

**BEFORE THE**

**FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 20230023-GU**

**IN RE: PETITION FOR RATE INCREASE**

**BY PEOPLES GAS SYSTEM, INC.**

**PREPARED DIRECT TESTIMONY AND EXHIBIT**

**OF**

**HELEN J. WESLEY**

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**PREPARED DIRECT TESTIMONY**

**OF**

**HELEN J. WESLEY**

**POSITION, QUALIFICATIONS, PURPOSE**

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

**A.** My name is Helen J. Wesley. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Peoples Gas System, Inc. (“Peoples” or the “company”) as its President and Chief Executive Officer (“CEO”). I am also President and CEO of the company’s affiliates, SeaCoast Gas Transmission, LLC (“SeaCoast”), its subsidiary, TECO Partners, Inc. (“TPI”), and Peoples’ parent company, TECO Gas Operations, Inc. SeaCoast is an intrastate natural gas transmission company and TPI performs marketing services for Peoples.

**Q.** Please describe your duties and responsibilities for Peoples.

**A.** I have overall responsibility and accountability for all aspects of Peoples. This includes: operational functions like safety and compliance, customer experience, operations, construction and engineering, regulatory affairs, and supply chain management; and corporate functions like human resources, marketing and communications, information technology, finance and accounting, and legal. I am responsible for managing our organization in a fiscally responsible way that is accountable to our customers, regulators, shareholders, strategic suppliers, and financing partners. I lead the company so our customers across the state receive safe, reliable natural gas service, our team members enjoy a great quality of employment, and we contribute as a positive force in the communities we serve. I also ensure that Peoples is financially sound and complies with the numerous rules and regulations governing businesses generally, and local gas distribution companies specifically.

**Q**. Please summarize your educational background and business experience.

**A.** I earned a Bachelor of Commerce degree in Marketing from the University of Calgary, and a Master of Business Administration degree in International Business from Bentley University in Boston.

I joined Peoples in 2020 as Chief Operating Officer, became President in 2021, and was named President and CEO effective January 1, 2023. I have over 30 years of energy industry experience in Canada, the United States, Europe, the Middle East, and Africa, and have been leading large groups in complex organizations since 2010. My energy experience spans upstream and downstream oil and gas, commodity and specialty chemicals, and electric and gas utilities.

I hold a Chartered Financial Analyst (CFA) designation and a Directors Designation from the Institute of Corporate Directors.

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

**A.** My direct testimony: (1) describes Peoples, our approach to serving customers, and our core values; (2) explains the importance of natural gas to the State of Florida; (3) highlights how Peoples has evolved since its last general base rate proceeding and the factors influencing that evolution; and (4) summarizes our increase request, why we need it and what we have done to avoid filing this request. Along the way, I will introduce the other witnesses who filed prepared direct testimony on behalf of the company.

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

**A.** Yes. Exhibit No. HJW-1, entitled “Exhibit of Helen J. Wesley,” was prepared under my direction and supervision and accompanies my prepared direct testimony. The contents of my exhibit were derived from the business records of the company and are true and correct to the best of my knowledge and belief. It consists of these four documents:

Document No. 1. List of Peoples’ Witnesses and Purpose of their Direct Testimony

Document No. 2 Peoples Gas System, Inc. Service Territory Map

Document No. 3 Corporate Structure Diagram of Peoples Gas System, Inc., and its Affiliates

Document No. 4 Bill Comparisons at Proposed Rates

**ABOUT PEOPLES**

**Q.** Please describe Peoples.

**A**. Peoples was formed in 1895 and is the largest natural gas local distribution company (“LDC”) in Florida. Through its 14 service areas, the company safely and reliably serves approximately 470,000 residential, commercial, industrial, and electric power generation customers in 39 of Florida’s 67 counties, including five major metropolitan areas.

As of December 31, 2022, our system included approximately 14,900 miles of gas mains. A map showing the reach of our gas distribution system is included in Exhibit HJW-1 as Document No. 2.

At year-end 2022, we employed approximately 700 team members to serve our customers. Looking only at our employee headcount gives an incomplete view of the company because Peoples also uses outside contractors to serve its customers. I will explain this further in my direct testimony.

Peoples is an indirect subsidiary of Emera Incorporated (“Emera”), a geographically diverse energy and services company headquartered in Halifax, Nova Scotia, Canada. Emera’s strategic pillars of decarbonization, decentralization and digitalization provide a foundational framework as Peoples serves the changing energy needs of Floridians. Emera also indirectly owns our affiliate, Tampa Electric Company (“Tampa Electric”). A diagram showing how Peoples fits into the corporate structure of Emera is included as Document No. 3 in Exhibit HJW-1.

**Q**. Please describe the company’s customer base.

**A**. As of December 31, 2022, Peoples served approximately 470,000 customers ranging from residential customers to small businesses to large hotels, hospitals, industrial users, and electricity generators. The distribution of customers across our rate classes at that time was 428,540 residential, 39,378 commercial, and 53 industrial and power generation customers. I will discuss the growth of our system and customer base in more detail later in my direct testimony.

