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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 4
PAGES 824 - 1109

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

APPEARANCES: (As heretofore noted.)

PREMIER REPORTING
TALLAHASSEE, FLORIDA
(850) 894-0828

I N D E X

P R O C E E D I N G S

(Transcript follows in sequence from Volume 3.)

(Whereupon, prefiled direct testimony of Lane Kollen was inserted.)

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Peoples Gas System, Inc.	DOCKET NO.: 20250029-GU FILED: June 30, 2025

DIRECT TESTIMONY

OF

LANE KOLLEN

ON BEHALF

OF

THE CITIZENS OF THE STATE OF FLORIDA

Walt Trierweiler
Public Counsel

Charles J. Rehwinkel
Deputy Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, FL 32399-1400
(850) 488-9330

Attorneys for the Citizens
Of the State of Florida

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DIRECT TESTIMONY

OF

LANE KOLLEN

On Behalf of the Citizens of the State of Florida

Before the

Florida Public Service Commission

Docket No. 20250029-GU

I. QUALIFICATIONS AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I earned a Bachelor of Business Administration degree in accounting and a Master of Business Administration degree from the University of Toledo. I also earned a Master of Arts degree in theology from Luther Rice University. I am a Certified Public Accountant, with a practice license, Certified Management Accountant, and Chartered Global Management Accountant. I am a member of numerous professional organizations, including the American Institute of Certified Public Accountants, Institute of Management Accounting, Georgia Society of CPAs, and Society of Depreciation Professionals.

I have been an active participant in the utility industry for more than forty years, initially as an employee of a company that installed underground cablevision and telephone wire from 1974 to 1976, then as an employee of The Toledo Edison Company in various accounting and planning positions from 1976 to 1983, and as a consultant in the industry from 1983 to the present. I have testified as an expert on planning, ratemaking, accounting, finance, tax, and other issues in proceedings before regulatory commissions and courts at the federal and state levels on several hundreds of occasions.

I have testified before the Florida Public Service Commission (FPSC or Commission) in numerous dockets, including base rate, storm cost, fuel adjustment clause, acquisition, and territorial proceedings involving Peoples Gas System, Inc. (Company or PGS), Florida Power & Light Company (FPL), Duke Energy Florida (DEF), Florida Public Utilities Company, Gulf Power Company, Talquin Electric Cooperative, Tampa Electric Company, City of Tallahassee, and City of Vero Beach.[1]

Q. ON WHOSE BEHALF ARE YOU PROVIDING TESTIMONY IN THIS PROCEEDING?

A. I am providing testimony on behalf of the Florida Office of Public Counsel (OPC), which represents the citizens of the State of Florida, and specifically, in the context of this proceeding, the Company's customers. J. Kennedy and Associates was retained to review and make recommendations in response to the Company's Petition, including the claimed initial and subsequent year base revenue requirements, the two requested base revenue increases, and the supporting documentation provided in this proceeding.

[1] I have attached a more detailed description of my qualifications and appearances as an expert in Exhibit LK-1.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address, make recommendations, and quantify the effects of my recommendations as the result of my review of the Company's claimed base revenue requirements and requested revenue increases, as well as to quantify the effects of the recommendations made by OPC witness David Garrett regarding the Company's proposed capital structure and cost of equity on the claimed base revenue requirement and requested revenue increases.

Q. PROVIDE A BRIEF DESCRIPTION OF THE COMPANY'S REQUESTED REVENUE INCREASES.

A. The Company seeks an initial base revenue increase of $103.591 million effective on January 1, 2026 based on the "rate case budgets" that it developed specifically for the forecast test year 2026. That base revenue increase is partially offset by a reduction of $6.733 million in the Cast iron/Bare Steel Replacement rider (Rider CI/BSR) revenues due to the transfer of the Rider CI/BSR costs to the base revenue requirement. After the reduction in the Rider CI/BSR revenue requirement, the requested net revenue increase is $96.858 million.

The Company seeks a second year base revenue increase, characterized as a subsequent year adjustment (SYA), of $26.709 million effective on January 1, 2027. This second year base revenue increase is to recover increases in forecast plant related rate base costs in 2027 compared to the forecast plant related rate base costs in the test year, including the related increases to annualize depreciation and property tax expenses compared to the test year. This second-year revenue increase reflects only selective increases in costs; it does not reflect increases in base revenues, including those from the increase in customers at the beginning of 2027 compared to the forecast customers in the test year.

Q. PROVIDE A SUMMARY OF YOUR TESTIMONY.

A. I recommend an initial base revenue increase of no more than $29.813 million. This is a reduction of at least $73.778 million in the Company's claimed initial base revenue requirement and requested revenue increase. This reduction in the Company's initial request is based on my recommendations on specific issues that I subsequently address in greater detail and based on my quantifications of Mr. Garrett's recommendations regarding the Company's capital structure and cost of equity. I summarize the issues that I and Mr. Garrett address and the effects of our recommendations on the following table.[2]

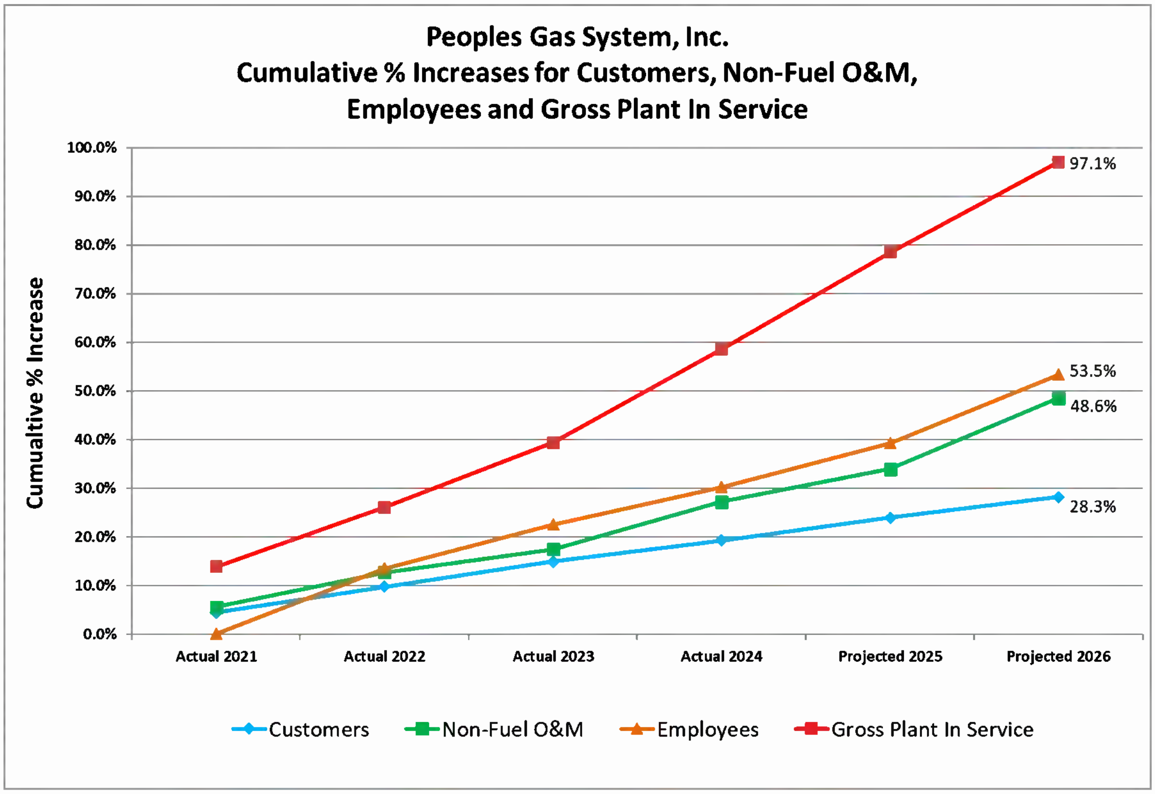
[2] OPC plans to provide the calculations supporting the amounts on the following table and cited elsewhere throughout my testimony in an Excel workbook in live format and with all formulas intact shortly after my testimony is filed in response to the Company's request.

PEOPLES GAS SYSTEM, INC.
REVENUE REQUIREMENT RECOMMENDED BY OPC - BASE RATES
DOCKET NO. 20250029-GU
TEST YEAR ENDING DECEMBER 31, 2026
($ MILLIONS)

	Adjustment Before Gross Up	Gross-Up Factor	Adjustment After Gross Up
Base Rate Increase Requested by Company Per Filing			**103.591**
Operating Income Adjustments:			
Reduce Depreciation Expense to Limit Growth in Capital Expenditures	(1.707)	1.00789	(1.721)
Reduce Depreciation Expense to Reflect Restatement of Test Year CWIP Closures to Plant	(3.418)	1.00789	(3.445)
Reduce Payroll and Related Expenses for Reduction in Projected Staffing Increases	(6.028)	1.00789	(6.075)
Increase Off-System Sales Net Revenues Included in Base Rates to Reflect 4-Year Average	(1.506)	1.00789	(1.518)
Increase Off-System Sales Net Revenues to Reflect PGS's Requested 50/50 Sharing	(4.152)	1.00789	(4.184)
Remove Excessive Property Tax Expense Using Corrected Net Operating Income	(0.777)	1.00789	(0.783)
Remove SERP Expense	(0.124)	1.00789	(0.125)
Reduce Board of Directors Expenses to Correct Filing Error	(0.105)	1.00789	(0.106)
Remove 50% of D&O Insurance Expense to Share with Shareholders	(0.037)	1.00789	(0.037)
Remove 50% of Investor Relations Expense to Share with Shareholders	(0.021)	1.00789	(0.021)
Remove 50% of Board of Directors Expenses to Share with Shareholders	(0.116)	1.00789	(0.117)
Reflect Amortization of WAM Costs Over 20 Years Instead of 15 Years	(0.718)	1.00789	(0.723)
Increase Parent Debt Income Tax Adjustment, Grossed Up for Income Taxes	(0.264)	1.00789	(0.266)
Rate Base Adjustments:			
Reduce Plant, Net of A/D, to Limit Growth on Capital Expenditures			(5.989)
Adjust A/D to Reflect Restatement of Test Year CWIP Closures to Plant			0.162
Adjust Accum Amortization of WAM Costs Over Extended Amortization Period			0.034
Capital Structure and Rate of Return Adjustments:			
Adjust Capital Structure - Financial Capital Structure of 51% Debt 49% Equity			(13.709)
Set Return on Equity at 9.0%			(35.154)
Total OPC Adjustments			**($73.778)**
Maximum Base Rate Increase After OPC Adjustments			**$29.813**

The Company's initial requested increase is excessive and due, in large part, to Emera's corporate financial objectives to grow revenues and earnings in its Florida regulated utility businesses, which include PGS, Tampa Electric Company, and SeaCoast Gas Transmission, LLC ("SeaCoast"). The requested increase in revenues is driven by increases in actual and forecast costs, primarily the growth in gross plant in service and operating expenses, including payroll costs for significant increases in employees (team members).

The Company contributes to the achievement of the Emera corporate financial objectives through outsized actual and continuing forecast growth in capital expenditures included as construction work in progress (CWIP) and gas plant in service investments in rate base and the related growth in depreciation and property tax expenses, outsized actual and continuing forecast growth in non-gas operating expenses, and actual and continuing forecast growth in team member staffing and the related payroll, benefits, and other taxes expenses. The growth in gross plant and O&M expenses since 2020, including the Company's forecast growth in 2025 and 2026, far exceeds actual and forecast customer growth as shown on the following chart.



The Commission has the obligation, opportunity, and ability to set the revenue requirement based on reasonable forecasts of revenues and costs and thereby reduce the magnitude of the Company's two requested base revenue increases in this proceeding. In the absence of Commission action to rein in the Company's "rate case" budget increases in costs in the forecast test year in this proceeding, prepared specifically for this rate case prior to and outside the normal budget process, and the costs forecast in subsequent years, the effects of these unreasonable cost levels will continue to be imposed on customers in the form of excessive and unreasonable and increasingly less affordable revenue increases in this case and in future cases.

In addition to the adjustments to the requested initial revenue increase, I recommend the Commission deny altogether the Company's second year requested base revenue increase. The Company's second year requested increase is based on selective cost increases and fails to reflect the additional revenues it will receive in 2027 from the customer growth already experienced in 2026, but which is not fully annualized in the test year, and reductions in plant-related costs. However, if the Commission allows the Company's requested selective cost increases to annualize the return on test year end plant-related components of rate base and the related depreciation and property tax expenses, then I recommend the Commission also increase the base revenues to annualize the growth in customers through the end of the test year, reflect the savings from reductions in plant-related costs, reduce the effects of the Company's proposed plant related costs for the reductions to the forecast capital expenditures I recommend for the test year, and reflect the reductions in the cost of capital that Witness Garrett recommends. The adjustments that I recommend if the Commission does not reject the requested second year increase altogether are necessary to properly recognize the increases in revenues from customer growth, the reductions in plant related costs as offsets to the requested increases in plant related costs, the other reductions to capital expenditures and for error corrections, and the cost of capital carried forward from the test year into 2027.

Finally, I quantify the effects on the requested rate increase of Mr. Garrett's capital structure and return on equity recommendations on both the first base revenue increase in 2026 and the second year increase in 2027, in the event the second year increase is not altogether denied.

II. THE FORECASTS OF TEST YEAR COSTS ARE OVERSTATED IN ORDER TO ACHIEVE EMERA'S CORPORATE FINANCIAL OBJECTIVES

A. Emera Investor Presentations Describe Its Financial Objectives And Its Plan To Achieve Those Objectives Through Growth In Capital Expenditures, Revenues, And Earnings at PGS

Q. DESCRIBE EMERA'S MARCH AND APRIL 2025 INVESTOR PRESENTATION.

A. Emera's March and April 2025 Investor Presentation deck describes its financial objectives and its plan to achieve those objectives through growth in capital expenditures, revenues, and earnings at PGS.[3] Emera achieved 70% of its income in 2024 from its "premium portfolio of regulated utilities focused in Florida" and plans to drive revenue and earnings growth through its "capital plan focused in Florida."[4]

Emera plans to achieve earnings growth of 5% to 7% by growing rate base by 7% to 8% annually on a compound average basis at least through 2029.[5] Emera considers

[3] I have attached a copy of the Emera presentation as Exhibit LK-2.

[4] *Id.* at 5-7.

[5] *Id.* at 14.

Florida to be a "constructive" regulatory environment due to its ability to achieve revenue growth through rate increases based on actual and forecast growth in rate base from its actual and forecast capital expenditures, the use of forecast test years some two years after its most recent actual historic calendar year data, and other utility beneficial ratemaking mechanisms.[6]

Emera states that "clear financial objectives drive reliable outcomes" and lists its objectives on the following slide from the presentation deck:[7]

Emera sets "clear financial objectives" to "drive reliable outcomes" for its utilities, including PGS, and funds the equity investments for the planned PGS capital expenditures necessary to achieve those financial objectives, including the "clear financial objective" to "deliver 7-8% rate base CAGR through 2029" and "translate rate base growth into 5%-7% annual adjusted EPS growth."[8]

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[6] *Id.* at 6 and 12.

[7] *Id.* at 15.

[8] *Id.*

The Emera forecast of PGS capital expenditures included in this Investor Presentation reflects compound annual growth in PGS gross plant of 11.5% from the end of 2024 to the end of the test year in this case and compound annual growth in PGS gross plant of 11.6% from the end of 2024 through the end of 2029. The Emera forecast of PGS capital expenditures totals $2,360 million over the 2025 to 2029 five-year period, consisting of $360 million in 2025, $430 million in 2026, $510 million in 2027, $560 million in 2028, and $500 million in 2029.[9]

Q. DESCRIBE HOW CAPITAL EXPENDITURES RESULT IN GROWTH IN REVENUES AND EARNINGS.

A. Growth in revenues results from ongoing rate increases based on the grossed-up (for income taxes) return (based on the weighted average cost of capital or WACC) times the growth in rate base in the test year compared to the rate base reflected in the prior rate case plus incremental revenues from growth in customers plus or minus changes in weather normalized gas sales.

The weighted equity component of the WACC applied to rate base represents the earnings component of the revenue requirement. The growth in rate base times the equity component of the WACC drives the growth in earnings, all else equal. In other words, the key driver for earnings growth is the growth in the rate base and the key driver for growth in the rate base is capital expenditures.

[9] *Id.* at 39.

Q. IS THAT WHY EMERA AND PGS ARE FOCUSED ON GROWTH IN CAPITAL EXPENDITURES?

A. Yes. That is how Emera actually achieves and plans to continue to achieve its corporate financial objectives of growth in revenues and earnings, as demonstrated by Emera's March and April 2025 Investor Presentation. Emera and PGS are incentivized to grow rate base in order to increase earnings, an opportunity for and well-known "reliable outcome" that is unique to rate regulated utilities, one that is described in the economic academic literature as the Averch-Johnson effect,[10] and is borne out in practice through excessive capital expenditures by utilities such as PGS.

There is no market or competitive restraint on the growth in rate base or the increases in revenues due to the monopolistic characteristic of rate regulated utilities that allows, and indeed, incentivizes and rewards this phenomenon. This is particularly true in those jurisdictions that use forecast costs in future test years to determine the revenue requirement. The only practical restraint to the utility's forecast of excessive and unreasonable costs is the regulator, in this case, the Commission, which must assess whether the forecast capital expenditures and growth in rate base are reasonable or whether the forecast of capital expenditures need to be reined in before the costs actually are incurred. The opportunity for rate regulated utilities to grow revenues and earnings through unreasonable and excessive growth in rate base, of course, is a harm to the utility's

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[10] The Averch–Johnson effect is the tendency of regulated companies to engage in excessive amounts of capital accumulation in order to expand the volume of their profits. If companies' profits to capital ratio is regulated at a certain percentage then there is a strong incentive for companies to over-invest in order to increase profits overall. This investment goes beyond any optimal efficiency point for capital that the company may have calculated as higher profit is almost always desired over and above efficiency Averch, Harvey; Johnson, Leland L. (1962). "Behavior of the Firm Under Regulatory Constraint." *American Economic Review.* 52 (5): 1052–1069. I obtained this citation from a secondary source and do not have a copy of the original article.

customers, who ultimately are the parties charged unreasonable rates to provide recovery of the utility's excessive and unreasonable costs.

B. <u>The Company Developed Its Capital Expenditure And Operating Budgets Specifically For This Rate Case And Those Rate Case Budgets Reflect Excessive Costs</u>

Q. DESCRIBE THE COMPANY'S CAPITAL EXPENDITURE AND OPERATING "BUDGETS" DEVELOPED SPECIFICALLY FOR THIS RATE CASE.

A. The Company developed "rate case" capital expenditure and operating budgets for 2026 specifically and uniquely for this rate case nearly a year prior to and outside the normal timeline for the Company's actual capital expenditure and operating budgets.[11] The claim by Company witness Andrew Nichols in direct testimony that "Peoples prepared its 2026 projected test year financial data using the company's normal annual budget process, which includes developing forecasts for capital expenditures and other balance sheet items and all elements of its income statement"[12] is incorrect and misleading. The Company began developing the "rate case" capital expenditure and operating expense budgets for the 2026 test year late last year, nearly a year before it will develop the budgets for 2026 used by management to actually manage the Company under the normal budget timeline.

Q. WHY IS THE DISTINCTION BETWEEN THE "RATE CASE" BUDGETS DEVELOPED SPECIFICALLY FOR THIS RATE CASE PROCEEDING AND

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[11] Response to Interrogatory No. 100 in OPC's Second Set of Interrogatories. I have attached a copy of this response as my Exhibit LK-3.

[12] Direct Testimony of Andrew Nichols at 10.

BUDGETS DEVELOPED IN THE NORMAL COURSE OF BUSINESS IMPORTANT IN THIS PROCEEDING?

A. It is important because the "rate case" budgets for the 2026 test year were developed specifically for this rate case proceeding, and were not actually developed in the normal course of business for management and accountability purposes. Rather, the forecasts for 2026 were developed to support the requested rate increase and incorporate assumptions and methodologies that bias upward the Company's requested increase compared to the assumptions and methodologies that may be incorporated in the normal budgets for 2026 that will be developed or refined later this year or early next year and that will not be approved until November this year (or later).[13]

It is important because these "rate case" budgets, to the extent accepted by the Commission and reflected in the approved rate increases, essentially become self-fulfilling in the real world, meaning the Company's capital expenditure and operating expense spend rates increase if they are funded through the approved rate increases. To the extent the Commission reduces the costs reflected in the "rate case" budgets and then reduces the requested rate increases, the Company responds in the real world by reducing its actual budgets and spend rates for the rate effective periods to ensure that it earns its authorized return on equity. In other words, the greater the approved rate increases, the greater the spending. The lower the approved rate increase, the lower the spending.

[13] The Company's timeline for developing the "rate case" capital expenditures, O&M expense, labor, other operating expenses, and revenues budgets for the rate case was provided in response to POD No. 42 in OPC's Second Request for Production of Documents. I have attached a copy of this response as Exhibit LK-17. This timeline for the "rate case" budgets also was confirmed and discussed with Company witnesses Timothy O'Connor, Andrew Nichols, Luke Buzard, and Christian Richard taken in this proceeding.

The Company's real world response was described by Company witness Christian Richard on deposition in this proceeding. Witness Richard stated: "Yeah, after the outcome of the rate case, we go through a revision of the budget to incorporate any changes that would have come from the rate case itself, and if there is any other new information we would have at that time."[14] Witness Richard and other Company witnesses also described this process in direct testimony. For example, Company witness Helen Wesley described this process as follows:[15]

> As part of our routine management activities, we prepared a re-forecast of 2024 operating revenues in January 2024. Our updated forecast pointed to lower 2024 revenues than those reflected in the forecast we used in our rate case, which was prepared in the fall of 2022. We also became aware that certain forecasted costs for 2024, such as transportation, insurance, and labor and employee benefits, would be higher than expected compared to our last rate case forecast, which by then was months old. It also became clear that costs associated with renewing long-term contracts with construction and other outside service providers would be higher than those reflected in the existing contracts. The combination of these factors pointed to an unexpectedly challenging 2024.
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> *****
>
> We took several steps, each of which are more fully explained by witnesses Nichols, Chronister, Bluestone, O'Connor, and Richard in their prepared direct testimony. They included aggressive actions to identify incremental revenue from large customers, moderating our employee hiring, evaluating our approach for charging and allocating costs to SeaCoast, reviewing our accounting policies for capitalizing operations and maintenance expenses, and pushing our team to be even more efficient. We were also cognizant that interest rates were above recent levels in early 2024, so like other utilities in North America, we made modest adjustments to our capital spending plans.
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> *****

Q. Should Peoples be criticized for adjusting in January 2024 the 2024 forecast it prepared in late 2022 for its last rate case?

A. No. The leadership team at Peoples makes decisions to manage our business every day as new information becomes available and conditions change. However, we

[14] Transcript of deposition of Christian Richard taken on June 17, 2025 at 29.

[15] Direct Testimony of Helen Wesely at 30-32.

always review our core priorities, i.e., safely and reliably serving both our current and new customers. Updating the forecasts we use to manage our operations and to serve customers is part of running our business. We took reasonable actions to modestly adjust our business plans to ensure that we could provide excellent customer service, executed the plans, and had reasonable financial results in 2024.

It also is important because the effects of the outsized spend rates result in increasing customer rates and harm to customers in the real world. If spend rates are unreasonable and reflected in customer rates, then those rates are unreasonable.

C. The "Rate Case" Capital Expenditure Budget For The Test Year Reflects Excessive Costs

Q. DESCRIBE THE FORECAST CAPITAL EXPENDITURES FOR 2025 AND 2026 THAT ARE REFLECTED IN THE CWIP AND PLANT RELATED COSTS IN THE TEST YEAR.

A. PGS developed its rate case capital expenditure budget for the 2026 test year starting in late 2024.[16] It initially started with a combination of actual and budget capital expenditures for 2024 and forecast capital expenditures for 2025 and 2026. It also forecast closings of these capital expenditures to gas plant in service for the remainder of 2024, all of 2025 and all of 2026. The following table shows the Company's forecast capital expenditures for 2025 and 2026 and the growth in those capital expenditures compared to the actual 2024 capital expenditures by plant groupings as follows.[17]

[16] *Id.*

[17] Andrew Nichols Exhibit AN-1, Document 2.

Peoples Gas System, Inc.
2025 and 2026 Capital Budget

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

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

The preceding table shows that some of the capital expenditures are for unique projects that have been or will be completed prior to the test year. These projects should be removed from the 2024 and 2025 construction totals in comparing the total capital expenditures on a "normalized" basis in 2026 to the two prior years. Projects that will be completed prior to the test year include the Municipal Improvements - US 98 Relocation – AFUDC and PGS Project Tampa Building – AFUDC projects. The completion of these projects prior to the test year should result in reductions in test year capital expenditures of

$23.844 million compared to 2024 and $5.872 million compared to 2025 for the Municipal Improvements - US 98 Relocation – AFUDC and reductions of $31.842 million compared to 2024 and $14.754 million compared to 2025 for the PGS Project Tampa Building – AFUDC, all else equal.

However, all else is not equal. The table shows capital expenditures in new categories/projects starting in 2025 or 2026 and, for those projects started in 2025, show significant growth in 2026 compared to 2025. These new categories/projects are discretionary and/or could be delayed. The projects include Main Replacements - Downtown Tampa – AFUDC with forecast capital expenditures of $4.309 million in 2025 and $27.600 million in 2026 and AMI Pilot with forecast capital expenditures of $2.000 million in 2025 and $4.000 million in 2026. Both of these projects were included in the forecast capital expenditures in the last rate case, but the Company subsequently delayed them, evidence of the Company's discretionary ability to reduce and/or delay capital expenditures, temporarily avoid the costs related to those expenditures, retain the revenues authorized to recover the costs that were not incurred, and in that manner enhance earnings between rate cases.

The table also shows there is outsized growth in certain other categories in 2026 compared to 2024 and 2025. This outsized growth is discretionary and far exceeds that justified by customer growth, to the extent there actually is a correlation between spend rates and customer growth in the category, and/or inflation. These outsized growth categories include New Revenue Mains with forecast capital expenditures of $87.354 million in 2026 compared to $55.331 million in 2024 and $59.576 million in 2025, Distribution System Improvements with forecast capital expenditures of $60.670 million in 2026 compared to $3.961 million in 2024 and $22.377 million in 2025, Measuring and Regulation Station Equipment with forecast capital expenditures of $17.049 million in 2026 compared to $0.343 million in 2024 and $1.899 million in 2025, Improvements in Property with forecast capital expenditures of $13.025 million in 2026 compared to $2.831 million in 2024 and $4.133 million in 2025, Technology Projects with forecast capital expenditures of $21.880 million compared to $5.173 million in 2024 and $14.391 million in 2025, Technology Projects (Shared) with forecast capital expenditures of $7.366 million in 2026 compared to $3.460 million in 2024 and $3.875 million in 2025, and Problematic Plastic Pipe Replacement with forecast capital expenditures of $60.437 million in 2026 compared to $16.802 million in 2024 and $32.015 million in 2025.

Q. IS THIS OUTSIZED GROWTH IN THE CATEGORIES IN 2026 LISTED IN THE PRIOR ANSWER REASONABLE WHEN COMPARED TO ACTUAL 2024 AND FORECAST 2025 CAPITAL EXPENDITURES?

A. No. The forecast growth in these categories is discretionary and is not justified by customer growth and/or inflation in 2025 or 2026. The Company's forecast growth in these categories is 57.30% in 2025 compared to 2024 actual capital expenditures. The Company's "rate case" capital expenditure budget further compounds the outsized forecast growth in 2025 with additional forecast growth in these categories of 93.67% in 2026 compared to 2025 and cumulative growth of 204.643% compared to 2024. In contrast, the Company's "rate case" budget reflects forecast customer growth forecast of 7.58% in 2026 compared to 2024, inflation growth of 4.89% in 2026 compared to 2024; and combined customer and inflation growth of 12.84% in 2026 compared to 2024.[18]

In addition, the Company's forecast growth in the Problematic Plastic Pipe ("PPP") Replacement represents a significant acceleration of the present replacement of this pipe to a level nearly four times the actual 2024 capital expenditures and nearly double the forecast 2025 capital expenditures. This forecast rate of acceleration is unreasonable and unnecessary. The PPP can be replaced on a systematic basis over a longer time period so that the capital expenditures in the test year are comparable to either the actual 2024 or the forecast 2025 capital expenditures.[19]

Further, none of the capital expenditure categories that I previously listed are correlated to customer growth, except to some extent the New Revenue Mains category. Even if the growth in the New Revenue Mains category is assumed to be directly correlated to customer growth, the Company's forecast growth in that category in the test year exceeds the Company's forecast of combined customer and inflation growth by $24.921 million. The Company's forecast capital expenditures in the other base rate categories that I previously listed exceed its forecast of inflation growth by $103.451 million.

Finally, as I noted in the summary section of my testimony, Emera has set target capital expenditure levels that reflect the perpetuation of this unreasonable and excessive "step-up" in the test year capital expenditures compared to prior years annually through

[18] Schedule G-2, p 12a.

[19] The forecast capital expenditures for the PPP category initially will be recovered in Rider CI/BSR, then rolled-in to the base revenue requirement in a subsequent base rate case. The Commission should consider the effect of this forecast growth in its overall assessment of the growth in forecast capital expenditures regardless of where the Company recovers the costs..

2029, which is even further cause for concern due to the fact that capital expenditures and the effects on customer rates are cumulative and will drive the magnitude of future rate increases through 2029.

Q. WHY ISN'T THE GROWTH IN THE NEW REVENUE MAINS CATEGORY NECESSARILY CORRELATED TO CUSTOMER GROWTH?

A. Customer growth is already embedded into the historic actual capital expenditures. Unlike growth in O&M expense arguably incurred to meet customer growth due to more customers, capital expenditures incurred to meet customer growth are one-time capital expenditures to provide service to the new customers, are not repeated for those new customers once they become existing customers, and do not compound from one year to the next. The capital expenditures in each year are not repeated in future years for the same customers, so there is no incremental growth in capital expenditures year over year due to customer growth unless the customer growth is greater in the test year than the customer growth reflected on average in prior years.

Q. WHAT ARE YOUR RECOMMENDATIONS?

A. I recommend the Commission limit the growth in the 2026 capital expenditures for the categories that I listed in the prior answer, except for the New Revenue Mains category, to inflation growth because they are not correlated with customer growth.

I recommend the Commission limit the growth in the 2026 capital expenditures for the New Revenue Mains category to the combined customer and inflation growth since

2024, even though I do not agree that customer growth is correlated in this case to the growth in the capital expenditures in this category.[20]

These adjustments are necessary to reduce the Company's unreasonable and outsized forecast growth in capital expenditures to levels that reflect reasonable growth consistent with the Company's forecast growth inflation and, to some extent, growth in customers, in 2026 compared to 2024.

I note that my recommendations address only the Company's forecast capital expenditures in 2026 even though the Company's forecast capital expenditures in 2025 also are excessive and unreasonable. However, I do not recommend disallowances of the identified capital expenditures in 2025 because, as a practical matter, those specific expenditures will have been incurred prior to the January 1, 2026 effective date of the Commission's Order in this proceeding.[21] The Company will not be able to reverse or reduce those specific expenditures or the effects of those expenditures on rate base and the capital related operating expenses on the revenue requirement for the test year.

To the extent the forecast capital expenditures in 2025 actually are incurred, the expenditures and the related effects on the revenue requirement cannot be undone in the absence of a Commission disallowance of costs already incurred. In contrast to the 2025 capital expenditures, the Commission can rein in the Company's forecast capital expenditures in the test year and the Company can respond to the Commission's Order by

[20] I make this concession only to limit the potential areas of disagreement with the Company.

[21] I use the terms identified and specific in this sentence because it is my recommendation that the Commission's prudence determination and spending approval should be based on actual projects and should not be based on a bucket of fungible dollars for which substitutions can be made to "meet" a Commission-established budget.

reducing its actual, as opposed to its "rate case," capital expenditures budget before it actually incurs those costs in 2026.

Q. WHAT ARE THE EFFECTS OF YOUR RECOMMENDATIONS ON THE COMPANY'S REQUESTED REVENUE INCREASE?

A. The effect is a $7.710 million reduction to the claimed base revenue requirement. This amount is comprised of a $5.989 million reduction in the return on rate base, based on a reduction in rate base of $63.332 million, and a $1.721 million reduction in depreciation expense after gross-up for Commission assessment fees and bad debt expense.

D. The Company Assumed That Capital Expenditures Would Be Closed To Plant In Service And Depreciated Earlier In The Test Year Than Its Actual Experience In Prior Years

Q. DESCRIBE HOW CAPITAL EXPENDITURES ARE CLOSED TO PLANT IN SERVICE AND COMPARE THE COMPANY'S ASSUMPTIONS FOR THE TEST YEAR TO ITS ACTUAL EXPERIENCE IN PRIOR YEARS.

A. Capital expenditures are recorded to CWIP. When the construction is completed, the costs are "closed" by crediting CWIP and debiting gas plant in service. Once CWIP is closed to gas plant in service, the Company begins to record depreciation expense.

The Company forecast the 13 month average of CWIP will be only $36.165 million in the test year based on its forecast of both capital expenditures and closings of CWIP to plant in service during the test year. This forecast of CWIP is significantly less than the actual 13 month averages of CWIP in each year 2020 through 2024, meaning the Company has assumed that it will close CWIP at a faster rate during the test year than it has in any of the five prior historic years. This assumption not only affects the Company's initial revenue increase in 2026, but also affects the Company's proposed second year revenue increase in 2027.

The average of $36.165 million of CWIP in the test year is much less than any of the actual amounts for the years 2020 through 2024, even though it has had significant growth in its capital expenditures since 2020, including the forecast years 2025 and 2026. More specifically, the Company had a 13 month average CWIP of $120.248 million in 2020, $148.987 million in 2021, $195.972 million in 2022, $256.977 million in 2023, and $101.150 million in 2024, an average of $164.667 million each year over that five year period. This inconsistency in the test year compared to prior years is compounded by the fact the Company has significantly increased its actual capital expenditures over that five year period and forecasts even further significant increases in capital expenditures in 2025 and 2026, as I previously described in the prior section of my testimony.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend the Commission reject the Company's unreasonable assumption that it will accelerate the pace of closings from CWIP to gas plant in service in the test year compared to its actual experience in prior years and instead rely on the Company's actual experience in such closings over the most recent actual five year period. This will result in a reduction in gross plant and the related depreciation expense and accumulated depreciation and an increase in CWIP by an amount equivalent to the reduction in gross plant.

Q. WHAT ARE THE EFFECTS OF YOUR RECOMMENDATION?

A. The effect is a $3.283 million reduction to the claimed base revenue requirement. This amount is comprised of a $0.162 million increase in the return on rate base, based on an increase in rate base of $1.709 million, and a $3.445 million reduction in depreciation expense after gross-up for Commission assessment fees and bad debt expense. The effects include a reduction in gross plant of $128.501 million, a reduction in accumulated depreciation of $1.709 million, an increase in CWIP of $128.501 million, and a reduction in depreciation expense of $3.418 million.

