percent.

Q. What is your conclusion of equity risk premium for use in your total market approach RPM for the Utility Proxy Group?

A. The equity risk premium I applied to the Utility Proxy Group is 5.18 percent, which is the average of the beta-adjusted equity risk premium for the Utility Proxy Group, the S&P Utilities Index, and the authorized return utility equity risk premiums of 5.92 percent, 4.83 percent, and 4.79 percent, respectively, as shown on page 5 of Document No. 4.

Q. What is the indicated RPM common equity cost rate based on the total market approach?

A. As shown on line 7, page 1 of Document No. 4, I calculated a common equity cost rate of 10.84 percent for the Utility Proxy Group based on the total market approach RPM, or 10.85 percent excluding the PRPM equity risk premium.

C. THE CAPITAL ASSET PRICING MODEL

Q. Please explain the theoretical basis of the CAPM.

A. CAPM theory defines risk as the co-variability of a security's returns with the market's returns as measured by the beta (β). A beta less than 1.0 indicates lower variability than the market as a whole, while a beta greater than 1.0 indicates greater variability than the market.

The CAPM assumes that all non-market or unsystematic risk can be eliminated through diversification. The risk that cannot be eliminated through diversification is called market, or systematic, risk. In addition, the CAPM presumes that investors only require compensation for systematic risk, which is the result of macroeconomic and other events that affect the returns on all assets. The model is applied by adding a risk-free rate of return to a market risk premium, which is adjusted proportionately to reflect the systematic risk of the individual security relative to the total market as measured by the beta. The traditional CAPM model is expressed as:

$$R_s = R_f + \beta\ (R_m - R_f)$$

Where:

R_s = Return rate on the common stock;

R_f = Risk-free rate of return;

R_m = Return rate on the market as a whole; and

β = Adjusted beta (volatility of the security relative to the market as a whole).

Numerous tests of the CAPM have measured the extent to which security returns and beta are related as predicted by the CAPM, confirming its validity. The empirical CAPM ("ECAPM") reflects the reality that while the results of these tests support the notion that the beta is related to security returns, the empirical Security Market Line ("SML") described by the CAPM formula is not as steeply sloped as the predicted SML.[16] The ECAPM reflects this empirical reality.

The ECAPM is a well-established model that has been relied on in both academic and regulatory settings. Fama & French clearly state regarding the figure in Document No. 11, below, that "[t]he returns on the low beta portfolios are too high, and the returns on the high beta portfolios are too low."[17]

In addition, Morin observes that while the results of these tests support the notion that beta is related to security returns, the empirical SML described by the CAPM formula is not as steeply sloped as the predicted SML. Morin states:

> With few exceptions, the empirical studies agree that … low-beta securities earn returns somewhat higher than the CAPM would predict, and high-beta securities earn less than predicted.[18]
>
> * * *
>
> Therefore, the empirical evidence suggests that the expected return on a security is related to its risk by the following approximation:
>
> $K = RF + x\ (RM - RF) + (1-x)\ \beta(RM - RF)$

> where x is a fraction to be determined empirically. The value of x that best explains the observed relationship [is] Return = 0.0829 + 0.0520 β is between 0.25 and 0.30. If x = 0.25, the equation becomes:
>
> $K = RF + 0.25(RM - RF) + 0.75\ \beta(RM - RF)$[19]

Fama & French provide similar support for the ECAPM when they state:

> The early tests firmly reject the Sharpe-Lintner version of the CAPM. There is a positive relation between beta and average return, but it is too 'flat.'… The regressions consistently find that the intercept is greater than the average risk-free rate… and the coefficient on beta is less than the average excess market return… This is true in the early tests… as well as in more recent cross-section regressions tests, like Fama and French (1992).[20]

Finally, Fama & French further note:

> Confirming earlier evidence, the relation between beta and average return `for the ten portfolios is much flatter than the Sharpe-Linter CAPM predicts. The returns on low beta portfolios are too high,

> and the returns on the high beta portfolios are too low. For example, the predicted return on the portfolio with the lowest beta is 8.3 percent per year; the actual return as 11.1 percent. The predicted return on the portfolio with the t beta is 16.8 percent per year; the actual is 13.7 percent.[21]

Clearly, the justification from Morin and Fama & French, along with their reviews of other academic research on the CAPM, validate the use of the ECAPM. In view of theory and practical research, I have applied both the traditional CAPM and the ECAPM to the companies in the Utility Proxy Group and averaged the results.