**Q.** Please describe Peoples’ approach to serving customers.

**A.** Our goal is to serve customer demand for natural gas across the state in a safe, reliable, and sustainable way. Demand for natural gas – whether traditional, compressed natural gas (“CNG”), liquefied natural gas (“LNG”), or renewable natural gas (“RNG”) – comes from all customer classes and requires the company to invest in distribution infrastructure to directly serve customers on normal days and during periods of peak demand during extreme weather events. Planning for the future and expanding and improving our distribution infrastructure and supporting systems are important aspects of how Peoples supports the evolving demands of our current and future customers.

We support our gas distribution infrastructure through active procurement of physical and transportation capacity and complex long-term system planning and daily transactions to optimize supply throughout our system. We apply supply chain management practices, so the company obtains the goods and services it requires to provide safe and reliable service at the lowest reasonable cost and when needed. We operate continuously but think and plan for the long-term to meet the needs of our expanding residential and small commercial customer base, large volume electric generators, and other commercial and industrial customers.

Peoples takes a long-term view of growth and system planning given the long life cycle of our assets and the magnitude of capital deployed to serve natural gas demand. Our goal is to execute our strategy through effective corporate systems and processes to manage safety and compliance, cyber security, regulatory processes, financial tracking and forecasting processes, treasury management, customer contact services, and human resources processes.

As demand for natural gas grows, we must expand our physical system of pipelines, pressure and flow regulators, gate stations and meters, as well as the organizational infrastructure of people, systems, and processes to carry out that work safely, reliably, and efficiently. As we build to serve growth, we in turn must enhance internal capabilities to support that growth in a safe, reliable, and efficient manner. We call this being “fit for growth.”

**Q**. What are the company’s core values?

**A**. Peoples’ values include a commitment to safety, exceptional customer service, sustainability and environmental stewardship, fiscal responsibility, and supporting the communities we serve. We embrace innovation to continuously improve our systems, promote safety and reliability, and deliver exceptional customer experiences.

**Q**. Please describe Peoples’ commitment to safety.

**A**. The safety of Peoples’ team members, contractors, customers, and the public is paramount. Protecting our gas distribution system from damages caused by third parties during construction and from cyber-attack is vital. We focus on the safety of people and our pipeline in everything we do, and our efforts yield strong results. Our Pipeline Safety Management System (“SMS”) continues to enhance the safety focus of our culture, processes, and technology on our goal of zero serious injuries. Peoples has been an industry leader in the pursuit of a SMS based on the American Petroleum Institute’s Recommended Practice 1173.

The company’s Occupational Safety and Health Administration (“OSHA”) injury rate for team members and contractors is at an industry low. Peoples was awarded the Industry Leader Accident Prevention Award from the American Gas Association for a DART (days away, restricted, or transferred) incidence rate below the industry average in 2022. Peoples also received Gold Shovel Standard Certification for its use of underground damage prevention best practices and has required the same of its strategic partners. The company continues to have excellent Pipeline and Hazardous Materials Safety Administration (“PHMSA”) compliance results.

The costs of safely operating the company’s growing system and changing federal safety and security requirements continue to increase. So too have the costs of locating and moving our pipelines and infrastructure to facilitate construction activities in our growing state, and the related increased costs from damages to our system during third-party construction activities. The significant funding authorized in November 2021 through the federal Infrastructure Investment and Jobs Act will increase (1) construction activity on roads, bridges, broadband, and other infrastructure and (2) the demands on Peoples to locate and relocate its facilities.

Our focus on safety, our safety results, and the impact that changing safety requirements and growth have on our operations will be explained further in the prepared direct testimony of company witness Timothy O’Connor, Vice President of Operations, Sustainability and External Affairs.

**Q**. Please describe the company’s commitment to customer service.

**A**. Peoples’ commitment to providing exceptional customer service is a hallmark of the company. We have a record of outstanding customer service as reflected in consistent excellent rankings in national customer surveys.

In 2022, the company ranked highest in the south midsize segment of the J.D. Power Gas Utility Residential Customer Satisfaction study for the 10th year in a row, and highest in the south segment of the Gas Utility Business Customer Satisfaction study for the fourth year in a row and sixth time since 2016.

Peoples has led the nation in the J.D. Power residential study in eight of the past ten years and ranked highest in the nation in the business study in six of the past eight years.

Peoples was among the Most Trusted Utility in the nation for the ninth time in the 2022 Cogent/Escalent Syndicated Utility Trusted Brand & Customer Engagement Residential study. The same firm also named Peoples a Trusted Business Partner (two consecutive years), one of the easiest utilities in the nation with which to conduct business (fourth consecutive year), an Environmental Champion (eighth consecutive year), and a Customer Champion (ninth consecutive year).

We believe these recognized and consistently high levels of customer satisfaction have been achieved by: (1) our customer-facing team members’ dedication to customer service; (2) our customer contact center systems, processes, and people that result in high quality and efficient daily interactions; (3) our strong billing platform and processes; (4) our efforts to enable customers to interact with Peoples through many different communication channels; (5) helping customers manage their energy costs through our conservation programs, including the online home energy audit; (6) our commitment to lower emissions; and (7) our focus on safety, reliability, and service. Being a responsible corporate citizen and supporting the communities we serve are also important.

Witness O’Connor will explain the efforts our operations team members make in the field to support this exceptional service. Company witness Karen K. Sparkman, Vice President of Customer Experience, will explain the efforts our customer experience team makes to ensure that our customers can continue to communicate with the company how and when they want, which we believe is an important element of an exceptional customer experience.