E. <u>The "Rate Case" O&M Expense Budget For The Test Year Was Developed Specifically For This Rate Case And Reflects Excessive Costs</u>

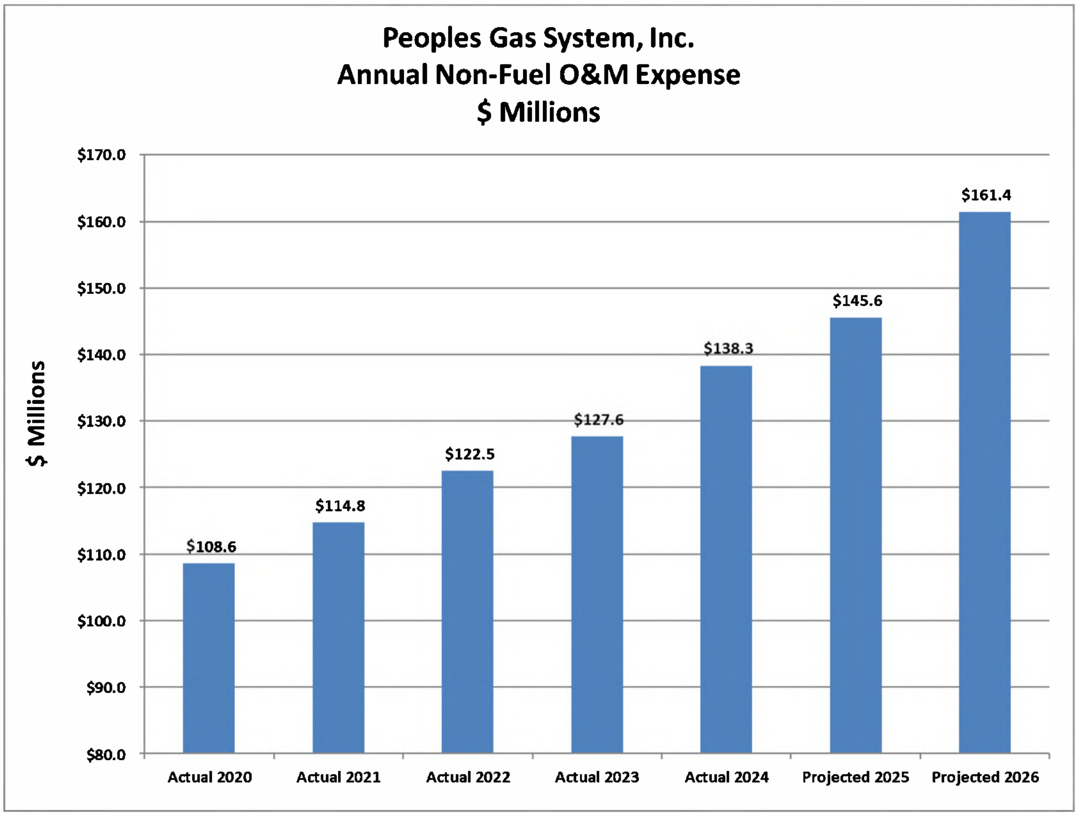
Q. DESCRIBE THE O&M EXPENSE FORECAST BY PGS FOR THE TEST YEAR.

A. PGS developed its "rate case" O&M expense budget for the 2026 test year starting in late 2024, the same timeline as the "rate case" capital expenditures budget for the test year.[22] PGS initially started with a combination of actual and budget O&M expenses for 2024 and forecast O&M expenses for 2025 and 2026. The forecast O&M expense for the 2026 test year follows a relentless historic pattern of significant annual growth, driven in large part by annual increases in full time equivalent employees (team members).

The following graph shows the Company's forecast growth in 2025 and 2026 O&M expenses compared to actual O&M expenses from 2020 through 2024.[23]

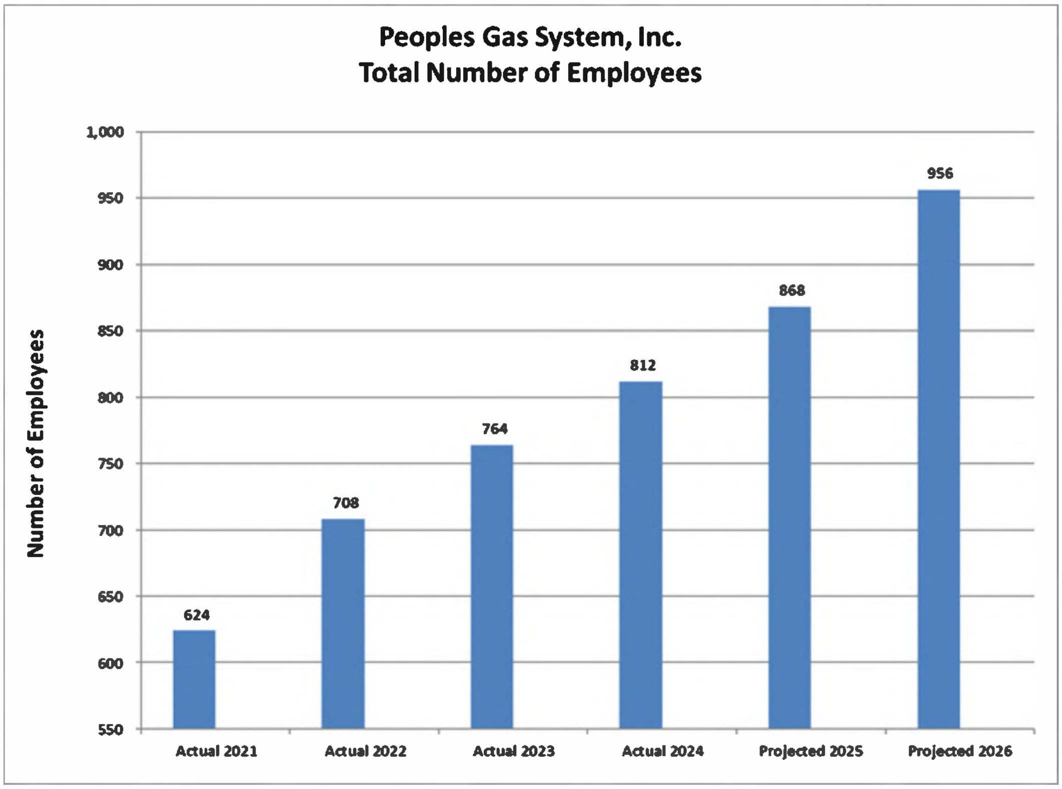
[22] Response to Interrogatory No. 100 in OPC's Second Set of Interrogatories. See Exhibit LK-3.

[23] Response to Interrogatory No. 133 in OPC's Fourth Set of Interrogatories. I have attached a copy of this response as my Exhibit No. LK-4.



The following graph shows the Company's forecast growth in team members in 2025 and 2026 compared to actual team members from 2020 through 2024.[24]

[24] Responses to Interrogatory No. 6 in OPC's First Set of Interrogatories. I have attached a copy of this response as my Exhibit No. LK-5.



The Company's calculations result in an increase in forecast O&M expense of $7.3 million, or 5.3% in 2025, and another increase of $15.8 million, or 10.9% in the test year compared to 2025. In other words, the Company forecasts a cumulative increase in the test year of $23.1 million, or 16.7%, in the test year compared to the actual O&M expense in 2024.

In its calculations of the forecast O&M expense for the test year, the Company increased certain expenses starting with actual 2024 expenses by trending them and then added further increases in non-trended expenses.[25] For example, the Company trended payroll expenses from 2024 (base year) to 2025 (base year + 1) and then trended the trended expenses from 2025 to 2026.[26] It also added increases in non-trended payroll expenses in

[25] Schedule G-2 pages 12a-19g.

[26] *Id.*

both years to reflect forecast growth in team members during the first seven months of 2025 and additional forecast growth in team members during the test year, all on January 1, 2026, except for one team member it forecasts will be added in March .[27]

Q. WHAT IS THE PRIMARY DRIVER OF THE FORECAST GROWTH IN O&M EXPENSE IN THE TEST YEAR COMPARED TO 2024?

A. The primary driver is the Company's forecast growth of 144 team members by January 1, 2026, the first day of the test year, to 956 team members compared to the actual 812 team members at December 31, 2024, which, already reflected growth of 188 team members since the end of 2021. In other words, the Company forecasts growth of 144 team members, or nearly 18%, in the twelve month period from December 31, 2024 to January 1, 2026.

Q. IS THAT FORECAST GROWTH IN TEAM MEMBERS REASONABLE?

A. No. It is excessive and unreasonable. The Company forecasts growth of nearly 18% in team members in a single year. The sheer magnitude of this forecast growth and the timing reflected in the "rate case" budgets are both unreasonable. Other rate regulated utilities have been able to maintain or reduce the number of employee positions over time due to rate base investments in technology and adoption of best practices.

Although the Company claims that its investments in technology, such as the Work and Asset Management System (WAM), have enabled efficiencies and cost reductions, there have been no savings in the number of team members and the payroll related costs.

[27] *Id.*

Instead, the Company has pursued relentless growth in the number of team members in its "rate case" budgets and then added team members, albeit typically fewer than reflected in its rate case budgets, funded by periodic rate case revenue increases authorized by the Commission.

The Company also claims that it has in-sourced work activities by hiring additional team members. Although the Company does perform limited formal analyses as to whether in-sourcing will result in savings on an *ad hoc* basis, the Company does not routinely perform any formal analysis to determine whether in-sourcing will result in savings and to document the decision process reflected in its actual decisions or in the forecast additions of team members. Nor does this in-sourcing appear to be a major factor in the growth in team members. For example, in-sourcing meter reading work activities resulted in growth of nine team members in 2025 and had no effect on the additional forecast growth in team members in the test year.[28] Further, in my experience I have observed that other utilities have found it more cost effective to utilize contractors for routine task oriented work activities, contrary to the Company's claims in support of in-sourcing in this proceeding.

The Company also claims the growth in team members is necessary due to customer growth. Yet, the Company forecasts customer growth of 3.86% in 2025 and 3.58% in 2026, well below the nearly 18% forecast team member growth from the end of 2024 to the beginning of the test year. Further, not all work activities or functions are correlated directly, or even indirectly, to the number of customers or even the growth in customers. To the extent that work activities are customer facing, there may be some correlation to growth in team members, but to the extent that work activities are not customer facing or

[28] Schedule G-2 at page 19d.

correlated to the number of customers, then customer growth does not justify additional team members. Examples of the latter are the Company's executive management team costs. There is only one President and Chief Executive Officer, one Vice President of Finance,[29] one Vice President of Regulatory and External Affairs, one Vice President of Safety, Operations, and Sustainability, one Vice President of Human Resources, and one Vice President of Engineering, Construction, and Technology.

Further, the number of employees necessary for new construction does not increase at the rate of growth each year. The Company already is staffed for continued growth in customers and the related infrastructure. The employees devoted to new construction are sufficient if growth remains relatively constant from year to year. Increases in employees for new construction are necessary only if construction requirements due to growth increase year over year. In other words, if growth in customers averages 4% each year, then the existing employees devoted to new construction simply maintain that same level of new construction year after year; no new employees are necessary unless growth increases beyond the historic growth.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend a reduction in the forecast growth in team members from the end of 2024 through the end of the test year from 144 to no more than 40 team members. This reflects a starting point of the 812 team members at the end of 2024 and growth based on one half of the Company's forecast growth in customers in 2025 and 2026 plus the Company's

[29] This position is currently vacant and being undertaken by the Vice President of Regulatory and External Affairs. No decision has been made to permanently fill the position.

addition of team members for the meter reading activity given that the Company reflected the savings in contractor expense in the forecast O&M expense for the test year. I recommend one half of the Company's forecast growth in customers to reflect the fact that only a portion of the Company's work activities is directly or indirectly correlated to the number of customers.

The forecast increase in employees and the forecast employees in the test year compared to the base year and prior years are unreasonable and excessive. The increases are predominantly discretionary and are not justified by business requirements. They are not justified by customer growth. They are not justified by reductions in contractor expenses. They do not reflect efficiencies from WAM or any other efficiencies. They do not reflect the Company's historic vacancy experience where the actual employees are significantly less than the budget employees.

Q. DOES YOUR RECOMMENDATION RESULT IN A DISALLOWANCE OF COSTS THAT ACTUALLY WILL BE INCURRED BY THE COMPANY?

A. No. The Company will not incur the costs to add team members in 2026 before the Commission issues an Order in this case, most likely in December of this year. The Company will reflect the effects of the Commission Order in this case in its actual O&M expense and capital expenditure budgets. In order to actually earn the return authorized in this case, the Company will need to rein in its "rate case" forecast to only hire the number of team members reflected in the revenue increased approved by the Commission. The Company will hire fewer team members compared to its "rate case" expense and capital expenditure budgets. This will be the practical effect of a Commission Order reducing the forecast growth in O&M expense, capital expenditures, and team members. Hiring fewer team members will reduce the actual O&M expense and the actual capital expenditures spend rates in 2026 compared the "rate case" budgets, the same outcome in 2024 resulting from the Commission Order in the prior rate case.

Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION?

A. The effect is a reduction in payroll expense, related payroll fringe adder expense, and related payroll expense of $6.028 million. I utilized an average payroll cost per team member and an average payroll expense ratio for the purposes of this calculation. There is a resulting reduction of $6.075 million reduction in the base revenue requirement after gross-up for Commission assessment fees and bad debt expense.

OTHER FORECAST OPERATING EXPENSES ARE EXCESSIVE AND UNREASONABLE; ADJUSTMENTS ARE NECESSARY

A. Company's Forecast Reduction In Off-System Sales Net Revenues Is Unreasonable Compared To Actual Net Revenues In Prior Years

Q. DESCRIBE THE COMPANY'S FORECAST OFF-SYSTEM SALES (OSS) NET REVENUES IN THE TEST YEAR.

A. The Company forecast OSS net revenues, or margins, of $2.646 million in the 2026 test year.[30] It is my understanding that the level of the Company's OSS is dependent on the availability of its open capacity and market pricing. The total forecast net revenues for 2026 is $10.584 million, and the $2.646 million represents the 25% that is currently

[30] Response to Interrogatory No. 109 in OPC's Second Set of Interrogatories. I have attached a copy of this response as my Exhibit LK-6.

retained by the Company and reflected as an offset to base rates.[31] The remaining 75% is currently returned to customers as an offset in the Company's Purchased Gas Adjustment (PGA) clause.[32] According to testimony, the Company projected these amounts based on the "OSS net revenues achieved in 2023 of $2.7 million and the $2.5 million budgeted for 2024".[33] It did not rely upon the actual 2024 level of OSS net revenues, stating that those had increased significantly due to "favorable natural gas price spreads and higher market demand conditions" and that it assumed for 2025 and 2026 budgeting purposes that "market conditions will moderate relative to 2024."[34]

Q. DESCRIBE THE LEVEL OF OSS NET REVENUES OVER THE LAST SEVERAL YEARS AND BUDGETED FOR 2025 AND 2026.

A. The Company's actual OSS net revenues for the years 2022 through 2024 are shown in the table below along with the amounts budgeted for 2025 and 2026. The data reflects for each year the total net revenues along with the amount that is flowed through to customers in the PGA clause and the amount that is retained by the Company.[35]

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[31] Direct Testimony of Andrew Nichols at 67-69.

[32] *Id.*

[33] *Id.*

[34] *Id.*

[35] Response to Interrogatory No. 109 in OPC's Second Set of Interrogatories. See Exhibit LK-6.

	Total OSS Net Revenue	75% Offset To PGA Clause	25% Retained By Company
2022 Actual	$17,840,585	$13,380,440	$ 4,460,146
2023 Actual	$10,770,429	$ 8,077,821	$ 2,692,607
2024 Actual	$19,353,496	$14,515,122	$ 4,838,374
2025 Forecast	$10,428,550	$ 7,821,412	$ 2,607,137
2026 Forecast	$10,583,550	$ 7,937,663	$ 2,645,888

The actual data indicates that the $2.693 million in OSS net revenues retained by the Company and applicable to base rates in 2023 appears to be the outlier as opposed to the 2024 level as described by the Company in testimony and noted above. This is even more apparent when considering the actual OSS net revenues experienced thus far in 2025. The Commission Staff ("Staff") asked for the actual and projected OSS net revenues data to date in 2025 in a separate docket.[36] Below, I have replaced the 2025 actual and remaining forecast data from that response into the same data table presented above to show the adjusted forecast 2025 amounts to date.[37]

[36] Response to Staff Request No. 2 in Staff's Second Data Request in Docket No. 202500026-GU. I have attached a copy of that response as my Exhibit LK-7.

[37] *Id.*

	Total OSS Net Revenue	75% Offset To PGA Clause	25% Retained By Company
2022 Actual	$17,840,585	$13,380,440	$ 4,460,146
2023 Actual	$10,770,429	$ 8,077,821	$ 2,692,607
2024 Actual	$19,353,496	$14,515,122	$ 4,838,374
2025 Actual Jan-Apr	$11,542,416	$ 8,656,812	$ 2,885,604
2025 Forecast May-Dec	$ 6,918,372	$ 5,188,779	$ 1,729,593
2025 Total Actual/Forecast	$18,460,788	$13,845,591	$ 4,615,197
2026 Forecast	$10,583,550	$ 7,937,663	$ 2,645,888
Average 2022,2023,2024, and 2025 Retained By Company			$ 4,151,581

The actual 25% amount of OSS net revenues retained by the Company during the first four months of 2025 is more than the Company's budget for the entirety of 2025 and the "rate case" budget for 2026. The adjusted 2025 forecast amount is very similar to the amounts experienced in 2022 and 2024, and much higher than the amount experienced in 2023. The average OSS net revenues for the years 2022 through 2025 retained by the Company is $4.152 million, which is $1.506 million more than the Company's "rate case" budget for 2026.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission increase the level of OSS net revenues retained by the Company and included in base rates to reflect the four-year average of $4.152 million as reflected above. This amount is based upon the 25% portion of such revenues that is currently retained by the Company.

Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION?

A. The effect is a $1.506 million increase in OSS net revenues and a $1.518 million reduction in the base revenue requirement after gross-up for Commission assessment fees and bad debt expense.

B. <u>Increase Off-System Sales Net Revenues To Reflect PGS Request For 50/50 Sharing</u>

Q. DESCRIBE THE COMPANY'S REQUEST TO MODIFY THE LEVEL OF SHARING ASSOCIATED WITH THE OSS SALES.

A. The Company requested in Docket No. 20250026-GU among other things that it be allowed to share on a 50/50 basis the OSS net revenues on a going-forward basis. The Company's petition in that docket was made on January 13, 2025 and is still pending. PGS testimony in this proceeding indicates that the claimed revenue requirement and requested revenue increase should be reduced by $2.646 million if the Commission authorizes the Company's request in Docket No. 20250026-GU.[38] That amount is based on the Company's forecast OSS net revenues for the test year and increasing the present 25% sharing level to a 50% sharing level. The reflection of such a reduction in base rates is appropriate since the PGA clause rates would increase due to the percentage sharing change, all else equal.

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[38] Direct Testimony of Andrew Nichols at 69.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission increase the level of OSS net revenues retained by the Company and included in base rates if it authorizes the Company's request in Docket No. 20250026-GU to modify the level of sharing. If the Commission denies the Company's request to change the sharing percentages, then no further adjustment in this proceeding would be necessary.

Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION?

A. The effect is a $4.152 million increase in OSS net revenues and a $4.184 million reduction in the base revenue requirement after gross-up for Commission assessment fees and bad debt expense.

C. <u>Property Tax Expense Is Excessive</u>

Q. DESCRIBE THE COMPANY'S FORECAST PROPERTY TAX EXPENSE IN THE TEST YEAR AND COMPARE IT TO THE PROPERTY TAX EXPENSE IN THE BASE YEAR.

A. The Company's forecast property tax expense in the test year is $29.324 million, an increase of $7.429 million, or 33.9% over the actual property tax expense of $21.895 million in the base year.[39] The valuation date is January 1 for each year for personal and real property that is in-service on that date. CWIP is not subject to property tax. The

[39] Response to Interrogatory No. 60 in OPC's First Set of Interrogatories. I have attached a copy of this response as my Exhibit LK-8.

Company provided its calculation of the property tax expense for the test year in response to OPC discovery.[40]

Q. DESCRIBE THE COMPANY'S CALCULATION OF THE PROPERTY TAX EXPENSE ON TANGIBLE PERSONAL PROPERTY FOR THE TEST YEAR.

A. The Company is taxed based on its tangible personal property (TPP) and real property valuations at January 1 each year. The largest of the two valuations is the TPP, which comprises approximately 95% of the total property valuation and is taxed at a higher rate than the real property. The Company developed the $1,824.466 million TPP valuation at January 1, 2026 for the test year using the weighted results of a cost-based approach (net book value) and an income approach (recent net operating income (NOI) divided by the cost of capital). The net book value receives a weighting of 20% and the income approach receives a weighting of 80%. The income approach used by the Company to project test year expense relied upon actual and forecast NOI for 2023, 2024, and 2025 and weighted the most current years' data higher than that for the previous years. The Company's 2026 appraisal NOI estimate is duplicated below:[41]

[40] Response to POD No. 7 in OPC's First Set of Production of Documents. The applicable file name is (BS 2233)1_15_25 2026 Budget PGS PROP TAX APPRAISAL using 12+0 SOP. I have attached a copy of the narrative portion of this response and the worksheet tabs Inc Approach and CountyDetailEstimate as my Exhibit LK-9. The final property tax expense estimate calculation amount is reflected in Cell Q3 of worksheet tab CountyDetailEstimate.

[41] *Id.*

Peoples Gas System 2026 Property Tax Budget Appraisal
Income Approach to Value - As Filed by PGS
Determine 2026 Net Operating Income to Capitalize

Year	NOI As Booked	Weight	Weighted NOI	
2023 Actual	$118,841,878	1	$19,806,980	
2024 Forecast	$169,027,750	2	$56,342,583	
2025 Forecast	$172,037,106	3	$86,018,553	
			Weighted Average	**Use**
			$162,168,116	**$162,200,000**

The Company's 2026 estimate relied upon an old forecast NOI amount for 2024 of $169.028 million instead of the actual amount of $168.827 million. It also included an old forecast NOI amount for 2025 of $172.037 million instead of an updated amount based on the NOI forecast for 2025 in the instant filing of $157.386 million.[42]

Q. HAVE YOU RECALCULATED THE FORECAST PROPERTY TAX EXPENSE TO ACCOUNT FOR THE UPDATED NOI AMOUNTS APPLICABLE TO 2024 AND 2025?

A. Yes. I inserted the actual 2024 NOI and the projected 2025 NOI from the Company's filing from Schedule G-2 into the Company's valuation model. The resulting 2026 appraisal NOI estimate by utilizing more current data is duplicated below:

[42] The 2024 actual NOI and the 2025 projected NOI are both reflected in the application at Schedule G-2 at line 17.

Peoples Gas System 2026 Property Tax Budget Appraisal Income Approach to Value - As Adjusted by OPC Determine 2026 Net Operating Income to Capitalize				
Year	NOI As Booked	Weight	Weighted NOI	
2023 Actual	$118,841,878	1	$19,806,980	
2024 Actual	$168,827,176	2	$56,275,725	
2025 Forecast	$157,385,906	3	$78,692,953	
			Weighted Average	**Use**
			$154,775,658	**$154,800,000**

I rounded the weighted average result to the nearest hundred thousand dollars just like the Company did, utilizing $154.800 million. With no other changes made to the Company's 2026 property tax expense model, the property tax expense generated from this change is $28.546 million, resulting in a reduction from the as-filed amount of $0.777 million.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend the Commission reduce the projected amount of property tax expense for the test year to properly reflect updated NOI amounts in the asset valuation process. This appears to have been an oversight by the Company. These amounts were updated appropriately in the property tax expense forecast for the 2027 SYA.

Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION?

A. The effect is a $0.777 million reduction in property tax expense and a $0.783 million reduction in the base revenue requirement after gross-up for Commission assessment fees and bad debt expense.

D. <u>Supplemental Executive Retirement Plan Expense Was Disallowed In Recent Tampa Electric Company Rate Case</u>

Q. DESCRIBE THE COMPANY'S REQUEST TO INCLUDE SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN ("SERP") EXPENSE IN THE BASE REVENUE REQUIREMENT.

A. The Company requests recovery of $0.124 million in SERP expense in the base revenue requirement.[43] These expenses are incurred to provide certain highly compensated executives retirement benefits in addition to the benefits otherwise available through the Company's pension and OPEB plans. These are considered to be non-qualified plans because the additional compensation exceeds deductible compensation limits set forth in the Internal Revenue Code.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend the Commission deny the Company's request to recover this expense. The SERP expense is discretionary. It is incurred to attract, retain, and reward highly compensated employees whose interests are more closely aligned with those of the

[43] Responses to Interrogatory No. 30 and 38 in OPC's First Set of Interrogatories. I have attached a copy of these responses as my Exhibit LK-10.

Company's shareholders rather than its customers. The expense is not necessary to provide regulated utility service and it is not reasonable to impose the expense on utility customers. SERP expense recovery was recently denied by the Commission in the last Tampa Electric Company base rate proceeding.[44]

Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION?

A. The effect is a reduction of $0.124 million in SERP expense and $0.125 million in the claimed revenue requirement and requested base rate increase after gross up for bad debt and Commission fees.

E. <u>Reduce Board of Directors' Expense to Reflect Correction of Filing Error</u>

Q. DID THE COMPANY DETERMINE THAT IT MADE AN ERROR IN THE AMOUNT OF BOARD OF DIRECTORS'S FEES INCLUDED IN THE BASE REVENUE REQUIREMENT?

A. Yes. The Company included in the originally filed revenue requirement $0.137 million for compensation of PGS's Board of Directors and another $0.200 million in such expense allocated to it by the parent company Emera.[45] When responding to discovery, the Company determined that the amount allocated to it by Emera should have been $0.095 million, a reduction in the forecast expense of $0.105 million.[46] The Company also stated

[44] Order No. PSC-2025-0038-FOF-EI, issued February 3, 2025, Docket No. 20240026-EI, In re: Petition for rate increase by Tampa Electric Company, at 106-107.

[45] Response to Interrogatory No. 26 in OPC's First Set of Interrogatories. I have attached a copy of this response as my Exhibit LK-11.

[46] *Id.*

in the same response that it planned to "adjust the test year revenue requirement calculation to correct this error." [47]

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the Commission correct the revenue requirement to account for the Company's filing error correction.

Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION?

A. The effect is a reduction of $0.105 million in Board of Director's expense and $0.106 million in the claimed revenue requirement and requested base rate increase after gross up for bad debt and Commission fees.

F. <u>Reduce Directors and Officers Insurance Expense, Investor Relations Expense, and Board of Directors' Expense to Reflect Sharing Between Company's Shareholders and Customers</u>

Q. DESCRIBE THE THREE CORPORATE RELATED EXPENSES THE COMPANY INCLUDED IN THE REVENUE REQUIREMENT IN THIS PROCEEDING.

A. The Company included expenses related to its parent company, Emera, and its own corporate governance in the revenue requirement. Emera's stock and other securities are publicly traded. Emera incurs certain governance expenses and liability insurance expenses related to its directors and officers and charges those expenses to PGS and other Emera affiliates. PGS also incurs certain governance expenses related to its own directors

[47] *Id.*

and officers.

The Company incurred Directors & Officers ("D&O") liability insurance expense of $0.073 million during the test year.[48] D&O insurance is designed to protect the individual directors and officers of an organization from personal liability and potential losses arising from their service and decisions made while serving in those roles. D&O insurance also may defray the legal and other costs incurred to defend against corporate liability and potential losses related arising from decisions made by directors and officers on behalf of an organization.

In addition, Emera maintains an investor relations organization to interact with present and potential investors. Emera allocated expenses of $0.041 million to PGS related to this organization during the test year.[49] The Emera website details the communications supplied to investors.[50] The communications include such things as news releases, investor presentations, regulatory filings, analyst reports, and other statistical and reporting information.

Finally, the Company included Board of Directors expenses of $0.232 million during the test year, consisting of expenses the Company incurred directly and expenses incurred by Emera and charged to the Company.[51]

[48] Response to Interrogatory No. 115 in OPC's Second Set of Interrogatories, a copy of which I have attached as my Exhibit LK-12.

[49] Response to Interrogatory No. 117 in OPC's Second Set of Interrogatories, a copy of which I have attached as my Exhibit LK-13.

[50] Home| Emera. Corporate Profile | Emera

[51] Response to Interrogatory No. 116 in OPC's Second Set of Interrogatories, a copy of which I have attached as my Exhibit LK-14. This amount is net of the $0.105 million error correction noted in the subsection above.

Q. SHOULD THERE BE A SHARING OF THESE KINDS OF CORPORATE EXPENSES BETWEEN CUSTOMERS AND SHAREHOLDERS?

A. Yes. the benefits from such activities inure primarily to shareholders, not to customers.

Q. HAS THE COMMISSION PREVIOUSLY RULED ON THE SHARING OF THESE KINDS OF EXPENSES?

A. Yes. The Commission determined there should be an equal sharing of D&O insurance expense costs between customers and shareholders in at least three prior rate cases, one for Tampa Electric Company, one for Gulf Power Company, and the other for Progress Energy Florida.[52]

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend an equal sharing of the Company's D&O insurance and Board of Directors expenses between customers and shareholders to allocate these expenses equally based on an assumption the expenses benefit both ratepayers and shareholders, as recognized in prior Commission Orders.

Q. WHAT ARE THE EFFECTS OF YOUR RECOMMENDATION?

A. The effects are a reduction of $0.037 million in D&O insurance expense and the revenue requirement, a reduction of $0.021 million in investor relations expense and the revenue

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[52] Order No. PSC-2025-0038-FOF-EI, issued February 3, 2025, Docket No. 20240026-EI, In re: Petition for rate increase by Tampa Electric Company, at p. 112; Order No. PSC-2012-0179-FOF-EI, issued April 3, 2012, Docket No. 20110138-EI, In re: Petition for increase by Gulf Power Company, at p. 101; Order No. PSC-2010-0131-FOF-EI, issued March 5, 2010, in Docket No. 20090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc. at p. 99.

requirement, and a reduction of $0.116 million in Board of Directors expenses and a reduction of $0.117 million in the revenue requirement after the gross-up for bad debt and Commission fees.

G. <u>Reduce WAM Depreciation Expense To Reflect Company's Proposal To Extend Amortization Period From 15 Years To 20 Years</u>

Q. DESCRIBE THE COMPANY'S PROPOSAL TO REDUCE WAM DEPRECIATION EXPENSE TO EXTEND THE AMORTIZATION PERIOD.

A. The Company proposes to create a new FERC plant subaccount 303.02 for the WAM intangible plant costs and to reduce the WAM depreciation expense by extending the amortization period from 15 years to 20 years and adopted a 5.0% depreciation rate effective January 1, 2026.[53]

Q. DID THE COMPANY REFLECT THIS PROPOSAL IN THE TEST YEAR REVENUE REQUIREMENT?

A. No.[54]

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL?

A. Yes.

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[53] Petition at 31-33.

[54] *Id.*, 32.

Q. WHAT IS THE EFFECT OF THE COMPANY'S PROPOSAL?

A. The effect is a reduction in the requested base revenue increase of $0.689 million, consisting of a reduction of $0.718 million in depreciation expense (reduction in revenue requirement of $0.723 million) offset by the grossed up return on the reduction in accumulated depreciation included rate base of $0.034 million.[55]

H. Increase Parent Debt Tax Adjustment To Reflect Tampa Electric Company Rate Case Orders

Q. DESCRIBE THE COMPANY'S CALCULATION OF THE PARENT DEBT TAX ADJUSTMENT.

A. Company witness Nichols generally describes the company's calculation in direct testimony. The Company's calculation is shown on Schedule C-26. The Company calculated the adjustment based on Emera's weighted debt ratio times Emera's average cost of debt times the Company's adjusted common equity excluding retained earnings of $1,332.6 million ($1,421.0 million adjusted common equity as shown on Schedule G-3 less retained earnings of $88.4 million as shown on Schedule G-1 page 8 line 2). The footnote on Schedule C-26 states that the common equity "excludes retained earnings in accordance with Rule 25-14.004(4).

[55] Response to Interrogatory No. 112 in OPC's Second Set of Interrogatories. I have attached as my Exhibit LK-12I have attached a copy of this response as Exhibit LK-15.

Q IS THE COMPANY'S CALCULATION CONSISTENT WITH THE COMMISSION'S CALCULATION OF THE PARENT DEBT ADJUSTMENT FOR TAMPA ELECTRIC COMPANY?

A. No. The Commission's calculation of the parent debt adjustment for Tampa Electric Company in its recent rate case, Docket 20240026-EI, reflects no reduction in adjusted common equity to exclude retained earnings. Tampa Electric Company calculated the adjustment excluding retained earnings in its claimed revenue requirement in that case, despite prior Commission Orders in which the Commission included retained earnings. The Commission revised Tampa Electric Company's calculation to include retained earnings to reflect the methodology adopted by the Commission in a 2009 Tampa Electric Company rate case, Docket No. 20080317-EI and affirmed in subsequent Tampa Electric Company rate cases.

In the 2009 rate case, Tampa Electric Company opposed any parent debt adjustment, despite the requirement for such an adjustment in Rule 25-14.004, F.A.C. In the 2009 case, the Commission rejected Tampa Electric Company's arguments and found that a parent debt adjustment was required. The Company also argued that the adjusted common equity was overstated because "TECO Energy's policy requires subsidiaries to pay dividends equal to all of their net income to the parent."[56] The Commission also rejected that argument and found that the adjusted Tampa Electric Company common equity should be used for the calculation.

[56] Order in Docket No. 20080317-EI at 77, reciting Tampa Electric Company Witness Gillette's testimony opposing the parent debt adjustment.

Q. SHOULD PGS BE TREATED THE SAME AS TAMPA ELECTRIC COMPANY?

A. Yes. Until the 2023 Transaction whereby PGS was spun out of Tampa Electric Company as a separate legal entity, PGS did not have its own financing or capital structure; it was the same as Tampa Electric Company's. Now that PGS is a separate legal entity, there is no evident reason why PGS should be treated any differently than Tampa Electric Company in the calculation of the parent debt adjustment.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend the Commission calculate the parent debt adjustment the same way for PGS as it has for Tampa Electric Company since the 2009 rate case

Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION?

A. The effect is a reduction in tax expense of $0.197 million and a reduction in the base revenue requirement of $0.266 million.

IV. QUANTIFICATION OF ADJUSTMENTS TO REFLECT OPC WITNESS GARRETT'S RECOMMENDED CAPITAL STRUCTURE AND COST OF EQUITY

A. Quantification of Adjustment To Reflect Mr. Garrett's Capital Structure Recommendation

Q. HAVE YOU QUANTIFIED THE EFFECTS OF MR. GARRETT'S CAPITAL STRUCTURE RECOMMENDATION?

A. Yes. The effect is a $13.709 million reduction in the base revenue requirement.

B. Quantification of Adjustment To Reflect Mr. Garrett's Return On Equity Recommendation

Q. HAVE YOU QUANTIFIED THE EFFECT OF MR. GARRETT'S RETURN ON EQUITY RECOMMENDATION?

A. Yes. The effect of Mr. Garrett's return on equity recommendation is a $35.154 million reduction in the Company's base revenue requirement and requested base rate increase. This amount is incremental to the reductions in the revenue requirement that I quantified for Mr. Garrett's recommendations to modify the capital structure.

Q. HAVE YOU QUANTIFIED THE EFFECTS OF A 10 BASIS POINT CHANGE IN THE RETURN ON COMMON EQUITY?

A. Yes. Each 10 basis point change in the return on equity equals $1.758 million in the base revenue requirement and requested base rate increase. This is based on an equity ratio of 49.0% on a financial basis and 43.07% on a regulatory basis.

C. <u>Summary Of Cost Of Capital Based on OPC Recommendations Compared To The Company's Proposals</u>

Q. SUMMARIZE THE COST OF CAPITAL BASED ON THE OPC RECOMMENDATIONS COMPARED TO THE COMPANY'S PROPOSALS.

A. The following table compares the OPC recommendations to the Company's proposed capital structure and cost of capital recommendations before income tax and after income tax gross-ups.