Q. What betas did you use in your CAPM analysis?

A. With respect to beta, I considered two methods of calculation: (1) the average of the betas of the respective proxy group companies as reported by Bloomberg, and (2) the average of the betas of the respective proxy group companies as reported by *Value Line*. While both of those services adjust their calculated (or "raw") betas to reflect the tendency of beta to regress to the market mean of 1.00, *Value Line* calculates beta over a five-year period, while Bloomberg's calculation is based on two years of data.

Q. Please describe your selection of a risk-free rate of return.

A. As discussed previously, the risk-free rate adopted for both applications of the CAPM is 4.44 percent. This risk-free rate is based on the average of the *Blue Chip* consensus forecast of the expected yields on 30-year U.S. Treasury bonds for the six quarters ending with the second calendar quarter of 2026, and long-term projections for the years 2026 to 2030 and 2031 to 2035.

Q. Please explain the estimation of the expected risk premium for the market used in your CAPM analysis.

A. The basis of the market risk premium is explained in detail in note 1 on page 2 of Document No. 5. As discussed above, the market risk premium is derived from an average of three historical data-based market risk premiums, one *Value Line* data-based market risk premium, and one *Value line*, Bloomberg, and S&P Capital IQ data-based market risk premium.

The long-term income return on U.S. Government securities of 4.99 percent was deducted from the monthly historical total market return of 12.29 percent, which results in an historical market equity risk premium of 7.31 percent. I applied a linear OLS regression to the monthly annualized historical returns on the S&P 500 relative to historical yields on long-term U.S. Government securities. That regression analysis yielded a market equity risk premium of 8.06 percent. The PRPM market equity risk premium is 8.45 percent and is derived using the PRPM relative to the yields on long-term U.S. Treasury securities from January 1926 through December 2024, as shown on page 2 of Document No. 5.

The *Value Line*-derived forecasted total market equity risk premium is derived by deducting the forecasted risk-free rate of 4.44 percent, discussed above, from the *Value Line* projected total annual market return of 10.79 percent, resulting in a forecasted total market equity risk premium of 6.35 percent.

The S&P 500 projected market equity risk premium using *Value Line*, Bloomberg, and S&P Capital IQ data is derived by subtracting the projected risk-free rate of 4.44 percent from the projected total return of the S&P 500 of 16.33 percent. The resulting market equity risk premium is 11.89 percent.

These five market risk premium measures, when averaged, result in an average total market equity risk premium of 8.41

percent. Excluding the PRPM from the calculation of the market risk premium produces an 8.40 percent estimate.

Q. What are the results of your application of the traditional and empirical CAPM to the Utility Proxy Group?

A. As shown on page 1 of Document No. 5, the mean result of my CAPM/ECAPM applied to the Utility Proxy Group is 11.20 percent, the median is 11.16 percent, and the average of the two is 11.18 percent. Excluding the PRPM from the calculation of the market risk premium, the mean result of my CAPM/ECAPM applied to the Utility Proxy Group is 11.19 percent, the median is 11.15 percent, and the average of the two is 11.17 percent. Consistent with my reliance on the average of mean and median DCF results discussed above, the indicated common equity cost rate for each group using the CAPM/ECAPM is 11.18 percent and 11.17 percent excluding the PRPM.

D. <u>COMMON EQUITY COST RATES FOR A PROXY GROUP OF DOMESTIC, NON-PRICE REGULATED COMPANIES BASED ON THE DCF, RPM, AND CAPM</u>

Q. Why do you also consider a proxy group of domestic, non-price regulated companies?

A. Although I am not an attorney, my interpretation of the *Hope* and *Bluefield* cases is that they did not specify that comparable risk companies had to be utilities. Since the purpose of rate regulation is to be a substitute for marketplace competition, non-price regulated firms operating in the competitive marketplace make an excellent proxy if they are comparable in total risk to the Utility Proxy Group being used to estimate the cost of common equity. The selection of such domestic, non-price regulated competitive firms theoretically and empirically results in a proxy group which is comparable in total risk to the Utility Proxy Group, since all of these companies compete for capital in the exact same markets.

