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ELECTRONIC FILING

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

Re: Docket No. 20230023-GU; Petition for Rate Increase by Peoples Gas System, Inc.

Docket No. 20220219-GU; Peoples Gas System's Petition for Rate Approval of 2022 Depreciation Study

Docket No. 20220212-GU; Peoples Gas System's Petition for Approval of Depreciation Rate and Subaccount for Renewable Natural Gas Facilities Leased to Others

Dear Mr. Teitzman:

Attached for filing on behalf of Peoples Gas System, Inc. in the above-referenced docket is the Rebuttal Testimony of Kenneth D. McOnie and Exhibit No. KDM-2.

Thank you for your assistance in connection with this matter.

Sincerely,

J. Jeffry Wahlen

JJW/ne
Attachment
cc: All parties of record

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20230023-GU

PETITION FOR RATE INCREASE
BY PEOPLES GAS SYSTEM, INC.

REBUTTAL TESTIMONY AND EXHIBIT
OF
KENNETH D. MCONIE

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

KENNETH D. MCONIE

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

A. My name is Kenneth D. McOnie. My business address is Emera Place, 5151 Terminal Road, Halifax, Nova Scotia, Canada. I am Vice President Tax and Treasurer for Emera Incorporated ("Emera"), which is the parent company of Emera U.S. Holdings, Inc., which is the parent company of TECO Energy, Inc. ("TECO Energy" or the "parent company"), which is the parent company of TECO Gas Operations, Inc., which is the parent company of Peoples Gas System, Inc. ("Peoples" or the "company").

Q. Are you the same Kenneth D. McOnie who filed direct testimony in this proceeding?

A. Yes, I am.

Q. What are the purposes of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address three points asserted by Office of Public Counsel ("OPC") witness Lane Kollen associated with the impact of the 2023 Transaction on the company's requested rate increase. I will also respond to OPC witness David J. Garrett's proposal on Peoples' equity ratio. My rebuttal testimony includes evidence on four points.

First, the Florida Public Service Commission ("FPSC" or "Commission") has a long history of allowing utilities to recover their projected long and short term borrowing costs through customer rates, and the Commission should not depart from this practice in this case.

Second, it seems odd for witness Kollen to say that Peoples paying the market-based costs of short-term and long-term debt results in a subsidy in favor of Tampa Electric and its customers. To the extent that the 2023 Transaction benefits Tampa Electric and its customers in the short term, OPC should also recognize that Tampa Electric's historical practice of borrowing on behalf of its gas division (Peoples Gas System) benefitted the customers of Peoples through lower interest rates and avoided stand-alone expenses such as independent audit and credit rating agency fees. Except for interest rate differences associated with credit rating differences, Peoples and Tampa Electric will over time borrow at approximately the same interest rates, because the long-term debt issued at historically low interest rates and enjoyed by the customers of both utilities will over time be replaced with new debt at the then current market rates. OPC and the Commission did not attempt to allocate the "benefits" of combined borrowing and avoided audit and rating agency fees during the 26 years since Peoples became part of Tampa Electric and should not do so now.

Third, contrary to witness Kollen's assertion, Peoples, Tampa Electric and Emera did evaluate whether to continue the historical borrowing arrangement between the two utilities or preserve the allocation of lower cost long-term debt to Peoples as part of the 2023 Transaction, but decided that entering into an Intercompany Debt Agreement during 2023 ("IDA") and Peoples issuing its own short-term and long-term debt to repay the IDA in 2023 and fund future capital needs was the best long-term solution for Peoples and its customers.

Finally, I will explain why the Commission should approve Peoples' equity ratio as proposed in its initial filing.

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

A. Yes. Exhibit No. KDM-2, entitled "Rebuttal Exhibit of Kenneth D. McOnie," 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:

Document No. 1	Peoples' Historical Investor Sources Equity Ratio (1998 to 2022)

I.

PEOPLES FORECASTED MARKET-BASED SHORT-TERM AND LONG-TERM BORROWING COSTS SHOULD BE RECOVERED THROUGH BASE RATES

Q. Have the Commission and other utility regulatory authorities historically allowed the utilities under their jurisdiction to recover their forecasted, market-based long-term borrowing cost through base rates?

A. As part of the ratemaking process, the FPSC has consistently concluded that the long-term debt costs included in the projected test year should reflect the expected cost of debt for the entity funding the utility's rate base in the test year, and not the historical cost of debt that had funded rate base by past owners of the utility. Peoples is not aware of a single recent instance in which the FPSC set customer rates using an historical long-term debt rate approved in a prior rate case rather than a current market-based long-term debt rate reflecting expected borrowing costs in the test year.

Q. Has Peoples proposed to recover its forecasted, market-based short-term and long-term borrowing costs through base rates in this proceeding, subject to its proposed Long-Term Debt True Up Mechanism?

A. Yes. The short-term and long-term debt rates are the expected embedded cost of the debt included in the company's 2024 projected test year adjusted capital structure. To ensure that customers do not pay any more than the actual long-term debt costs on Peoples' 2023 issuances relative to the forecasted long-term debt rate, the company is proposing the Long-Term Debt Rate True-Up Mechanism discussed on page 75 of the direct testimony of witness Rachel B. Parsons.

Q. How do you think the credit markets and credit rating agencies would view a decision that does not allow Peoples to recover its forecasted, market-based short-term and long-term borrowing costs through base rates?

A. Energy utilities such as Peoples have typically been characterized by very low business risk and stable financial metrics based on supportive regulatory frameworks. Higher ratings for energy utilities are typically justified by the low variability inherent in their business risks due to constructive regulatory oversight. A departure from past precedents by not allowing the recovery of market-based interest rates would impact rating agency assessments of the regulatory environment and the company's cash flow generating ability respectively.