PEOPLES GAS SYSTEM, INC.
COST OF CAPITAL
DOCKET NO. 20250029-GU

PGS Cost of Capital Per Filing

	Jurisdictional Adjusted Capital $ Millions	Capital Ratio	Component Costs	Weighted Avg Cost	Grossed-Up WACC
Long Term Debt	1,082.596	36.64%	5.64%	2.07%	2.09%
Short Term Debt	93.604	3.17%	4.24%	0.13%	0.13%
Customer Deposits	29.475	1.00%	2.52%	0.03%	0.03%
Deferred Income Tax	327.784	11.09%	0.00%	0.00%	0.00%
Investment Tax Credits	-	0.00%	0.00%	0.00%	0.00%
Common Equity	1,420.982	48.10%	11.10%	5.34%	7.21%
Total Capital	2,954.442	100.00%		7.57%	9.46%

PGS Cost of Capital Recommended by OPC

	Jurisdictional Adjusted Capital $ Millions	Capital Ratio	Component Costs	Weighted Avg Cost	Grossed-Up WACC
Long Term Debt	1,230.959	41.66%	5.64%	2.35%	2.37%
Short Term Debt	93.604	3.17%	4.24%	0.13%	0.13%
Customer Deposits	29.475	1.00%	2.52%	0.03%	0.03%
Deferred Income Tax	327.784	11.09%	0.00%	0.00%	0.00%
Investment Tax Credits	-	0.00%	0.00%	0.00%	0.00%
Common Equity	1,272.619	43.07%	9.00%	3.88%	5.24%
Total Capital	2,954.442	100.00%		6.39%	7.77%

V. COMPANY'S PROPOSED SECOND YEAR BASE REVENUE INCREASE (SUBSEQUENT YEAR ADJUSTMENT) IS UNREASONABLE AND FAILS TO CONSIDER ANNUALIZATIONS OF TEST YEAR REVENUES AND COST REDUCTIONS

Q. DESCRIBE THE COMPANY PROPOSED SECOND YEAR BASE REVENUE INCREASE.

A. The Company proposes a second year base revenue requirement that aggressively attempts to annualize all plant-related costs included in the initial base revenue requirement, but does so selectively and without consideration of revenue increases and plant-related cost reductions that that will reduce the proposed increase. The Company's calculation also includes a significant error that overstates the requested revenue increase.

The Company's Petition states:[57]

> The company requests that the Commission approve a subsequent year adjustment of $26,709,027 million effective with the first billing cycle in January 2027. This amount reflects the incremental revenue requirement that would result from recalculating the company's 2026 revenue requirement using its projected net utility plant balances as of December 31, 2026 ("2026 year-end rate base"), recognizing a full year of depreciation and property tax expenses for the utility plant included in 2026 year-end rate base, and its proposed overall rate of return for 2026, i.e., 7.57 percent.

Company witness Jeff Chronister provides a more detailed description of the calculation of the second year base revenue increase in direct testimony as follows.

> 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; (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

[57] Petition at paragraph 28, page 10.

test year Commission approved property tax expense that is determined using December 2025 Net Utility Plant and 2025 NOI.[58]

Q. SHOULD THE COMMISSION APPROVE THE COMPANY'S SECOND YEAR BASE REVENUE INCREASE?

A. No. The Company's request is an aggressive attempt to expand further the successful initial attempt by Tampa Electric Company to annualize specific test year costs into the year following the test year in Docket No. 20230026-EI to include *all* plant related costs at the end of the test year. In other words, *all* "business as normal" plant related costs. In the Tampa Electric Company case, the Commission went beyond its historic practice of annualizing the effects of new generation in the test year and in the year after the test year to include certain identifiable "business as normal" grid reliability and resilience improvements. At least there was the pretense in that case that grid reliability and resilience and resilience improvements were somehow unique costs with characteristics similar to new generation. In this case, there is no such pretense, just an aggressive attempt to annualize *all* plant related costs forecast in the test year carried into 2027, something that OPC warned likely would occur if the Commission approved Tampa Electric Company's request to include "business as normal" grid reliability and resilience improvements.

Now the Commission is faced with another attempted expansion to annualize *all* plant related costs forecast in the test year carried into 2027. If the Commission approves this request, then all other utilities likely will follow this precedent. As OPC noted in the Tampa Electric Company case, these are significant and precedential decisions made for

[58] Direct Testimony of Jeff Chronister at 39.

an individual utility, but with statewide consequences, decisions made without a rulemaking and without full consideration of the consequences, including the parameters and methodologies to be used for such second year base revenue increases.

If, however, the Commission proceeds to approve the Company's request in this proceeding, then it at least should address the numerous error and methodological problems with the Company's calculations, all of which bias the request upward. The requests fails to reflect any benefit of revenue increases due to the annualization of customer growth at the end of the test year carried into 2027 and fails to reflect cost reductions from the annualization of plant related costs at the end of the test year carried into 2027. Correction of an error and changes in the methodology for the second year revenue increases are necessary to match all elements of such an incremental approach that affect the second year revenue requirement in the absence of a comprehensive approach, instead of the biased selection of cost increases proposed by the Company. Again, the Commission's decision in this case will set the precedent for the other utilities in the state going forward. The Commission should make an informed and balanced decision that considers customer interests rather than one that is focused exclusively on the utility's interests.

Q. ADDRESS THE COMPANY'S FAILURE TO REFLECT THE ANNUALIZATION OF REVENUES AND PLANT-RELATED COST REDUCTIONS.

A. The Company failed to annualize revenues for customer growth through the end of the test year. The Company attempts to justify the use of year end plant because the test year plant related costs included in rate base were calculated on a 13 month average basis, not at the end of the test year, and the depreciation expense and property tax expense were calculated on plant costs throughout the test year, not at the end of the test year. Yet, the base revenues in the test year were calculated based on customers throughout the test year, not at the end of the test year. If costs are to be annualized at the end of the test year, then revenues also should be annualized based on the number of customers at the end of the test year. That customer growth and the related revenues will carry over into 2027, the same as the depreciation and property tax expense based on plant related costs and other calculation parameters at the end of the test year.

The Company also failed to reflect the growth in accumulated depreciation on the annualized plant at the end of the test year that will continue into 2027, instead reflecting only the increase accumulated depreciation on the increase in the plant at year end compared to the 13 month average in the test year. This is an outright error given that the Company will recover the return on the entire gross plant as of the end of the test year in 2027, but will not reflect the offset for the increase in accumulated depreciation in 2027, except for the amount due to the increase in plant.

The Company also failed to reflect all plant-related cost reductions at the end of the test year. More specifically, it failed to increase the accumulated deferred income taxes (ADIT) compared to the 13 month average used in the calculation of the cost of capital. Yet, the ADIT will carry over into 2027, the same as the other plant-related costs will carry over into 2027. The annualization of the increase in ADIT at the end of the test year and in 2027 would reduce the cost of capital and the base revenue requirement on the plant related costs at the end of the test year.[59]

[59] Response to Interrogatory No. 98 in OPC's Second Set of Interrogatories.

Q. DESCRIBE THE GROWTH IN CUSTOMERS THROUGHOUT THE TEST YEAR TO TEST YEAR END AND THE EFFECT ON BASE REVENUES IF THAT GROWTH IS ANNUALIZED AND PROPERLY CARRIED FORWARD INTO 2027.

A. The Company forecasts 546,510 customers at the end of the test year, an increase of 9,176 customers over the average for the test year used on a monthly basis to calculate the present base revenues and to calculate the initial requested base revenue increase. Using the increase in customers at the end of the test year compared to the average to calculate this annualization effect carried into 2027 is the same methodology used by the Company to annualize the depreciation expense and property tax expense based on plant costs at the end of the test year carried into 2027.

Q. WHAT IS YOUR RECOMMENDATION?

A. If the Commission approves the Company's request to annualize *all* plant related costs, then I recommend the Commission also annualize the base revenues using the end of test year customers. This is necessary to ensure some modicum of consistency by matching the annualized increase in base revenues to the annualized increases in plant costs from the end of the test year carried into 2027.

Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION?

A. The effect is an approximate $6.649 million reduction in the second year base revenue increase. The amount of the reduction will depend on the initial base revenue increase because that is the revenue level per customer that will be carried into 2027.

Q. WITNESS CHRONISTER ARGUES THAT THE COMPANY'S EARNINGS WILL DECLINE IN 2027 IN THE ABSENCE OF A SECOND YEAR BASE REVENUE INCREASE FOR THE COMPANY'S PROPOSED SUBSEQUENT YEAR ADJUSTMENTS.[60] PLEASE RESPOND.

A. This argument is simply a tautology; it is not an argument. The Commission needs to do the right thing, not simply approve a second year base revenue increase to ensure there is no earnings degradation in the year after the test year, and even if it does approve a second year base revenue increase, then it needs to reflect revenue increases as well as plant-related cost reductions in 2027.

Q. DESCRIBE THE ERROR IN THE COMPANY'S CALCULATION OF THE ANNUALIZED YEAR END PLANT RELATED RATE BASE COMPONENTS CARRIED OVER INTO 2027.

A. I have replicated Witness Chronister's calculation of the second year base revenue increase below.[61] On lines 1-3, Witness Chronister calculates the increase in gross plant at December 31, 2026 that will be included in rate base in 2027. On line 4, Witness Chronister reduces the amount that will be included in rate base in 2027 by one half of the depreciation expense on the increase in gross plant reflected in lines 1-3, rather than by one half of the depreciation expense on the entirety of the gross plant at December 31, 2026. This

[60] *Id.*, 42.

[61] Exhibit No. JC-1 Document No. 2 page 1 of 4.

methodology significantly overstates the net plant in rate base in 2027 and overstates the second year base revenue requirement for 2027.

PEOPLES GAS SYSTEM, INC.
2027 SYA

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

Q. WHAT IS THE EFFECT OF CORRECTING THAT ERROR?

A. The effect is a reduction in rate base of $5.645 million and a reduction in the second year base revenue increase of $0.534 million.

Q. DESCRIBE IN MORE DETAIL THE ERROR IN THE ADIT USED IN THE CALCULATION OF THE CAPITAL STRUCTURE AND RATE OF RETURN FOR 2027.

A. The Company failed to increase the cost-free ADIT in the capital structure used to calculate the weighted cost of capital applied to annualize the effects of the year end rate base. There are two components. The first is the increase in ADIT at the end of the test year to match the increase in the plant related costs at the end of the test year. The second is the additional increase to match the increase in accumulated depreciation in 2027, including the effects of correcting the Company's calculation error.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend the Commission correct this error and reduce the rate of return to reflect the additional cost-free capital.

Q. HAVE YOU QUANTIFIED THE EFFECT OF YOUR RECOMMENDATION?

A. No. The Company refused to provide the ADIT data in response to OPC discovery.[62]

Q. ARE THERE OTHER ADJUSTMENTS TO THE COMPANY'S QUANTIFICATION OF THE SECOND YEAR REVENUE INCREASE THAT ARE NECESSARY?

A. Yes. First, the cost of capital will need to be modified from the Company's request to the cost of capital approved by the Commission for the test year, as modified for the additional cost-free ADIT from annualizing the plant-related costs that I previously addressed. I note that the revenue adjustment I provided already reflects the recommendations for capital structure and return on equity addressed by OPC witness David Garrett, but does not reflect further adjustment for the additional cost-free ADIT. Second, there is an error in the Company's calculation of property tax expense that needs to be corrected, which I subsequently describe.

[62] Response to Interrogatory No. 98 in OPC's Second Set of Interrogatories.

Q. DESCRIBE THE COMPANY'S FORECAST PROPERTY TAX EXPENSE FOR THE 2027 SYA.

A. The Company forecast property tax expense in the 2027 SYA of $35.403 million. The Company relied upon the same property tax expense model as relied upon to calculate the test year expense noted above based on a valuation as of January 1, 2027. However, the Company updated the net book value and NOI parameters to match updated actuals and forecasts included in the Company's 2026 test year revenue requirement calculation. As noted above, the largest driver of the forecast property tax expense increase over that reported for the test year is the change in NOI. The SYA calculation is impacted significantly by the additional NOI forecast based on the Company's calculated revenue requirement. The Company provided its calculation of the property tax expense for the 2027 SYA in response to OPC discovery.[63]

Q. DESCRIBE THE COMPANY'S CALCULATION OF THE NOI PORTION OF THE PROPERTY TAX VALUATION FOR THE 2027 SYA.

A. The income approach used by the Company to forecast property tax expense in the test year relies upon actual and forecast NOI for 2024, 2025, and 2026 and weighted the most

[63] Response to POD No. 5 in OPC's First Set of Production of Documents. The applicable file name is Exhibit Support file - 2027 SYA - Property Tax Calculation for 2027 assessment. I have attached a copy of the narrative portion of this response and the worksheet tabs Inc Approach and CountyDetailEstimate as my Exhibit LK-16. The final property tax expense estimate calculation amount is reflected in Cell Q3 of worksheet tab CountyDetailEstimate.

current years' data higher than that for the previous years. The Company's 2026 appraisal NOI estimate is replicated below:[64]

Peoples Gas System 2027 Property Tax Budget Appraisal Income Approach to Value - As Filed by PGS Determine 2027 Net Operating Income to Capitalize				
Year	NOI As Booked	Weight	Weighted NOI	
2024 Actual	$168,827,176	1	$28,137,863	
2025 Forecast	$157,385,906	2	$52,461,969	
2026 Forecast	$223,651,232	3	$111,825,616	
			Weighted Average	**Use**
			$192,425,448	**$200,000,000**

The Company's 2027 SYA estimate relies upon its forecast NOI for 2026 assuming its rate increase request in this proceeding is authorized in full. The $223.651 million amount for the 2026 Forecast is computed by multiplying the requested rate base amount of $2,954.442 million by the requested rate of return of 7.57% and is calculated in the application on Schedule G-5. Even though the weighted NOI calculation was only $192.425 million, the Company rounded the result up to $200 million to use in the remaining valuation calculations.

Q. HAVE YOU RECOMPUTED THE 2027 SYA PROPERTY TAX ESTIMATE TO ACCOUNT FOR THE UPDATED NOI AMOUNTS ASSUMING OPC's TEST YEAR RECOMMENDATIONS ARE ADOPTED BY THE COMMISSION?

[64] *Id.*

A. Yes. I modified the 2026 Forecast NOI to $184.874 million, which is calculated by multiplying the OPC's recommended rate base amount of $2,893,174 million by the OPC's recommended rate of return of 6.39%. The resulting 2027 SYA appraisal NOI estimate is presented below:

Peoples Gas System 2027 Property Tax Budget Appraisal
Income Approach to Value - As Adjusted by OPC
Determine 2027 Net Operating Income to Capitalize

Year	NOI As Booked	Weight	Weighted NOI	
2024 Actual	$168,827,176	1	$28,137,863	
2025 Forecast	$157,385,906	2	$52,461,969	
2026 Forecast	$184,873,821	3	$92,436,911	
			Weighted Average	**Use**
			$173,036,742	**$173,100,000**

I rounded the weighted average result up to the nearest hundred thousand dollars. With no other changes made to the Company's 2027 SYA property tax expense model, the property tax expense generated from this change is $32.561 million, a reduction from the as-filed amount of $2.842 million.

Q. WHAT IS YOUR RECOMMENDATION?

A. As noted above, my primary recommendation is that the Commission disallow the second year base revenue increase based on subsequent year adjustments altogether. However, if the Commission authorizes a second year base revenue increase, then I recommend the

Commission reduce the forecast property tax expense to reflect updated NOI amounts based on the 2026 NOI authorized in this proceeding.

Q. WHAT IS THE EFFECT OF YOUR RECOMMENDATION?

A. The effect is a $2.842 million reduction in property tax expense and a $2.842 million reduction in the requested second year base revenue increase since there is no gross-up for Commission assessment fees and bad debt expense.

Q. CAN YOU SUMMARIZE THE EFFECTS OF YOUR PRIMARY AND ALTERNATIVE SYA RECOMMENDATIONS?

A. Yes. The table below summarizes both; however, as I noted previously, I was not able to quantify the effects of the incremental cost-free ADIT due to the Company's refusal to provide the information in response to OPC discovery. The Commission should require the Company to provide this information and include the savings through a reduction in the grossed up rate of return.

PEOPLES GAS SYSTEM, INC. REVENUE REQUIREMENT RECOMMENDED BY OPC BASE RATES CHANGE FOR 2027 SYA DOCKET NO. 20250029-GU TEST YEAR ENDING DECEMBER 31, 2026 ($ MILLIONS)	2027 SYA
Base Rate Change for 2027 SYA per PGS Filing	**26.709**
Remove Requested Rate Change	(26.709)
OPC Recommended Maximum 2027 SYA Rate Change	**-**
OPC Alternative Recommendation	
Revenue Requirement Adjustments:	
Reflect Additional Revenue Due to Customer Growth Through Test Year End	(6.649)
Reflect Additional Accumualted Depreciation on 2026 Plant Additions	(0.534)
Remove Excessive Property Tax Expense	(2.842)
Adjust Rate of Return Based on Changes to Capital Structure and ROE	(2.422)
Total OPC Adjustments	**(12.446)**
OPC Recommended Maximum 2027 SYA Rate Change	**14.263**

Q. DOES THIS COMPLETE YOUR PREPARED DIRECT TESTIMONY?

A. Yes. However, I note that my testimony only addresses specific issues. That fact should not be construed to mean that I concur with the balance of the Company's filing. I reserve the right to revise my testimony based on subsequent and/or revised discovery responses or changes in the Company's filing, including, but not limited to, additional corrections of errors in its filing.

(Whereupon, prefiled direct testimony of Jeffry Pollock was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Rate Increase by Peoples Gas Systems, Inc.	DOCKET NO. 20250029-GU Filed: June 30, 2025

TESTIMONY AND EXHIBITS OF JEFFRY POLLOCK

ON BEHALF OF
THE FLORIDA INDUSTRIAL POWER USERS GROUP

J. POLLOCK
INCORPORATED

Jon C. Moyle, Jr.
Moyle Law Firm, P.A
The Perkins House
118 N. Gadsden St.
Tallahassee, Florida 32301
Telephone: 850.681.3828
Facsimile: 850.681.8788

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Rate Increase by Peoples Gas Systems, Inc.	**DOCKET NO. 20250029-GU** **Filed: June 30, 2025**

Table of Contents

LIST OF EXHIBITS

GLOSSARY OF ACRONYMS

Term	Definition
CCOSS	Class Cost-of-Service Study
FIPUG	Florida Industrial Power Users Group
GDRD	Gas Distribution Rate Design
GRD	Gas Rate Design
LDC	Local Distribution Companies
MFR	Minimum Filing Requirement
NARUC	National Association of Regulatory Utility Commissioners
P&A	Peak and Average
PDD	Peak Design Day
PGS	Peoples Gas System, Inc.

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Direct Testimony of Jeffry Pollock

1. INTRODUCTION, QUALIFICATIONS AND SUMMARY

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Jeffry Pollock; 14323 South Outer 40 Drive, Suite 206N, St. Louis, MO 63017.

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am an energy advisor and President of J. Pollock, Incorporated.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I have a Bachelor of Science Degree in Electrical Engineering and a Master's Degree in Business Administration from Washington University. For over 40 years, I have been engaged in a variety of consulting assignments, including energy procurement and regulatory matters in both the United States and several Canadian provinces. My qualifications are documented in **Appendix A** A partial list of my appearances is provided in **Appendix B** to this testimony.

Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A I am appearing on behalf of the Florida Industrial Power Users Group (FIPUG), a group of businesses that are large energy customers of Peoples Gas System, Inc. (PGS). FIPUG members are large gas consumers that transport their gas supplies through PGS.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A I address PGS's class cost-of-service studies (CCOSSs) and class revenue allocation.

Q ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?

A Yes. I am sponsoring **Exhibit JP-1 through JP-3**. These exhibits were prepared by me or under my supervision and direction.

Q ARE YOU ACCEPTING PGS'S POSITIONS ON THE ISSUES THAT ARE NOT ADDRESSED IN YOUR DIRECT TESTIMONY?

A No. Additionally, throughout my testimony, I use PGS's proposed revenue requirement to illustrate certain cost allocation and rate design principles. These illustrations should not be interpreted as an endorsement of PGS' proposals.

Summary

Q PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

A My findings and recommendations are as follows:

Class Cost-of-Service Study

- PGS is proposing to place more emphasis on the results of its Customer/Demand Study. This Study is a distinct improvement over the Peak and Average (P&A) Study that it has relied upon in past rate cases. Specifically, the Customer/Demand Study recognizes that 48% of its small diameter distribution mains is a customer-related cost. According to PGS, this refinement better matches the allocation of costs to better match cost with cost causation.
- Classifying a portion of distribution mains as a customer-related cost recognizes that gas local distribution companies (LDCs) must make minimum investments in facilities just to connect a customer to the gas delivery system — these investments are completely independent of the level of peak demand and annual usage of the customer. Further, this investment must be capable of sustaining the appropriate operating pressure to support the delivery of natural gas. These two functions (connection and deliverability) clearly demonstrate the customer-related nature of distribution mains.
- However, because the Customer/Demand Study is a new approach, PGS applied the methodology only to small diameter mains while continuing to allocate larger diameter mains using the P&A method.

- There is no logical reason not to classify some portion of the costs of all (including medium and large diameter) distribution mains as a customer-related cost. Using PGS's zero-intercept method, 41% of distribution mains would be customer-related. Any adverse impacts of classifying 41% of distribution mains as a customer-related cost should be addressed in determining class revenue allocation.
- In addition to classifying 41% of all distribution mains as a customer-related cost, PGS should also change how P&A is applied. Specifically, in applying the P&A method, PGS inappropriately used peak month (*i.e.,* January) *throughput* to measure peak demand. January throughput does not directly measure each customer class's gas usage on the Peak Design Day (PDD).
- In lieu of January throughput, PGS should quantify the PDD of each customer class in applying the P&A method. PDD measures each class's contribution to the expected total maximum daily load for all gas customers that PGS would expect to serve under the most extreme cold weather conditions.
- This latter refinement should be made in PGS's next rate case.

Class Revenue Allocation

- The results of the Customer/Demand Study should be used to determine an appropriate class revenue allocation; that is, how any base revenue increase should be spread among the various customer classes.
- This Commission's support for cost-based rates has been both long-standing and unequivocable.
- In the event that setting rates to cost would cause rate shock or an otherwise abrupt increase, it would be appropriate to recognize the principle of gradualism; that is, no class should receive an increase more than 1.5 times the system average increase, and no class should receive a rate decrease.

2. CLASS COST-OF-SERVICE STUDY

Q WHAT IS A CLASS COST-OF-SERVICE STUDY?

A A class cost-of-service study (CCOSS) is an analysis used to determine each class's responsibility for a utility's costs. Thus, it determines whether the revenues a class generates covers the class's cost of service. A CCOSS separates a utility's total costs into portions incurred on behalf of each customer class. Most of a utility's costs are incurred jointly to serve many customers. For purposes of revenue allocation and rate design, customers are grouped into homogenous classes according to their usage patterns and service characteristics. The procedures typically used in a CCOSS are described in more detail in **Appendix C**.

Q HAS PGS CONDUCTED A CLASS COST-OF-SERVICE STUDY IN THIS PROCEEDING?

A Yes. PGS presented two CCOSSs:

1. The Peak and Average (P&A) Study; and
2. The Customer/Demand Study.

The difference between the two studies is how the costs of distribution mains are classified. The P&A Study classified distribution mains entirely as a demand-related cost. The Customer/Demand Study refines the classification of *small* distribution mains to recognize that a portion of these costs are customer-related.

Q WHICH OF THE TWO STUDIES BEST COMPORTS WITH ACCEPTED INDUSTRY PRACTICES?

A The Customer/Demand Study generally recognizes the different types of costs, the different ways natural gas is delivered to customers and how certain customers use PGS to transport and deliver the natural gas that these customers self-supply (*i.e.*, transportation service). However, as discussed later, PGS should revise its Customer/Demand Study to classify 41% of *all* distribution mains as a customer-related cost. This change would comport with cost causation and accepted industry practices.

Distribution Mains

Q WHAT ARE DISTRIBUTION MAINS?

A Distribution mains are the various pipes used to deliver natural gas to end-use customers. The associated costs are typically booked to FERC Account No. 376.

Q HOW IS PGS PROPOSING TO CLASSIFY AND ALLOCATE GAS DISTRIBUTION MAINS?

A In its Customer/Demand Study, PGS classified 48% of the cost of *small* diameter gas distribution mains as a customer-related cost.[1] Small diameter mains account for approximately 40% of the total mains investment. However, the costs of medium and large diameter mains (which account for 21% and 39%, respectively, of total mains costs) would continue to be classified entirely to demand and allocated to customer classes using the P&A method.[2] This approach resulted in classifying only 18% of distribution mains rate base as a customer-related cost.[3]

Q WHY SHOULD A PORTION OF DISTRIBUTION MAINS COSTS BE CLASSIFIED AS CUSTOMER-RELATED?

A Gas LDCs must make minimum investments in facilities, including distribution mains and service laterals, just to connect a customer to the gas delivery system — these

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1 Prepared Direct Testimony and Exhibit of John Taylor at 20.

2 *Id.* at 18.

3 MFR Schedule H-2, at 1 of 11, line 21.

investments are completely independent of the level of peak demand and annual usage of the customer. Further, this investment must be capable of sustaining the appropriate operating pressure to support the delivery of natural gas. To the extent that this component of distribution mains costs is a function of the requirement to connect the customer and support the deliverability of natural gas, regardless of the customer's size, it is appropriate and consistent with cost causation to allocate the cost of those facilities to service classes based on the number of customers.

Q WHAT SUPPORT HAS PGS PROVIDED FOR CLASSIFYING 48% OF SMALL DISTRIBUTION MAINS AS A CUSTOMER-RELATED COST?

A PGS states that there are two cost factors that influence the level of distribution mains installed by an LDC.

> First, the size of the distribution main (i.e., the diameter of the main) is directly influenced by the sum of the peak period gas demands placed on the LDC' s gas system by its customers. Second, the total installed footage of distribution mains is influenced by the need to expand the distribution system grid to connect new customers to the system.[4]

Q ARE THE COST-CAUSATION PRINCIPLES DESCRIBED BY MR. TAYLOR RECOGNIZED ELSEWHERE?

A Yes. The same cost-causation principles are also described in the National Association of Regulatory Utility Commissioners (NARUC) Gas Rate Design (GRD) and Gas Distribution Rate Design (GDRD) manuals. The manuals discuss several methodologies and approaches to cost allocation. With respect to the allocation of distribution mains costs, the NARUC GDRD Manual states:

[4] Prepared Direct Testimony and Exhibit of John Taylor at 22.

> A portion of the costs associated with the distribution system may be included as customer costs.[5]

The GDRD Manual further states:

> One argument for inclusion of distribution related items in the customer cost classification is the "zero [inch] or minimum size main theory."[6]

Similarly, the GRD manual indicates that the cost associated with distribution mains is typically functionalized on a demand and customer basis.[7] Notably, it does not include annual throughput as a factor in functionalizing distribution mains.

Q HAVE OTHER STATE COMMISSIONS SUPPORTED A CUSTOMER COMPONENT OF DISTRIBUTION MAINS?

A Yes. About half of the state regulatory commissions recognize both a customer and a demand-related component of distribution mains.

Q DID PGS ALLOCATE A PORTION OF DISTRIBUTION MAINS USING ANNUAL THROUGHPUT?

A Yes. As discussed later, the P&A method is essentially a commodity allocator because it uses throughput (*i.e.,* volume of gas deliveries) in all twelve months of the year to determine the percentage of mains costs allocated to each class.

Q DOES PGS BELIEVE THAT DISTRIBUTION MAINS ARE CAUSED BY ANNUAL THROUGHPUT?

A No. PGS witness, Mr. John Taylor, states:

> In my opinion, there is no cost causative basis for using annual throughput to allocate the costs of a gas utility such as Peoples, to its classes of service. It is

[5] NARUC, *Gas Distribution Rate Design Manual* at 22 (June 1989).

[6] *Id.*

[7] NARUC, *Gas Rate Design* at 28 (Aug. 6, 1981).

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> easy to demonstrate from a number of different considerations that throughput does not cause distribution main costs.[8]

Mr. Taylor also makes a logical argument that no distribution mains costs are caused by throughput. He states:

> Once this amount of capacity is installed, the costs are fixed and do not change for any amount of gas flowing through the utility's gas system on any other days. So long as the ***design day requirements*** of the system do not change and no new customers are added to the system, the cost for mains will not change regardless of the annual changes in throughput that result from weather and conservation.[9] (Emphasis added)

Q DID PGS PROVIDE ANY EMPIRICAL EVIDENCE TO SUPPORT CLASSIFYING A PORTION OF DISTRIBUTION MAINS AS A CUSTOMER-RELATED COST?

A Yes. Mr. Taylor conducted an analysis of customer growth and the investment in distribution mains. The analysis demonstrated a strong relationship between the increase in distribution mains investment and customer growth.[10]

Q BASED ON YOUR ANALYSIS AND THE EVIDENCE PROVIDED BY PGS, SHOULD A PORTION OF ALL (AND NOT JUST SMALL DIAMETER) DISTRIBUTION MAINS BE CLASSIFIED AS A CUSTOMER-RELATED COST?

A Yes. The failure to recognize a customer-related portion of medium and large diameter distribution mains costs ignores the realities of a gas delivery system; that is, a utility must make a minimum investment in delivery facilities (mains and service laterals) just to attach a customer to the system and to provide deliverability before any gas service can be provided. Further, the zero-intercept method used by PGS quantifies the cost per foot of

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8 Prepared Direct Testimony and Exhibit of John Taylor at 23-24.

9 *Id.*

10 *Id.* at 28-31.

main that is incurred solely to attach a customer to the system and, therefore, unrelated to either peak design day demand or annual throughput. This is not unique to small diameter mains. The same principles also apply to medium and larger diameter mains. Thus, there is no reason to not apply the same treatment to medium and larger diameter mains.

Q WHAT DO YOU RECOMMEND?

A In my experience, the LDCs that recognize a customer-related portion of distribution mains do not distinguish by pipe diameter. In fact, PGS has conceded that the Customer/Demand Study is merely an introduction to recognizing the customer components in classifying distribution mains.[11] Other than potential concerns about the impact of this construct, there is no reason not to apply the same cost-causation principles to all distribution mains. Thus, PGS's Customer/Demand Study should be further refined to classify a portion of all distribution mains as a customer-related cost.

Q WHAT PERCENTAGE OF ALL MAINS SHOULD BE CLASSIFIED AS A CUSTOMER-RELATED COST?

A Mr. Taylor's zero-intercept analysis concluded that the minimum size unit cost is $21.64 per foot for 2" plastic pipe. PGS's total footage of mains is 74.285 million.[12] Applying the $21.64 per foot to 74.285 million feet of mains would result in classifying 41% of all distribution mains as customer-related.

[11] *Id.* at 29-30.

[12] PGS Response to OPC POD 1-7, Taylor Workpapers, Mains Analysis, Summary.

Application of the Peak and Average Method

Q WHAT IS THE PEAK AND AVERAGE METHOD?

A The standard P&A method allocates a portion of plant-related costs using annual throughput, while the remaining costs are allocated using a peak demand metric. The standard formula for P&A is set forth below.

$$P\&A = AT\ x\ ASLF + PD\ x\ (1 - ASLF)$$

Where: AT = Annual Throughput
ASLF = Annual System Load Factor
PD = Peak Demand

Q WHAT IS YOUR CONCERN WITH PGS'S APPLICATION OF THE PEAK AND AVERAGE METHOD THAT IT USED TO ALLOCATE DEMAND-RELATED COSTS?

A PGS's application of the P&A method fails to explicitly recognize peak demand. This is because the metric used to measure peak demand is the amount of gas delivered (*i.e.,* throughput) in the month of January. Although January is when PGS experiences its annual system peak, January throughput is not a measure of gas deliveries that occur on the peak day in January. As a consequence, PGS's P&A method closely resembles a pure commodity allocator. This is demonstrated in **Exhibit JP-1**.

Q PLEASE EXPLAIN EXHIBIT JP-1

A **Exhibit JP-1** provides a comparison between PGS's P&A allocation factors (column 1) with an allocation based solely on annual throughput (column 2). As can be seen, with a few exceptions, the P&A allocation factors are not significantly different than allocating costs entirely based on annual throughput.

Q IS JANUARY THROUGHPUT A REASONABLE PEAK DEMAND METRIC?

A No. PGS projects that its test-year peak demand would occur in January. However, January throughput represents the average amount of gas used during the entire month. It would be sheer coincidence that the proportion of throughput by customer class would be same on the peak day in January than for the entire month of January.

Q WHY SHOULD A PEAK DEMAND METRIC BE USED?

A First, a peak demand metric is consistent with cost causation because it recognizes the utility's obligation to serve. The obligation to serve means providing facilities that are appropriately sized to meet the expected peak demand for natural gas. Sizing the facilities to meet peak demand will ensure that there is sufficient capacity to supply natural gas on the coldest days of the year when the utility experiences its maximum heating loads. Once in place to serve peak demand, the facilities can be used to meet customer needs throughout the year. As Mr. Taylor states:

> The company's distribution system is designed to meet three primary objectives: (1) to extend distribution services to all customers entitled to be attached to the system; (2) ***to meet the aggregate design day peak capacity requirements of all customers entitled to service on the peak day***; and (3) to deliver volumes of natural gas to those customers either on a sales or transportation basis.[13] (Emphasis added)

Second, the NARUC description of P&A specifically references a peak demand metric. For example:

> d. Average and Peak Demand Method
>
> This method reflects a compromise between the coincident and noncoincident demand methods. Total demand costs are multiplied by the system's load factor to arrive at the capacity costs attributed to average use and are apportioned to the various customer classes on an annual volumetric basis. ***The remaining costs are considered to have been incurred to meet the individual peak demands***

[13] Prepared Direct Testimony and Exhibit of John Taylor at 9.

of the various classes of service and are allocated on the basis of the coincident peak of each class.[14] (Emphasis added)

Q WHAT PEAK DEMAND METRIC SHOULD BE USED TO ALLOCATE THE DEMAND-RELATED COSTS UNDER THE P&A METHOD?

A The demand metric should be based on PDD. PDD, also referred to as a design peak day, is the total maximum daily load for all gas customers that the utility would expect to serve under the most extreme cold weather conditions. Thus, PDD measures demand based on the lowest average daily temperature and highest daily load planned to be served on a given day in a given month.

Using PDD as the demand metric will explicitly measure each class's share of the cost of plant that is designed, installed, and operated to meet maximum daily gas flow requirements.

Q IS THERE ANY PRECEDENT FOR USING PEAK DESIGN DAY IN ALLOCATING DISTRIBUTION MAINS?

A Yes. For example, P&A has previously been approved by the Illinois Commerce Commission. In these instances, the peak demand metric was either the PDD or the annual system peak day. PDD was also approved for utilities in Iowa, Pennsylvania, and Utah.[15]

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[14] NARUC, *Gas Distribution Rate Design Manual* at 27-28 (June 1989).

[15] *Northern Illinois Gas Company d/b/a Nicor Gas Company Proposed General Increase in Gas Rates and Revisions to Other Terms and Conditions of Service*, Docket No. 17-0124, Order at 110, 115 (Jan. 31, 2018). See Also: 1993 WL 231638 (Iowa U.B.) *Re Iowa Electric Light and Power Company*, Docket No. RPU-92-9, Final Decision and Order at 5 (Apr. 30, 1993); *Pennsylvania Public Utility Commission, et al. v. Equitable Gas Company, R-901595, R-901595C001, et al.*, Opinion and Order at 43, 45 (Nov. 21, 1990); and *Application of Dominion Energy Utah to Increase Distribution Rates and Charges and Make Tariff Modifications*, Docket No. 22-057-03, Order at 35-38 (Dec. 23, 2022)

Q WHAT DO YOU RECOMMEND?

A PGS should further refine its Customer/Demand Study by using PDD demand (and not January throughput) in applying the P&A method.

Revised Customer/Demand Study

Q HAVE YOU REVISED PGS'S CUSTOMER/DEMAND STUDY?

A Yes. **Exhibit JP-2** is a revised Customer/Demand Study that classifies 41% of all distribution mains as a customer-related cost.

3. CLASS REVENUE ALLOCATION

Q WHAT IS CLASS REVENUE ALLOCATION?

A Class revenue allocation is the process of determining how any base revenue change the Commission approves should be apportioned to each customer class the utility serves.

Q HOW SHOULD ANY CHANGE IN BASE REVENUES APPROVED IN THIS DOCKET BE APPORTIONED AMONG THE VARIOUS CUSTOMER CLASSES FPL SERVES?

A Base revenues should reflect the actual cost of providing service to each customer class as closely as practicable. Regulators sometimes limit the immediate movement to cost based on principles of gradualism.

Q WHAT IS THE PRINCIPLE OF GRADUALISM?

A Gradualism is a concept that is applied to avoid rate shock; that is, no class should receive an overly-large or abrupt rate increase. Thus, rates should move gradually to cost rather than all at once because moving rates immediately to cost would result in rate shock to the affected customers.

Q SHOULD THE RESULTS OF A CLASS COST-OF-SERVICE STUDY BE THE PRIMARY FACTOR IN DETERMINING HOW ANY BASE REVENUE CHANGE SHOULD BE ALLOCATED?