**Q.** How does the company view sustainability and environmental stewardship?

**A**. Both are important to Peoples. Not only do our customers value sustainability and environmental stewardship but providing sustainable natural gas service is important to the future of Florida. Peoples also knows that it is simply the right thing to do.

Peoples strives to provide natural gas in an environmentally friendly way through reduced emissions and minimizing the effect of any damages to our system. Our Cast Iron/Bare Steel Replacement (“CI/BSR”) rider has reduced gas leaks, lowered carbon emissions, and enhanced the efficiency of the company’s distribution system. The success of this program and other environmentally friendly operating initiatives such as our MobileGuard program will be explained in the prepared direct testimony of witness O’Connor.

Customer interest in sustainable and renewable energy continues to grow and has expanded beyond solar. To support Florida’s clean energy future, our proposal in this case includes three innovative RNG projects that will deliver sustainable, carbon-negative, pipeline-quality gas made in Florida to customers in Florida. Projects like these reflect partnerships with farmers, counties, municipalities, and others to drive economic development, reduce methane emissions, and deliver Florida-sourced natural gas to customers.

These projects can be considered carbon negative because they take natural gas that otherwise would have been emitted into the atmosphere and create clean natural gas that can be injected into Florida’s pipeline system. With investment in RNG facilities, Florida can become a producer of natural gas, thereby reducing our reliance on imports from other states. Our efforts in this area are explained in the prepared direct testimony of company witness Lew Rutkin, Jr., Vice President of Gas Supply and Development. Witness Rutkin will also explain what Peoples is doing to support customers who want CNG and infrastructure to provide liquified natural gas (“LNG”) as part of their energy solution to replace other more expensive and more carbon intensive fuels.

**Q**. How does fiscal responsibility fit into the way Peoples does business?

**A**. Sound financial management and good business decision making are vitally important to Peoples. We work diligently to ensure that the goods and services we use to serve our customers are procured using good business practices and provide value to our customers. Our commitment to cost discipline is a primary reason that the cost profile for operating our business is reasonable and prudent. The business practices and controls we employ in this area are described in the prepared direct testimony of company witnesses Christian C. Richard, Vice President of Engineering, Construction & Technology, and Rachel B. Parsons, Vice President of Finance and Planning. Our other operating witnesses also discuss our success managing our cost profile.

**Q**. How does Peoples support the communities it serves?

**A**. Our team members work and live in the communities we serve, and it is important for Peoples to be a positive force in those communities. Peoples continues to deliver on its commitment to help its customers through challenges caused by the COVID-19 pandemic, volatile economic conditions, and severe weather. During the COVID-19 pandemic, Peoples and its team members supported customers and offered payment assistance to over 6,000 residential and commercial customers. These support activities included: (1) extensive outreach efforts; (2) implementation of modified payment arrangement guidelines to provide greater flexibility to customers; (3) revised service disconnection/reconnection guidelines; and (4) personal call follow-ups with customers who had not reconnected service after three days to offer creative options for assistance.

**Q**. How does Peoples help Florida during extreme weather events?

**A**. Because most of its natural gas infrastructure is underground and less susceptible to storm damage, Peoples’ natural gas service provides significant energy resiliency benefits to Florida during severe weather. During Hurricane Ian, only about 800 of the company’s customers experienced service disruptions, even though some of the company’s territories were in the hardest hit areas. When the electric grid is damaged during a storm, backup generation fueled by natural gas allows hospitals, nursing homes, residential communities, and other essential services to continue operations. The resiliency of the gas system allowed residential gas customers to have hot water, the ability to cook, and the potential for backup electric generation.

**IMPORTANCE OF NATURAL GAS**

**Q**. Are reliable and resilient local gas distribution companies (“LDCs”) like Peoples important to Florida?

**A**. Yes. LDCs like Peoples support the growth, business climate, and economic success of Florida both within and beyond Florida as our state competes in an increasingly global world. The cost competitiveness of natural gas relative to other sources of energy helps make Florida an attractive choice for individuals, families, and businesses.

Residential customers continue to demand natural gas in new developments for cooking, home heating, heating water, and as a fuel supply for emergency electric backup generation. Natural gas is a familiar and expected energy choice to those migrating to Florida from other parts of the United States. As a de-carbonization measure, natural gas is becoming more popular with businesses that seek a competitively priced, lower carbon emissions energy source.

Nationally, 76 percent of restaurants use natural gas and 90 percent of restaurateurs using natural gas say losing the ability to cook with an open flame would negatively impact the quality of the food they serve.

Access to lower cost, reliable, and cleaner natural gas has become more critical for electric generators as they move to decarbonize by closing coal plants. Electric generators like JEA and Tampa Electric are investing hundreds of millions of dollars to convert their coal-fired generation facilities to natural gas.

Natural gas has become an attractive option for marine shippers and cruise lines as they invest in LNG cruise ships to sustain their business economically and with a smaller environmental footprint. LNG-powered vessels generate up to 20 percent less carbon emissions than oil or diesel, and virtually eliminate sulfur oxides emissions, reduce nitrogen oxides by about 85 percent, and particulate matter by 95 to 100 percent. Using LNG will help the marine sector meet the International Marine Organization requirement to reduce sulphur emissions from ships by 80 percent beginning January 1, 2020. Six LNG-powered cruise ships currently operate out of ports within our territory and five more are expected by 2025. Peoples can supply the natural gas needed for LNG production in large volumes to these key locations.