Q. How did you select non-price regulated companies that are comparable in total risk to the Utility Proxy Group?

A. In order to select a proxy group of domestic, non-price regulated companies similar in total risk to the Utility Proxy Group, I relied on betas and related statistics derived from *Value Line* regression analyses of weekly market prices over the most recent 260 weeks (*i.e.*, five years). As shown on Document No. 6, these selection criteria resulted in a proxy group of 49 domestic, non-price regulated firms comparable in total risk to the Utility Proxy Group. Total risk is the sum of non-diversifiable market risk and diversifiable company-specific risks. The criteria used in selecting the domestic, non-price regulated firms were:

- They must be covered by *Value Line* (Standard Edition);
- They must be domestic, non-price regulated companies, *i.e.*, not utilities;
- Their unadjusted betas must lie within plus or minus two standard deviations of the average unadjusted beta of the Utility Proxy Group; and
- The residual standard errors of the *Value Line* regressions, which gave rise to the unadjusted betas, must lie within plus or minus two standard deviations of the average residual standard error of the Utility Proxy Group.

Betas measure market, or systematic, risk, which is not diversifiable. The residual standard errors of the regressions measure each firm's company-specific, diversifiable risk. Companies that have similar betas <u>and</u> similar residual standard errors resulting from the same regression analyses have similar total investment risk.

Q. Did you calculate the common equity cost rate using the DCF model, the RPM, and the CAPM for the Non-Price Regulated Proxy Group?

A. Yes. Because the DCF model, RPM, and CAPM have been applied in an identical manner as described above, I will not repeat the details of the rationale and application of each model. One exception is in the application of the RPM, where I did not use public utility-specific equity risk premiums.

Page 2 of Document No. 7 derives the constant growth DCF model common equity cost rate. As shown, the indicated common equity cost rate, using the constant growth DCF for the Non-Price Regulated Proxy Group comparable in total risk to the Utility Proxy Group, is 11.37 percent.

Pages 3 through 5 of Document No. 7 contain the data and calculations that support the 12.44 percent RPM common equity cost rates (12.42 percent excluding the PRPM). As shown on line 1, page 3 of Document No. 7, the consensus prospective yield on Moody's Baa2-rated corporate bonds for the six quarters ending in the second quarter of 2026, and for the years 2026 to 2030 and 2031 to 2035, is 6.01 percent.[22] Since the Non-Price Regulated Proxy Group has an average Moody's long-term issuer rating of Baa1, a downward adjustment of 0.09 percent to the projected Baa2-rated corporate bond yield is necessary to reflect a difference in ratings which results in a projected Baa1-rated corporate bond yield of 5.92 percent.

When beta-adjusted risk premiums of 6.52 percent and 6.50 excluding the PRPM (as derived on page 5 of Document No. 7) relative to the Non-Price Regulated Proxy Group are added to the adjusted prospective Baa1 bond yield of 5.92 percent, the indicated RPM common equity cost rates are 12.44 percent and 12.42 percent, respectively.

Page 6 of Document No. 7 contains the inputs and calculations that support my indicated CAPM/ECAPM common equity cost rate of 11.86 percent. Page 7 of Document No. 7 contains the inputs and calculations that support my indicated CAPM/ECAPM common equity cost rate of 11.85 percent excluding the PRPM.

Q. What is the cost rate of common equity based on the Non-Price Regulated Proxy Group comparable in total risk to the Utility Proxy Group?

A. As shown on page 1 of Document No. 7, the results of the common equity models applied to the Non-Price Regulated Proxy Group - which group is comparable in total risk to the Utility Proxy Group - are as follows: 11.37 percent (DCF), 12.44 percent (RPM), and 11.86 percent (CAPM). Excluding the PRPM the estimates are as follows: 11.37 percent (DCF), 12.42 percent (RPM), and 11.85 percent (CAPM).