A Yes. Cost-based rates are fair because each class's rates reflect the cost to serve each particular class, no more and no less; they are efficient because, when coupled with a cost-based rate design, customers are provided with the proper incentive to minimize their costs, which will, in turn, minimize the costs to the utility; they enhance revenue stability because an increase or decrease in sales and revenues are offset by an increase or decrease in expenses, thus keeping net income stable; and they encourage conservation because cost-based rates will send the proper price signals to customers, thereby allowing customers to make rational consumption decisions. Cost-based rates also encourage economic development.

Q DOES COMMISSION POLICY SUPPORT THE MOVEMENT OF UTILITY RATES TOWARD ACTUAL COST?

A Yes. The Commission's support for cost-based rates is long-standing and unequivocal. This policy has been consistently implemented in rate cases by moving rates toward parity.

Q HOW IS PGS PROPOSING TO SPREAD THE PROPOSED BASE REVENUE INCREASE?

A Mr. Taylor stated that its approach to class revenue allocation would consider the cost to serve each class while maintaining a degree of rate stability and gradualism. Specifically:

1. No class would receive a rate decrease;
2. No class would receive an increase more than 1.5 times the system average increase;
3. All classes would move to cost if the required increase is less than 1.5 times the system average increase; and
4. The remaining revenue shortfall would be allocated to classes that receive less than 1.5 times the system average increase.[16]

Q IS THIS A REASONABLE APPROACH?

A Yes. I generally agree with the four principles outlined by Mr. Taylor. However, I would apply the constraints to current gas sales revenues (excluding other non-gas sales revenues), and I would combine principles 3 and 4 by spreading the remaining shortfall to

[16] Prepared Direct Testimony and Exhibit of John Taylor at 41-42.

only those classes that are currently well-above cost in proportion to rate base to provide equal movement in each class's rate of return.

Q HAVE YOU PREPARED A REVISED CLASS REVENUE ALLOCATION?

A Yes. **Exhibit JP-3** is my recommended class revenue allocation based on my revised Customer/Demand Study. First, I quantified the target revenue deficiency (columns 2 and 3), which measures the increase required to move each customer class to cost. Second, I applied gradualism by setting the base rate increases at 0% for customer classes that would otherwise require a revenue decrease of up to 33.5% (column 4), which is 1.5 times the system average base rate increase of 22.3%. This left a revenue shortfall (column 5), which was spread to the customer classes that would require either a rate decrease or an increase less than 1.5 times the system average (column 6) in proportion to rate base. Spreading the shortfall on rate base will result in an approximately equal movement of the class rates of return. The resulting (dollar and percent) increases are shown in columns 7 and 8. The target base revenues are shown in column 9. My recommendation will result in moving the rates for the vast majority of customer classes closer to parity.

Q SHOULD THE SAME CLASS REVENUE ALLOCATION BE USED IN SPREADING THE 2027 INCREASE?

A Yes. The same construct illustrated in **Exhibit JP-3** should be applied in determining the spread of the 2027 increase.

Q IF THE COMMISSION APPROVES LOWER INCREASES FOR EITHER 2026 OR 2027 THAN PGS HAS PROPOSED, HOW SHOULD THE LOWER INCREASES BE SPREAD BETWEEN CUSTOMER CLASSES?

A The increases approved by the Commission should be spread in proportion to the target base revenues shown in **Exhibit JP-3**, column 9.

4. CONCLUSION

Q WHAT FINDINGS SHOULD THE COMMISSION MAKE BASED ON THE ISSUES ADDRESSED IN YOUR TESTIMONY?

A The Commission should make the following findings:

- Adopt a revised Customer/Demand Study.
- Reject PGS's allocation of only 18% of distribution mains as a customer-related cost based, which is based solely on small distribution mains.
- Classify 41% of *all* distribution mains as a customer-related cost consistent with PGS's zero-intercept method analysis.
- Reject the use of January throughput as a proxy for peak demand in applying the Peak & Average method.
- Require PGS to measure peak demand using the Peak Design Day demand for each customer class in its next rate case.
- Apply gradualism to limit the impact of introducing the Customer/Demand Study in this proceeding.

Q DOES THAT CONCLUDE YOUR TESTIMONY?

A Yes.

APPENDIX A

Qualifications of Jeffry Pollock

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Jeffry Pollock. My business mailing address is 14323 South Outer 40 Rd., Suite 206N, Town and Country, Missouri 63017.

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?

A I am an energy advisor and President of J. Pollock, Incorporated.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I have a Bachelor of Science Degree in Electrical Engineering and a Master's Degree in Business Administration from Washington University. I have also completed a Utility Finance and Accounting course.

Upon graduation in June 1975, I joined Drazen-Brubaker & Associates, Inc. (DBA). DBA was incorporated in 1972 assuming the utility rate and economic consulting activities of Drazen Associates, Inc., active since 1937. From April 1995 to November 2004, I was a managing principal at Brubaker & Associates (BAI).

During my career, I have been engaged in a wide range of consulting assignments including energy and regulatory matters in both the United States and several Canadian provinces. This includes preparing financial and economic studies of investor-owned, cooperative and municipal utilities on revenue requirements, cost of service and rate design, tariff review and analysis, conducting site evaluations, advising clients on electric restructuring issues, assisting clients to procure and manage electricity in both competitive and regulated markets, developing and issuing requests for proposals (RFPs), evaluating RFP responses and contract negotiation and developing and presenting seminars on electricity issues.

I have worked on various projects in 28 states and several Canadian provinces, and have testified before the Federal Energy Regulatory Commission, the Ontario Energy Board, and the state regulatory commissions of Alabama, Arizona, Arkansas, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Texas, Utah, Virginia, Washington, Wisconsin and Wyoming. I have also appeared before the City of Austin Electric Utility Commission, the Board of Public Utilities of Kansas City, Kansas, the Board of Directors of the South Carolina Public Service Authority (a.k.a. Santee Cooper), the Bonneville Power Administration, Travis County (Texas) District Court, and the U.S. Federal District Court.

Q PLEASE DESCRIBE J. POLLOCK, INCORPORATED.

A J. Pollock assists clients to procure and manage energy in both regulated and competitive markets. The J. Pollock team also advises clients on energy and regulatory issues. Our clients include commercial, industrial and institutional energy consumers. J. Pollock is a registered broker and Class I aggregator in the State of Texas.

APPENDIX B
Testimony Filed in Regulatory Proceedings
by Jeffry Pollock

UTILITY	ON BEHALF OF	DOCKET	TYPE	STATE / PROVINCE	SUBJECT	DATE
FLORIDA POWER & LIGHT COMPANY	Florida Industrial Power Users Group	20250011-EI	Direct	FL	Class Cost-of-Service Study; Class Revenue Allocation; Contribution in Aid of Construction; Large Load Contract Service	6/9/2025
EL PASO ELECTRIC COMPANY	Texas Industrial Energy Consumers	57568	Direct	TX	Class Cost-of-Service Study; Class Revenue Allocation; Imputed Capacity	6/4/2025
ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	56693	Direct	TX	Competitive Generation Service	2/19/2025
ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	56865	Direct	TX	Voluntary Renewable Energy Tariff Rate Design	1/21/2025
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC	RV Industry User's Group	46120	Cross-Answering	IN	Class Cost-of-Service Study; Classification and Allocation of Production Plant; Classification of Distribution Plant; Class Revenue Allocation; Federal Tax Credits	1/16/2025
ROCKY MOUNTAIN POWER	Wyoming Industrial Energy Consumers	20000-671-ER-24	Direct	WY	Class Cost-of-Service Study; Class Revenue Allocation; Rule 12 - Line Extensions; Rate Design; Insurance Cost Adjustment	12/20/2024
ROCKY MOUNTAIN POWER	Utah Large Customer Group	24-035-04	Surrebuttal	UT	Class Cost-of Service Study; Rate Design; Regulation No. 12	12/19/2024
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC	RV Industry User's Group	46120	Direct	IN	Return on Equity; Class Cost-of-Service Study; Class Revenue Allocation	12/19/2024
ROCKY MOUNTAIN POWER	Utah Large Customer Group	24-035-04	Rebuttal	UT	Class Cost-of Service Study	11/26/2024
ROCKY MOUNTAIN POWER	Utah Large Customer Group	24-035-04	Direct	UT	Class Cost-of-Service Study; Class Revenue Allocation; Regulation No. 12; Rate Design; Insurance Cost Adjustment; Energy Balancing Mechanism	10/30/2024
WISCONSIN ELECTRIC POWER COMPANY AND WISCONSIN GAS LLC	Wisconsin Industrial Energy Group	5-UR-111	Surrebuttal	WI	Class Cost-of-Service Studies; Class Revenue Allocation; General Primary Rate Design; Microsoft Electric Rate; Rate Increase Presentation	9/20/2024
WISCONSIN PUBLIC SERVICE CORPORATION	Wisconsin Industrial Energy Group	6690-UR-128	Surrebuttal	WI	Class Cost-of-Service Studies; Class Revenue Allocation; General Primary Rate Design; Rate Increase Presentation	9/18/2024

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WISCONSIN ELECTRIC POWER COMPANY AND WISCONSIN GAS LLC	Wisconsin Industrial Energy Group	5-UR-111	Rebuttal	WI	Class Cost-of-Service Studies; Class Revenue Allocation	9/9/2024
WISCONSIN PUBLIC SERVICE CORPORATION	Wisconsin Industrial Energy Group	6690-UR-128	Rebuttal	WI	Class Cost-of-Service Studies; Class Revenue Allocation	9/5/2024
WISCONSIN ELECTRIC POWER COMPANY AND WISCONSIN GAS LLC	Wisconsin Industrial Energy Group	5-UR-111	Direct	WI	Class Cost-of-Service Studies; Class Revenue Allocation; General Primary Rate Design	8/21/2024
WISCONSIN PUBLIC SERVICE CORPORATION	Wisconsin Industrial Energy Group	6690-UR-128	Direct	WI	Class Cost-of-Service Studies; Class Revenue Allocation; General Primary Rate Design	8/19/2024
COMMONWEALTH EDISON COMPANY	Nucor Steel Kankakee, Inc.	24-0378	Direct	IL	Allocation of Beneficial Electrification Costs	7/24/2024
SOUTHERN PIONEER ELECTRIC COMPANY	Air Products and Chemicals, Inc. and National Beef Packaging Company, LLC	24-SPEE-540-TAR	Settlement	KS	Renewable Energy Program	7/8/2024
DOMINION ENERGY SOUTH CAROLINA, INC.	South Carolina Utility Energy Users Committee	2024-34-E	Surrebuttal	SC	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	7/3/2024
CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC	Texas Industrial Energy Consumers	56211	Direct	TX	Customer Load Study Charge; Transmission Line Extensions; Rider IRA	6/19/2024
DUKE ENERGY FLORIDA, LLC	Florida Industrial Power Users Group	20240025-EI	Direct	FL	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	6/11/2024
AEP TEXAS INC.	Texas Industrial Energy Consumers	56165	Cross-Rebuttal	TX	Distribution Load Dispatch Expense; Residential Class MDD; LCUST Allocation Factor; Call Center Cost Allocation; Wholesale Distribution Service for Battery Energy Storage System	6/7/2024
TAMPA ELECTRIC COMPANY	Florida Industrial Power Users Group	20240026-EI	Direct	FL	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	6/6/2024
DOMINION ENERGY SOUTH CAROLINA, INC.	South Carolina Utility Energy Users Committee	2024-34-E	Direct	SC	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	6/5/2024
DUKE ENERGY FLORIDA, LLC	Florida Industrial Power Users Group	20240013-EG	Direct	FL	Curtailable General Service; Interruptible General Service	6/5/2024

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AEP TEXAS INC.	Texas Industrial Energy Consumers	56165	Direct	TX	Transmission Operation and Maintenance Expense; Property Insurance Reserve; Class Cost-of-Service Study; Rate Design; Tariff Changes	5/16/2024
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	55155	Cross-Rebuttal	TX	Turk Remand Refund	5/10/2024
DUKE ENERGY CAROLINAS, LLC	South Carolina Energy Users Committee	2023-388-E	Surrebuttal	SC	Class Cost-of-Service Study; Revenue Allocation and Rate Design	4/29/2024
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	55155	Direct	TX	Turk Remand Refund	4/17/2024
DUKE ENERGY CAROLINAS, LLC	South Carolina Energy Users Committee	2023-388-E	Direct	SC	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	4/8/2024
GEORGIA POWER COMPANY	Georgia Association of Manufacturers	55378	Direct	GA	Deferred Accounting; Additional Sum; Specific Capacity Additions; Distributed Energy Resource and Demand Response Tariffs	2/15/2024
CENTRAL HUDSON GAS & ELECTRIC	Multiple Intervenors	23-E-0418 23-G-0419	Direct	NY	Electric and Gas Embedded Cost of Service Studies; Class Revenue Allocation; Electric Customer Charge	11/21/2023
SOUTH CAROLINA PUBLIC SERVICE AUTHORITY	Industrial Customer Group	2023-154-E	Direct	SC	Integrated Resource Plan	9/22/2023
MIDAMERICAN ENERGY COMPANY	Google, LLC and Microsoft Corporation	RPU-2022-0001	Rehearing Rebuttal	IA	Application of Advance Ratemaking Principles to Wind Prime	9/8/2023
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	54634	Cross-Rebuttal	TX	Class Cost-of-Service Study; LGS-T Rate Design; Line Loss Study	8/25/2023
ROCKY MOUNTAIN POWER	Wyoming Industrial Energy Consumers	20000-633-ER-23	Direct	WY	Retail Class Cost of Service and Rate Spread; Schedule Nos. 33, 46, 48T Rate Design; REC Tariff Proposal	8/14/2023
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	54634	Direct	TX	Revenue Requirement; Jurisdictional Cost Allocation; Class Cost-of-Service Study; Rate Design	8/4/2023
DUKE ENERGY CAROLINAS, LLC	Carolina Utility Customers Assocation, Inc.	E-7, Sub 1276	Direct	NC	Multi-Year Rate Plan; Class Revenue Allocation; Rate Design	7/19/2023
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	22-00286-UT	Direct	NM	Behind-the-Meter Generation; Class Cost-of-Service Study; Class Revenue Allocation; LGS-T Rate Design	4/21/2023

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GEORGIA POWER COMPANY	Georgia Association of Manufacturers	44902	Direct	GA	FCR Rate; IFR Mechanism	4/14/2023
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	22-00155-UT	Stipulation Support	NM	Standby Service Rate Design	4/10/2023
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	53931	Direct	TX	Fuel Reconciliation	3/3/2023
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC	RV Industry User's Group	45772	Cross-Answer	IN	Class Cost-of-Service Study; Class Revenue Allocation	2/16/2023
MIDAMERICAN ENERGY COMPANY	Tech Customers	RPU-2022-0001	Additional Testimony	IA	Application of Advance Ratemaking Principles to Wind Prime	2/13/2023
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	54234	Direct	TX	Interim Fuel Surcharge	1/24/2023
NORTHERN INDIANA PUBLIC SERVICE COMPANY LLC	RV Industry User's Group	45772	Direct	IN	Class Cost-of-Service Study; Class Revenue Allocation	1/20/2023
MIDAMERICAN ENERGY COMPANY	Tech Customers	RPU-2022-0001	Surrebuttal	IA	Application of Advance Ratemaking Principles to Wind Prime	1/17/2023
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	54282	Direct	TX	Interm Net Surcharge for Under-Collected Fuel Costs	1/4/2023
DUKE ENERGY PROGRESS, LLC	Nucor Steel - South Carolina	2022-254-E	Surrebuttal	SC	Allocation Method for Production and Transmission Plant and Related Expenses	12/22/2022
NORTHERN STATES POWER COMPANY	Xcel Large Industrials	E002/GR-21-630	Surrebuttal	MN	Cost Allocation; Sales True-Up	12/6/2022
DUKE ENERGY PROGRESS, LLC	Nucor Steel - South Carolina	2022-254-E	Direct	SC	Treatment of Curtailable Load; Allocation Methodology	12/1/2022
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	22-00155-UT	Rebuttal	NM	Standby Service Rate Design	11/22/2022
MIDAMERICAN ENERGY COMPANY	Tech Customers	RPU-2022-0001	Additional Direct & Rebuttal	IA	Application of Advance Ratemaking Principles to Wind Prime	11/21/2022
ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	53719	Cross	TX	Retiring Plant Rate Rider	11/16/2022

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NORTHERN STATES POWER COMPANY	Xcel Large Industrials	E002/GR-21-630	Rebuttal	MN	Class Cost-of-Service Study; Distribution System Costs; Transmission System Costs; Class Revenue Allocation; C&I Demand Rate Design; Sales True-Up	11/8/2022
ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	53719	Direct	TX	Depreciation Expense; HEB Backup Generators; Winter Storm URI; Class Cost-of-Service Study; Schedule IS; Schedule SMS	10/26/2022
GEORGIA POWER COMPANY	Georgia Association of Manufacturers	44280	Direct	GA	Alternate Rate Plan, Cost Recovery of Major Assets; Class Revenue Allocation; Other Tariff Terms and Conditions	10/20/2022
NEW YORK STATE ELECTRIC & GAS CORPORATION and ROCHESTER GAS AND ELECTRIC CORPORATION	Multiple Intervenors	22-E-0317 / 22-G-0318 22-E-0319 / 22-G-0320	Rebuttal	NY	COVID-19 Impact; Distribution Cost Allocation; Class Revenue Allocation; Firm Transportation Rate Design	10/18/2022
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	22-00155-UT	Direct	NM	Standby Service Rate Design	10/17/2022
NORTHERN STATES POWER COMPANY	Xcel Large Industrials	E002/GR-21-630	Direct	MN	Class Cost-of-Service Study; Class Revenue Allocation; Multi-Year Rate Plan; Interim Rates; TOU Rate Design	10/3/2022
NEW YORK STATE ELECTRIC & GAS CORPORATION and ROCHESTER GAS AND ELECTRIC CORPORATION	Multiple Intervenors	22-E-0317 / 22-G-0318 22-E-0319 / 22-G-0320	Direct	NY	Electric and Gas Embedded Cost of Service Studies; Class Revenue Allocation; Rate Design	9/26/2022
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	22-00177-UT	Direct	NM	Renewable Portfolio Standard Incentive	9/26/2022
CENTERPOINT HOUSTON ELECTRIC LLC	Texas Industrial Energy Consumers	53442	Direct	TX	Mobile Generators	9/16/2022
ONCOR ELECTRIC DELIVERY COMPANY LLC	Texas Industrial Energy Consumers	53601	Cross-Rebuttal	TX	Class Cost-of-Service Study, Class Revenue Allocation; Distribution Energy Storage Resource	9/16/2022
ONCOR ELECTRIC DELIVERY COMPANY LLC	Texas Industrial Energy Consumers	53601	Direct	TX	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design; Tariff Terms and Conditions	8/26/2022
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	53034	Cross-Rebuttal	TX	Energy Loss Factors; Allocation of Eligible Fuel Expense; Allocation of Off-System Sales Margins	8/5/2022

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MIDAMERICAN ENERGY COMPANY	Tech Customers	RPU-2022-0001	Direct	IA	Application of Advance Ratemaking Principles to Wind Prime	7/29/2022
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	53034	Direct	TX	Allocation of Eligible Fuel Expense; Allocation of Winter Storm Uri	7/6/2022
AUSTIN ENERGY	Texas Industrial Energy Consumers	None	Cross-Rebuttal	TX	Allocation of Production Plant Costs; Energy Efficiency Fee Allocation	7/1/2022
AUSTIN ENERGY	Texas Industrial Energy Consumers	None	Direct	TX	Revenue Requirement; Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	6/22/2022
DTE ELECTRIC COMPANY	Gerdau MacSteel, Inc.	U-20836	Direct	MI	Interruptible Supply Rider No. 10	5/19/2022
GEORGIA POWER COMPANY	Georgia Association of Manufacturers	44160	Direct	GA	CARES Program; Capacity Expansion Plan; Cost Recovery of Retired Plant; Additional Sum	5/6/2022
EL PASO ELECTRIC COMPANY	Freeport-McMoRan, Inc.	52195	Cross-Rebuttal	TX	Rate 38; Class Cost-of-Service Study; Revenue Allocation	11/19/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	20-00238-UT	Supplemental	NM	Responding to Seventh Bench Request Order (Amended testimony filed on 11/15)	11/12/2021
EL PASO ELECTRIC COMPANY	Freeport-McMoRan, Inc.	52195	Direct	TX	Class Cost-of-Service Study; Class Revenue Allocation; Rate 15 Design	10/22/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	51802	Cross-Rebuttal	TX	Cost Allocation; Production Tax Credits; Radial Lines; Load Dispatching Expenses; Uncollectible Expense; Class Revenue Allocation; LGS-T Rate Design	9/14/2021
GEORGIA POWER COMPANY	Georgia Association of Manufacturers	43838	Direct	GA	Vogtle Unit 3 Rate Increase	9/9/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	21-00172-UT	Direct	NM	RPS Financial Incentive	9/3/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	51802	Direct	TX	Class Cost-of-Service Study; Class Revenue Allocation; LGS-T Rate Design	8/13/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	51802	Direct	TX	Schedule 11 Expenses; Jurisdictional Cost Allocation; Abandoned Generation Assets	8/13/2021
ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	51997	Direct	TX	Storm Restoration Cost Allocation and Rate Design	8/6/2021

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PECO ENERGY COMPANY	Philadelphia Area Industrial Energy Users Group	R-2021-3024601	Surrebuttal	PA	Class Cost-of-Service Study; Revenue Allocation	8/5/2021
PECO ENERGY COMPANY	Philadelphia Area Industrial Energy Users Group	R-2021-3024601	Rebuttal	PA	Class Cost-of-Service Study; Revenue Allocation; Universal Service Costs	7/22/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	20-00238-UT	Supplemental	NM	Settlement Support of Class Cost-of-Service Study; Rate Desgin; Revenue Requirement.	7/1/2021
PECO ENERGY COMPANY	Philadelphia Area Industrial Energy Users Group	R-2021-3024601	Direct	PA	Class Cost-of-Service Study; Revenue Allocation	6/28/2021
DTE GAS COMPANY	Association of Businesses Advocating Tariff Equity	U-20940	Rebuttal	MI	Allocation of Uncollectible Expense	6/23/2021
FLORIDA POWER & LIGHT COMPANY	Florida Industrial Power Users Group	20210015-EI	Direct	FL	Four-Year Rate Plan; Reserve Surplus; Solar Base Rate Adjustments; Class Cost-of-Service Study; Class Revenue Allocation; CILC/CDR Credits	6/21/2021
ENTERGY ARKANSAS, LLC	Arkansas Electric Energy Consumers, Inc.	20-067-U	Surrebuttal	AR	Certificate of Environmental Compatibility and Public Need	6/17/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	20-00238-UT	Rebuttal	NM	Rate Design	6/9/2021
DTE GAS COMPANY	Association of Businesses Advocating Tariff Equity	U-20940	Direct	MI	Class Cost-of-Service Study; Rate Design	6/3/2021
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	51415	Supplemental Direct	TX	Retail Behind-The-Meter-Generation; Class Cost of Service Study; Class Revenue Allocation; LGS-T Rate Design; Time-of-Use Fuel Rate	5/17/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	20-00238-UT	Direct	NM	Class Cost-of-Service Study; Class Revenue Allocation, LGS-T Rate Design, TOU Fuel Charge	5/17/2021
ENTERGY ARKANSAS, LLC	Arkansas Electric Energy Consumers, Inc.	20-067-U	Direct	AR	Certificate of Environmental Compatibility and Public Need	5/6/2021
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	51625	Direct	TX	Fuel Factor Formula; Time Differentiated Costs; Time-of-Use Fuel Factor	4/5/2021
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	51415	Direct	TX	ATC Tracker, Behind-The-Meter Generation; Class Cost-of-Service Study; Class Revenue Allocation; Large Lighting and Power Rate Design; Synchronous Self-Generation Load Charge	3/31/2021
ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	51215	Direct	TX	Certificate of Convenience and Necessity for the Liberty County Solar Facility	3/5/2021

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SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	50997	Cross Rebuttal	TX	Rate Case Expenses	1/28/2021
PPL ELECTRIC UTILITIES CORPORATION	PPL Industrial Customer Alliance	M-2020-3020824	Supplemental	PA	Energy Efficiency and Conservation Plan	1/27/2021
CENTRAL HUDSON GAS & ELECTRIC	Multiple Intervenors	20-E-0428 / 20-G-0429	Rebuttal	NY	Distribution cost classification; revised Electric Embedded Cost-of-Service Study; revised Distribution Mains Study	1/22/2020
MIDAMERICAN ENERGY COMPANY	Tech Customers	EPB-2020-0156	Reply	IA	Emissions Plan	1/21/2021
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	50997	Direct	TX	Disallowance of Unreasonable Mine Development Costs; Amortization of Mine Closure Costs; Imputed Capacity	1/7/2021
CENTRAL HUDSON GAS & ELECTRIC	Multiple Intervenors	20-E-0428 / 20-G-0429	Direct	NY	Electric and Gas Embedded Cost of Service; Class Revenue Allocation; Rate Design; Revenue Decoupling Mechanism	12/22/2020
NIAGARA MOHAWK POWER CORP.	Multiple Intervenors	20-E-0380 / 20-G-0381	Rebuttal	NY	AMI Cost Allocation Framework	12/16/2020
ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	51381	Direct	TX	Generation Cost Recovery Rider	12/8/2020
NIAGARA MOHAWK POWER CORP.	Multiple Intervenors	20-E-0380 / 20-G-0381	Direct	NY	Electric and Gas Embedded Cost of Service; Class Revenue Allocation; Rate Design; Earnings Adjustment Mechanism; Advanced Metering Infrastructure Cost Allocation	11/25/2020
LUBBOCK POWER & LIGHT	Texas Industrial Energy Consumers	51100	Direct	TX	Test Year; Wholesale Transmission Cost of Service and Rate Design	11/6/2020
CONSUMERS ENERGY COMPANY	Association of Businesses Advocating Tariff Equity	U-20889	Direct	MI	Scheduled Lives, Cost Allocation and Rate Design of Securitization Bonds	10/30/2020
CHEYENNE LIGHT, FUEL AND POWER COMPANY	HollyFrontier Cheyenne Refining LLC	20003-194-EM-20	Cross-Answer	WY	PCA Tariff	10/16/2020
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	20-00143	Direct	NM	RPS Incentives; Reassignment of non-jurisdictional PPAs	9/11/2020
ROCKY MOUNTAIN POWER	Wyoming Industrial Energy Consumers	20000-578-ER-20	Cross	WY	Time-of-Use period definitions; ECAM Tracking of Large Customer Pilot Programs	9/11/2020
ROCKY MOUNTAIN POWER	Wyoming Industrial Energy Consumers	20000-578-ER-20	Direct	WY	Class Cost-of-Service Study; Time-of-Use period definitions; Interruptible Service and Real-Time Day Ahead Pricing pilot programs	8/7/2020

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ENTERGY TEXAS, INC.	Texas Industrial Energy Consumers	50790	Direct	TX	Hardin Facility Acquisition	7/27/2020
PHILADELPHIA GAS WORKS	Philadelphia Industrial and Commercial Gas Users Group	2020-3017206	Surrebuttal	PA	Interruptible transportation tariff; Allocation of Distribution Mains; Universal Service and Energy Conservations; Gradualism	7/24/2020
CONSUMERS ENERGY COMPANY	Association of Businesses Advocating Tariff Equity	U-20697	Rebuttal	MI	Energy Weighting, Treatment of Interruptible Load; Allocation of Distribution Capacity Costs; Allocation of CVR Costs	7/14/2020
PHILADELPHIA GAS WORKS	Philadelphia Industrial and Commercial Gas Users Group	2020-3017206	Rebuttal	PA	Distribution Main Allocation; Design Day Demand; Class Revenue Allocation; Balancing Provisions	7/13/2020
PECO ENERGY COMPANY	Philadelphia Area Industrial Energy Users Group	2020-3019290	Rebuttal	PA	Network Integration Transmission Service Costs	7/9/2020
CONSUMERS ENERGY COMPANY	Association of Businesses Advocating Tariff Equity	U-20697	Direct	MI	Class Cost-of-Service Study;Financial Compensation Method; General Interruptible Service Credit	6/24/2020
PHILADELPHIA GAS WORKS	Philadelphia Industrial and Commercial Gas Users Group	2020-3017206	Direct	PA	Class Cost-of-Service Study; Class Revenue Allocation; Rate Design	6/15/2020
CONSUMERS ENERGY COMPANY	Association of Businesses Advocating Tariff Equity	U-20650	Rebuttal	MI	Distribution Mains Classification and Allocation	5/5/2020
GEORGIA POWER COMPANY	Georgia Association of Manufacturers and Georgia Industrial Group	43011	Direct	GA	Fuel Cost Recovery Natural Gas Price Assumptions	5/1/2020
CONSUMERS ENERGY COMPANY	Association of Businesses Advocating Tariff Equity	U-20650	Direct	MI	Class Cost-of-Service Study; Transportation Rate Design; Gas Demand Response Pilot Program; Industry Association Dues	4/14/2020
ROCKY MOUNTAIN POWER	Wyoming Industrial Energy Consumers	90000-144-XI-19	Direct	WY	Coal Retirement Studies and IRP Scenarios	4/1/2020
DTE GAS COMPANY	Association of Businesses Advocating Tariff Equity	U-20642	Direct	MI	Class Cost-of-Service Study; Class Revenue Allocation; Infrastructure Recovery Mechanism; Industry Association Dues	3/24/2020
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	49831	Cross	TX	Radial Transmission Lines; Allocation of Transmission Costs; SPP Administrative Fees; Load Dispatching Expenses; Uncollectible Expense	3/10/2020
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	19-00315-UT	Direct	NM	Time-Differentiated Fuel Factor	3/6/2020

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SOUTHERN PIONEER ELECTRIC COMPANY	Western Kansas Industrial Electric Consumers	20-SPEE-169-RTS	Direct	KS	Class Revenue Allocation	3/2/2020
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	49831	Direct	TX	Schedule 11 Expenses; Depreciation Expense (Rev. Req. Phase Testimony)	2/10/2020
SOUTHWESTERN PUBLIC SERVICE COMPANY	Texas Industrial Energy Consumers	49831	Direct	TX	Class-Cost-of-Service Study; Class Revenue Allocation; Rate Design (Rate Design Phase Testimony)	2/10/2020
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	19-00134-UT	Direct	NM	Renewable Portfolio Standard Rider	2/5/2020
SOUTHWESTERN PUBLIC SERVICE COMPANY	Occidental Permian Ltd.	19-00170-UT	Settlement	NM	Settlement Support of Rate Design, Cost Allocation and Revenue Requirement	1/20/2020
SOUTHWESTERN ELECTRIC POWER COMPANY	Texas Industrial Energy Consumers	49737	Direct	TX	Certificate of Convenience and Necessity	1/14/2020

To access a downloadable list of Testimony filed from 1976 through the prior year, use this link: [J. Pollock Testimony filed from 1976 through the prior year]

APPENDIX C

Procedure for Conducting a Class Cost-of-Service Study

Q WHAT PROCEDURES ARE USED IN A CLASS COST-OF-SERVICE STUDY?

A The basic procedure for conducting a class cost-of-service study (CCOSS) is fairly simple. First, we identify the different types of costs (functionalization), determine their primary causative factors (classification), and then apportion each item of cost among the various service classes (allocation). Adding up the individual pieces gives the total cost for each class.

Identifying the utility's different levels of operation is a process referred to as functionalization. The utility's investments and expenses are separated into production, storage, transmission, distribution, and other functions. To a large extent, this is done in accordance with the Uniform System of Accounts developed by the FERC.

Once costs have been functionalized, the next step is to identify the primary causative factor (or factors). This step is referred to as classification. Costs are classified as demand-related, energy- (or commodity-) related or customer-related. Demand (or capacity) related costs vary with peak demand, which is measured in kilowatts or peak day send out. This includes production, transmission, and some distribution investment and related fixed operation and maintenance (O&M) expenses. As explained later, peak demand determines the amount of capacity needed for reliable service. Energy-related costs vary with natural gas throughput, which is measured in dekatherms. Energy-related costs include purchased gas and variable O&M expense. Customer-related costs vary directly with the number of customers such as meters, service laterals, billing, and customer service, and they may also include a portion of distribution mains.

Each functionalized and classified cost must then be allocated to the various customer classes. This is accomplished by developing allocation factors that reflect the percentage of the total cost that should be paid by each class. The allocation factors should reflect cost-causation; that is, the degree to which each class caused the utility to incur the cost.

Further, each customer class should be comprised of customers having similar characteristics. The relevant characteristics include the type of end-use customer (*e.g.,* residential, general service sales, transportation), average size and how delivery service is provided. Allocating costs to homogeneous customer classes will ensure that the rates derived from a class cost-of-service study are just and reasonable and reflect the actual cost to serve.

Q WHAT KEY PRINCIPLES ARE RECOGNIZED IN A CLASS COST-OF-SERVICE STUDY FOR NATURAL GAS DELIVERY SERVICE?

A A properly conducted CCOSS recognizes two key cost-causation principles. First, not all gas customers purchase gas supplied by a local distribution company (LDC). Some customers purchase and transport their own gas to the city gate. Thus, the LDC does not incur purchased gas and other related costs to serve a transportation customer. Second, not all customers take the same delivery service. Larger transportation customers may take delivery service directly from either the transmission system or high-pressure distribution mains. Third, the use of storage services will depend on the tolerances between actual and nominated gas deliveries. The smaller the tolerances, the lower the amount of storage services. Fourth, since cost causation is also related to how natural gas is used, both the timing and rate of gas consumption (*i.e.*, demand) are critical. Consistent with the obligation to serve and to ensure reliability, the LDC must purchase sufficient gas supply to meet the maximum needs of its sales customers. The LDC must also construct the required distribution mains and other facilities to attach customers to the system, and these facilities must be sized to meet the expected contribution to the peak day design, which is the maximum expected demand on the delivery system.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Rate Increase by Peoples Gas Systems, Inc.	**DOCKET NO. 20250029-GU Filed: June 30, 2025**

AFFIDAVIT OF JEFFRY POLLOCK

State of Missouri)
) SS
County of St. Louis)

Jeffry Pollock, being first duly sworn, on his oath states:

1. My name is Jeffry Pollock. I am President of J. Pollock, Incorporated, 14323 S. Outer 40 Rd., Suite 206N, St. Louis, Missouri 63017. We have been retained by Florida Industrial Power Users Group to testify in this proceeding on its behalf;

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony and Exhibits, which have been prepared in written form for introduction into evidence in Florida Public Service Commission Docket No. 20250029-GU; and,

3. I hereby swear and affirm that the answers contained in my testimony and the information in my exhibits are true and correct.

Jeffry Pollock

Subscribed and sworn to before me this 30th day of June 2025.

KITTY TURNER
Notary Public, Notary Seal
State of Missouri
Lincoln County
Commission # 15390610
My Commission Expires 04-25-2027

Kitty Turner, Notary Public
Commission #: 15390610

My Commission expires on April 25, 2027

(Whereupon, prefiled direct testimony of Angela Calhoun was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ON BEHALF OF COMMISSION STAFF

DIRECT TESTIMONY OF ANGELA L. CALHOUN

DOCKET NO. 20250029-GU

July 14, 2025

Q. Please state your name and address.

A. My name is Angela L. Calhoun. My address is 2540 Shumard Oak Boulevard; Tallahassee, Florida 32399.

Q. By whom are you employed and in what capacity?

A. I am employed by the Florida Public Service Commission (FPSC or Commission) as Chief of the Bureau of Consumer Assistance in the Office of Consumer Assistance & Outreach.

Q. Please give a brief description of your educational background and professional experience.

A. I graduated from Florida State University in 1993 with a Bachelor of Arts degree. I have worked for the Commission for more than 24 years, and I have experience in consumer complaints and consumer outreach. I work in the Bureau of Consumer Assistance within the Office of Consumer Assistance & Outreach where I manage consumer complaints and inquiries.

Q. What is the function of the Bureau of Consumer Assistance?

A. The Bureau's function is to resolve disputes between regulated companies and their customers as quickly, effectively, and inexpensively as possible.