Large industrial enterprises like cement plant operators and paving companies are switching to natural gas because of its reliability, affordability, and environmental benefits over alternative fuels.

The growing demand for natural gas in Florida, including CNG, LNG, and RNG, and how Peoples is responding to that demand, are explained further by company witness Rutkin.

**PEOPLES’ LAST GENERAL BASE RATE PROCEEDING**

**Q**. When did the company last seek a general base rate increase?

**A**. Peoples has only filed two base rate cases in the last 15 years. Its most recent general base rate case was filed on June 8, 2020, in Docket No. 20200051-GU, and yielded the Stipulation and Settlement Agreement approved by the Florida Public Service Commission (“Commission”) in Order No. PSC-2020-0485-FOF-GU, issued December 10, 2020, in Docket Nos. 20200051-GU, 20200166-GU, and 20200178-GU (“2020 Agreement”).

The 2020 Agreement authorized the company to implement new base rates and charges and established a return on equity (“ROE”) midpoint of 9.90 percent with a range of 8.90 percent to 11.00 percent effective January 1, 2021. The base revenue increase of $58 million included $23.6 million of revenue requirements transferred from the CI/BSR rider. The 2020 Agreement authorized Peoples to amortize $34 million of depreciation reserve surplus as a credit to depreciation expense from 2020 through 2023. This mechanism is unique to Peoples and served customers well.

**Q**. Has the 2020 Agreement been good for Peoples’ customers?

**A**. Yes. The 2020 Agreement benefited customers by creating three years of base rate stability and by providing a mechanism to efficiently give customers the benefit of a state income tax rate decrease and defer the effect of a state income tax rate increase during the term of the agreement. Furthermore, the depreciation credits effectively reduced the size of the base rate increase authorized in the 2020 Agreement, thereby mitigating the bill impact to customers during the settlement period. We understand that customers value rate stability and predictability and are pleased that the 2020 Agreement delivered both to them.

**Q**. Has the 2020 Agreement been good for Peoples?

**A**. Yes, but it has also presented challenges. The 2020 Agreement provided an equal measure of base rate stability and predictability to Peoples, but circumstances that were unforeseen when we entered into the 2020 Agreement proved challenging to Peoples during its term. Although the depreciation credit helped the company manage these unforeseen circumstances, it has and will not be enough to offset unforeseen customer demand and higher expense levels. In addition, part of the rate increase in this request effectively results from the ending of the depreciation credits in the 2020 Agreement.

**Q.** How did the company use the depreciation credit in the 2020 Agreement to help manage through unforeseen economic conditions?

**A.** Peoples used the credit in a manner consistent with the letter and the spirit of the 2020 Agreement. The company did not use the depreciation credit at all in 2021 and did not use it in 2022 to elevate its earnings to the top of its authorized earnings range. Rather, the company used the credit in 2022 to offset rate base growth, unexpected expense increases in other areas caused by general inflation, and interest rate increases. In 2023, the company will use the remainder of the credit amount for the same purposes. Unfortunately, the amount of the credit available in 2023 will not be enough to offset those higher costs, and the company expects to earn significantly below the bottom of its authorized earnings range.

**Q**. What is the company’s forecasted earned return on equity in 2023 and 2024?

**A**. As explained further in the direct testimony of witness Parsons, the company expects to earn below eight percent on equity in 2023 and, without rate relief, about two percent on equity in 2024. Both projected earned returns are below a reasonable rate of return on equity.

**Q.** How has Peoples evolved as an organization since the 2020 Agreement was approved, and why?

**A.** Since its last base rate proceeding in 2020, Peoples has evolved to meet changes and challenges caused by Florida’s remarkable growth and changing energy markets. We also executed a “seamless to customers” asset transfer into a separate corporation effective January 1, 2023 (“2023 Transaction”).

**GROWTH**

**Q**. What impact has Florida’s growth had on Peoples and its operations?

**A**. Florida’s growth has been remarkable, especially over the past few years. The state’s abundant natural resources, favorable tax system, balanced approach to regulation, and other thoughtful policy choices have helped make Florida one of the fastest-growing states in America. Florida is a national leader in new business formation and net population in-migration. While other states have experienced population declines, Florida’s population is expected to be 22.6 million people in 2024, up 1 million since January 1, 2021. Peoples’ witness Dr. Richard K. Harper, PhD., President of Economic Consulting Services, Inc., will discuss how Florida is growing and is projected to grow in his prepared direct testimony.

**Q.** What does Florida’s growth mean to Peoples?

**A.** Florida’s population growth means: more new home construction; more hotels, hospital, stores, and restaurants; new and expanded roads and other construction; and more gas-fired electricity generation. This growth leads to more demand for the product we distribute to our customers. As Florida grows, Peoples must: invest in new mains, laterals, service lines, and meters; hire team members to operate and maintain a growing system; and spend money building, upgrading, and moving the company’s gas distribution infrastructure to accommodate expanding Florida infrastructure.