The average of the mean and median of these models is 11.88 percent and 11.87 percent excluding the PRPM, which I used as the indicated common equity cost rates for the Non-Price Regulated Proxy Group. To be conservative, I do not consider the results of this analysis directly in my determination of the reasonable range of ROEs attributable to the Utility Proxy Group.

VII. RANGE OF COMMON EQUITY COST RATES BEFORE ADJUSTMENTS

Q. What is the range of indicated common equity cost rates produced by your ROE models?

A. By applying multiple cost of common equity models to the Utility Proxy Group and the Non-Price Regulated Proxy Group, the indicated range of common equity cost rates attributable to the Utility Proxy Group before any relative risk adjustments is between 10.50 percent and 11.18 percent, as shown on Document No. 1, page 2 (between 10.50 percent and 11.17 percent excluding the PRPM). I used multiple cost of common equity models as primary tools in arriving at my recommended common equity cost rate, because no single model is so inherently precise that it can be relied on to the exclusion of other theoretically sound models. Using multiple models adds reliability to the estimated common equity cost rate, with the prudence of using multiple cost of common equity models supported in both the financial literature and regulatory precedent.

As will be discussed below, Peoples has greater risk than the Utility Proxy Group. Because of this, the indicated range of model results based on the Utility Proxy Group must be adjusted to reflect Peoples' greater relative risk.

VIII. ADJUSTMENTS TO THE COMMON EQUITY COST RATE

Q. What company-specific business risks did you consider for your relative risk analysis?

A. As detailed below, I have considered flotation costs. I also considered Peoples' smaller relative size.

A. <u>FLOTATION COSTS</u>

Q. What are flotation costs?

A. Flotation costs are those costs associated with the sale of new issuances of common stock. They include market pressure and the mandatory unavoidable costs of issuance (*e.g.*, underwriting fees and out-of-pocket costs for printing, legal, registration, etc.). For every dollar raised through debt or equity offerings, the company receives less than one full dollar in financing.

Q. Has the Commission supported the use of flotation cost adjustments in past rate proceedings?

A. Yes. In Peoples' recent 2023 rate proceeding the Commission noted:

> In PGS's last rate case in 2008, we did not make a specific adjustment for flotation costs, but in our order we stated that we have traditionally recognized a reasonable adjustment for flotation costs in the determination of the investor required return...We find witness D'Ascendis's method to determine the flotation cost is credible and provided persuasive evidence for his recommendation to include a flotation cost of 9 basis points.[23]

Q. Why is it important to recognize flotation costs in the allowed common equity cost rate?

A. It is important because there is no other mechanism in the ratemaking paradigm through which such costs can be recognized and recovered. Because these costs are real, necessary, and legitimate, recovery of these costs should be permitted. As noted by Morin:

> The costs of issuing these securities are just as real as operating and maintenance expenses or costs

> incurred to build utility plants, and fair regulatory treatment must permit the recovery of these costs….
>
> The simple fact of the matter is that common equity capital is not free….[Flotation costs] must be recovered through a rate of return adjustment.[24]

Q. Should flotation costs be recognized whether or not there is a stock issuance of additional shares during the test year?

A. Yes. As noted above, there is no mechanism to recapture such costs in the ratemaking paradigm other than an adjustment to the allowed common equity cost rate. Flotation costs are charged to capital accounts and are not expensed on a utility's income statement. As such, flotation costs are analogous to capital investments, albeit negative, reflected on the balance sheet. Recovery of capital investments relates to the expected useful lives of the investment. Since common equity has a very long and indefinite life (assumed to be infinity in the standard regulatory DCF model), flotation costs should be recovered through an adjustment to common equity cost rate, even when there has not been an issuance during the test year, or in the absence of an expected imminent issuance of additional shares of common stock.