Q. Do all consumers that have a dispute with their regulated company contact the Bureau of Consumer Assistance?

A. No. Consumers may initially file their complaint with the regulated company and reach a resolution without the Bureau's intervention. In fact, consumers are encouraged to allow the regulated company the opportunity to resolve the dispute prior to any Commission involvement.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss/outline the number of consumer complaints logged with the Commission against Peoples Gas System, Inc. (Peoples Gas) under Rule 25-22.032, Florida Administrative Code (F.A.C.), Consumer Complaints, from June 1, 2023 to June 30, 2025. My testimony will also provide information on the type of complaints logged and those complaints that appear to be rule violations.

Q. What do your records indicate concerning the number of complaints filed for Peoples Gas?

A. From June 1, 2023 to June 30, 2025 the Commission logged 132 complaints against Peoples Gas. Of those, 64 were transferred to the company for resolution via Commission's Transfer-Connect (Warm-Transfer) System.

Q. What have been the most common types of complaints logged against Peoples Gas during the period of June 1, 2023 to June 30, 2025?

A. During the specified time period, approximately forty-five percent (45%) of the complaints logged with the Commission concerned billing issues, while approximately fifty-five percent (55%) of the complaints involved quality of service issues.

Q. Do you have any exhibits attached to your testimony?

A. Yes. I am sponsoring ALC-1 and ALC-2, which are listings of consumer complaints logged with the Commission against Peoples Gas under Rule 25-22.032, F.A.C. The complaints listed were received between June 1, 2023 to June

30, 2025, and were captured in the Commission's Consumer Activity Tracking System (CATS). Exhibit ALC-1 lists quality of service complaints and Exhibit ALC-2 lists billing complaints. Both exhibits group the complaints by Close Type.

Q. What is a Close Type?

A. A Close Type is an internal categorization code. It is assigned to each complaint once staff completes its investigation, and a proposed resolution is provided to the consumer.

Q. Do you have any additional exhibits?

A. Yes. Exhibit ALC-3 is a listing of complaints resolved as Close Type GI-02, Courtesy Call/Warm Transfer.

Q. Can you explain Close Type GI-02?

A. Yes. Peoples Gas participates in the Commission's Transfer-Connect (Warm-Transfer) System. This system allows the Commission to directly transfer a customer to the company's customer service personnel. Once the call is transferred to Peoples Gas, they provide the customer with a proposed resolution. Customers who are not satisfied with the company's proposed resolution have the option of re-contacting the Commission. While the Commission is able to categorize each of the complaints in the GI-02 category, a specific Close Type is not assigned because the proposed resolution is provided by the company. Consequently, the GI-02 Close Type only allows staff to monitor the number of complaints resolved via the Commission's Transfer-Connect System.

Q. How many of the complaints summarized on your exhibit has staff determined may be a violation of Commission rules for Peoples Gas?

A. Staff determined that, of the 132 complaints logged against Peoples Gas during the period of June 1, 2023 to June 30, 2025, there was one billing complaint that appears to demonstrate a violation of Commission Rules.

Q. What was the nature of the apparent rule violations?

A. The apparent rule violation was related to a billing error due to a defective meter.

Q. Does that conclude your testimony?

A. Yes.

(Whereupon, prefiled direct testimony of Wesley Thurmond was inserted.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ON BEHALF OF COMMISSION STAFF

DIRECT TESTIMONY OF WESLEY THURMOND

DOCKET NO. 20250029-GU

July 14, 2025

Q. Please state your name and business address.

A. My name is Wesley Thurmond. My business address is 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission (FPSC or Commission) as a Public Utility Analyst in the Office of Auditing and Performance Analysis.

Q. Briefly review your educational and professional background.

A. I received a Bachelor of Science degree in Accounting from Florida State University in 2018. I have been employed by the FPSC since June 2019. I worked in the Division of Accounting and Finance from June 2019 until November 2024. In November of 2024, I moved to the Office of Auditing and Performance Analysis.

Q. Please describe your current responsibilities.

A. My responsibilities consist of planning and conducting utility audits of manual and automated accounting systems for historical and forecasted data.

Q. Have you presented testimony before this Commission or any other regulatory agency?

A. No.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor the staff audit report of Peoples Gas

System, Inc. which addresses the Utility's application for a rate increase. The audit report and revised pages are filed with my testimony and identified as Exhibits WT-1 and WT-2, respectively.

Q. Was this audit prepared by you or under your direction?

A. Yes, it was prepared under my direction.

Q. What audit period did you use in this audit?

A. We audited the historical test year ended December 31, 2024. We did not audit any subsequent years.

Q. Please describe the work you performed in this audit?

A. The procedures that we performed in this audit are listed in the Objectives and Procedures section of the attached Exhibit WT-1, pages 4 of 13 through 8 of 13 and the attached revised page 1 of 2.

Q. Please review the audit findings in this audit report.

A. There were two findings.

The first finding is on page 9 of 13 of the attached Exhibit WT-1 and page 2 of 2 of the attached Exhibit WT-2. This finding discusses additions to Account 374 - Land and Land Rights. The company provided six work orders in support of the change in value of this account from December 31, 2023 to December 31, 2024. Audit staff was unable to discern if these were properly included in this account or should be booked to depreciable plant accounts. Audit staff requests technical staff review this issue.

The second finding is on page 10 of 13 of the attached Exhibit WT-1 and is informational. It discusses a 13-month average balance of zero in Account 354 – Other Regulatory Liabilities on MFR Schedule B-15. The general ledger balances support a 13-month average of ($556,819). This account appears to be accurately reflected in the calculated 13-month averages of the respective balances on MFR Schedules B-1 and B-13.

Q. **Does that conclude your testimony?**

A. Yes.

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

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20250029-GU

PETITION FOR RATE INCREASE

BY PEOPLES GAS SYSTEM, INC.

REBUTTAL TESTIMONY AND EXHIBIT

OF

LUKE BUZARD

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 20250029-GU
FILED: 07/28/2025

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

LUKE BUZARD

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

A. My name is Luke Buzard. My business address is 3600 Midtown Drive, Tampa, FL 33607. I am employed by Peoples Gas System, Inc. ("Peoples" or the "company") as the Vice President of Regulatory and External Affairs, and interim Vice President of Finance.

Q. Are you the same Luke Buzard who filed direct testimony in this proceeding?

A. Yes, I am.

Q. What are the purposes of your rebuttal testimony?

A. My rebuttal testimony has two parts. The purpose of part one is to address the intervenor and Staff testimony. Specifically, I rebut issues raised in the direct testimony of Office of Public Counsel ("OPC") witness Lane Kollen related to (1) the company's development of the 2026 test year capital and operations and maintenance ("O&M") budgets, and (2) Off-System Sales revenues. Additionally, in part one, I respond to the testimony of Commission Staff witness Angela Calhoun.

The purpose of the second part of my rebuttal testimony is to provide updates related to (1) Peoples' plans to recover facilities relocation costs under Rule 25-7.150, Florida Administrative Code, (2) the company's customer and public notices regarding this rate case proceeding, and (3) updates related to Tariff Sheet Nos. 5.201, 5.401, and 5.501.

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

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

Document No. 1 Composite Notice
Document No. 2 Updated Tariff Sheets

Q. If you do not address an issue or state a position in your testimony, does that indicate you agree with the intervenors on that point?

A. No. I have not attempted to respond to every argument made by the intervenor witnesses. The fact that I may not have responded to any specific argument or statement does not indicate my agreement with that argument or statement.

I. OPC WITNESS KOLLEN'S PROPOSED ADJUSTMENTS

<u>DEVELOPMENT OF THE COMPANY'S 2026 TEST YEAR CAPITAL BUDGET</u>

Q. Do you agree with Mr. Kollen's suggestion that the company prepared a "rate case" budget for its 2026 test year?

A. No. The company adjusted the timing of our 2026 budget development as a practical necessity to prepare the financial data for using a projected test year in this proceeding. However, Peoples developed the 2026 budget using its normal budgeting process with the same level of rigor and accountability. Additionally, the company's Board of Directors approved the budget before the filing of our petition in this docket on March 31, 2025.

The assumptions in the company's 2026 budget properly reflect our assessment of the resources required to provide safe and reliable gas distribution services sustainably for our customers and to meet future demand for natural gas across Florida. Additionally, the company followed generally the same process in our last three rate cases, which also used a projected test year.

Q. Did the company follow the requirements for a projected test year base rate case in petitioning the Florida Public Service Commission ("Commission") for rate relief in this docket?

A. Yes. On January 30, 2025, in accordance with Rule 25-7.140, Florida Administrative Code, the company provided its test year notification to the Commission, advising that Peoples selected a projected test year ending December 31, 2026.

The company's projected test year is based on detailed projections of load, customer numbers, planned capital projects, expenses, and other factors relevant to the request for a base rate increase. Suggesting that the budget is biased or inadequate overlooks the rigor and detail included in the company's submission for a base rate increase.

Q. Do you agree with witness Kollen's argument that any adjustments to the budget after the rate case outcome demonstrate the lack of rigor in developing the 2026 test year budget in this rate proceeding?

A. No. The company developed its 2026 projected test year budget in accordance with its stringent business practices and normal budgeting process, prioritizing safe and reliable service while meeting system growth demands.

Q. Should the Commission limit or reduce the company's 2026 capital budget/rate base as proposed by OPC?

A. No. As explained in Peoples' witness Christian Richard's rebuttal testimony, witness Kollen's proposed capital budget reduction in the company's 2026 revenue requirement should be rejected because it is overly simplistic, does not address the individual projects that make up the 2026 budget, and does not address the factors influencing the capital budget increase from 2025 to 2026.

DEVELOPMENT OF THE COMPANY'S 2026 TEST YEAR O&M BUDGET

Q. Mr. Kollen contends that the company's requested team member increase should be reduced to no more than 40 team members because the additions are predominantly discretionary, not justified by business requirements, nor by customer growth. What is your response to this recommendation?

A. The company demonstrated through testimony and discovery that the need for additional team members is based on both (1) business requirements and (2) customer growth. For example, as explained in the company's answer to Staff's Fifth Set of Interrogatories, No. 36, the Fleet Sr. Analyst position, which involves the management of the company's fleet of vehicles and 14 facilities is related to customer growth while the SAP Systems Analyst position is not related to growth and will provide SAP support of the company's Work and Asset Management ("WAM") solution. Additionally, 46 of the 80 positions in 2025 are replacement positions, as explained in the direct testimony of Peoples witness Donna Bluestone. Thus, Mr. Kollen's recommendation of 40 additions for 2025 *and* 2026 would not even "cover" the company's replacement positions for 2025.

Witness Kollen suggests that the company's team member additions are not due to growth because the company's forecasted customer growth in 2025 and 2026 is notably below the forecasted team member growth from the end of 2024 to the beginning of the test year. Again, as explained above, the team member additions are related to both business needs and customer growth. Further, the contention that customer growth and team member count are not directly or indirectly correlated disregards the impact of the type of customer that joins our system. For example, a large customer can affect the work activities of both customer-facing and non-customer-facing team members.

As a local distribution company and an essential service provider, we are committed to carrying out the crucial work activities necessary to meet both state and federal safety and compliance requirements. This responsibility is not just a requirement; it's a commitment to the communities we serve, ensuring that we uphold the highest standards of safety and reliability in all our operations. Additionally, the natural gas industry remains very much a manual industry, and many of these activities are performed via human labor and not through technology.

Q. Mr. Kollen claims on page 27 that while the investments in WAM have generated efficiencies and cost reductions, there have been no savings in the number of team members. What is your response to this criticism?

A. The WAM platform went into service in September 2023, and as explained in the direct testimony of Peoples' witness Timothy O'Connor, it provides the company with a centralized technology platform to track all aspects of our system's asset life cycle. WAM's infrastructure streamlines the assigning, scheduling, and deployment of team members across our system, while collecting data on a scale previously not possible. Mr. Kollen's criticism overlooks that (1) the company is still acclimating to the WAM system placed in service almost two years ago, and (2) WAM was not implemented to reduce team members but rather as a means of centralizing work in one system. Over time, as the company continues to gain insights from our use of WAM, we will identify opportunities to optimize resources. It is possible that such opportunities could include a reduction in future hiring needs.

Q. Mr. Kollen suggests that the company is already staffed for continued growth in customers and related infrastructure, such that employees devoted to new construction are sufficient if growth remains relatively constant. Do you agree with his contention?

A. No. The company has justified the business need for each team member in this case and Mr. Kollen has not challenged any specific proposed team member addition within Engineering, Construction and Technology.

Q. On page 28, Mr. Kollen criticizes the company for the low number of team members insourced in comparison to the total number of team member additions. Do you agree with this characterization?

A. No. As explained in the company's answer to OPC's First Set of Interrogatories, No. 7, the company routinely examines and balances outside contractor expenses with the need to maintain a flexible and responsive workforce. There are work activities for which insourcing is not advantageous from an operational level. Additionally, certain work activities require a specialized skill set, which makes insourcing more challenging for these positions. The insourced positions included in this case are a direct result of the company's deliberate decision to decrease the use of outside services where it makes sense to do so.

Q. How do you respond to Mr. Kollen's claim on page 28 of his testimony that the company has pursued relentless growth in the number of team members in its "rate case" budgets and then added team members, albeit typically fewer than reflected in rate case budgets?

A. As outlined in Peoples' witness Helen Wesley's direct testimony beginning on page 30, the company adjusted its 2024 hiring plans to address unforeseen expenses and revenue effects. This included moderating our team member hiring. To ensure the system operates safely and reliably while maintaining a high standard of customer service and financial performance, Peoples made certain difficult decisions. Throughout the company's direct testimony and discovery and as further discussed in my rebuttal testimony, the company provides justification for the necessity of each position. The Commission’s authorization of these positions should be based on the business need of the position, not a penalty for making sound decisions based on new information.

Q. Do you agree with Mr. Kollen’s argument that the Commission should disallow costs applied for related to hiring so that the company can “rein in” its rate case forecast?

A. No. The Commission should evaluate the business need provided for each team member addition and consider the prudency of the cost considering the company’s ongoing commitment to safety, reliability, customer service and the incredible demand for natural gas. The company’s testimony and discovery have demonstrated that customers recognize the company's excellent customer service history and that we have an industry-leading safety record.

Q. Should the Commission limit or reduce the company’s 2026 employee count/operations & maintenance (“O&M”) expense as proposed by OPC?

A. No. Witness Kollen's proposed employee count/O&M expense reduction in the company's 2026 revenue requirement should be rejected. The company provided the business justification for each of its new and replacement positions requested in this case in response to OPC's First Set of Interrogatories, No. 12. Witness Kollen's recommendation to reduce the company's team member additions from 144 to no more than 40 by January 1, 2026, is not supported or based on an examination of specific work activities or a position-by-position analysis. Rather, his adjustment is broad based and arbitrary.

Through my direct testimony and the direct testimonies of witnesses Wesley, O'Connor, Richard, and Peoples' witness Bluestone, the company justified its forecasted staffing increases for 2025 and 2026. Additionally, the company demonstrated the need for the increases in its discovery responses, including but not limited to: OPC's First Set of Interrogatories, Nos. 7 through 17; OPC's Second Request for Production of Documents, No. 46; OPC's Second Set of Interrogatories, No. 110; OPC's Fourth Set of Interrogatories, No. 129; OPC's Fifth Set of Interrogatories, No. 138; Staff's Fourth Set of Interrogatories No. 24; and Staff's Fifth Set of Interrogatories Nos. 36, 37, 38, 39, and 45. Further, as explained in the direct testimony of witness Bluestone, the team member additions will support both (1) customer growth and (2) the company's commitment to safety and operational efficiency.

The company asserts it has proven the need for its forecasted new team members based on the growth of its system and increased work activity, the majority of which is non-discretionary. Therefore, witness Kollen's proposed staffing adjustment to randomly remove 104 positions in 2025 and 2026 should be rejected.

OFF-SYSTEM SALES REVENUES

Q. Do you agree with OPC's proposal to increase test year OSS revenues, considering the Commission's decision in Docket No. 20250026-GU?

A. Yes. Peoples agrees that the OSS net revenues should be revised in this proceeding to reflect the Commission's approval of the revised OSS sharing mechanism in Docket No. 20250026-GU, Petition for approval to modify swing service charge, individual transportation service rider, and off-system service rate schedule.

Q. Do you agree with OPC's proposal to increase 2026 test year revenues to reflect the four-year average OSS net revenues of $4.152 million?

A. No. Peoples does not support using the four-year average as a basis, suggested by OPC; however, we do not object to the Commission's consideration of a moderate adjustment. The company acknowledges the complexity of the natural gas commodity and interstate transportation markets. This complexity poses challenges in predicting future opportunities for OSS. Thus, while our OSS net revenues currently exceed forecasts, a benefit to both customers and Peoples, this trend is not guaranteed. Any OSS forecast adjustment exceeding actual 2026 results will hinder Peoples' reasonable opportunity to earn an approved return on equity. Setting the projected OSS revenues is an important outcome not only for this case but also helps prevent future base rate increases.

II. RESPONSE TO STAFF WITNESS ANGELA CALHOUN

Q. Have you reviewed the testimony of Staff witness Calhoun?

A. Yes. The 132 complaints cited in witness Calhoun's testimony represent approximately 0.013 percent of our entire customer base. Over the past several years, our complaint rate has remained relatively stable at approximately 0.02 percent of total customers. This stable complaint record combined with the low level of customer participation at the recent customer service hearings underscores Peoples' unwavering commitment to delivering exceptional customer satisfaction.

III. NATURAL GAS FACILITIES RELOCATION COSTS

Q. What is the Natural Gas Facilities Relocation Cost Recovery Clause?

A. In accordance with authority granted in section 366.99(6), Florida Statutes, the Commission adopted Rule 25-7.150, Florida Administrative Code, Natural Gas Facilities Relocation Cost Recovery Clause, on April 4, 2025. This rule became effective on April 24, 2025.

Section 366.99, Florida Statutes, Natural Gas Facilities Relocation Costs, permits a natural gas utility to recover "natural gas facility relocation costs" incurred through a charge separate and apart from base rates.

Q. Did the company include forecasted relocation costs in its 2025 and 2026 test year forecasts?

A. Yes. The company included relocation costs in its 2025 and 2026 test year forecasts.

Q. Is an adjustment to remove natural gas facilities relocation costs from the projected 2026 test year appropriate?

A. Yes. The company believes an adjustment in this proceeding is appropriate to reflect the company's recovery of facility relocation costs under Rule 25-7.150, Florida Administrative Code, in a 2026 filing. Exhibit No. AN-2, Document No. 1, of Peoples' witness Andrew Nichols' rebuttal testimony shows the calculation of the adjustment necessary to remove natural gas facilities relocation costs.

IV. COMPOSITE NOTICE EXHIBIT

Q. Did the company prepare a "Composite Notice Exhibit" demonstrating its compliance with the notice requirements set forth in Rule 25-22.0406, Florida Administrative Code, in this proceeding?

A. Yes. The company prepared a "Composite Notice Exhibit," which is attached as Document No. 1 of my exhibit.

V. TARIFF UPDATES

Q. Did the company agree to certain proposed tariff modifications by OPC instead of the language it originally submitted?

A. Yes. Document No. 2 of my exhibit reflects the company's updates to Tariff Sheet Nos. 5.201, 5.401, and 5.501. These changes are consistent with the language proposed by OPC.

VI. SUMMARY

Q. Please summarize your rebuttal testimony.

A. My rebuttal testimony demonstrates that the submitted projected test year budget aligns with statutory requirements and Commission rules. The company carefully prepared its projected test year budget to ensure that we maintain safe, reliable service amid significant system growth. I further acknowledge the extensive support provided through direct testimony and discovery, which underscores our commitment to meeting customer needs and maintaining the distribution system, and to providing a reasonable opportunity for the company to achieve a mid-point return on rate base investments. Furthermore, the company responded to extensive discovery regarding specific capital projects and O&M costs, which validates our request for rate relief. I rebut any broad reductions in the filing proposed by witness Kollen without specific identification of issues of prudency. My rebuttal testimony clarifies the original filing position on the OSS revenue utilized to calculate the revenue requirement in this case. I do not object to witness Kollen's recommendation to incorporate the Commission's decision in Docket No. 20250026-GU regarding revenue sharing and to adjust the overall projection of OSS revenues in the 2026 test year.

Additionally, my rebuttal testimony responds to Staff witness Calhoun's direct testimony regarding customer complaints.

Lastly, my rebuttal testimony provides updates regarding (1) facilities relocation costs under Rule 25-7.150, Florida Administrative Code, (2) the company's customer and public notices regarding this proceeding, and (3) tariff language changes agreed to with OPC.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20250029-GU

PETITION FOR RATE INCREASE

BY PEOPLES GAS SYSTEM, INC.

REBUTTAL TESTIMONY AND EXHIBIT

OF

JEFF CHRONISTER

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

JEFF CHRONISTER

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

A. My name is Jeff Chronister. My business address is 3600 Midtown Drive, Tampa, FL 33607. 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. Are you the same Jeff Chronister who filed direct testimony in this proceeding?

A. Yes, I am.

Q. What are the purposes of your rebuttal testimony?

A. My rebuttal testimony addresses two topics reflected in the testimony filed by Office of Public Counsel's ("OPC") witnesses David Garrett and Lane Kollen. Specifically, I will explain why the Commission should not adopt OPC's proposal on the company's equity ratio and why the Commission should disregard Mr. Kollen's observations and proposals on the company's proposed 2027 subsequent year adjustment ("SYA").

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

A. Yes. Exhibit No. JC-2, entitled "Rebuttal Exhibit of Jeff Chronister", was prepared under my direction and supervision and accompanies my rebuttal testimony. The contents of my rebuttal exhibit were derived from the business records of the company and are true and correct to the best of my knowledge and belief. My rebuttal exhibit consists of one document as follows:

Document No. 1	Peoples' Historical Investor Sources Equity Ratio (2005-2024)

I. EQUITY RATIO

Q. Do you agree with OPC's proposal to reduce the company's equity ratio to 49 percent for ratemaking purposes?

A. No. The capital structure proposed by Peoples is important to ensuring the long-term financial integrity of the company. The test year equity ratio of 54.7 percent is consistent with the capital structure as previously approved by the Commission and entirely consistent with two Florida-based peers given the 55.1 percent approved equity ratio for Florida Public Utilities and the 59.6 percent equity ratio approved for Florida City Gas.

Further, as Peoples' witness Dylan D'Ascendis explains, the company's 54.7 percent equity ratio is consistent with its peers and appropriate for ratemaking purposes because it is both typical and important for utilities to have significant proportions of common equity in their capital structures. A more highly leveraged capital structure with a lower overall authorized return would make it more difficult for the company to achieve credit metrics sufficient to support its current credit rating of A.

Q. How would credit rating agencies view a downward change to the company's equity ratio?

A. Credit rating agencies view the regulatory environment as a key consideration when assessing the creditworthiness of an energy utility. Regulators determine an appropriate capital structure and define the allowed return on equity ("ROE"). These are two of the key variables used to calculate a utility's revenue requirement, and by extension, the debt level and cash flow generating capability of the company. Accordingly, a change to either or both will have an impact on the company's financial metrics and creditworthiness.

Peoples' obligation to serve its customers and the significant capital expenditure requirements needed to maintain and grow its system are better served by stronger financial integrity. Therefore, the maintenance of the requested capital structure, coupled with an appropriate ROE, should lead to adequate coverage ratios and provide the financial strength and credit parameters necessary to achieve the company's current credit rating and assure access to capital.

Q. How does Peoples' proposed 54.7 percent equity ratio for 2026 compare to its actual equity ratio in prior years?

A. As shown on Document No. 1 of my exhibit, Peoples' proposed 54.7 percent equity ratio for 2026 is consistent with or below its actual equity ratio for the past 20 years. OPC's proposal to reduce Peoples' equity ratio to 49 percent is inconsistent with the equity ratio actually maintained by the company since 2005 and should be rejected.

II. 2027 SYA

Q. Do you agree with OPC's position that the company's proposed 2027 SYA is unreasonable and the Commission should not approve it?

A. No. The proposed SYA is reasonable because it provides Peoples the opportunity to earn adequate returns on its invested capital and maintain its financial integrity in years subsequent to the test year. Also, importantly, the SYA mitigates the need for costly successive rate cases. The company has requested an SYA that addresses the additional annualized costs of capital investments made during the 2026 test year that will not be reflected in the Commission-approved 2026 revenue requirements. As confirmed by the Legislature and the Florida Supreme Court regarding incremental revenue adjustments in years following the test year, the Commission has the authority to approve incremental adjustments in rates for periods subsequent to the initial period in which new rates will be in effect. The Commission has the authority to approve the annualization of assets placed in service in a period prior to the proposed SYA.

Q. Do you agree with OPC's characterization of the company's proposed 2027 SYA as "aggressive"?

A. No. The company's proposed SYA does not include any capital expenditures projected to occur in 2027. Although, as noted in my direct testimony, 2027 capital investments will have the effect of degrading 2027 earned Return on Equity, the company has not included these assets in our proposal for the SYA mechanism.

Additionally, the company is not proposing recovery of any incremental O&M expense in the SYA. Although an annualization of the O&M related to the assets placed in service in 2026 would be a logical component of a proposed SYA, the company chose to only request incremental depreciation and property tax expense.

Q. Do you agree with OPC's proposal to reduce the SYA amount for an annualization of base revenues using the end of test year customers?

A. No. First, as noted above, the company's SYA proposal does not call for the recovery of costs for 2027 capital expenditures or the annualization of O&M expense. Any annualization of revenue would not be logical given the absence of SYA revenue requirements for these two items. Additionally, including additional customer growth revenue as a credit against the SYA would reduce the intended effect of the 2027 SYA and could cause the need for additional base rate relief sooner.

Q. Do you agree with OPC's assertion that the company made an error in the calculation of the annualized year end plant related to rate base components carried over into 2027?

A. No. The company did not make an error in the calculation because the company did not calculate its SYA proposal using the logic advocated by witness Kollen on page 56 of his direct testimony. His proposed adjustment for total rate base growth (an SYA reduction of $534,000) is not reasonable given the logic I presented above regarding his proposed revenue adjustment for customer growth.

Q. Do you agree with OPC's assertion that the company made an error in the Accumulated Deferred Income Tax ("ADIT") balance used in the calculation of the capital structure and rate of return for the SYA?

A. No. The company did not make an error in the calculation because the company did not calculate its SYA proposal using the logic advocated by witness Kollen on page 57 of his direct testimony. Witness Kollen's position is that incremental assets would produce incremental ADIT and subsequently alter the percentage of ADIT in the capital structure. The company agrees that asset additions would create ADIT. However, due to the nature of capital funding and the company's approach to it – as well as the Commission's application of a pro rata approach to the capital structure, the percentage of ADIT in the capital structure would not change.

Q. Do you agree with OPC's proposal to reduce the SYA amount for property tax expense based on a recomputed amount resulting from OPC's NOI assumptions?

A. No. First, OPC's recomputed amounts reflect witness Kollen's expectations for outcomes from the Commission's order in this case. No party can predict what the Commission's decision on the revenue requirement will be. The company's SYA proposal uses a projected property tax expense that is consistent with the assumptions made during our forecasting process. Additionally, an SYA reduction based on any NOI-driven property tax adjustment could reduce the intended effect of the 2027 SYA and could cause the need for additional base rate relief sooner.

Q. Do you agree with OPC's proposal to reduce the SYA amount for $2.422 million for OPC's adjusted Rate of Return?

A. No. The company does not agree with the capital structure adjustments – and associated Weighted Average Cost of Capital – proposed by OPC in this case. Thus, we do not agree with the adjustment amount suggested by witness Kollen. However, the company does agree that the final SYA revenue requirement amount should reflect the Overall Rate of Return approved by the Commission in this proceeding.

III. SUMMARY

Q. Please summarize your rebuttal testimony.

A. My rebuttal testimony addresses why the Commission should not adopt OPC's proposal on the company's equity ratio and why the Commission should disregard Mr. Kollen's observations and proposals on the company's proposed 2027 SYA.

The company's equity ratio proposal is consistent with its actual equity ratio amounts for the last 20 years. Commission approval of the equity ratio that it has authorized in previous rate cases will provide the financial community with the confidence that the company's financial integrity will be maintained in the future. This will support the maintenance of the company's credit rating and provide customers with the benefit of lower cost of debt.

The SYA is a reasonable request that the Commission has full authority to approve. The SYA will extend the life of the base rates approved in this proceeding by mitigating the annualized cost of 2026 year end rate base. The proposed SYA is based on reasonable calculations and will contribute to the company's ability to delay the next request for base rate relief.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

(Whereupon, prefiled rebuttal testimony of Dylan D'Ascendis was inserted.)

AUSLEY MCMULLEN

Attorneys and Counselors at Law
123 South Calhoun Street
P.O. Box 391 32302
Tallahassee, FL 32301

P: (850) 224-9115
F: (850) 222-7560

ausley.com

July 28, 2025

ELECTRONIC FILING

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

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

Dear Mr. Teitzman:

Attached for filing on behalf of Peoples Gas System, Inc. in the above-referenced docket is the Rebuttal Testimony of Dylan D'Ascendis and Exhibit No. DD-2.

Thank you for your assistance with this matter.

(Document 3 of 7)

Sincerely,

Virginia Ponder

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

VLP/dh
Attachments

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20250029-GU

PETITION FOR RATE INCREASE

BY PEOPLES GAS SYSTEM, INC.

REBUTTAL TESTIMONY AND EXHIBIT

OF

DYLAN D'ASCENDIS

ON BEHALF OF

PEOPLES GAS SYSTEM, INC.

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PREPARED DIRECT TESTIMONY AND EXHIBIT

OF

DYLAN D'ASCENDIS

ON BEHALF OF PEOPLES GAS SYSTEM, INC.

DOCKET NO. 20250029-GU
WITNESS: D'ASCENDIS

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL 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, New Jersey 08003. I am employed by ScottMadden, Inc. as a Partner.

Q. Are you the same Dylan D'Ascendis who filed direct testimony in this proceeding?

A. Yes, I am.

II. PURPOSE, SUMMARY AND OVERVIEW

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is two-fold. First, due to the passage of time since the analysis in my direct testimony, I have updated my return on equity ("ROE") analyses to reflect more recent market data. Second, I respond to the direct testimony of witness David J. Garrett, on behalf of the Florida Office of Public Counsel ("OPC"), concerning Peoples Gas System, Inc.'s ("Peoples" or the "company") ROE on its Florida rate base.

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

A. Yes. I have prepared Exhibit No. DD-2, comprising Document Nos. 1 through 21, which have been prepared by me or under my direction.

Document No. 1	Updated Cost of Common Equity Results
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 Indicated Size Premium for Peoples Relative to the Utility Proxy Group
Document No. 9	Derivation of the Flotation Cost Adjustment to the Cost of Common Equity
Document No. 10	Gross Domestic Product ("GDP") by Industry, 1947 - 2024
Document No. 11	Growth Rate Regressions
Document No. 12	Garrett Corrected Discounted Cash Flow Model
Document No. 13	Evaluation of Implied Risk Premium Approach
Document No. 14	Evaluation of Forecast Bias of Mr. Garrett's Historical Market Risk Premiums
Document No. 15	Garrett Corrected CAPM
Document No. 16	Size and Volatility of Returns
Document No. 17	Evaluation of Size (Market Capitalization) and Volatility of Returns (Annualized Returns)
Document No. 18	Evaluation of Size (Market Capitalization) and Volatility of Returns (Safety Ranking)
Document No. 19	Flotation Cost Illustration
Document No. 20	Frequency Distribution of Observed

	Market Risk Premiums ("MRP"), 1926 - 2024
Document No. 21	Referenced Endnotes for the Rebuttal Testimony of Dylan D'Ascendis

Q. How is the remainder of your rebuttal testimony organized?

A. The remainder of my rebuttal testimony is organized as follows:

- Section III - Provides my updated analyses;
- Section IV - Contains my response to OPC witness Garrett; and
- Section V - Summarizes my recommendations and conclusions.

Q. Please summarize the key issues addressed in your rebuttal testimony.

A. First, I discuss my updated analyses for the company using market data as of June 30, 2025.

Next, I respond to Mr. Garrett's testimony concerning the appropriate ROE for Peoples. As discussed in Section IV, Mr. Garrett's shortcomings in his analyses include:

1. His misinterpretation of the relationship between various returns referenced in an ROE analysis.
2. His misapplication of the Discounted Cash Flow ("DCF")

model.

3. His misapplication of the Capital Asset Pricing Model ("CAPM"); and
4. His failure to consider flotation costs and other company-specific risk factors in his ROE recommendation.

Finally, my rebuttal testimony also addresses Mr. Garrett's unfounded critiques of my direct testimony.

Q. Please summarize your recommendations and conclusions.

A. My updated analytical results indicate the reasonable range of ROEs applicable to Peoples is between 10.66 percent and 11.16 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 10.66 percent to 11.14 percent. In view of current markets and the results of my ROE models, the 9.00 percent ROE proffered by Mr. Garrett is woefully inadequate. However, making reasonable adjustments to Mr. Garrett's DCF and CAPM analyses produces results that are consistent with my recommended range.

III. UPDATED ANALYSES

Q. Have you updated your analyses to reflect current market conditions?

A. Yes, I have. As noted above, given the passage of time since my direct testimony analyses (data as of January 15, 2025), I have updated my analyses using data as of June 30, 2025.

Q. Have you applied any of your ROE models differently in your updated analyses?

A. No, I have not.

Q. What are the results of your updated analyses?

A. Using market data available as of June 30, 2025, my updated analytical results are summarized in Document No. 1 of Exhibit No. DD-2. As presented on page 2 of Document No. 1, the updated indicated range of common equity cost rates for the company is between 10.66 percent and 11.16 percent, and between 10.66 percent and 11.14 percent, excluding the PRPM.

Q. Did you consider the indicated ROE from your Non-Price Regulated Proxy Group in the determination of your recommended ROE in this proceeding?

A. No, I did not. As stated on page 6 of my direct testimony, "I did not consider the analytical results applied to my Non-Price Regulated Proxy Group in the determination of my recommended range." Because I did not rely on the results of the Non-Price Regulated Proxy Group in my recommendation, and in an effort to limit the scope of this rebuttal testimony, I will not respond to any critiques of my Non-Price Regulated Proxy Group even though I maintain the applicability of the results of the model to the cost of common equity for utilities.

IV. RESPONSE TO OPC WITNESS GARRETT

Q. Please provide a brief summary of Mr. Garrett's analyses and recommendations regarding Peoples' ROE.

A. Mr. Garrett believes an ROE of 9.00 percent is reasonable if the Commission approves his recommended imputed debt ratio of 51.00 percent for Peoples; otherwise, he suggests the company's cost of equity is only 8.60 percent if the Commission approves Peoples' proposed debt ratio of approximately 45.00 percent.[1] Mr. Garrett estimates the ROE using the DCF model and CAPM. His DCF model results are estimated using two sources of growth rates: (1) his view of sustainable growth, which produces an average result of 7.40 percent; and (2) projected dividend per share ("DPS") growth rates from *Value Line Investment Services ("Value Line")*, which produce an average result of 7.80 percent. In addition, Mr. Garrett performs a CAPM analysis, which produces results of 9.00 percent if the Commission approves Mr. Garrett's proposed capital structure and 8.60 percent after applying the Hamada adjustment.[2]

Q. In what key areas are Mr. Garrett's analyses and recommendations incorrect or unsupported?

A. There are several areas in which Mr. Garrett's analyses and conclusions are incorrect or unsupported, including: (1) his misinterpretation of the relationship between the cost of equity, the investor-required ROE, and the awarded ROE for regulated utilities; (2) his misapplication of the DCF model; (3) his misapplication of the CAPM; and (4) his failure to consider flotation costs and company-specific risk factors in his recommended ROE. Those points are discussed in turn below.

A. <u>RELATIONSHIP BETWEEN THE COST OF EQUITY, THE INVESTOR-REQUIRED ROE, AND THE AWARDED ROE</u>

Q. Please summarize Mr. Garrett's views on the relationship between the cost of equity, the investor-required ROE, and the awarded ROE for regulated utilities.

A. Mr. Garrett initially correctly points out that the required return from the investor's perspective is synonymous with the cost of capital from the utility's perspective but then states that he believes the above specified returns are different, yet related concepts.[3] Mr. Garrett's views regarding the relationship between allowed and investor-required ROEs for utilities change throughout the course of his testimony.