**Q**. Has Peoples expanded its systems to support Florida’s growth?

**A**. Peoples has grown with Florida and will continue to grow as Florida grows. From January 1, 2021, to December 31, 2022, Peoples added approximately 40,000 (10 percent increase) and approximately 1,500 (four percent increase) new residential and commercial customers, respectively. The company expects to add almost 28,000 new residential and approximately 1,200 new commercial customers from January 2023 to December 2024. From January 2021 to December 2022, the company added approximately 1,200 miles of main and services (equivalent to driving from Panama City to Miami and back) and anticipates adding approximately 1,000 miles from January 2023 to December 2024. Residential sales for 2024, measured in therms, are expected to be up 12 percent over 2021 actuals. The investments required to support this remarkable expansion contribute to the company’s need for rate relief as do the demands of changing energy markets.

**Q.** Does Peoples expect Florida to continue to grow?

**A.** Yes. Although our national economy may be showing signs of a possible recession in 2023, we expect any recession to be relatively mild and not as pronounced in Florida as in other areas of the United States, especially in the thriving urban areas of Florida that we serve. Based on discussion with our witnesses, Harper, and Eric Fox, Director of Forecasting Solutions at Itron, and others knowledgeable about development, we expect growth in Florida to continue in 2023 and 2024, but perhaps at a slightly lower rate than in 2021 and 2022. By the end of 2024, we expect to serve approximately 456,000 residential, 41,000 commercial, and 56 industrial and power generation customers, with throughput of almost 1.8 billion therms. This outlook is explained further in the prepared direct testimony of witnesses Harper and Fox and is reflected in our 2023 and 2024 load forecast and financial forecasts.

**Q**. How much does the company project to invest in capital projects from January 1, 2022 to December 31, 2024?

**A**. Of the roughly one billion dollars, about $600 million is for growth, $400 million is for reliability, resiliency, and efficiency (“RRE”), and about $80 million is for legacy pipe replacement.

**Q**. How does the company identify the need to invest capital in its system?

**A**. Our capital spending is customer driven and arises in four areas.

First, a large portion of our capital spending is driven by residential and small commercial growth. Witness Fox supports the forecast for residential and small customers. The best time to install natural gas distribution facilities is as development occurs, not after, so we work closely with developers and government entities to be there before streets and parking lots have been paved and sidewalks have been built. This allows us to install our facilities at the lowest possible cost.

Second, our Gas Supply and Development team works with large commercial, industrial, and emerging technology companies to plan for and meet the demand in these market segments. In his testimony, witness Rutkin will explain how the company is investing in three RNG projects to bring sustainable, made-in-Florida, pipeline-quality RNG to customers in Florida. He will also explain how a planned pipeline expansion will enhance Florida’s market presence in the LNG market and support marine transportation. These major projects are supported by revenue from customer-specific contracts, but nevertheless contribute to the company’s overall rate base growth.

Third, the company has made and is making significant investments to improve the RRE of our systems. We identify opportunities to improve the RRE of our system in two ways. First, while maintaining and operating our system, our operations team becomes aware of facilities that need to be enhanced to maintain the safe and reliable operation of our system and takes steps to improve as necessary. Second, our system engineering team takes a longer view to identify RRE projects, but the ones they identify tend to be larger projects. Examples include: (1) the major projects for Jacksonville, Panama City and Southwest Florida approved in the 2020 Agreement; (2) the Dade City Connector; (3) our new Work and Asset Management System (“WAM”); and (4) the Tampa distribution system improvements included in this case. Witnesses O’Connor and Richard describe the RRE activities and projects in the operations and engineering areas, respectively, in their prepared direct testimonies.

Finally, our capital investment is driven by the growth in the Florida economy and the resulting construction activity in the state. New buildings and roads, relocating or widening existing roads, and redevelopment of existing parcels of land generally require Peoples to place its existing underground facilities in specified locations or, in many cases, to move them. The electric infrastructure undergrounding activity in Florida also impacts Peoples’ work activity and resource requirements.

Witness Richard will explain the processes the company uses to prioritize proposed projects, prepare budget estimates, develop capital budgets to construct projects, and the other controls in place to ensure that the goods and services the company purchases to build capital projects are procured and delivered on time and at the lowest total cost of ownership.

**Q**. Has Peoples added Team Members as Florida has grown and Peoples’ operations have expanded?

**A**. Yes. Peoples employs team members and also contracts with outside service providers to serve its customers. Contractors have enabled the company to perform required activities in the face of challenging labor markets caused by COVID-19 and general economic conditions. Peoples monitors Team Member Headcount and contractor usage but focuses on and manages its overall operations and maintenance (“O&M”) expense levels to efficiently provide safe and reliable service to its customers. The varying speeds at which Florida has grown in different geographies and the changing demographics of Florida’s labor force during the COVID-19 pandemic have added to the resourcing challenge and the necessity to have a more flexible contractor workforce.

As of January 1, 2020, Peoples employed 623 team members and by December 31, 2022 that number grew to approximately 700. Peoples expects to employ approximately 775 and 850 as of December 31, 2023 and 2024, respectively, to meet growing customer demand and optimize reliance on contract labor.

The need to increase our workforce is being driven by the expansion of our system in response to customer demand and our goal to ensure that we have enough permanent resources in place to provide safe and reliable gas service to our customers. This workforce optimization should also ultimately improve the cost effectiveness of our labor force, providing a benefit to customers.

The increase in resources is also driven by the ongoing growth in construction activity in Florida, which creates an increase in the need for resources to locate utilities for third parties prior to their construction beginning.