The degree of regulation and related decisions can severely restrict or assist a regulated company such as Peoples. Since the forecasted short-term and long-term borrowing costs are market-based, a disallowance could potentially be seen as an extreme position. The precedent this would set would not necessarily be limited to this rate proceeding alone. Such a precedent may be assessed in the context of the overall regulatory environment and related business risk, both now and in the future, in a jurisdiction historically characterized as fair and constructive.

II.

<u>OPC'S EFFORTS TO AVOID INTER-COMPANY SUBSIDIES AND ALLOCATE BENEFITS SHOULD BE REJECTED</u>

Q. Will the company's proposed issuance of short-term and long-term debt in 2023 to repay its obligations under the IDA cause the customers of Peoples to subsidize Tampa Electric and its customers?

A. No. Although I am not an economist, I do not think Peoples paying market-based borrowing costs based on its credit profile and Tampa Electric paying market-based borrowing costs based on its credit profile will result in a subsidy in favor of either utility.

Q. To the extent that Tampa Electric will hypothetically "benefit" from Peoples repaying the IDA, should the Commission attempt to allocate that benefit between Tampa Electric and Peoples in this proceeding?

A. No. Peoples became a division of Tampa Electric when it was purchased by TECO Energy, Inc. in 1997. From then until the 2023 Transaction, Tampa Electric secured short-term and long-term debt for its electric and gas operations (Peoples Gas System) and allocated a portion of that debt and related interest costs to Peoples. Peoples did not borrow money on a stand-alone basis or incur incremental independent audit and credit rating fees during that 26-year period. To the extent that “benefited” the customers of Peoples over the years, OPC and the Commission did not attempt to allocate the value of those “benefits” between Tampa Electric and Peoples and should not do so now.

III.

THE COMPANIES CONSIDERED OTHER OPTIONS

Q. As part of the planning for the 2023 Transaction, did Emera, Tampa Electric, and Peoples consider whether to continue the historical borrowing arrangement between the two utilities or preserve the allocation of lower cost long term debt to Peoples as part of the 2023 Transaction?

A. Yes, but only briefly during the early stages of discussions about a possible asset transfer. Both options were considered and were deemed to be sub-optimal relative to the plan for debt ultimately included in the 2023 Transaction.

Q. Why?

A. An objective of the 2023 Transaction was to insulate Peoples and Tampa Electric from the contagion risk of the other respective affiliate through legal, operating, and financial structures. The effectiveness of insulating provisions as protective measures can be uncertain and, unfortunately, the strength of such measures is typically only determined if they are tested during times of distress. Specifically, during financial distress, including bankruptcy, it would be beneficial to have provisions that could prove to be instrumental in insulating either Peoples' or Tampa Electric's credit quality.

Peoples has implemented organizational changes to structurally isolate itself from its Tampa Electric affiliate. Peoples already has its own separate management team, maintains its own separate accounting records, and adheres to the affiliate code of conduct with respect to arm's length transactions with affiliates. These changes will contribute to making Peoples more bankruptcy remote from Tampa Electric. Peoples establishing its own borrowing arrangement and ceasing its reliance on Tampa Electric as a creditor/capital provider was also viewed as the best way to further the goal of promoting bankruptcy remoteness, especially relative to the option of maintaining the historical borrowing arrangement.

IV.

THE COMMISSION SHOULD APPROVE PEOPLES' PROPOSED EQUITY RATIO

Q. Do you agree with OPC's proposal to reduce Peoples' equity ratio?

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 59.7 percent equity ratio approved for Florida City Gas. Further, as Peoples' witness Dylan W. D'Ascendis explains, the company's 54.7 percent equity ratio is consistent with its peers and appropriate for ratemaking purposes as 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 will render it more difficult for the company to achieve credit metrics sufficient to support its targeted rating of BBB+.

Credit rating agencies view the regulatory environment as a key consideration in determining the creditworthiness of an energy utility. The regulator determines an appropriate capital structure and defines the allowed return on equity ("ROE"), and these are two of the key variables that go into building up a utility's revenue requirement and by extension the debt level and cash flow generating capability of the company. As such, 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 is 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 targeted credit rating and assure access to capital.

Q. How does Peoples' proposed 54.7 percent equity ratio for 2024 compare to its actual equity ratio in prior years?

A. As shown on Document No. 1 of my rebuttal exhibit, Peoples' proposed 54.7 percent equity ratio for 2024 is at or below its actual equity ratio for the past 12 years. Peoples' actual equity ratio was 53.55 percent in 2002, but otherwise has been above 54 percent during that period. OPC’s proposal to reduce Peoples’ equity ratio to 49 percent is inconsistent with the equity ratio actually maintained by the company since 1998 and should be rejected.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

EXHIBIT

OF

KENNETH D. MCONIE

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Peoples Gas
Historical Investor Sources Equity Ratio
FPSC Adjusted

1998	**57.8%**
1999	**58.4%**
2000	**57.5%**
2001	**53.6%**
2002	**56.4%**
2003	**59.9%**
2004	**59.7%**
2005	**59.2%**
2006	**59.3%**
2007	**56.3%**
2008	**54.2%**
2009	**54.2%**
2010	**55.1%**
2011	**55.4%**
2012	**55.8%**
2013	**56.5%**
2014	**56.6%**
2015	**57.0%**
2016	**56.9%**
2017	**55.2%**
2018	**56.2%**
2019	**57.0%**
2020	**56.5%**
2021*	**54.6%**
2022*	**55.7%**

*Due to the 2020 settlement, the company adjusted the ratio to 54.7% for all regulatory purposes.