For example, on page 8 of his testimony, Mr. Garrett discusses the equivalency of the cost of equity and the awarded ROE, stating:

> The *Hope* Court makes it clear that the awarded return should be based on the actual cost of capital. Moreover, the awarded return must also be fair, just, and reasonable under the circumstances of each case. Under the rate base rate of return model, a utility should be allowed to recover all its reasonable expenses, its capital investments through depreciation, and a return on its capital investments sufficient to satisfy the required return of its investors. The "required return" from the investors' perspective is synonymous with the "cost of capital" from the utility's perspective. Scholars agree that the allowed rate of return should be based on the actual cost of capital:

> Since by definition the cost of capital of a regulated firm represents precisely the expected return that investors could anticipate from other investments while bearing no more or less risk, and since investors will not provide capital unless the investment is expected to yield its opportunity cost of capital, the correspondence of the definition of the cost of capital with the court's definition of legally required earnings appears clear.[4,5]

Then, on page 9 of his testimony, Mr. Garrett contradicts his above testimony by stating that awarded ROEs and cost of equity (i.e., investor-required returns) are very different concepts because of the regulatory process that may be influenced by factors other than objective market drivers.[6]

Mr. Garrett continues to change his position regarding the equivalency, or non-equivalency, of the allowed and required ROE, sometimes in consecutive sentences. For example, on page 9 of his testimony, Mr. Garrett states that "The two concepts [allowed and required ROEs] are related in that the <u>legal</u> and technical standards encompassing this issue require that the awarded return reflect the true cost of capital. On the other hand, the two concepts are different in that the legal standards do not mandate that awarded returns exactly match the cost of capital."[7]

Q. What is your reaction to Mr. Garrett's views on the relationship between allowed and required ROEs for utility companies?

A. Mr. Garrett is unnecessarily complicating a simple relationship. For regulated utilities, the ROE equals the investor-required ROE, which equals the allowed ROE, as reflected in the *Hope* and *Bluefield* Supreme Court decisions cited in both my direct testimony[8] and Mr. Garrett's testimony.[9] This relationship holds because utility regulation by regulatory commissions acts as a substitute for competition.

Q. Is the concept of utility regulation as a substitute for market competition widely accepted as a fact and reflected as such in academic literature?

A. Yes, it is. The *Cost of Capital Manual*, which is the training manual for the Society of Utility and Financial Analysts, of which Mr. Garrett and I are members, states:

> In a sense, the "visible hand of public regulation was (created) to replace the invisible hand of Adam

> Smith in order to protect consumers against exorbitant charges, restriction of output, deterioration of service, and unfair discrimination."[footnote omitted]
>
> * * *
>
> As indicated above, regulation of public utilities reflects a belief that the competitive mechanism alone cannot be relied upon to protect the public interest. Essentially, it is theorized that a truly competitive market involving utilities cannot survive and, thereby, will fail to promote the general economic welfare. But this does not mean that regulation should alter the norm of competitive behavior for utilities. On the contrary, the primary objective of regulation is to produce market results (*i.e.*, price and quantity supplied) in the utility sectors of the economy closely approximating those conditions which would be obtained if utility rates and services were determined competitively.[10]

Additionally, in *Principles of Public Utility Rates*, Dr. Bonbright states:

> Lest the reader of this chapter gain the impression that it is intended to deny the relevance of any

tests of reasonable rates derived from the theory or the behavior of competitive prices, let me state my conviction that no such conclusion would be warranted. On the contrary, a study of price behavior both under assumed conditions of pure competition and under actual conditions of mixed competition is essential to the development of sound principles of utility rate control. Not only that: any good program of public utility rate making must go a certain distance in accepting competitive-price principles as guides to monopoly pricing. For rate regulation must necessarily try to accomplish the major objectives that unregulated competition is designed to accomplish; and the similarity of purpose calls for a considerable degree of similarity of price behavior.

Regulation, then, as I conceive it, is indeed a substitute for competition; and it is even a partly imitative substitute. But so is a Diesel locomotive a partly imitative substitute for a steam locomotive, and so is a telephone message a partly imitative substitute for a telegraph message. What I am trying to emphasize by these crude analogies is that the very nature of a

> monopolistic public utility is such as to preclude an attempt to make the emulation of competition very close. The fact, for example, that theories of pure competition leave no room for rate discrimination, while suggesting a reason for viewing the practice with skepticism, does not prove that discrimination should be outlawed. And a similar statement would apply alike to the use of an original-cost or a fair value rate base, neither of which is defensible under the theory or practice of competitive pricing.[11]

Finally, Dr. Charles F. Phillips states in *The Regulation of Public Utilities*:

> Public utilities are no longer, if they ever were, isolated from the rest of the economy. It is possible that the expanding utility sector has been taking too large a share of the nation's resources, especially of investment.[footnote omitted] At a minimum, regulation must be viewed in the context of the entire economy – and evaluated in a similar context. Public utilities have always operated within the framework of a competitive system. They must obtain capital, labor and materials in competition with unregulated industries. Adequate

profits are not guaranteed to them. Regulation then, should provide incentives to adopt new methods, improve quality, increase efficiency, cut costs, develop new markets and expand output in line with customer demand. In short, regulation is a substitute for competition and should attempt to put the utility sector under the same restraints competition places on the industrial sector.[12]

In view of the legal standard cited by me and Mr. Garrett, and treatises on regulation likening regulation of utilities and the competitive market, it is plain to see that allowed returns and investor-required returns are also equal.

Q. Do you have any concerns with Mr. Garrett's 8.60 percent ROE estimate if the company's proposed capital structure is approved?

A. Yes, I do. As discussed in my direct testimony,[13] credit ratings reflect a company's combined business risk and financial risk (with the exception of size). Since the company's credit rating is equivalent to the Utility Proxy Group's average credit rating, any adjustment to the ROE based on financial risk (i.e. equity ratio) would serve as a double count.

Further, Mr. Garrett derives his 8.60 percent ROE estimate using the Hamada model, which can be used to adjust the cost of equity based on changes in the debt ratio, assuming Peoples' proposed debt ratio of approximately 45.00 percent.[14] To estimate the change in the cost of equity based on the change in the debt ratio, Mr. Garrett had to assume a debt ratio to estimate the unlevered Beta coefficient ("beta"). Mr. Garrett's assumption that 51.00 percent is an appropriate debt ratio for the proxy group is unfounded.

Q. Why do you disagree with Mr. Garrett's assumed 51.00 percent debt ratio?

A. While I agree that it is reasonable to review the capital structures of the proxy companies, the range of common equity ratios depicts the range of typical or proper equity ratios maintained by comparable risk companies. As shown in Mr. Garrett's Exhibit DJG-13 and in Exhibit No. DD-2, Document No. 2, pages 2 and 3, the company's proposed debt ratio is within the range of the proxy companies. Because Peoples' requested capital structure is consistent with the proxy companies, Mr. Garrett's Hamada adjustment, and his adjustment to the ROE to reflect Peoples' proposed capital structure, is unnecessary and should be ignored.

B. MISAPPLICATION OF THE DISCOUNTED CASH FLOW MODEL

Q. Please briefly describe Mr. Garrett's constant growth DCF analyses and results.

A. Mr. Garrett applied "sustainable" growth rates to the constant growth DCF Model, which produced an ROE estimate of 7.40 percent.[15] For the dividend yield component, Mr. Garrett relied on annualized dividend payments and 30-day average stock prices as of June 9, 2025.[16] To estimate expected growth, Mr. Garrett looked to two measures: (1) nominal Gross Domestic Product ("GDP") and (2) real GDP.[17] Of those two measures, he chose the highest estimate, 3.70 percent.[18] In addition, Mr. Garrett calculated his DCF results based on projected DPS growth rates from *Value Line*, which produce an average DCF result of 7.80 percent.[19]

Q. What are your general concerns with the sustainable growth rates on which Mr. Garrett's DCF analysis relies?

A. First, Mr. Garrett assumed a single, perpetual growth rate of 3.70 percent for all his proxy companies.[20] By reference to the Congressional Budget Office's expected inflation rate of 2.10 percent, Mr. Garrett's method assumed his proxy companies all will grow at real rates of approximately 1.60 percent, in perpetuity.[21] It is unlikely an investor would be willing to assume the risks of equity ownership in exchange for expected growth only modestly greater than expected inflation. The risk simply is not worth the expected return.[22] In addition, as a practical matter, because they are generic in nature, his estimate fails to account for the risks and prospects faced by the proxy companies.

Q. What other concerns do you have with the 3.70 percent growth rate assumed for all companies in Mr. Garrett's DCF analysis?

A. Mr. Garrett's 3.70 percent growth rate is not based on any measure of company-specific growth, or growth in the utility industry in general. Rather, his proxy group serves the sole purpose of calculating the dividend yield. Under the DCF model's strict assumptions, however, expected growth and dividend yields are inextricably related. Mr. Garrett's assumption that one growth rate applies to all companies, even though dividend yields vary across those companies, has no basis in theory or practice.

Q. It is Mr. Garrett's opinion that growth in a DCF model is limited by the long-term growth in GDP.[23] Why is long-term growth in GDP not an upper limit for terminal growth as Mr. Garrett contends?

A. First, GDP is not a market measure - rather, it is a measure of the value of the total output of goods and services, excluding inflation, in an economy. While I understand that earnings per share ("EPS") growth is also not a market measure, it is well established in the financial literature that projected growth in EPS is the superior measure of dividend growth in a DCF model.[24] Furthermore, GDP is simply the sum of all private industry and government output in the United States, and its growth rate is simply an average of the value of those industries. To illustrate, Document No. 10 of my exhibit presents the compound annual growth rate of the industries that comprise GDP from 1947 to 2024. Of the 15 industries represented, seven industries (including utilities) grew faster than the overall GDP, and eight industries grew slower than the overall GDP.[25] Given that utilities have grown faster than the overall GDP over the 1947-2024 time period, I disagree with Mr. Garrett's suggestion that "it is reasonable to consider nominal GDP as a limit of 'ceiling' for long-term earnings or dividend growth."[26]

Q. Did you conduct another analysis that calculates the amount of time it would take an industry to overtake the entire economy?

A. Yes. I examined the value added by industry from 1947 to 2024 in Document No. 10 of my exhibit and used the compound annual growth rates for the highest growth rate industry (i.e., Educational Services, Healthcare, and Social Assistance at 8.55 percent per year) to see when that industry would comprise the entire economy. In the year 2300, or 353 years from the 1947 starting point, the industry would comprise over 50 percent of GDP, and in the year 7963, or 6,016 years after the 1947 starting point, the industry would comprise 100 percent of GDP.[27] Not only have individual companies or industries consistently grown at rates beyond GDP growth, but they have done so without overtaking the entire economy. While Mr. Garrett's argument may be technically correct, it is unrealistic at best.

Q. Please respond to Mr. Garrett's comment regarding "steady-state" growth rates.

A. On page 26 of his testimony, Mr. Garrett states, "it is not necessary to use multi-stage DCF Models to analyze the cost of equity of regulated utility companies. This is because regulated utilities are already in their 'sustainable,' low growth stage." While I agree with Mr. Garrett's statement regarding regulated utilities being in the "mature" stage in the company/industry life cycle, I disagree with his conclusion regarding the long-term growth rates of regulated utilities.

As Mr. Garrett describes, the multi-stage DCF and its growth rates reflect the company/industry life cycle, which is typically described in three stages: (1) the growth stage, which is characterized by rapidly expanding sales, profits, and earnings. In the growth stage, dividend payout ratios are low in order to grow the firm; (2) the transition stage, which is characterized by slower growth in sales, profits, and earnings. In the transition stage, dividend payout ratios increase, as their need for exponential growth diminishes; and (3) the maturity (steady-state) stage, which is characterized by limited, slightly attractive investment opportunities, steady earnings growth, dividend payout ratios, and returns on equity.

Since the utility industry is in the mature phase of the company life cycle, it is the company-specific projected EPS growth rate that is the appropriate measure of growth in a constant growth DCF model, not the projected GDP growth rate, as Mr. Garrett asserts.

Q. Are there examples in basic finance texts that support your position?

A. Yes. For example, in <u>Investments</u>, life cycles and multi-stage growth models are discussed:

> As useful as the constant-growth DDM (dividend discount model) formula is, you need to remember that it is based on a simplifying assumption, namely, that the dividend growth rate will be constant forever. In fact, firms typically pass through life cycles with very different dividend profiles in different phases. In early years, there are ample opportunities for profitable reinvestment in the company. Payout ratios are low, and growth is correspondingly rapid. In later years, the firm matures, production capacity is sufficient to meet market demand, competitors enter the market, and attractive opportunities for reinvestment may become harder to find. In this mature phase, the firm may choose to increase the dividend payout ratio, rather than retain earnings. The dividend level increases, but thereafter it grows at a slower pace because the company has fewer growth opportunities.
>
> Table 18.2 illustrates this pattern. It gives Value Line's forecasts of return on assets, dividend payout ratio, and 3-year growth in

earnings per share for a sample of the firms in the computer software industry versus those of east coast electric utilities…

By in large, the software firms have attractive investment opportunities. The median return on assets of these firms is forecast to be 19.5 percent, and the firms have responded with high plowback ratios. Most of these firms pay no dividends at all. The high return on assets and high plowback result in rapid growth. The median growth rate of earnings per share in this group is projected at 17.6 percent.

In contrast, the electric utilities are *more representative of mature firms*. Their median return on assets is lower, 6.5 percent; dividend payout is higher, 68 percent; and median growth is lower, 4.6 percent.

* * *

To value companies with temporarily high growth, analysts use a multistage version of the dividend discount model. Dividends in the early high-growth period are forecast and their combined present value is calculated. Then, once the firm is

> projected to settle down to *a steady-growth phase, the constant-growth DDM is applied to value the remaining stream of dividends.*[28] (Clarification and emphasis added)

The economics of the public utility business indicate that the industry is in the steady-state, or constant-growth stage of a multi-stage DCF, which would mean that the three- to five-year projected growth rates for each company would be the "steady-state" or terminal growth rate appropriate for the DCF model for utility companies, not the GDP growth rate, which is not a company-specific growth rate, nor is it an upward bound for growth, as discussed previously.

Q. Has the Commission previously stated a position with respect to Mr. Garrett's use of GDP-derived growth rates as inputs in the DCF Model?

A. Yes. In Peoples' previous rate case, Docket No. 20230023-GU, the Commission found Mr. Garrett's use of GDP growth rates inappropriate for reasons similar to those noted above, stating:

> Witness Garrett's argument to use the GDP growth rate in his DCF model is not supported by persuasive evidence. We agree with witness D'Ascendis that the

growth rate should reflect a measure of the utilities' individual growth, and not a generic measure of the output of the entire economy.[29]

Q. Do you agree with Mr. Garrett's use of projected DPS growth rates in his DCF model based on analyst growth rates?

A. No, I do not. First, as discussed in my direct testimony,[30] earnings growth enables dividend growth. Under the strict assumptions of the constant growth DCF model, earnings, dividends, book value, and stock prices all grow at the same, constant rate in perpetuity.

Simply, earnings are the fundamental driver of dividend growth. The ability to pay dividends depends fundamentally on expected earnings. Because dividend policy contemplates additional factors, including the disproportionately negative effect on prices resulting from dividend cuts, as opposed to dividend increases, in the short-run dividend growth may be disconnected from earnings growth. In the long run, however, dividends cannot be increased without earnings growth.

Furthermore, earnings expectations have a more significant, but not sole, influence on market prices than dividend expectations. Thus, the use of earnings growth rates in a

DCF analysis provides a better match between investors' market appreciation expectations implicit in market prices and the growth rate component of the DCF. Consequently, earnings expectations have a significant influence on market prices, which affect market price appreciation, and hence, the "growth" experienced by investors. This should be evident by listening to financial news reports on radio, TV, or reading newspapers. In fact, Morin states:

> Because of the dominance of institutional investors and their influence on individual investors, analysts' forecasts of long-run growth rates provide a sound basis for estimating required returns. Financial analysts exert a strong influence on the expectations of many investors who do not possess the resources to make their own forecasts, that is, they are a cause of growth. The accuracy of these forecasts in the sense of whether they turn out to be correct is not at issue here, as long as they reflect widely held expectations. As long as the forecasts are typical and/or influential in that they are consistent with current stock price levels, they are relevant. The use of analysts' forecasts in the DCF model is sometimes denounced on the grounds that it is difficult to forecast earnings and dividends for

only one year, let alone for longer time periods. This objection is unfounded, however, because it is present investor expectations that are being priced; it is the consensus forecast that is embedded in price and therefore in required return, and not the future as it will turn out to be.

* * *

Published studies in the academic literature demonstrate that growth forecasts made by security analysts represent an appropriate source of DCF growth rates, are reasonable indicators of investor expectations and are more accurate than forecasts based on historical growth. These studies show that investors rely on analysts' forecasts to a greater extent than on historic data.[31]

In addition, studies performed by Cragg and Malkiel demonstrate that analysts' forecasts are superior to historical growth rate extrapolations. They state:

Efficient market hypotheses suggest that valuation should reflect the information available to investors. Insofar as analysts' forecasts are more precise than other types we should therefore expect their differences from other measures to be reflected in the market. It is therefore

> noteworthy that our regression results do support the hypothesis that analysts' forecasts are needed even when calculated growth rates are available. As we noted when we described the data, security analysts do not use simple mechanical methods to obtain their evaluations of companies. The growth-rate figures we obtained were distilled from careful examination of all aspects of the companies' records, evaluation of contingencies to which they might be subject, and whatever information about their prospects the analysts could glean from the companies themselves of from other sources. It is therefore notable that the results of their efforts are found to be so much more relevant to the valuation than the various simpler and more "objective" alternatives that we tried.[32]

In addition, Vander Weide and Carleton conclude:

> . . . our studies affirm the superiority of analysts' forecasts over simple historical growth extrapolations in the stock price formation process. Indirectly, this finding lends support to the use of valuation models whose input includes expected growth rates.[33]

Burton G. Malkiel, the Chemical Bank Chairman's Professor of Economics at Princeton University and author of the widely read national bestseller book on investing entitled, A Random Walk Down Wall Street (2011), also expressed support for projected EPS growth rates in testimony before the Public Service Commission of South Carolina in November 2002. Malkiel affirmed his belief in the superiority of analysts' earnings forecasts when he testified:

> With all the publicity given to tainted analysts' forecasts and investigations instituted by the New York Attorney General, the National Association of Securities Dealers, and the Securities & Exchange Commission, I believe the upward bias that existed in the late 1990s has indeed diminished. In summary, I believe that current analysts' forecasts are more reliable than they were during the late 1990s. *Therefore, analysts' forecasts remain the proper tool to use in performing a Gordon Model DCF analysis.*[34]

Q. In reviewing the financial literature, did you discover any publications that supported the use of projected DPS growth rates for use in a DCF model?

A. No, I did not.

Q. Did Mr. Garrett provide any evidence from the academic literature supporting his use of DPS growth rates?

A. No, he did not.

Q. Likewise, are you aware of any sources of data that provide projected DPS growth rates to investors?

A. *Value Line* is the only source of which I am aware that publishes projected DPS growth rates. If investors indeed valued projected DPS growth rates, there would be a market for that data. As they are not relied on by investors to determine their required returns on investments, there is no such market. Conversely, projected EPS growth rates are widely available to investors through many sources.

Q. Have you performed any analyses to determine which measures of growth are statistically related to the proxy companies' stock valuation levels?

A. Yes, I have. My analysis is based on the methodological approach used by Carleton and Vander Weide, who compared the predictive capability of historical growth estimates and analysts' forecasts on the valuation levels of 65 utility companies.[35] I structured the analysis to understand whether projected earnings or dividend growth rates best explain utility stock valuations. In particular, my analysis examined the statistical relationship between the price-to-earnings ("P/E") ratios of water, electric, and gas utilities as classified by *Value Line*, and the projected EPS and DPS growth rates as reported by *Value Line*. To determine which, if any, of those growth rates are statistically related to utility stock valuations, I performed two regression analyses in which the projected growth rates were explanatory variables and the trailing P/E ratio was the dependent variable. The results of those analyses are presented in Document No. 11 of my exhibit.

Q. What did those analyses reveal?

A. As shown in Document No. 11 of my exhibit, the only growth rate that was statistically significant and positively related to the trailing P/E ratio was the projected EPS growth rate.

Q. What is your conclusion as to the appropriate growth rate for use in the DCF Model?

A. Given the above, I recommend the Commission rely solely on projected EPS growth rates when determining the indicated ROE for the company using the DCF model.

Q. Did you make any corrections to Mr. Garrett's DCF model?

A. Yes, I did. I corrected the growth rate in his DCF model to be based on projected EPS growth rates from *Value Line*, which is the same source Mr. Garrett relies on for his projected DPS growth rates. As shown in Document No. 12 of my exhibit, had Mr. Garrett correctly applied projected EPS growth rates in his DCF model, the average result would be 10.51 percent. Mr. Garrett's corrected DCF analysis produces a more reasonable estimate of the company's ROE and falls within my updated recommended range (prior to adjustments).

C. MISAPPLICATION OF THE CAPITAL ASSET PRICING MODEL

Q. Please summarize Mr. Garrett's CAPM analysis and results.

A. Mr. Garrett's CAPM estimate relied on a risk-free rate of 4.89 percent,[36] an MRP of 5.10 percent,[37] and betas as reported by *Value Line*.[38] Those assumptions combined to produce an average CAPM estimate of 9.00 percent.[39]

Q. Do you agree with Mr. Garrett's CAPM analysis?

A. No, I do not. I disagree with Mr. Garrett's sole reliance on historical Treasury yields to estimate the risk-free rate and the various methods he used to estimate the MRP.

Q. How did Mr. Garrett derive his MRP estimate?

A. Mr. Garrett estimated his MRP by reviewing: (1) a survey of expected returns from IESE Business School (5.50 percent); (2) an expected return reported by Kroll (5.50 percent); (3) an implied MRP from Damodaran (4.30 percent); and (4) an "Implied Equity Risk Premium" calculation (5.00 percent).[40] Based on those results, Mr. Garrett concluded that 5.10 percent, the average of his range, is appropriate.

Q. Do any of the surveys cited by Mr. Garrett provide support for your approach to estimating the current MRP?

A. Yes. As discussed in my direct testimony,[41] I calculated *ex-ante* MRPs in a similar manner to a study by Pablo Fernandez, *et al* (cited by Mr. Garrett), using the market capitalization-weighted constant growth DCF calculation on the individual companies in the S&P 500 Index.[42]

Q. Is there academic literature that supports the conclusion that MRPs using surveys are not widely used by practitioners?

A. Yes. Damodaran, who was cited by Mr. Garrett throughout his testimony, states the following about the applicability of survey MRPs:

> While survey premiums have become more accessible, very few practitioners seem to be inclined to use the numbers from these surveys in computations and there are several reasons for this reluctance:
>
> 1. Survey risk premiums are responsive to recent stock prices movements, with survey numbers generally increasing after bullish periods and decreasing after market decline. Thus, the peaks in the SIA survey premium of individual investors occurred in the bull market of 1999, and the more moderate premiums of 2003 and 2004 occurred after the market collapse in 2000 and 2001.
> 2. Survey premiums are sensitive not only to whom the question is directed at but how the question is asked. For instance, individual investors seem to have higher (and more volatile) expected returns on equity than institutional investors and the survey numbers vary depending upon the framing of the question.[footnote omitted] Kaustia, Lehtoranta and Puttonen (2011) surveyed 1,465 Finnish

investment advisors and note that not only are male advisors more likely to provide an estimate but that their estimated premiums are roughly 2 percent lower than those obtained from female advisors, after controlling for experience, education and other factors.[footnote omitted]

3. Studies that have looked at the efficacy of survey premiums indicate that if they have any predictive power, it is in the wrong direction. Fisher and Statman (2000) document the negative relationship between investor sentiment (individual and institutional) and stock returns.[footnote omitted] In other words, investors becoming more optimistic (and demanding a larger premium) is more likely to be a precursor to poor (rather than good) market returns.

As technology aids the process, the number and sophistication of surveys of both individual and institutional investors will also increase. However, it is also likely that these survey premiums will be more reflective of the recent past rather than good forecasts of the future.[43]

Q. What is your position on the 5.50 percent MRP quoted by Kroll?

A. A forecast is only as good as its inputs, and if the assumptions within those forecasts are, by their nature, unpredictable (e.g., productivity growth forecasts), they are of little value. In addition, the determination of the MRP as calculated by Kroll is not transparent, especially in view of the historical data presented in <u>2023 SBBI® Yearbook, Stocks, Bonds, Bills, and Inflation</u> (<u>"SBBI-2023")</u>, or the composition of its supply side method, which are already well known by investors. Because of the transparency of the historical data and how to gather and use the components of the supply side model, both the historical MRP (using the long-term arithmetic mean return on large company stocks less the long-term arithmetic income returns on long-term Government bonds) and the supply side model are superior measures of the MRP, when comparing to Kroll's simplistic and opaque MRP forecast.

Q. Why is the Kroll MRP more opaque than other measures of the MRP?

A. The MRP is calculated by subtracting a risk-free rate from the investor-required return on the market. Typically, the return on the market uses observable market measures (e.g.

historical average returns, Ibbotson and Chen Supply Side Model ("Ibbotson-Chen")), but the Kroll MRP does not define how they calculate their expected return on the market. Similarly, the risk-free rate is typically also based on market measures (e.g., historical interest rates, forecasted interest rates), but Kroll does not explain how they derive their 3.5 percent normalized risk-free rate. As shown in Exhibit DJG-7, 30-year Treasury bond yields have been close to 5.00 percent, which further calls Kroll's estimates into question. Because Kroll does not reveal how the 5.5 percent MRP is estimated, we do not know if it is indeed based on market measures.

Q. Do you have any concerns with the historical data presented by Kroll?

A. No, I do not. In fact, I rely on historical market returns and risk-free rate data from Kroll in my estimation of the MRP. As noted above, my primary concern is with the lack of transparency of Kroll's reported MRP estimate and, as discussed in more detail below, the relative usefulness of the estimate as compared to more common historical measures.

Q. Please now describe the method by which Mr. Garrett calculated his fourth estimate, the implied MRP.

A. As Mr. Garrett points out, his method developed the Internal Rate of Return that sets equal the current value of the market index to the projected value of cash flows associated with owning the market index.[44] Mr. Garrett observes that Damodaran "promotes the implied ERP method."[45] Although there are some differences, Mr. Garrett's approach is similar to the model Damodaran provides on his website.[46]

Mr. Garrett's method, which is a two-stage form of the DCF model, calculates the present value of cash flows over the five-year initial period, together with the terminal price (based on the Gordon Model[47]), to be received in the last (i.e., fifth) year. The model's principal inputs include the following assumptions:

- Over the coming five years, the S&P 500 Index (the "Index") will appreciate at a rate equal to the compound growth rate in "Operating Earnings" from 2014 through 2024;
- Cash flows associated with owning the Index will be equal to the historical average earnings, dividends, and buyback yields, applied to the projected Index value each year; and
- Beginning in the terminal year, the Index will appreciate, in perpetuity, at a rate equal to the 30-day average yield on 30-year Treasury securities, as of June 9, 2025.[48]

As discussed below, reasonable changes to those assumptions have a considerable effect on Mr. Garrett's calculated expected market return.

Q. Do you have any observations regarding Mr. Garrett's assumed first-stage growth rate?

A. Yes. Mr. Garrett's 6.96 percent growth rate relates to growth in operating earnings and does not reflect capital appreciation, growth in dividends, or buy-backs.[49] In addition, if Mr. Garrett's position is that historical growth rates are meant to reflect expected future growth, they should reflect year-to-year variation (i.e., uncertainty). That is best accomplished using the arithmetic mean. I therefore calculated the average growth (i.e., arithmetic mean) for the four metrics included in Mr. Garrett's exhibit as shown in Document No. 13 of my exhibit. The average growth rate, 9.04 percent, produced an estimated market return of 10.34 percent,[50] which is still well below historical experience.

Q. Why did the market return increase by only 46 basis points (from 9.89 percent to 10.34 percent) when the first-stage growth rate increased by 208 basis points (from 6.96 percent to 9.04 percent)?

A. Because Mr. Garrett's model assumed the first stage lasts for five years and the terminal stage is perpetual, the results are sensitive to changes in the assumed terminal growth rate. To put that effect in perspective, the terminal value, which is directly related to the terminal growth rate, represents approximately 78.97 percent of the "Intrinsic Value" in Mr. Garrett's analysis.[51]

Q. How did Mr. Garrett develop his assumed terminal growth rate?

A. The terminal growth rate represents investors' expectations of the rate at which the broad stock market will grow, in perpetuity, beginning in the terminal year. Mr. Garrett assumed terminal growth is best measured by the average yield on 30-year Treasury securities over the 30 days ended June 9, 2025. That is, Mr. Garrett assumed the average 30-year Treasury yield between April 28, 2025 and June 9, 2025 is the best measure of expected earnings growth beginning five years from now and extending indefinitely into the future.

Q. Do you agree with Mr. Garrett's assumption?

A. No, I do not. I recognize Mr. Garrett followed the approach described in Damodaran's method, which Damodaran refers to as a "default" assumption.[52] In terms of historical experience, over the long-term, the broad economy has grown at a long-term compound average growth rate of approximately 6.11 percent.[53] Considered from another perspective, the long-term rate of capital appreciation on Large Company stocks has been 8.27 percent.[54] Mr. Garrett has not explained why growth beginning five years in the future, and extending in perpetuity, will be less than one-half of long-term historical growth.[55] From a somewhat different perspective, assuming long-term inflation will be approximately 2.00 percent[56] implies perpetual real growth will be approximately 2.83 percent.[57] Nowhere in his testimony has Mr. Garrett explained the fundamental, systemic changes that would so dramatically reduce long-term economic growth, or why they are best measured by the long-term Treasury yield over 30 days between April 28, 2025 and June 9, 2025.

Further, research by the Federal Reserve Bank of San Francisco calls into question the relationship between interest rates and macroeconomic growth. As the authors noted, "[o]ver the past three decades, it appears that private forecasters have incorporated essentially no link between potential growth and the natural rate of interest: The two data series have a zero correlation."[58]

Q. Please briefly summarize your response to Mr. Garrett's

Implied Equity Risk Premium calculation.

A. Mr. Garrett's calculation is based on a series of questionable assumptions, to which a small set of very reasonable adjustments produces a market return estimate more consistent with (yet still below) historical experience. Although the revised results still produce ROE estimates far below any reasonable measure, they do point out the sensitive nature of Mr. Garrett's analyses and the tenuous nature of the conclusions he draws from them.

Q. Did you conduct a study to determine the forecast accuracy of the Kroll recommended market return and the Damodaran implied market return relative to the SBBI-2023 historical market return and Ibbotson-Chen study?

A. Yes, I did. I have calculated the forecast bias[59] of the long-term historical average return, the Ibbotson-Chen study, and the implied market returns from Kroll and Damodaran to determine the most accurate measure of the following years' market return.[60] For example, the long-term average market return from 1926-2008 was used to determine the forecasted return for 2009. As shown in Document No. 14 of my exhibit, while all measures of the projected market return under-forecast the observed market return on average (i.e., forecast bias values less than 100 percent), the long-term arithmetic mean return is the most accurate predictor of the next year's return as compared to the other measures. This result is consistent with Campbell, who states that when returns are serially uncorrelated, the arithmetic average represents the best forecast of future returns in any randomly selected future year.[61] Given this analysis, the Commission should reject Mr. Garrett's MRPs used in his CAPM analysis.

Q. Have you made any corrections to Mr. Garrett's CAPM analysis?

A. Yes, I have. As described above, the historical average MRP is a more appropriate predictor of the forward-looking MRP than Mr. Garrett's various approaches. As shown in Document No. 15 of my exhibit, I have updated Mr. Garrett's CAPM analysis using the historical long-term arithmetic mean MRP of 7.31 percent (as calculated in note 1 of Document No. 5 of my exhibit, page 2). That correction produces an average CAPM result of 10.79 percent, which is within my recommended range.

Q. Does Mr. Garrett employ an Empirical CAPM ("ECAPM") in his CAPM analysis?

A. No, he does not. Mr. Garrett fails to consider the ECAPM, despite the fact that numerous tests of the CAPM have confirmed that the empirical security market line ("SML") described by the traditional CAPM is not as steeply sloped as the predicted SML. Because of the empirical findings presented in my direct testimony[62], Mr. Garrett should have considered the ECAPM in his CAPM analysis.

Q. Does Mr. Garrett raise any specific concerns with the specifications of the ECAPM?

A. Mr. Garrett seems to believe that using adjusted betas in a CAPM analysis addresses the empirical issues with the CAPM. By increasing the expected returns for low beta stocks and decreasing the expected returns for high beta stocks, he concludes there is no need to use the ECAPM. To the contrary, using adjusted betas in a CAPM analysis is not equivalent to using the ECAPM, nor is it a duplicative adjustment.

Betas are adjusted because of their general regression tendency to converge toward 1.0 over time, i.e., over successive calculations of beta. As also noted above, numerous studies have determined that the SML described by the CAPM formula at any given moment in time is not as steeply sloped as the predicted SML. Morin states:

> …some critics of the ECAPM argue that the use of

Value Line adjusted betas in the traditional CAPM amounts to using an ECAPM. This is incorrect. The use of adjusted betas in a CAPM analysis is not equivalent to the ECAPM. Betas are adjusted because of the regression tendency of betas to converge toward 1.0 over time.

* * *

The use of an adjusted beta by Value Line is correcting for a different problem than the ECAPM. The adjusted beta captures the fact that betas regress toward one over time. The ECAPM corrects for the fact that the CAPM under-predicts observed returns when beta is less than one and over-predicts observed returns when beta is greater than one.

* * *

Another way of looking at it is that the Empirical CAPM and the use of adjusted betas comprise two separate features of asset pricing. Assuming arguendo a company's beta is estimated accurately, the CAPM will still understate the return for low-beta stocks. Furthermore, if a company's beta is understated, the Empirical CAPM will also understate the return for low-beta stocks. Both adjustments are necessary.[63]

Moreover, the slope of the SML should not be confused with beta. As Brigham and Gapenski state:

> The slope of the SML reflects the degree of risk aversion in the economy – the greater the average investor's aversion to risk, then (1) the steeper is the slope of the line, (2) the greater is the risk premium for any risky asset, and (3) the higher is the required rate of return on risky assets.
>
> Students sometimes confuse beta with the slope of the SML. This is a mistake. As we saw earlier in connection with Figure 6-8, and as is developed further in Appendix 6A, beta does represent the slope of a line, but not the Security Market Line. This confusion arises partly because the SML equation is generally written, in this book and throughout the finance literature, as ki = RF + bi(kM – RF), and in this form bi looks like the slope coefficient and (kM – RF) the variable. It would perhaps be less confusing if the second term were written (kM – RF)bi, but this is not generally done.[64]

As noted in Appendix 6A of Brigham and Gapenski's textbook, beta, which accounts for regression bias, is not a return adjustment but rather is based on the slope of a different line.

A 1980 study by Litzenberger, et al. found the CAPM underestimates the ROE for companies, such as public utilities, with betas less than 1.00. In that study, the authors applied adjusted betas and still found the CAPM to underestimate the ROE for low-beta companies. Similarly, The Brattle Group's ("Brattle") Risk and Return for Regulated Industries supports the use of adjusted betas in the ECAPM:

> Note that the ECAPM and the Blume adjustment are attempting to correct for different empirical phenomena and therefore both may be applicable. It is not inconsistent to use both, as illustrated by the fact that the Litzenberger et.al (1980) study relied on Blume adjusted betas and estimated an alpha of 2 percent points in a short-term version of the ECAPM. This issue sometimes arises in regulatory proceedings.[65]

Hence, using adjusted betas does not address the previously discussed empirical issues with the CAPM. In view of the foregoing, my use of adjusted betas in both the traditional and empirical applications of the CAPM is neither incorrect nor inconsistent with the financial literature, nor is it a duplicative adjustment.