We are also preparing for the significant influence on construction activity that we anticipate will result from the authorization of the Infrastructure Investment and Jobs Act, which will cause more utility locate demand and relocation of gas infrastructure.

The efforts we have made to “right-size” our workforce and the positive effects those efforts have made on our customer experience are explained by company witnesses Donna L. Bluestone, Vice President of Human Resources, O’Connor, and Sparkman in their direct testimonies.

**CHANGING ENERGY MARKETS**

**Q**. How have changes in the energy market influenced Peoples and its approach to the gas business?

**A**. Peoples is a local gas distribution company, but its operations are influenced by weather, political activity, and economic factors around the world - all of which are beyond the company’s control. Although natural gas prices recently have been more volatile, the abundant supply of domestic natural gas has reduced the cost of natural gas well below levels a decade ago and made the United States a major exporter of natural gas. Customer demand for natural gas is high in Florida because it is affordable, reliable, and safe, and while some states have attempted to restrict the use of natural gas, policymakers in Florida have wisely preserved natural gas as a choice for consumers. Natural gas has also replaced coal as the primary fuel for generating electricity in the state.

**Q**. Have other factors influenced Peoples’ operations since its last base rate proceeding?

**A**. Yes. We have also experienced unexpected increases in the cost of the goods and services we procure to provide service (i.e., inflation), labor market challenges, supply chain disruptions and higher than expected interest rates. Although the company has worked diligently to moderate the effects of these increases, the combined impact of growth and these factors is challenging the company’s ability to continue to (1) safely and effectively operate and maintain its growing systems under current rates while (2) earning a fair rate of return on its investments to serve customers.

**Q**. Does the company expect these factors to continue to influence its operations in the 2024 test year?

**A**. Yes. In response to the economic distress caused by the COVID-19 pandemic, the Federal Reserve quickly and aggressively decreased its interest rates, but now is raising them to combat inflation. These changes have impacted capital markets, long- and short-term borrowing costs, and the cost of common equity. Further interest rate increases by the Federal Reserve are expected.

The impact of short- and long-term interest rate increases on the company’s projected borrowing costs and the debt elements of our capital structure are explained in the prepared direct testimony of company witness Kenneth D. McOnie, Vice President Tax and Treasurer for Emera.

Company witness Dylan W. D'Ascendis, Partner at ScottMadden Inc., discusses how market conditions have influenced the required rate of return on equity for public utilities like Peoples.

The company is hopeful that the pace of inflation will moderate somewhat in 2023 and 2024; however, the higher costs the company paid in 2021 and 2022, and is expecting to pay in 2023, are now reflected in the cost of capital additions. For example, during the last three years, Peoples has experienced a 117 percent increase in the cost of steel pipe. The significant increase (89 percent in one year) in interest rates is expected to persist in 2023 and 2024, according to many sources. The company does not expect the prices it pays for goods and services in 2023 and 2024 to revert to 2020 levels. The company’s view of inflation is discussed further in the prepared direct testimony of witness Harper.

Historically low unemployment levels continue to put upward pressure on employee compensation levels, forcing the company to rely more heavily on contract labor, which also reflects higher labor costs. The impact of the current and expected labor market on our operations will be discussed in the prepared direct testimony of witnesses Bluestone and O’Connor.

The impact of, and outlook for, supply chain disruptions is explained in the prepared direct testimony of witnesses O’Connor and Richard. Witness Richard will also explain the work we are doing in the supply chain management area to moderate the impact of supply chain disruptions.

**Q.** What other factors come into consideration for Peoples as it manages its operating and financial performance?

**A.** All regulated utilities, including Peoples, must consider and balance the interests of many stakeholders as they manage the effects of a dynamic business environment. The company’s financial witnesses describe the importance of maintaining financial integrity and the company’s cost of capital, which is influenced by market forces largely beyond the company’s control. Peoples works with Emera to maintain good working relationships with credit rating agencies, lenders, and other financial market participants so its costs for debt and equity capital are reasonable and appropriate. In addition, the company optimizes its capital costs – both debt and equity – by maintaining consistent, credible, and stable earnings and cash flow performance over time. Doing so promotes predictability and confidence in Peoples for equity investors and lenders.

As part of this process, Peoples has been thoughtful and deliberate about dealing with unanticipated factors such as: (1) significant increases in the costs of labor, goods, and services; (2) interest rate increases; and (3) supply chain challenges – all while providing safe and reliable service to customers and maintaining stable and predictable earnings levels. The company’s commitment to defer base rate increases until January 1, 2024 has made dealing with these unanticipated factors a challenge, especially in 2023; however, through careful management and cost discipline, the company has developed plans for 2023 that balance these factors.

**Q.** How are these plans reflected in the company’s 2023 financial forecast?

**A.** To ensure that we continue to provide safe and reliable gas service and maintain our earnings performance in 2023, Peoples is carefully managing its cost structure, including the timing of hiring new team members required to meet continued growth in customer demand. In 2023, we are absorbing significant increases to our labor costs so we can remain competitive in the market, but doing so has increased our O&M expenses. Consequently, we are planning to pursue our incremental Team Member hiring only in the fourth quarter of 2023 to ensure we continue to have the resources required to support current customer growth. This approach will mitigate the impact of new hires on our cost structure but allow us to balance our need to provide safe and reliable service with our need for earnings performance.