Historical flotation costs are a permanent loss of investment to the utility and should be accounted for. When any company, including a utility, issues common stock, flotation costs are incurred for legal, accounting, printing fees and the like. For each dollar of issuing market price, a small percentage is expensed and is permanently unavailable for investment in utility rate base. Since these expenses are charged to capital accounts and not expensed on the income statement, the only way to restore the full value of that dollar of issuing price with an assumed investor required return of 10.00 percent is for the net investment, $0.95, to earn more than 10.00 percent to net back to the investor a fair return on that dollar. In other words, if a company issues stock at $1.00 with 5.00 percent in flotation costs, it will net $0.95 in investment. Assuming the investor in that stock requires a 10.00 percent return on his or her invested $1.00 (*i.e.*, a return of $0.10), the company needs to earn approximately 10.5 percent on its invested $0.95 to receive a $0.10 return.

Q. Do the common equity cost rate models you have used already reflect investors' anticipation of flotation costs?

A. No. All of these models assume no transaction costs. The literature is quite clear that these costs are not reflected in the market prices paid for common stocks. For example, Brigham and Daves confirm this and provide the methodology utilized to calculate the flotation adjustment.[25] In addition, Morin confirms the need for such an adjustment even when no new equity issuance is imminent.[26] Consequently, it is proper to include a flotation cost adjustment when using cost of common equity models to estimate the common equity cost rate.

Q. How did you calculate the flotation cost allowance?

A. I modified the DCF calculation to provide a dividend yield that would reimburse investors for issuance costs in accordance with the method cited in literature by Brigham and Daves, as well as by Morin. The flotation cost adjustment recognizes the actual costs of issuing equity that were incurred by Peoples' parent, Emera, in its equity issuances since 2016 when it acquired Peoples. Based on the issuance costs shown on Document No. 8, an adjustment of 0.08 percent is required to reflect the flotation costs applicable to the Utility Proxy Group.

B. <u>SIZE ADJUSTMENT</u>

Q. Does Peoples' smaller size relative to the Utility Proxy Group companies increase its business risk?

A. Yes. Peoples' smaller size relative to the Utility Proxy Group companies indicates greater relative business risk for the company because, all else being equal, size has a material bearing on risk.

Size affects business risk because smaller companies generally are less able to cope with significant events that affect sales, revenues, and earnings. For example, smaller companies face more risk exposure to business cycles and economic conditions, both nationally and locally. Additionally, the loss of revenues from a few larger customers would have a greater effect on a small company than on a bigger company with a larger, more diverse, customer base.

As further evidence that smaller firms are riskier, investors generally demand greater returns from smaller firms to compensate for less marketability and liquidity of their securities. Kroll's Cost of Capital Navigator: U.S. Cost of Capital Module ("Kroll") discusses the nature of the small-size phenomenon, providing an indication of the magnitude of the size premium based on several measures of size. In discussing "Size as a Predictor of Equity Returns," Kroll states:

> The size effect is based on the empirical observation that companies of smaller size are

> associated with greater risk and, therefore, have greater cost of capital [sic]. The "size" of a company is one of the most important risk elements to consider when developing cost of equity capital estimates for use in valuing a business simply because size has been shown to be a *predictor* of equity returns. In other words, there is a significant (negative) relationship between size and historical equity returns – as size *decreases*, returns tend to *increase*, and vice versa. [Footnote omitted] [Emphasis in original].[27]

Furthermore, in *The Capital Asset Pricing Model: Theory and Evidence*, Fama & French note size is indeed a risk factor which must be reflected when estimating the cost of common equity. On page 38, they note:

> . . . the higher average returns on small stocks and high book-to-market stocks reflect unidentified state variables that produce undiversifiable risks (covariances) in returns not captured in the market return and are priced separately from market betas.[28]

Based on this evidence, Fama & French proposed their three-factor model which includes a size variable in recognition of the effect size has on the cost of common equity.