Q. Does Mr. Garrett raise any other concerns with the ECAPM?

A. Yes. Although not a specific criticism of the applicability of the ECAPM, Mr. Garrett states that he believes *Value Line* betas for utilities are already overstated because they rely on the Blume adjustment, and as such, he appears to imply that the ECAPM would further overstate the ROE. In addition, he believes the Vasicek beta adjustment is more appropriate.

Q. What is your response to Mr. Garrett's concern?

A. Mr. Garrett's concern is unfounded and inconsistent with his own analysis. Although Mr. Garrett states in Appendix B to his testimony that he believes the Vasicek beta adjustment is more appropriate than the commonly used Blume adjustment, he relies on betas from *Value Line* in his CAPM, which utilizes the Blume adjustment. The high end of his analytical range, which is equal to his recommended ROE, is set by his CAPM results. Mr. Garrett has given significant weight to his CAPM analysis in determining his recommended ROE, while on the other hand, he questions the validity of one of the inputs to that analysis in his criticism of the ECAPM. As such, Mr. Garrett's argument should be given no weight because: (1) it has no bearing on the applicability of the ECAPM; (2) the Blume adjustment is common among data sources that calculate beta, including those on which we both rely; and (3) is inconsistent with his own analysis.

D. <u>ADJUSTMENTS TO THE COST OF COMMON EQUITY</u>

Q. Did Mr. Garrett address the issue of a size premium in his testimony?

A. Yes. Mr. Garrett lists several reasons for his decision not to include a size premium in his recommendation, including: (1) numerous studies show that "the performance of large-cap stocks was basically equal to that of small cap stocks,"[66] and (2) that the "discovery of the size effect phenomenon likely caused its own demise."[67]

Q. Is Mr. Garrett's review of the size premium correct?

A. No, it is not. First, as discussed on pages 7 through 10 of my direct testimony, when determining an appropriate ROE, the relevant issue is where investors see the subject company in relation to other similarly situated utility companies. To the extent investors view a company as being exposed to higher risk, the required return will increase, and vice versa. 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.

Further, Mr. Garrett notes that after 1983, U.S. small-cap stocks underperformed large-cap stocks.[68] The issue with Mr. Garrett's position is that the size premium measures the increased risk associated with a company's smaller size; Mr. Garrett is only focused on returns. As I discussed in my direct testimony, smaller companies face increased business risk as they are less equipped to cope with significant events that affect sales, revenues, and earnings, as the loss of a few larger customers will have a greater effect on a smaller company than a larger company.[69]

This is further evident when we consider that increasing capital costs (i.e., risk) for one set of securities will put downward pressure on those securities as investors transition to securities with lower risk. Under this premise, the underperformance is directly tied to the increase in risk. As such, Mr. Garrett's premise that smaller companies' underperformance indicates a reduction of risk is in fact the opposite – underperformance indicates an increasing level of risk.

Q. Mr. Garrett points to a passage published in 2015 by Ibbotson[70] that states that the size premium no longer exists. What is your response?

A. Despite their findings, Kroll (which now owns Ibbotson) continues to publish data on their findings on the presence of a size premium in the market and has provided additional measures of size and relative risk premiums. In addition to market capitalization, Kroll includes book common equity, market value of invested capital, five-year average net income, five-year average earnings before interest, taxes, depreciation, and amortization, total assets, total sales, and total employees as valid measures of size from which relative size premiums are derived. If Kroll found that the size premium ceased to exist, it would not publish that it did.

Q. Do you agree with Mr. Garrett that the size effect no longer exists?

A. No, I do not. While the historical returns of large companies may have outperformed small utilities over the last several years, risk is measured by volatility, not returns. A study by Clifford Ang detailed the returns and volatility of returns of companies by size, showing that while larger companies outperformed smaller companies, smaller companies exhibited more risk.[71] Reviewing data from the same source as the Ang study, I replicated the study through May 2025. Document No. 16 of my exhibit, presents the largest monthly gain and loss for each value-weighted decile for the period 1981 through May 2025. As shown in Document No. 16 of my exhibit, small capitalization stocks exhibit more volatility (i.e., risk) in their returns than larger capitalization stocks.

Further, SBBI-2023 shows that the total return of large-cap stocks over the 1926-2022 period has a standard deviation of 19.8 percent, compared to 31.2 percent for small-cap stocks, echoing the findings of Document No. 16 of my exhibit.[72] The higher level of risk indicates a higher level of required return.

Q. Have you performed studies for utility companies that link size and risk?

A. Yes, I have performed two studies which link size and risk for utilities. The first study included the universe of electric, gas, and water companies included in *Value Line* Standard Edition. From each of the utilities' *Value Line* Ratings & Reports, I calculated the annualized volatility (a measure of risk) and current market capitalization (a measure of size) for each company. After ranking the companies by size (largest to smallest) and risk (least risky to most risky), I made a scatter plot of the data, as shown on Document No. 17 of my exhibit.

As shown in Document No. 17 of my exhibit, as company size decreases (increasing size rank), the annualized volatility increases, linking size and risk for utilities, which is significant at 95 percent confidence level.

The second study used the same universe of companies, but instead of using annualized volatility, I used the *Value Line* Safety Ranking, which is another measure of total risk.[73] After ranking the companies by size and Safety Ranking, I made a scatterplot of those data, as shown in Document No. 18 of my exhibit.

Similar to the first study, as company size decreases, Safety Ranking degrades, indicating a link between size and risk for utilities. This study is also significant at the 95 percent confidence level.

Q. Did Mr. Garrett address the issue of flotation costs in his testimony?

A. Yes. Mr. Garrett reasons that flotation costs for stock issuances are not out-of-pocket costs, which investors already have considered when deciding to invest in a company's shares at a given market price.[74] On that basis, he argues against considering the effect of flotation costs in setting the company's ROE.

Q. What is your response to Mr. Garrett regarding the need to recover flotation costs?

A. First, Mr. Garrett's observation that underwriter fees are not "out-of-pocket" expenses[75] is a distinction without a meaningful difference. Whether paid directly or indirectly through an underwriting discount, the cost results in net proceeds that are less than the gross proceeds. As shown in Document No. 9 of my exhibit, because those costs were incurred, the net proceeds were less than the gross proceeds. Whether the issuer wrote a check or received the proceeds at a discount does not matter. What does matter is that issuance costs are a permanent reduction to common equity, and absent a recovery of those costs, the issuing company will not be able to earn its required return.

Lastly, as shown in the illustrative examples provided in Document No. 19 of my exhibit,[76] because of flotation costs, an authorized return of 10.85 percent would be required to realize an ROE of 10.75 percent (i.e., a 10-basis point flotation cost adjustment). If flotation costs are not recovered, the growth rate falls and the ROE decreases to 10.65 percent (i.e., below the required return).[77]

Q. Is the fact that investors are aware of equity issuance costs when they decide to purchase stock[78] relevant to the determination of the appropriate compensation for those costs?

A. No, it is not. Although Mr. Garrett suggests current prices account for flotation costs, he has not provided any explanation as to how market prices compensate shareholders for flotation costs or any analyses to support his position. In that important respect, common stock is closely analogous to long-term debt, both in the sense that its purpose is to provide funding for long-term investments that are part of rate base, and that it remains a part of the utility's operations over the long run. Equity flotation costs and debt issuance expenses both are necessary and legitimate costs enabling the investment in assets needed to provide safe and reliable utility service; both should be recovered.

E. RESPONSE TO MR. GARRETT'S CRITIQUES OF COMPANY TESTIMONY

Q. Does Mr. Garrett have any critiques of your analyses presented in your direct testimony?

A. Yes, he does. Mr. Garrett's critiques of my direct testimony are: (1) my requested ROE is in excess of the investor-required return on the market; (2) my growth rates used in the DCF model exceed GDP growth; (3) my MRP is unreasonable because it is not in line with his MRP estimates; (4) my use of the ECAPM; (5) my use of a non-regulated proxy group; (6) my inclusion of a small size premium is unnecessary; and (7) my application of flotation costs.

I have already addressed critiques 1, 2, 4, 6 and 7 previously and will not address them here. I will discuss Mr. Garrett's remaining arguments in turn.

Q. Mr. Garrett states that your MRP is unreasonable given his measures of MRP as presented in his CAPM analysis.[79] Please respond.

A. I have discussed the inapplicability of Mr. Garrett's MRP estimates for cost of capital purposes previously in this rebuttal testimony and will not repeat that discussion here. Since Mr. Garrett's MRP measures are not valid MRPs, they cannot be comparable to my MRP estimates. Even though Mr. Garrett has presented no reliable evidence upon which to gauge the reasonableness of the MRP estimate, my estimates of 8.41 percent and 8.91 percent in my direct and rebuttal testimonies, respectively (including the PRPM), are consistent with actual realized MRPs. As shown in Document No. 20 of my exhibit, my estimates fall within the 49th percentile of historical MRPs, respectively. The MRPs excluding the PRPM similarly fall in the 49th percentile.

Given all of the above, my calculation of the MRPs in my CAPM and ECAPM analyses is reasonable in view of historical returns and other expected measures of the MRP and is supported by financial literature. Thus, Mr. Garrett's concern should be dismissed.

V. SUMMARY

Q. Please summarize your rebuttal testimony.

A. Based on the analyses discussed throughout my rebuttal testimony, the reasonable range of ROE estimates for Peoples is from 10.66 percent to 11.16 percent, including the PRPM and 10.66 percent to 11.14 percent excluding the PRPM. None of the arguments made by Mr. Garrett should persuade the Commission to approve an ROE below those ranges.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

(Whereupon, prefiled rebuttal testimony of Andrew Nichols was inserted.)

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20250029-GU

PETITION FOR RATE INCREASE
BY PEOPLES GAS SYSTEM, INC.

REBUTTAL TESTIMONY AND EXHIBIT
OF
ANDREW NICHOLS

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 20250029-GU
FILED: 07/28/2025

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

ANDREW NICHOLS

I. INTRODUCTION

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

A. My name is Andrew Nichols. My business address is 3600 Midtown Drive, Tampa, FL 33607. I am employed by Peoples Gas System, Inc. ("Peoples" or the "company") as the Director, Business Planning.

Q. Are you the same Andrew Nichols who filed direct testimony in this proceeding?

A. Yes, I am.

Q. What are the purposes of your rebuttal testimony?

A. My rebuttal testimony addresses the following topics discussed in the testimony of Office of Public Counsel's ("OPC") witness Lane Kollen:

1. Closing construction work in progress ("CWIP") to Gas Plant In Service;

2. Property taxes;
3. Supplemental Executive Retirement Plan ("SERP") expense;
4. Board of Directors expenses filing mistake;
5. Proposed adjustments to Directors and Officers Insurance expenses, Investor Relations expenses, and Board of Director expenses;
6. Work and Asset Management System ("WAM") amortization expense; and
7. Parent Debt Adjustment.

I also present the company's revised, lower 2026 revenue increase request that reflects the company's agreement with OPC on certain proposed adjustments and the adjustments necessary to (a) update the off-system sales ("OSS") sharing percentage recently approved by the Florida Public Service Commission ("Commission" or "FPSC") and (b) remove natural gas facility relocation costs out of this proceeding so they can be recovered in a proceeding under the new clause.

Finally, I address the company's position on the two audit findings presented in the direct testimony of Commission Staff's witness Wesley Thurmond.

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

A. Yes. Exhibit No. AN-2 consists of 3 documents that were prepared by me or under my supervision as follows:

Document No. 1	Revised Revenue Requirements
Document No. 2	CWIP Closing to Plant Detail Analysis
Document No. 3	Discovery Responses and Other Referenced Documents

Q. If you do not address an issue or state a position in your testimony, does that indicate you agree with the intervenors on that point?

A. No. I have not attempted to respond to every argument made by the intervenor witnesses. The fact that I may not have responded to any specific argument or statement does not indicate my agreement with that argument or statement.

II. CLOSING CWIP TO GAS PLANT IN SERVICE

Q. Does the company agree with OPC's witness Kollen's proposed adjustment on closing Construction Work in Process ("CWIP") to Gas Plant in Service?

A. No. The company does not agree with witness Kollen's proposed high-level analysis and proposed adjustment to CWIP closing to Gas Plant in Service for two reasons.

First, his analysis does not delineate between specific projects with assigned in-service dates and recurring capital spending funding projects that automatically close to Plant in Service every month.

Second, witness Kollen's analysis improperly compares the FPSC-adjusted CWIP for the 2026 test year and unadjusted CWIP balances for the years 2020 through 2023. For example, witness Kollen quotes a CWIP amount of $120.248 million in 2020, which was reduced to $40.210 million after the FPSC adjustments for AFUDC-eligible projects and Cast Iron/Bare Steel Replacement Rider CWIP. This adjusted amount is shown on Schedule 2 of Peoples' December 2020 Earnings Surveillance Report, which is included on page 1 of Document No. 3 of my exhibit.

Q. If witness Kollen's analysis is corrected to properly use FPSC adjusted CWIP balances for the years 2020 through 2023, what would be the 13-month average CWIP balance for the period 2020 to 2024?

A. As shown on pages 1 through 4 of Document No. 3 of my exhibit, the FPSC adjusted CWIP 13-month average balances for years 2020 through 2023 are $40.210 million, $63.732 million, $98.720 million, and $144.945 million, respectively. With these corrected amounts and the $101.150 million FPSC adjusted CWIP amount that witness Kollen properly included for year 2024, the five-year average for the period 2020 to 2024 is $89.751 million. This is a $74.916 million reduction to the $164.667 million CWIP amount witness Kollen presented in his testimony on page 23, line 9.

Q. With the correction to witness Kollen's calculations, would you then agree with his proposed adjustment?

A. No. I still do not agree that an adjustment is necessary, considering the range of FPSC adjusted CWIP balances over the five-year period analyzed. However, if the Commission determines that an adjustment is necessary, a thorough analysis should be completed using the project level details for the 2026 test year and an evaluation of specific projects.

Q. Have you performed an analysis for the 2026 test year using specific project details?

A. Yes. I performed a "stress test" on the 2026 test year using specific projects detail data as follows.

First, I started with the Bates Stamped page 18311 information provided to the parties in response to Staff's Tenth Set of Interrogatories, No. 104, that calculated the company's 2026 test year monthly Plant in Service, Depreciation expense, Accumulated Depreciation and Deferred Income Taxes using project level detail.

Second, to “stress test” these amounts, I conservatively shifted the in-service dates of all 2026 specific funding projects that are expected to close to gas plant within the test year to December 2026. This stress test included 35 specific funding projects that are listed on page 1 of Document No. 2 of my exhibit. I excluded the Main Replacement Downtown Tampa project from the stress test as it is AFUDC eligible, and its associated CWIP has already been removed from FPSC adjusted rate base.

Third, I recalculated the company’s 2026 test year monthly Plant in Service, Depreciation expense, Accumulated Depreciation and Deferred Income Taxes.

Fourth, I expanded the Bates Stamped page 18311 Excel file to calculate the impacts of these in-service date adjustments on the monthly CWIP balance and to capture the changes in the 2026 test year 13-month average Plant in Service, Depreciation expense, Accumulated Depreciation and Deferred Income Taxes.

Q. What are the results of your stress test on CWIP closing to Plant in Service in the 2026 test year?

A. As shown on page 2 of Document No. 2 of my exhibit, line 12, the stress test increased the 2026 test year 13-month average FPSC Adjusted CWIP balance by $35,950,977, which translates to the filed FPSC adjusted CWIP, increasing from $36,165,984 to $72,116,961. Consistent with witness Kollen's analysis, the increase in the CWIP balance was offset by an equal reduction to the test year's Plant in Service as shown on line 10. Using the hypothetical later in-service dates for the 35 projects, the stress test resulted in a reduction to the 2026 test year Depreciation Expense of $1,058,822 and decreased the 13-month average Accumulated Depreciation by $311,772.

If the Commission determines that any adjustment to CWIP closing to Plant in Service in the test year is warranted, a similar detailed project level process should be followed, with these stress test results being the maximum amounts of reductions to depreciation expense and 13-month average accumulated depreciation.

III. PROPERTY TAXES

Q. Does the company agree with OPC's proposed adjustment to reduce 2026 test year property taxes by $777,000?

A. Yes. The company agrees that the 2026 estimate for property tax expense relied upon an old forecast of net operating income ("NOI") for 2024 and 2025, and an adjustment would be appropriate. The company confirmed the amounts calculated by witness Kollen in the property tax valuation model for the 2026 test year and does not oppose his proposed property tax adjustment.

IV. SERP EXPENSES

Q. Does the company agree with OPC's proposed adjustment to reduce 2026 test year O&M expenses by $124,000 related to the company's SERP?

A. The company believes that costs associated with its SERP are properly recoverable through base rates; however, the company will not contest OPC's proposed adjustment, considering the Commission's decision in Docket No. 20240026-EI.

V. BOARD OF DIRECTORS EXPENSE FILING ERROR

Q. Does the company agree with OPC's proposed adjustment to reduce 2026 test year O&M expenses by $105,000 to correct a filing mistake?

A. Yes. As stated in the company's response to OPC's First Set of Interrogatories No. 26, the company does not oppose this adjustment.

VI. PROPOSED ADJUSTMENTS TO DIRECTORS AND OFFICERS INSURANCE EXPENSES, INVESTOR RELATIONS EXPENSES, AND BOARD OF DIRECTORS EXPENSES

Q. Does the company agree with OPC's proposed adjustments to Directors and Officers Insurance expenses, Investor Relations expenses, and Board of Directors expenses?

A. The company believes that costs associated with its Directors and Officers Insurance expenses, Investor Relations expenses, and Board of Directors expenses are properly recoverable through base rates; however, the company will not contest OPC's proposed adjustments on these items, considering the Commission's decision in Docket No. 20240026-EI.

VII. WAM AMORTIZATION EXPENSE

Q. Does the company agree with OPC's proposed adjustment on WAM Amortization expense in the 2026 test year?

A. Yes. Peoples agrees with witness Kollen's adjustment to the 2026 test year revenue requirement for WAM Amortization expense, and it is reflected in the company's revised, lower

2026 revenue increase request presented later in my rebuttal testimony.

VIII. PARENT DEBT ADJUSTMENT

Q. Does the company agree with OPC's proposed adjustment to the amount of the parent debt adjustment in the 2026 test year?

A. No. Although the company does agree that the parent debt adjustment for Tampa Electric Company in Docket No. 20240026-EI did not reduce adjusted common equity by excluding retained earnings, Peoples notes that the Commission stated the following regarding Rule 25-14.004 on page 114 of Order No. PSC-2025-0038-FOF-EI:

> Rule 25-14.004(4), F.A.C., describes the parent debt adjustment calculation adjustment as multiplying the debt ratio of the parent by the debt cost of the parent, with the result multiplied by the tax rate applicable to the consolidated entity and then applied to the equity dollars of the subsidiary, *excluding its retained earnings* (emphasis added).

Due to the last phrase quoted above with emphasis added, Peoples believes excluding retained earnings from the balance of common equity in determining the parent debt adjustment in accordance with Rule 25-14.004 is appropriate. The amount of Retained Earnings on Peoples' books and records is well-established because Peoples has historically maintained separate regulatory books and records from Tampa Electric and has filed separate Annual Reports with the Commission that disclosed Peoples' Retained Earnings in FERC Account 216 on its Comparative Balance Sheet.

IX. UPDATED 2026 REVENUE INCREASE REQUEST

Q. Has the company prepared a revised 2026 revenue increase request that reflects the company's agreement with OPC on certain proposed adjustments, and the company's own proposed adjustments necessary to remove natural gas facility relocation costs out of this proceeding?

A. Yes. As shown in Document No. 1 of my exhibit, I calculated revisions to the company's revenue requirement increase with adjustments netting to a reduction of $10,440,975 which are discussed below. With this adjustment, the company's filed revenue requirement increase of $96,857,794, net of $6,733,295 Cast Iron Bare Steel Rider revenue requirements, is reduced to $86,416,819. These referenced amounts can be seen on lines 2, 3, 22 and 24 of Document No. 1 of my exhibit.

Q. Please summarize the company's adjustments that are consistent with certain OPC proposed adjustments?

A. As discussed earlier in my rebuttal testimony and as shown on Document No. 1 of my exhibit, the company agrees with the correction of its filing error related to Board of Directors expenses. Moreover, the company does not object to OPC's proposed adjustments to Property taxes, SERP expense, Board of Directors expense, Investor Relations expense, Directors and Officers Insurance expense, and WAM Amortization expense. These items are shown on lines 7 through 13 of my adjustment Document No. 1, of my exhibit. In addition, as discussed in the rebuttal testimony of company witness Luke Buzard and as shown on line 6 of my adjustment Document No. 1, of my exhibit, the company revised its OSS to reflect the Commission's approval of the revised OSS sharing mechanism in Docket No. 20250026-GU but does not agree with OPC's adjustment to use a four-year average.

Q. Please explain the company's adjustments necessary to remove natural gas facility relocation costs from this proceeding.

A. As discussed in the rebuttal testimony of company witness Buzard, I present information about how the company's proposed 2026 revenue requirement increase should be adjusted downward to reflect the removal of facilities relocation costs for recovery in a future proceeding. The company proposes to remove the revenue requirements in 2026 related to natural gas facility relocation costs, that includes a return on $44,578,889 of 13-month average rate base, $588,597 of Property Tax expense, and $1,050,742 of Depreciation expense, which is reflected in the company's revised filing of OPC's Fourth Set of Interrogatories, No. 125, that was filed on July 28, 2025 (see Document No. 3 of my exhibit, pages 6 to 9). After grossing up for regulatory assessment fees and bad debt expense, the effect of the reduction in Property Tax and Depreciation expense is a $1,652,290 impact on 2026 test year revenue requirements as shown on line 14 of Document No. 1 of my exhibit. The 13-month average rate base reduction is the result of a decrease in Plant in Service of $44,255,550, a decrease in CWIP of $1,403,233, and a decrease in Accumulated Depreciation of $1,079,894. The rate base reduction effect on the 2026 revenue requirements is $4,205,920 as shown on line 18 of Document No. 1 of my exhibit.

X. AUDIT FINDINGS

Q. Are adjustments necessary to the 2026 test year revenue requirement for the six work orders discussed by Commission Staff witness Thurmond, as discussed on page 2 of his direct testimony regarding the first audit finding?

A. No. As explained in the company's response to Staff's Twelfth Set of Interrogatories No. 119, filed on July 28, 2025 (see Document No. 3 of my exhibit, pages 10 to 12), reclassifications for a portion of the amounts recorded in FERC Account 374 for three of the six work orders is appropriate. This will slightly increase the 2026 test year revenue requirement, so the company believes the adjustment should not be made. The small increase in the 2026 revenue requirement would result from the reclassifications, as the 2026 Depreciation expense amount would increase and would partially be offset by a decrease in the return on rate base related to the small increase in Accumulated Depreciation.

Q. Did the company update and refile the MFR schedule reflected in Staff's second audit finding?

A. Yes. On June 16, 2025, the company updated and refiled MFR Schedule B-15 to reflect the correct balance of Account 354 – Other Regulatory Liabilities. As stated in Staff witness Thurmond's testimony, the correct amount for this account was accurately reflected in the MFR Schedules B-1 and B-13. Therefore, the correction to MFR Schedule B-15 had no impact on the 2026 test year revenue requirements.

XI. SUMMARY

Q. Please summarize your rebuttal testimony.

A. My rebuttal testimony has addressed my disagreement with witness Kollen's high-level analysis and proposed adjustment to revenue requirements related to the company's 2026 test year closing of CWIP to Gas Plant in Service. I have presented the company's revised revenue increase request, which removes facilities relocation costs for recovery in a future proceeding, corrects an error, adjusts for Commission precedents set in Tampa Electric's rate case proceeding, includes updates from the Commission's decision on another open docket, as well as other new information on the company's test year revenue requirements. Taking into consideration these adjustments, I have proposed reducing the company's requested net revenue requirement increase from $96,857,794 to $86,416,819, which is net of the $6,733,295 in Cast Iron/Bare Steel Rider revenues that the company proposed to move from the rider to base rates. Finally, I have addressed the company's position on the Commission Staff audit report findings.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

(Whereupon, prefiled rebuttal testimony of Christian Richard was inserted.)

TECO PEOPLES GAS
AN EMERA COMPANY

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20250029-GU

PETITION FOR RATE INCREASE
BY PEOPLES GAS SYSTEM, INC.

REBUTTAL TESTIMONY
OF
CHRISTIAN RICHARD

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 20250029-GU
FILED: 07/28/2025

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

CHRISTIAN RICHARD

I. INTRODUCTION

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

A. My name is Christian Richard. My business address is 3600 Midtown Drive, Tampa, FL 33607. I am employed by Peoples Gas System, Inc. ("Peoples" or the "company") as the Vice President of Engineering, Construction and Technology ("ECT").

Q. Are you the same Christian Richard who filed direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of the Office of Public Counsel ("OPC") witness Lane Kollen and his argument that the Florida Public Service Commission ("Commission") should limit growth in the company's planned capital investments and reduce the company's proposed rate base, return on investment, and depreciation expense for the 2026 projected test year.

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

A. No.

Q. Please summarize your areas of disagreement with witness Kollen's testimony.

A. In his direct testimony, witness Kollen asserts that Peoples' 2026 capital budget is "outsized" and that the Commission should limit the growth of Peoples' capital spending in several categories to the rate of inflation, or the combined rate of inflation and customer growth for the New Revenue Mains category. As I explain in my rebuttal testimony, his analysis is overly simplistic and his recommended level of capital investment does not accurately represent the needs of Peoples' system and its customers.

Q. Mr. Kollen recommends that the Commission should limit growth in Peoples' capital investments to the rate of inflation, or the combined customer and inflation growth for New Revenue

Mains. Do you agree with this proposal?

A. No. As my rebuttal testimony will explain, this proposal is overly simplistic, based on incorrect assumptions, and runs counter to the way that Peoples identifies, prioritizes, and executes capital projects. Each of the projects in the company's capital plan is needed to meet customer demand and fulfill the company's obligation to serve, to meet compliance requirements, or to ensure safety and reliability. Mr. Kollen also fails to recognize the impact of the new blanket contract construction cost increases, which are going into effect this year after protecting customers from the inflation experienced in the broader economy over the past five years, and the efforts Peoples makes to maximize the efficiency of its capital investments.

Q. What efforts does Peoples make to maximize the efficiency of its investments in capital projects?

A. Peoples continues to focus on capital efficiency on behalf of customers by making improvements to capital planning and capital management and completing efficiency projects such as the Design and Construction Performance Improvement ("DCPI") project, which yielded $6.5 million in reoccurring annual capital benefits.

Q. Mr. Kollen's testimony recommends that the Commission "limit the growth in the 2026 capital expenditures" based on Peoples' proposed 2026 capital budget. Does the Commission approve Peoples' capital budgets?

A. No. My understanding is that the Commission will approve a level of rate base in Peoples' projected test year, not a specific capital budget. As I will explain in my rebuttal testimony, implementing Mr. Kollen's high-level limitation would not be good for customers. It would lead to earnings degradation and accelerate the need for a future rate case filing since Peoples plans to invest the full budgeted amount of capital in projects necessary to provide safe and reliable service.

Q. Mr. Kollen claims on page 16 of his testimony that several "unique projects" should be removed from Peoples' actual 2024 capital investments and 2025 capital budget to compare those totals with the projected 2026 budget on a "normalized" basis. Do you agree with this comparison?

A. No. Peoples regularly works on large capital projects. One example is the Downtown Tampa Main Replacement project that Peoples began this year and will continue in the 2026 projected test year. Peoples' past capital expenditures and future capital budgets are constructed based on the company's need to meet customer demand and ensure safe and reliable service. In addition, some capital projects are driven by individual customer demand, and the timing of those projects is driven by the customer. Year-over-year, these requirements can lead to a lower number of projects with larger scopes and budgets or a higher number of projects with smaller scopes and budgets. Another example of how capital can change from year to year are the company's future investments in projects to enhance system capacity in areas where customers have installed large numbers of on-site generators, which I discussed in my direct testimony. All projects supporting the 2025 and 2026 budgets are required to meet customer demand, compliance requirements, or to maintain safety and reliability.

Q. Mr. Kollen claims on page 17 of his testimony that Peoples' decision to delay the Tampa Downtown Main Replacement project and the AMI Pilot are "evidence of the Company's discretionary ability to reduce and/or delay capital expenditures, temporarily avoid the costs related to those expenditures" and "in that manner enhance earnings between rate cases." Do you agree with this assessment?

A. No. Peoples did not delay the Downtown Tampa Main Replacement project and AMI Pilot to avoid costs and "enhance earnings" as Mr. Kollen alleges. First, the company's decision to delay these projects did not result in avoidance of any costs. As explained in my direct testimony, Peoples delayed these projects to address other priorities. Document No. 3 of my direct testimony exhibit illustrates that the company spent the full capital budget for 2024. Second, these projects are still needed. My direct testimony explains that the Tampa Downtown Main Replacement project is necessary to address safety concerns and increase capacity to the downtown area to ensure reliability. Peoples' witness Timothy O'Connor describes the need and value of the AMI pilot in his direct testimony. Finally, both projects are currently underway, which further demonstrates the need for these projects.

Q. On page 17 of his testimony, Mr. Kollen also asserts that Peoples has "outsized growth" in certain investment categories in 2026 as compared to 2024 and 2025. Do you agree with this characterization?

A. No. Mr. Kollen claims that the growth in these categories is "outsized," but does not challenge any of the projects that make up these categories of spending or the need for the company's planned investments in these areas. My direct testimony explains that the increase in the capital budget for these areas in 2026 is driven mostly by Reliability, Resiliency, and Efficiency ("RRE") projects to meet compliance requirements, ensure safe operations, and address capacity constraints for a growing, ageing, and increasingly more complex system. For example, the RRE budget increase from 2025 to 2026 equals $79.8 million. The majority of this increase consists of 19 Distribution System Improvements, Main Replacement, and Measuring and Regulation ("M&R") Station Equipment projects totaling $67.3 million, not including Tampa Downtown Main Replacement Project. These projects are required to meet Pipeline and Hazardous Materials Safety Administration ("PHMSA") requirements and ensure safety and resiliency as described in my direct testimony. These projects alone account for 30 percent of total planned RRE investment in 2026.

Q. On page 18 of his testimony, witness Kollen says that the growth in these categories of capital spending is not justified by customer growth or inflation in 2025 or 2026. Are customer growth and inflation the only justifications Peoples offers for its planned capital investments?

A. No. Customer growth and inflation are only two factors that influence the company's capital investment needs. Peoples' capital budgeting process is far more complex and influenced by many factors in addition to customer growth and inflation, including compliance requirements, safety, and improvements in resiliency and reliability. Each category of spending challenged by Mr. Kollen has its own unique influences.

Q. What factors influenced the company’s planned investments in New Revenue Main projects in 2026?

A. As explained in my direct testimony, Peoples set the 2025 and 2026 New Revenue Mains budgets based on customer demand, including actual customer-backed projects and signed developer agreements, load forecasts, and some trending of new customer growth. The other major factor impacting the 2025 and 2026 New Revenue Mains budgets is construction costs. Approximately 30-40 percent of Peoples’ capital budget is executed through five-year “blanket contracts” with third party construction companies. Peoples recently completed a nearly 18-month Request For Proposal (“RFP”) process to renew its existing blanket contracts, which expire in mid-2025. Based on the results of the RFP, blanket contract construction costs will increase 20 percent on average, impacting nearly 80 percent of the total $87.4 million investment in the New Revenue Mains cost category. These new costs take effect mid-2025 and will directly impact the 2025 and 2026 New Revenue Mains budgets.

Q. What factors influenced the company's planned investments in Distribution System Improvements projects in 2026?

A. Peoples' Distribution System Improvements budget is influenced by the new blanket contract rates I previously described, as well as PHMSA compliance requirements and safety and reliability needs. Approximately 82 percent of Peoples' Distribution System Improvements budget for 2026 is comprised of 16 specific projects required to meet PHMSA requirements (Mega Rule) and ensure system reliability. The remaining 18 percent of the 2026 Distribution System Improvements budget addresses the safety and reliability system issues that come with an ageing and growing system described in witness O'Connor's direct testimony. This portion of the Distribution System Improvement budget is aligned with the previous year's spending.

Q. What factors influenced the company's planned investments in Measuring and Regulation Station Equipment projects in 2026?

A. The major factors influencing Peoples' planned investments in Measuring and Regulation Station Equipment in 2026 are load growth and safety requirements. The company needs to rebuild five Gate and Regulator Stations in 2026 to address capacity constraints and implement safety improvements. These projects account for over 85 percent of the costs in this cost category in 2026.

Q. What factors influenced the company's Improvements to Property budget for 2026?

A. As witness O'Connor explained in his direct testimony, the company's 2026 budget for Improvements to Property includes large renovations to several service area offices, including a delayed investment in Peoples' Orlando Service Center.

Q. What factors influenced the company's Technology projects budget for 2026?

A. Technology projects are influenced by many factors including cyber security requirements, upgrades and patches to existing software and team member equipment requirements (laptops). Technology investments are also influenced by general inflation and, over time, customer growth as well.

Q. On page 19 of his testimony, Mr. Kollen proposes that Peoples can replace problematic plastic pipe ("PPP") over a longer period of time to reduce planned capital expenditures for these replacements in 2026 to actual 2024 or forecasted 2025 capital expenditures. Do you agree with his proposal?

A. No. First, it is important to note that the proper amount of investment in PPP replacement is not an issue in this rate case. Second, the annual cast iron/bare steel replacement rider ("Rider CI/BSR") docket established in Commission Order No. PSC-12-0476-TRF-GU is the appropriate proceeding to address the pace of Peoples' replacement activities. Finally, Peoples plans to complete PPP replacement because it is important safety-related work.

Q. On page 20 of his testimony, Mr. Kollen asserts "there is no incremental growth in capital expenditures year over year due to customer growth unless the customer growth is greater in the test year than the customer growth reflected on average in prior years" to argue that growth in the New Revenue Mains budget category is not correlated with customer growth. Do you agree with Mr. Kollen's assertion?

A. No. This is an overly simplistic view and inaccurate. Mr. Kollen fails to consider the impact of other factors on growth in the New Revenue Mains budget, such as the new blanket contract rates I previously described, and that Peoples' budgets are based on distribution mains required to meet customer demand, including specific customer-backed projects for both individual customers and large residential developments. Each customer's needs are different, which means that each customer requires a uniquely engineered system solution. This in turn means that the projected budget for New Revenue Mains can vary from year to year based on the unique mix of customer projects.

Q. Is the company's level of investment in New Revenue Mains correlated with customer demand?

A. Yes. The 2025 and 2026 New Revenue Mains budgets are influenced by customer demand and the construction costs to serve that demand. It is important, however, to distinguish between customer demand and customer growth. New Revenue Mains are designed and engineered to meet the demand of a particular customer or developer. The rate at which customers (services) are added to a main varies, as does the scope and budget of each main. For example, large customer-backed mains can require more capital to serve a single large-load customer. There are four individual main projects in the 2026 budget that will each serve one customer. These four projects account for $14 million, or approximately 16 percent of the total capital budget for New Revenue Mains. The number and size of individual customer main projects can vary year to year. Construction costs for these projects are subject to competitive market rates for projects that are competitively bid on, while construction costs for $68.5 million of projects, or nearly 80 percent, are exposed to the new blanket contract rates described above.

Q. What would be the effect of implementing Mr. Kollen's recommendation?

A. While it is not entirely clear from his testimony, my understanding of Mr. Kollen's proposal is that the Commission would disallow cost recovery for capital investments above the level of Peoples' prior year capital budget adjusted for inflation. Peoples plans to spend its full projected capital budget to meet its obligation to serve, remain compliant with regulatory and safety obligations, and ensure system safety and reliability. If the Commission adopts Mr. Kollen's recommendation, Peoples will be challenged to serve customers safely and reliably, meet customer demand, and have an opportunity to earn a reasonable return on our investment.

II. SUMMARY

Q. Please summarize your rebuttal testimony.

A. Peoples' proposed capital budgets for 2025 and 2026 are reasonable. Mr. Kollen's critique of those budgets is inaccurate, and his overly simplistic recommendations would result in disallowance of cost recovery for projects that are necessary to meet customer demands and operate Peoples' system safely and reliably. This in turn would impair Peoples' ability to earn an adequate return on its investments.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

(Whereupon, prefiled rebuttal testimony of John Taylor was inserted.)