We are managing other elements of our cost structure by limiting travel and entertainment expenses, discretionary training, consulting support, and other costs of doing business to levels that are only sustainable for short periods of time, especially in a challenging labor market. We are confident that we can manage through this period of adversity in 2023 but require recovery of higher O&M expense levels in 2024 to sustain our operations, attract and retain talented people, and maintain our high levels of customer satisfaction. We are fortunate to have a loyal and committed work force to help us manage through 2023 and into 2024.

**2023 TRANSACTION**

**Q**. Please describe the 2023 Transaction.

**A**. Peoples was purchased by TECO Energy, Inc. in 1997 and was merged into the TECO Energy family as an operating division of Tampa Electric. Since then, Peoples operated as a division of Tampa Electric, and was regulated by the Commission as a stand-alone entity. This original business structure was selected in part because: (1) holding Peoples’ as a stand-alone entity would have triggered registration requirements with the Securities and Exchange Commission; (2) subjected TECO Energy to significant other corporate restrictions under the Public Utilities Holding Act of 1935 (“PUHCA”); and (3) Peoples was relatively small compared to Tampa Electric.

Since then, two things have happened. First, the PUHCA was amended to eliminate the registration requirements and other restrictions, and second, Peoples has grown significantly with Florida. Consistent with how most utility companies are organized, Emera decided in 2022 that it was time to legally separate its Florida electric and natural gas utilities to reflect their different business needs, geographic reach, and regulatory constructs. The natural gas assets, liabilities, and equity of the Peoples Gas System, a division of Tampa Electric Company were therefore transferred as part of a tax-free exchange to a new corporation named Peoples Gas System, Inc., effective January 1, 2023.

**Q**. Does the Internal Revenue Code contain requirements for the transaction to be considered a non-taxable event for federal income tax purposes?

**A**. Yes. While there are other requirements, the most significant is that Peoples must begin securing its own debt capital by borrowing from a lender other than Tampa Electric by December 31, 2023. As part of the process, Peoples will begin issuing its own financial statements and obtain an independent credit rating. In doing so, Peoples’ capital structure will reflect its business size and risk profile, and its debt financing costs will be based on market forces and its independent credit rating.

**Q**. What impact will Peoples having its own credit rating have on the company’s financing costs?

**A**. Peoples may experience higher financing costs in the short term, but this arrangement will ultimately have benefits for Peoples and its customers. In his direct testimony, witness McOnie will discuss the implications of the new financings on test year interest rates and the debt portions of the company’s capital structure.

**Q**. How will the 2023 Transaction impact the company?

**A.** First, the transaction had no visible impact to our customers, and very little impact to employees. Except for changing the name of the company, the transaction did not involve changes to the company’s tariff and the new entity, Peoples Gas System, Inc. adopted the tariff of the Peoples Gas System, a division of Tampa Electric on January 6, 2023.

Customer bills are still being issued in the name of Peoples Gas. The company’s customer service operation has remained the same and uses the same physical and mailing addresses, phone numbers, email addresses, and remote access pathways. The company’s trucks, uniforms, and signs have not changed due to the transaction. Peoples will continue to provide the same high level of award-winning natural gas service to its customers.

Peoples franchise agreements and other large contracts have been amended for the new counterparty, Peoples Gas Systems, Inc., and inter-affiliate agreements have been similarly amended.

Second, Peoples will continue to benefit from the provision of shared services from Tampa Electric, and to work collaboratively on managing our spending with outside contractors to receive high quality goods and services at competitive prices. For instance, we will continue to receive support from Tampa Electric’s legal, information technology, and customer experience team members. Our shared billing platform and online systems enable high quality customer contact at a more affordable cost-to-quality ratio than Peoples Gas might be able to afford on its own. These kinds of shared service arrangements are valuable to Peoples’ customers and will continue to be an integral part of how we deliver exceptional experiences to our customers.

Third, the resulting structure will allow Peoples to manage the timing and quantum of market debt issuances and to optimize the level of short- and long-term debt solely at Peoples’ discretion, enabling more flexibility to manage interest expense relative to the prior arrangement of borrowing through Tampa Electric. Moreover, as a separate entity, Peoples will have the flexibility to manage its affairs to maintain the credit rating which best reflects its risk profile and associated cost of debt.

Finally, the 2023 Transaction has not and will not have a material impact the company’s O&M expense profile. Although our O&M expenses have increased since 2022, those increases were largely caused by inflation, labor market conditions, increasing compliance requirements, and the demands of operating and maintaining a larger system – not the 2023 Transaction.

**Q.** Was the 2023 Transaction prudent and how will it benefit the company’s customers?

**A**. Yes. The transaction was prudent and will benefit the company’s customers.

The resulting new structure provides a better platform for Peoples as it grows and changes with evolving natural gas markets. Peoples was relatively small in comparison to Tampa Electric when it was acquired in 1997. Since then, it has grown to serve more than half of the number of customers served by Tampa Electric and serves a geographic area that extends around Florida to include five major metropolitan areas, not just the one served by Tampa Electric. Although the members of the Tampa Electric and Peoples Boards of Directors are currently essentially the same, the transaction enables Peoples, if it so chooses, to populate its board in the future with different board members. The transaction is a continuation of a long process of dedicating more resources to supporting the growing gas business in Florida.