Also, it is a basic financial principle that the use of funds invested, and not the source of funds, is what gives rise to the risk of any investment.[29] Eugene Brigham, a well-known authority, states:

> A number of researchers have observed that portfolios of small-firms (sic) have earned consistently higher average returns than those of large-firm stocks; this is called the "small-firm effect." On the surface, it would seem to be advantageous to the small firms to provide average returns in a stock market that are higher than those of larger firms. In reality, it is bad news for the small firm; **what the small-firm effect means is that the capital market demands higher returns on stocks of small firms than on otherwise similar stocks of the large firms.** [Emphasis added][30]

Consistent with the financial principle of risk and return discussed above, increased relative risk due to small size must be considered in the allowed rate of return on common equity. Therefore, the Commission's authorization of a cost rate of common equity in this proceeding must appropriately reflect the unique risks of Peoples, including its smaller relative size, which is justified and supported above by evidence in the financial literature.

Q. Is there a way to quantify a relative risk adjustment due to Peoples' smaller size relative to the Utility Proxy Group?

A. Yes. Peoples has greater relative risk than the average utility in the Utility Proxy Group because of its smaller size compared with the utilities in those groups, as measured by an estimated market capitalization of common equity for the company.

As shown in page 1 of Document No. 8, Peoples' estimated market capitalization is approximately $2.693 billion, compared with the market capitalization of the average companies in the Utility Proxy Group of approximately $8.011 billion as of January 15, 2025. The average company in the Utility Proxy Group have a market capitalization of 3.0 times the size of Peoples' estimated market capitalization.

As a result, it is necessary to upwardly adjust the indicated range of common equity cost rates attributable to the Utility Proxy Group to reflect the company's greater risk due to their smaller relative size. The determination is based on the size premiums for portfolios of New York Stock Exchange, American Stock Exchange, and NASDAQ listed companies ranked by deciles for the 1926 to 2024 period. The average size premium for the Utility Proxy Group with a market capitalization of $8,011.11 million falls in the 3rd decile, while the Company's estimated market capitalization of $2,692.85 million places it in the 6th decile. The size premium spread between the 3rd decile and the 6th decile is 0.60 percent. Even though a 0.60 percent upward size adjustment is indicated, I applied a size premium of 0.20 percent to the company's indicated common equity cost rate in order to be conservative.

Q. Since Peoples is an indirectly owned operating subsidiary of Emera, why is the size of the total company not more appropriate to use when determining a business risk adjustment?

A. The return derived in this proceeding will not apply to Emera's operations as a whole, but only to Peoples. Emera is the sum of its constituent parts, including those constituent parts' ROEs. Potential investors in Emera are aware that it is a combination of operations in each state, and that each state's operations experience the operating risks specific to their jurisdiction. The market's expectation of Emera's return is commensurate with the realities of Emera's composite operations in each of the states in which it operates.

Q. What is your conclusion regarding an adjustment for the company's specific business risks?

A. Based on my analysis, a business risk adjustment of 0.20 percent is appropriate for Peoples to account for the company's smaller size. Even though my analysis of the company's smaller size relative to the Utility Proxy Group indicates an upward size adjustment of 0.60 percent, I conservatively applied an overall business risk adjustment of 0.20 percent to the results as shown on page 2 of Document No. 1.

Q. Please summarize your adjustments to the indicated ranges of ROEs applicable to the Utility Proxy Group.

A. The summary of my adjustments for the company-specific business risks and flotation costs to the indicated ranges of ROEs applicable to the Utility Proxy Group are summarized in page 2 of Document No. 1. As shown, the range of ROEs applicable to the company is between 10.78 percent and 11.46 percent, or 10.78 percent and 11.45 percent excluding the PRPM.

IX. CONCLUSION

Q. What is your recommended ROE for Peoples?

A. Given the indicated ROE range applicable to the company of 10.78 percent to 11.46 percent (10.78 percent to 11.45 percent excluding the PRPM), I conclude that an appropriate ROE for the company is 11.10 percent.

Q. In your opinion, is your proposed ROE of 11.10 percent fair and reasonable to Peoples and its customers?

A. Yes, it is.

Q. In your opinion, is Peoples' proposed capital structure consisting of 41.69 percent long-term debt and 54.70 percent common equity fair and reasonable?

A. Yes, it is.

Q. Does this conclude your prepared direct testimony?

A. Yes.

(Transcript continues in sequence in Volume 2.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 6th day of November, 2025.

Debbie R Krick

DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH575054
EXPIRES AUGUST 13, 2028