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20250029-GU

PETITION FOR RATE INCREASE

BY PEOPLES GAS SYSTEM, INC.

REBUTTAL TESTIMONY

OF

JOHN TAYLOR

ON BEHALF OF

PEOPLES GAS SYSTEM, INC.

D6-318

DOCKET NO. 20250029-GU
WITNESS: TAYLOR

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

JOHN TAYLOR

ON BEHALF OF PEOPLES GAS SYSTEM, INC.

I. INTRODUCTION

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

A. My name is John Taylor, and my business address is 10 Hospital Center Commons, Suite 400, Hilton Head Island, South Carolina 29926.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on behalf of Peoples Gas System, Inc. ("Peoples" or the "company").

Q. Are you the same John Taylor who filed direct testimony in this proceeding?

A. Yes, I am.

II. PURPOSE, SUMMARY AND OVERVIEW

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address specific positions presented in the testimony of Florida Industrial Power Users Group ("FIPUG") witness Jeffry Pollock. Specifically, I will address his recommendations related to the Class Cost of Service Study ("COSS") and the revenue requirement apportionment.

Q. If you do not address an issue or state a position in your testimony, does that indicate you agree with the intervenors on that point?

A. No. I have not attempted to respond to every argument made by FIPUG. The fact that I may not have responded to any specific argument or statement does not indicate my agreement with that argument or statement.

Q. Are you sponsoring an exhibit with your rebuttal testimony?

A. No.

Q. Please summarize the key issues addressed in your rebuttal testimony.

A. The key issues addressed in the testimony relate to the following topics:

- **Gradual integration of customer classification for distribution mains.** The testimony outlines a deliberate and incremental approach to classifying distribution mains as both customer and demand related.
- **Methodology for estimating the customer component of distribution mains.** This section addresses the two widely accepted methods for identifying the customer-related portion of distribution mains costs: the zero-intercept method and the minimum system method. It evaluates the appropriate application of each approach, emphasizing how underlying assumptions, such as pipe material and sizing affect the classification outcomes. The discussion highlights how the results of these studies inform a balanced and supportable allocation of costs between customer and demand components.
- **Use of Peak Month throughput for demand allocation.** The testimony supports the use of January throughput as the demand allocator within the COSS framework. This approach reflects operational realities in Florida's moderate climate, where monthly usage patterns show consistent seasonal peaks, aligning the methodology with regulatory requirements.
- **Revenue requirement class apportionment approach.** The revenue apportionment approach emphasizes a measured progression toward aligning rates with cost-of-service, while limiting abrupt or excessive impacts on any customer class.

III. CLASS COST OF SERVICE STUDY

Q. Witness Pollock argues that Peoples improperly applied the customer component only to small diameter distribution mains, advocating instead for applying this component to all mains. How do you respond to this assertion?

A. The company agrees in principle with witness Pollock's assertion that all distribution mains contain both customer-related and demand-related cost elements. This recognition is well-grounded in established cost allocation practices and the principle of cost causation. However, witness Pollock himself acknowledges, on page 2, lines 28-30 of his testimony, that because the Customer/Demand Study represents a new methodological approach for Peoples, the company conservatively applied the customer-related classification only to small diameter mains in this proceeding, while continuing to classify larger diameter mains fully as demand-related under the traditional Peak and Average ("P&A") method.

This incremental approach taken by Peoples ensures that the transition to a more refined classification and allocation framework is gradual and minimizes abrupt shifts in cost responsibility among customer classes. Such a transition is consistent with sound ratemaking principles, including stability and gradualism. Abrupt or significant reallocation of costs could result in sudden and potentially disruptive rate impacts for some classes. By limiting the customer classification to small diameter mains — where the customer-related component is typically most evident due to the direct relationship between customer connections and the extension of smaller mains — Peoples balances the need for methodological improvement with the objective of maintaining rate stability.

As the company continues to refine its cost allocation methods, it will evaluate expanding the classification of mains to reflect customer components across all relevant pipe sizes, supported by updated minimum system or zero-intercept studies, consistent with regulatory precedents and cost-of-service best practices. This staged implementation aligns with the overarching goal of aligning cost recovery more closely with cost causation, while ensuring fair and gradual impacts for customers.

Q. Witness Pollock determined that approximately 41 percent of all distribution mains should be classified as customer-related, applying a zero-intercept analysis based on minimum-size unit cost. Do you agree with this determination?

A. No. While both the zero-intercept method, proposed by the company, and the minimum system method used by witness Pollock are the two most commonly used methods for determining the customer cost components of distribution mains, I do not fully agree with witness Pollock's determination. The key issue with his application of the minimum-size unit cost method is that it does not account for differences in pipe material types, specifically between steel and plastic mains. Under Mr. Pollock's method, the analysis assumes that all mains would be replaced with plastic, which overlooks the significant cost difference when steel mains are used, as well as the operational and safety requirements for using steel. As data shows, the system still has significant amounts of higher cost steel mains in-service and large-diameter segments. If, instead, the minimum unit cost of steel pipe is used in the analysis, the portion of mains classified as customer-related would increase materially. In fact, using the steel pipe cost results in a customer-related portion of about 62 percent, compared to the 41 percent customer component produced by Mr. Pollock's approach, as demonstrated in Table 1. Therefore, the choice of pipe type has a material impact on the results, and Mr. Pollock's method understates the true customer-related portion of distribution mains costs by not distinguishing between pipe materials.

Table 1 – FIPUG Classification of Mains

Minimum System (Plastic with 2" Plastic, Steel with 2" Steel)

Line No.	Material	Footage	Cost 2024	Minimum Size Unit Cost	Customer Component ($)	Customer Component (%)
	Column (a)	(b)	(c)	(d)	(e)	(f)
1	Plastic	48,643,619	$ 1,249,356,856	$ 21.64	$ 1,052,824,610	84%
2	Steel	25,641,037	$ 2,631,148,014	$ 52.74	$ 1,352,414,650	51%
3	**Total**	**74,284,656**	**$ 3,880,504,870**		**$ 2,405,239,259**	**62%**

Minimum System (Plastic with 2" Plastic, Steel with 2" Plastic)

Line No.	Material	Footage	Cost 2024	Minimum Size Unit Cost	Customer Component ($)	Customer Component (%)
4	Plastic	48,643,619	$ 1,249,356,856	$ 21.64	$ 1,052,824,610	84%
5	Steel	25,641,037	$ 2,631,148,014	$ 21.64	$ 554,965,190	21%
6	**Total**	**74,284,656**	**$ 3,880,504,870**		**$ 1,607,789,799**	**41%**

Q. How do the results of the zero-intercept study compare to the method proposed by FIPUG?

A. As stated in my direct testimony, the zero-intercept method was used to determine the customer-related component of distribution mains. My direct testimony also outlines the differences between the two methods. The summary of Peoples' proposed customer component is presented in Table 2 below and can be compared to Table 1 above.

Table 2 – Peoples' Classification of Mains

Line No.	Material	Footage	Cost 2024	Zero-Intercept Unit Cost	Customer Component ($)	Customer Component (%)
	Column (a)	(b)	(c)	(d)	(e)	(f)
1	Plastic	48,643,619	$ 1,249,356,856	$ 18.91	$ 919,836,060	74%
2	Steel	25,641,037	$ 2,631,148,014	$ 36.67	$ 940,370,202	36%
3	**Total**	**74,284,656**	**$ 3,880,504,870**		**$ 1,860,206,261**	**48%**

Q. How are the results of the COSS affected by the modifications proposed by Mr. Pollock to apply customer components to all main sizes?

A. As shown in Table 3 below, under the FIPUG proposal, cost responsibility is shifted by allocating additional customer-related costs to all main sizes. As expected, this reallocation assigns a greater share of costs to customer classes with the largest number of customers (column (f) vs. column (d)).

Table 3 – Peoples and FIPUG Base Revenue Deficiencies Compare

Line No.	Customer Class	Current Base Revenues	PGS Revenue Deficiency	PGS % Change to Cost of Serve	FIPUG Revenue Deficiency	FIPUG % Change to Cost of Serve
	Column (a)	(b)	(c)	(d)	(e)	(f)
1	Residential	$ 178,313,259	$ 72,034,647	40.4%	$ 119,632,061	67.1%
2	Residential Standby Generators	545,010	185,194	34.0%	336,160	61.7%
3	Residential Heat Pump	1,807	1,992	110.2%	1,672	92.5%
4	Commercial Heat Pump	15,780	(1,060)	-6.7%	(3,128)	-19.8%
5	Commercial Street Lighting	213,590	(60,521)	-28.3%	(94,865)	-44.4%
6	Small General Service	11,910,743	2,793,944	23.5%	3,493,223	29.3%
7	General Service - 1	63,364,339	(1,502,793)	-2.4%	(7,506,602)	-11.8%
8	General Service - 2	68,446,676	4,938,985	7.2%	(5,939,836)	-8.7%
9	General Service - 3	33,311,483	3,451,798	10.4%	(3,270,367)	-9.8%
10	General Service - 4	15,562,427	4,565,519	29.3%	529,206	3.4%
11	General Service - 5	38,569,567	13,069,281	33.9%	(2,076,910)	-5.4%
12	Commercial Standby Generators	900,848	755,955	83.9%	839,988	93.2%
13	Small Interruptible Service	5,595,151	1,411,597	25.2%	(613,211)	-11.0%
14	Interruptible Service	8,277,617	2,036,092	24.6%	(370,695)	-4.5%
15	Wholesale	612,724	579,616	94.6%	358,460	58.5%
16	Special Contract	33,424,540	(1,667,591)	-5.0%	(2,722,501)	-8.1%
17	**Total**	**$ 459,055,558**	**$ 102,592,655**	**22.3%**	**$ 102,592,655**	**22.3%**

Q. Mr. Pollock criticizes Peoples' use of January throughput instead of Peak Design Day ("PDD") demand for the P&A method. How do you justify using January throughput?

A. The company recognizes that, in theory, design day demand represents an accurate measure of the system's maximum capacity requirements and can serve as an appropriate factor for allocating demand-related costs. However, whether design day is the most suitable measure depends on how the company actually plans and operates its system to meet customer needs. In practice, Peoples operates in a region with relatively stable weather patterns and mild winters, resulting in moderate daily demand fluctuations compared to utilities in colder climates. Historical load data presented in Minimum Filling Requirement ("MFR") Schedule E-4 shows that January throughput consistently reflects the highest usage levels each year and effectively approximates the load characteristics that a design day study would produce.

It is also important to emphasize that the Florida Public Service Commission's ("Commission") MFR Schedules do not mandate the use of design day as a demand allocator. Instead, MFR Schedule E-4 defines "Contribution to the System Peak Month Sales by Rate Class" as the annual peak month sales, not design day demand. By using January throughput, Peoples fully complies with this requirement and ensures that its cost allocation method remains consistent with the Commission's guidelines.

IV. REVENUE APPORTIONMENT

Q. What alternative revenue apportionment does Mr. Pollock propose, and how does it compare to the company's proposal?

A. Consistent with the company's overall objective to limit revenue increases and apply a systematic approach to revenue allocation, Mr. Pollock proposes the following alternative method on page 16, lines 3-15:

Step 1: Set the base rate increase at 0 percent for any customer class that would otherwise receive a revenue decrease of up to 33.5 percent. This threshold is equal to 1.5 times the system-average base rate increase of 22.3 percent.

Step 2: The resulting revenue shortfall is then redistributed to customer classes that would otherwise receive either a rate decrease or a smaller-than-threshold increase. This additional revenue is allocated in proportion to each class's rate base.

A comparison of the resulting distribution of revenue increases under Mr. Pollock's approach and the company's original proposal is shown in *Table 4* below.

Table 4 - Comparison of Revenue Apportionment

Line No.	Customer Class	Current Base Revenues	PGS Revenue Change $	PGS Revenue Change %	FIPUG Revenue Change $	FIPUG Revenue Change %
	Column (a)	(b)	(c)	(d)	(e)	(f)
1	Residential	$ 178,313,259	$ 59,775,871	33.5%	$ 59,645,785	33.4%
2	Residential Standby Generators	545,010	182,704	33.5%	182,306	33.5%
3	Residential Heat Pump	1,807	606	33.5%	605	33.5%
4	Commercial Heat Pump	15,780	749	4.7%	1,916	12.1%
5	Commercial Street Lighting	213,590	10,143	4.7%	18,687	8.7%
6	Small General Service	11,910,743	3,359,584	28.2%	3,493,223	29.3%
7	General Service - 1	63,364,339	3,009,169	4.7%	8,351,938	13.2%
8	General Service - 2	68,446,676	8,189,514	12.0%	9,542,300	13.9%
9	General Service - 3	33,311,483	5,029,010	15.1%	4,637,286	13.9%
10	General Service - 4	15,562,427	5,216,985	33.5%	3,032,055	19.5%
11	General Service - 5	38,569,567	12,959,828	33.6%	5,840,020	15.1%
12	Commercial Standby Generators	900,848	301,991	33.5%	301,333	33.4%
13	Small Interruptible Service	5,595,151	1,875,660	33.5%	793,726	14.2%
14	Interruptible Service	8,277,617	2,429,196	29.3%	1,267,275	15.3%
15	Wholesale	612,724	205,403	33.5%	204,956	33.4%
16	Special Contract	33,424,540	46,242	0.1%	5,279,243	15.8%
17	**Total**	**$ 459,055,558**	**$ 102,592,655**	**22.3%**	**$ 102,592,654**	**22.3%**

Q. How do you respond to the FIPUG's revenue allocation?

A. First, I want to clarify that Mr. Pollock's recommendation includes allocating a portion of the revenue increase to the Special Contract customer class. However, this is not feasible due to the company's contractual obligations. The only potential increase for this class is limited to customer charges that certain Special Contract customers pay under the approved tariff. Thus, the revenue increase of $5,279,243, net of the expected revenue increase from the company's proposed customer charge of $46,242, subject to modification upon the final determination of the customer charges, needs to be reallocated to all other customers that are under the revenue increase cap of 1.5.

Peoples has thoroughly reviewed Mr. Pollock's proposed revenue apportionment. However, the company continues to support its original proposal as the most balanced and equitable approach. Peoples believes that a moderate, gradual movement of residential and commercial rates toward their cost of service is both reasonable and appropriate. This approach promotes fairness while minimizing the risk of rate shock for any particular customer class.

V. SUMMARY

Q. What outcomes should the Commission adopt in response to the points you raised in your rebuttal testimony?

A. Based on the issues addressed in the testimony, the following items are recommended for Commission approval:

- Accept Peoples' incremental approach to classifying mains: The Commission should approve the company's conservative step of applying a customer-related classification only to small diameter mains for this proceeding. This gradual refinement aligns with established cost causation principles while minimizing abrupt cost shifts between customer classes, which helps maintain rate stability and fairness.
- Approve the company's continued use of January throughput

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as a demand allocator: The company's use of January throughput as the demand allocator is appropriate given Florida's mild climate and the system's consistent seasonal peak pattern. This complies with the Commission's MFR Schedules.

- Adopt Peoples' proposed revenue apportionment plan: The company's revenue allocation plan reasonably balances gradual movement toward cost of service levels with avoidance of undue rate shock.
- Support a continued, measured transition toward improved cost allocation: The Commission should endorse Peoples' commitment to continue refining its customer/demand studies and mains classification in future cases.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

(Whereupon, prefiled rebuttal testimony of Helen Wesley was inserted.)

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20250029-GU

PETITION FOR RATE INCREASE

BY PEOPLES GAS SYSTEM, INC.

REBUTTAL TESTIMONY AND EXHIBIT

OF

HELEN WESLEY

PEOPLES GAS SYSTEM, INC.
DOCKET NO. 20250029-GU
FILED: 07/28/2025

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

HELEN WESLEY

I. INTRODUCTION

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

A. My name is Helen Wesley. My business address is 3600 Midtown Drive, Tampa, FL 33607. I am employed by Peoples Gas System, Inc. ("Peoples" or the "company") as the President and Chief Executive Officer ("CEO").

Q. Are you the same Helen Wesley who filed direct testimony in this proceeding?

A. Yes, I am.

Q. What are the purposes of your rebuttal testimony?

A. My rebuttal testimony addresses comments by Office of Public Counsel ("OPC") witness Lane Kollen regarding Emera investor presentations and the development of the company's 2026 test year budget.

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

A. Yes. Exhibit No. HW-2, entitled "Rebuttal Exhibit of Helen Wesley," was prepared under my direction and supervision. My exhibit consists of one document:

Document No. 1 Emera's Relative Positioning

II. EMERA INVESTOR PRESENTATION

Q. Do you agree with Mr. Kollen's characterization of Emera's investor presentations?

A. No. Investor presentations provide a structured platform for publicly traded companies to share key financial data, operational updates and strategic initiatives which foster trust and accountability with many stakeholders. They are useful tools to communicate the company's value proposition, growth potential, plans to deliver value to customers, and competitive advantages to potential investors. These presentations, however, must be reviewed in their entirety rather than select parts or pieces.

Mr. Kollen selects parts of the Emera investor presentation that appear to support his arguments and asserts that the forecast of test year costs is overstated to achieve Emera's corporate objectives. Mr. Kollen, however, fails to recognize that Emera's projections for rate base growth and earnings growth fall within the middle of the range when compared to a large representation of North American investor-owned utilities.

Document No. 1 of my exhibit presents rate base growth and earnings growth projections from Emera's industry peers. Peoples' team members independently verified these projections from publicly-available information under my direction and supervision. As shown on Document No. 1 of my exhibit, Emera's 6 percent midpoint for earnings growth projections is towards the low end of projections from industry peers. The range is 5.5 percent to 9.5 percent, and the average is 6.8 percent, nearly 100 bps higher than Emera's 6 percent midpoint. In terms of rate base growth, peer utilities state a range from 6 percent to 14 percent and average of 8.8 percent, with Emera at 7.5 percent. This demonstrates that Emera's growth projections and rate base projections are not overstated, but rather in line with, and even slightly lower than, similarly situated peer utilities.

Q. Do you agree with Mr. Kollen's characterization of Emera's references to Florida's constructive regulatory environment in the investor presentation?

A. No. To the extent Mr. Kollen is implying that Emera and Peoples view Florida as a jurisdiction with a legal framework that supports favorable rate increases devoid of scrutiny, his characterization is incorrect. Page 12 of the investor presentation included in Exhibit LK-2 describes constructive regulatory environments as jurisdictions "where we (the company) and the regulatory bodies work together to ensure long-term value creation for both our customers and the utility." Peoples understands it has a responsibility to create value for our customers and understands the robust regulatory process associated with any rate increase request.

Q. What input did Emera have during the development and approval of the company's 2025 and 2026 capital spending budgets?

A. The corporate budgeting process at Emera is a bottom-up process. Each affiliate prepares a budget based on its needs and submits the budget to Emera. Emera then consolidates all the budgets from its affiliates and the corporate center to create a consolidated Emera budget.

Emera's input to the process is typical of other parent company relationships I've been involved in, wherein the parent wants to understand the basic assumptions inherent in the budget, including revenue growth, O&M growth relative to revenue growth, and capital expenditures.

Q. Did Peoples prepare its 2025 and 2026 capital spending budgets to achieve Emera's financial objectives?

A. No. We prepare our budgets to ensure reliable service to our customers.

Peoples' bottom-up budgeting process begins with soliciting input from those closest to the work across the company. Typically, our initial draft budget includes all possible O&M and capital expenditures. My role is to manage the amount and timing of expenses and capital spending by determining the highest and best use for these funds. This involves balancing priorities, including safety, reliability, security, efficiency, and attracting and retaining talent through competitive salaries and benefits. Safety and reliability always come first. I am ultimately accountable for ensuring safe, reliable operations that, over time, deliver the Florida Public Service Commission's ("Commission") authorized rate of return for all investors and stakeholders.

III. PEOPLES' 2026 BUDGET

Q. Do you agree with Mr. Kollen's characterization of the company's 2026 budget as a "rate case" budget?

A. No. As explained in Peoples' witness Luke Buzard's rebuttal testimony, the company adjusted the schedule for preparing the 2026 budget but followed the normal budgeting process to develop that budget. While it is true that Peoples prepares budgets for two years when preparing for a rate case, the company follows the same process to prepare the second-year budget. This is necessary to comply with the Commission's projected test year mechanism for rate cases. Furthermore, Peoples explained how it prepared the capital budget and the need for the projects that make up that budget in the direct testimony of witnesses Christian Richard, Timothy O'Connor, and Rebecca Washington.

Q. Does the company consider the timing and planned in-service dates of capital projects in the normal course of business as it develops its capital spending budgets?

A. Yes. We must consider the timing and planned in-service dates to fulfil customer expectations, compliance requirements, Florida Department of Transportation requirements, manage weather windows, and manage availability of parts to optimize capital planning and ensure work is completed as cost effectively as possible. When we build our budgets, we integrate multiple sources of data from 14 different service areas, with a holistic, state-wide view. The timing and in-service dates of projects are important considerations in this work.

Additionally, as a utility that operates responsibly, we are thoughtful about the timing of projects relative to customer demand and when it is optimal for safety and reliability reasons. This is our duty to serve, and we operate within these expectations. We must effectively manage our business to best serve our multiple stakeholders.

Q. Are Peoples' proposed capital expenditures for 2025 and 2026 reasonable and prudent?

A. Yes. Our capital expenditures reflect the requirements of our system to safely and reliably serve customers and are reasonable. As discussed in the direct testimony of witness Richard, we use a structured approach with our integrated resource planning process to plan our capital investments.

Q. Is the level of Peoples' proposed capital spending influenced by factors beyond the company's control?

A. Yes. There are multiple influences on the company's capital budget that are outside of the company's control. These include damage to pipelines, facilities relocations, leak repairs, and compliance requirements. Peoples is also required to extend service to customers that meet the requirements of our tariff, and the company does not control Florida's growth. Finally, the importance and use of natural gas as an energy source and in supporting resilience is growing.

Q. How is the importance of natural gas growing?

A. Over 70 percent of electricity in Florida is generated by natural gas. The retirement of several coal facilities and the limited ability to use renewable energy to supply electricity on a reliable basis (given the inability to store it) means that natural gas is critical to energy security and stability in the state. Interstate pipeline companies are also recognizing the importance of natural gas, with several large pipeline companies planning to build major expansions and extensions of their existing networks to serve current and future demand in Florida.

Natural gas is a safe and reliable source of energy at a competitive price, particularly for large industrial users.

It serves as critical energy infrastructure to healthcare facilities, schools, and nursing homes. Residential and commercial customers find natural gas to be the right product to fuel their homes and businesses. Furthermore, both residential customers and businesses are increasingly turning to natural gas service to protect them during and after storm events by providing back-up generation. This shift represents an evolving change in the capacity demands on our distribution system.

Q. Do you agree with Mr. Kollen's assessment that there are no market forces that provide restraints on natural gas distribution pricing?

A. No. Floridians have several choices to meet their energy needs, and natural gas is only one of these options. We must earn our customers' business daily by providing excellent, safe, and reliable natural gas distribution service at fair and just rates.

Q. If the Commission adopts Mr. Kollen's recommendation to limit growth in capital investments to the rate of inflation, how would that affect Peoples?

A. As witness Richard explains in his rebuttal testimony, this approach is overly simplistic and overlooks the fact that Peoples' proposed capital projects are necessary to serve customers, meet compliance requirements, and ensure safety and reliability. If the Commission adopts his high-level reduction in cost recovery for these projects, it could accelerate Peoples' need to file a future rate case.

Q. Should the Commission limit the company's planned team member additions based on the rate of customer growth?

A. No. Simple metrics or benchmarks do not account for the multiple forces that affect the company, its customers, and other stakeholders, nor for the company's historical performance. Peoples has an outstanding customer service record, a strong safety and compliance record, and is working hard to meet one of the highest demand and growth rates for our services of any utility in the nation, by many standards. Witness Buzard addresses Mr. Kollen's proposed limitation on team member additions in greater detail in his rebuttal testimony.

IV. SUMMARY

Q. Please summarize your rebuttal testimony.

A. Mr. Kollen mischaracterizes an Emera investor presentation in an attempt to discredit the company's 2026 capital budget. To the contrary, and as my rebuttal testimony explains, Peoples followed its regular bottom-up budgeting process when preparing the 2026 budget and did not prepare the budget to achieve Emera's financial objectives. Peoples' proposed 2026 budget is reasonable and is explained by the company's direct testimony. For these reasons, the Commission should reject Mr. Kollen's recommended limitations on the company's proposed capital and O&M budgets for 2026.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

CHAIRMAN LA ROSA: Let's go ahead, and we will move from prefiled testimony portion of the hearing to the in-person testimony. PGS has identified two witnesses who are going to provide in-person testimony regarding the proposed settlement agreement.

At this time I would like to ask the following witnesses to come forward, of course, they are already sitting there in the witness box, Luke Buzard, Andrew Nichols, if you would -- gentlemen, if you don't mind standing up and we will just swear you in really quickly.

Please raise your right hand.

Whereupon,

LUKE BUZARD
ANDREW NICHOLS

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

CHAIRMAN LA ROSA: Excellent. Great. Thank you very much.

Mr. Wahlen, your witness.

MR. WAHLEN: Commissioners, our witnesses are here ready to answer any questions the Commission have. We think the staff has done a pretty thorough job of developing the record in this case, and we are happy to answer any questions you have, but we won't get our feelings hurt if we go home and you don't ask any questions.

CHAIRMAN LA ROSA: Okay. Well, let me, then, throw it over here.

Do we have any questions? Do the parties have any questions?

Staff?

MR. THOMPSON: Just a few, Mr. Chair.

CHAIRMAN LA ROSA: Mr. Wahlen might be disappointed.

EXAMINATION

BY MR. THOMPSON:

Q With request -- I am sorry, with respect to rate case expense, the last two rate cases have had three-year amortization periods, whereas, the settlement agreement has a two-year amortization period. Can you explain why that amortization period has changed for the settlement?

CHAIRMAN LA ROSA: Yeah, your mic might not be on.

THE WITNESS: BUZARD: Good morning, Chairman. Good morning, Commissioners.

Major, thank you for your question. The settlement utilized what the original petitioned term was for the rate case expense filing, so we just elected not to change it in the course of the settlement for ease.

Contemplated in the original filing was a two-year period, but the settlement, as Mr. Rehwinkel elicited, actually extends to three years, but we just decided to keep the term to the two years originally filed.

BY MR. THOMPSON:

Q All right. Thank you.

How does the return on equity in the settlement agreement, which is 10.3 percent, how does that compare to other regulated utilities in the state?

A BUZZARD: Thank you again for the question. We think it's very equitable with the other gas utilities and the other electric utilities in the state. Currently, FPUC's ROE is 10.25, FCG's is 9.5, but Duke and Tampa Electric also have very similar ROEs, so we believe it's very equitable.

Q Thank you.

Are there any changes to the capital budgets as a result of the reduction to the revenue requirement?

A BUZZARD: Yes. In the course of the discussions -- and I want to recognize Mr. Rehwinkel mutually, I feel very appreciative of the effort that we went through in negotiating the settlement. A lot of discussions, and one of the large elements is our commitment to really managing our capital plan over the three-year period. In order to make the ultimate revenue requirement settlement work, we have really got to be conscious of our capital plan over the next three years.

Q Does the revenue apportionment in the settlement agreement contribute to reaching parity between the customer classes, and if so, how?

A BUZZARD: Yes. If you look through our testimony and what drove our original change to our cost allocation methodology, it was really evaluating what those parity numbers were across our different customer classes, so a big part of the new revenue apportionment is getting some of those classes closer to one.

Q Can you summarize Peoples' performance under FEECA, and tell us how the settlement helps further PGS's FEECA goals?

A BUZARD: FEECA being conservation?

Q Yeah, the Florida Energy and Efficiency Conservation.

A BUZARD: And can you restate your question?

Q Certainly.

Can you summarize Peoples' performance under

FEECA and tell us how the settlement helps PGS further those goals?

A BUZARD: Peoples' ability to continue to meet the demand in Florida around growth, this is one of the exceptional things that we are very privileged to continue to support the growth in Florida. As we are able to continue to deliver to new customers and offer our conservation program, I think this settlement supports our continued ability to meet the growth in Florida, and so, therefore, also being able to extend conservation rebates in order to continue to find ways of conservation in the state.

Q Can you note some of the ways that the settlement agreement is a continuation of what the Commission previously approved in the 2023 rate case?

A BUZZARD: I think what we saw in the approval by the Commission in our last case is the support for the capital plan that delivers ensuring reliability and sustainability of our system, along with meeting the almost, at times, over the last five years, five percent of growth in our customer base. This settlement continues that support in regards to us meeting our customer demand and making sure that the system is safe and reliable.

I think that there is a number of accounting related terms that were approved directly by the Commission in the last case that are carrying through in this case. So I would say there is a lot of similarities that are continuously moving forward with this settlement versus the last case that was fully litigated.

Q And with respect to those accounting terms, would those be things like the equity ratio?

A BUZARD: Equity ratio, our storm reserve, a number of different, yes.

Q Depreciation rates?

A BUZARD: Yes, sir.

Q Okay. Paragraph 10I requires the parties to meet in 2027 to discuss how to allocate growth. Can you explain how this benefits PGS's customers?

A BUZARD: Sure. So one of the things that I felt was a very balanced approach to our discussions with the Office of Public Counsel and FIPUG is that an understanding of that there is a significant demand for natural gas, especially with our residential customers in the state, there are many different ways that other gas utilities across the nation have navigated how those costs are allocated to new customers looking across the generations of customers.

And one of the really good things I thought that came out of the discussions is, you know, and listening and an open discussion around how we can really sort through those cost allocations. So I believe that it does -- it will benefit customers to have an open dialogue with both the Office of Public Counsel, FIPUG and staff in regards to how those costs are allocated.

Q Thank you. No further questions.

A BUZZARD: thank you.

CHAIRMAN LA ROSA: Great. Thank you.

Commissioners, any questions? Any questions at this time? All right. Seeing none.

All right. Let's go ahead and then move to the evidentiary portion of the hearing. The record shall now be closed.

Staff.

MR. THOMPSON: It is staff's understanding that the parties are willing to waive post-hearing briefs.

CHAIRMAN LA ROSA: Parties, do you waive -- are you willing to waive filing briefs?

MR. WAHLEN: Yes. Absolutely.

CHAIRMAN LA ROSA: I figured that would be the answer.

All right. Seeing no wish for filing a

post-hearing brief, I will open the matter for discussions of us Commissioners.

Commissioner Fay.

COMMISSIONER FAY: Mr. Chairman, I think this is a great settlement. I think the parties mentioned the complexity to it, and maybe the initial thought of not being able to get to this position, so I would agree with that. Although, most of the time when I look at these and think you won't get to the position you do, and then some I think you will, you don't, so I know it's a difficult path.

I just want to validate, Mr. Chairman, this could be at the point where we take up a motion on this proposed settlement, but just with our staff, and Mr. Thompson asked some good questions, but I know the court has given us some additional direction on how orders are put out, and so I just want to make sure with our legal folks that, you know, based on the questions that they have, and the information that they have enough to produce an order that would satisfy the requirements that the Court has set out for us?

CHAIRMAN LA ROSA: That's a fair question.

MR. THOMPSON: We do.

COMMISSIONER FAY: Okay. Great. You sound pretty confidential in that, Mr. Thompson.

MR. THOMPSON: I am. We -- as has been alluded, we put a lot of work into it. We have been very diligent. We have been involved with the parties. The parties have been exceptionally responsive with us. We have a lot of discovery and we have had staff thoroughly engaged throughout the case, so I think we have everything we need to write a very solid order.

COMMISSIONER FAY: Great. Thank you.

Thank you, Mr. Chairman.

CHAIRMAN LA ROSA: Yeah. Great. Thank you.

Commissioners, any further thoughts or comments?

Where we stand, we can either prefer staff to prepare a written recommendation, of course, and that would be heard at a subsequent Agenda Conference, or, of course, we can ask staff for an oral recommendation, in which they would give us -- they would record evidence in which will be taken up today. So I am assuming we would like to have an oral recommendation -- oral recommendation.

Staff --

MR. THOMPSON: Thank you. Staff is --

CHAIRMAN LA ROSA: -- and oral recommendation.

MR. THOMPSON: I am sorry. Commissioner, staff is prepared to provide an oral recommendation with respect to the proposed settlement agreement based on the evidence presented today, and Ms. Takira Thompson from the engineering division will do so.

MS. THOMPSON: Good morning, Commissioners, Takira Thompson with Commission staff.

On August 113th, 2025, PGS filed a unanimous stipulation and settlement agreement in Docket No. 20250029-GU. Based on the settlement agreement, 13 major elements were identified for the Commission to consider in determining whether the agreement is in the public interest.

Having reviewed the record evidence, staff recommends that, consistent with the FAIR, decision there is support in the record for each of the major elements and the matters addressed in the FAIR decision. Among these many components, staff would like to highlight several provisions.

The agreement reduces the total requested revenue requirement increase for the 2026 projected test year from approximately $93.2 million to approximately $66.7 million, and reduces the net revenue increase for the request of 2027 subsequent year adjustment from approximately $26.7 million to $25 million, resulting in mitigated rate impacts for all customers.

The agreement lowers PGS's requested ROE from 11.1 percent to an agreed upon 10.3 percent, which is within the range of ROEs supported by record evidence. A 10.3 percent ROE should allow PGS to earn a reasonable return on rate base, and continue to provide safe and reliable natural gas service during the three-year settlement agreement term.

The agreement maintains an equity ratio of 54.7 percent, consistent with the equity ratio approved by the Commission in PGS's last three rate case proceedings, and lower than equity ratios recently approved by the Commission for some of Florida's other natural gas IOUs.

The agreement establishes a minimum term through December 2028, which will create rate stability for customers, and allow customers and PGS to plan and manage their budgets without unanticipated rate increases. And the agreement resolves all outstanding issues in the docket.

The settlement agreement is the result of a collaboration between PGS, OPC and FIPUG reflecting compromises of their respective positions, and appropriately balances the need for PGS to have the revenues necessary to provide safe and reliable natural gas service with the requirement that the service be provided at the lowest possible cost to customers.

In addition, staff has reviewed the record evidence regarding PGS's quality of service and PGS's performance pursuant to FEECA to further assess the settlement agreement.

Upon review, staff believes that PGS's quality of service is adequate, and the utility is offering its customers programs approved in its demand-side management plan and making reasonable progress toward meeting the goals established by the Commission.

For the reasons stated, staff believes that the settlement agreement, when taken as a whole, may be found by the Commission to be in the public interest, and results in rates that are fair, just and reasonable. Staff recommends that the settlement agreement should be approved.

CHAIRMAN LA ROSA: Great. Thank you for the summary of the recommendation.

Commissioners, is there any questions or discussion after staff's recommendation?

Seeing -- or if not, seeing none, open for a motion.

COMMISSIONER FAY: Thank you, Mr. Chairman. I would move that the Commission approve the settlement as proposed.

COMMISSIONER CLARK: Second.

COMMISSIONER PASSIDOMO SMITH: Second.

CHAIRMAN LA ROSA: All right. Hearing a motion, and hearing two seconds.

All those in favor signify by saying yay.

(Chorus of yays.)

CHAIRMAN LA ROSA: Yay.

Opposed no?

(No response.)

CHAIRMAN LA ROSA: Show that the settlement agreement is accepted as recommended.

Excellent. Thank you very much.

Staff, are there any other further matters that we need to address today?

MR. THOMPSON: No, Commissioners. Given your vote today, an order memorializing the decision will be issued by October 27th, and we are aware of no further matters.

CHAIRMAN LA ROSA: Parties?

MR. WAHLEN: Just say thank you again.

CHAIRMAN LA ROSA: Excellent.

MR. REHWINKEL: Thank you.

CHAIRMAN LA ROSA: Thank you. Thank you all.

If there is nothing else before us, we will go ahead and call this meeting adjourned.

In 15 minutes, let's go ahead and start our Internal Affairs meeting. So at 10:45 our Internal Affairs meeting will begin.

Thank y'all.

(Proceedings concluded.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DEBRA KRICK, Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED this 6th day of November, 2025.

Debbie R Krick

DEBRA R. KRICK
NOTARY PUBLIC
COMMISSION #HH575054
EXPIRES AUGUST 13, 2028