Our customers also benefit from the risk mitigation effect that placing the assets and liabilities of gas and electric operations in separate legal entities will provide. Tampa Electric and Peoples work diligently to be safe and avoid catastrophic accidents. However, events like the 2010 San Bruno explosion and the deadly 2020 Zogg Wildfire – on the gas and electric systems of Pacific Gas and Electric Company in California - show how accidents on one side of a dual system utility can threaten the other side. The new corporate structure and governance of Peoples, as Peoples Gas System, Inc., helps insulate Peoples’ customers from the impact of events that may occur in the future at Tampa Electric, and vice versa.

**INCREASE REQUEST AND STEPS TO AVOID SEEKING AN INCREASE**

**Q**. Please summarize the company’s request for rate relief.

**A**. Peoples seeks new base rates and charges to be effective with the first billing cycle in January 2024 based on a calendar year 2024 projected test year to generate an annual revenue requirement increase of approximately $139.3 million, which includes approximately $11.7 million of revenue that we are currently collecting through our CI/BSR rider, which we propose to roll into base rates as we did in our last general base rate proceeding in 2020. We are requesting a net increase of approximately $127.6 million.

Our proposed rates reflect a net rate base of approximately $2.4 billion, a proposed return on equity of 11 percent, an equity ratio of 54.7 percent, and the projected revenues and expenses for our 2024 projected test year. These key elements are reasonable considering current and projected capital market conditions, labor markets, inflation, and customer demand, and that our proposed rates and charges are fair, just, and reasonable.

**Q**. Which witnesses will be testifying on the key elements of the company’s proposed revenue requirement?

**A**. The prepared direct testimony of company witness McOnie, and witnesses D'Ascendis, and Fox support the equity ratio, return on equity, and load forecast components of our proposal, respectively.

Witnesses Sparkman, O’Connor, Rutkin, Richard, and Bluestone support the level of test year rate base and O&M expenses in their areas.

Witness Dane A. Watson, Managing Partner in Alliance Consulting Group, will testify about our proposed depreciation rates and their impact on test year depreciation expense.

Witness Parsons presents and explains our revenue requirement calculation, including our 2024 revenue forecast, income and other taxes, and the proposed overall rate of return in her prepared direct testimony. She will also explain why 2024 is a reasonable test year for ratemaking and how our forecasting process yields a test-year budget that is appropriate for ratemaking purposes.

**Q**. Is the company proposing any cost of service methodology or major tariff changes as part of its petition?

**A**. We are not proposing significant cost of service methodology changes in this case. Witness Gregg Therrien, Vice President of Concentric Energy Advisors, performed a cost of service study and will testify on the results of the cost of service model and how it was used to design our proposed customer rates. Our filing also includes proposed tariff wording changes and updated service charge levels, all of which will be explained by company witness Karen L. Bramley, Manager of Regulatory Affairs, in her direct testimony.

**Q**. Why does the company need this level of rate relief?

**A**. The major factors driving the need for our proposed rate increase are the growth in the Florida economy and a growing consumer interest in natural gas. They include strong customer and rate base growth, plus associated increases in depreciation expenses, property taxes and O&M expenses to operate the company’s system safely and reliably that are outpacing the company’s revenue growth. As a result of these factors, driven by external forces, and to provide the kind of service our customers expect as our customer base grows, the company projects to earn below the bottom of its approved ROE range in 2023 and earn approximately two percent ROE in 2024 without rate relief.

**Q**. What actions has Peoples taken to avoid making this rate increase request?

**A**. The growth Peoples has experienced not only impacts its capital spending but also requires more resources for customer service, operations, maintenance, compliance, and other activities. Peoples has worked diligently to avoid seeking a base rate increase and continues to pursue efficiencies to help it meet its customers’ strong demand for natural gas service in the communities it serves. Here are some of the actions taken by Peoples to avoid seeking a base rate increase.

First, Peoples voluntarily limited its ability to seek interim or permanent rate relief by agreeing to the “rate freeze” and “stay out” provisions in the 2020 Agreement.

Second, Peoples has pursued cost savings, cost avoidance, efficiencies, and better performance throughout its operations by reorganizing and redeploying resources to deliberately seek and implement process improvements. The company’s disciplined approach has yielded improvements in damage prevention and other safety metrics, talent acquisition, customer experience, and project management. The company’s commitment to formal process improvement continues to provide cost avoidance and efficiency while meeting the needs of Peoples’ growing system. As discussed by witness Parsons, our projected 2024 O&M expenses are below the Commission’s cost benchmark by $7.4 million, notwithstanding these increases.

Third, the company has invested in critical technology to manage its operations to provide efficiencies and opportunities to expand on those efficiencies. In its 2020 general rate proceeding, Peoples explained its plans to implement a WAM system to manage more efficiently the many operational, engineering, and construction activities involved in serving customers. WAM will be operational in 2023, and will begin to improve operating efficiencies and enhance customer service by automating functions that were previously performed manually. Peoples has also invested in more advanced call center technology, including an enhanced Interactive Voice Response (“IVR”) System, to provide further improvements to meeting customer service levels through the company’s call center. The pipeline safety improvements described earlier will help reduce carbon emissions and improve the efficiency of the company’s distribution system.

Fourth, as I previously mentioned, the 2020 Agreement contained a provision allowing Peoples to record depreciation expense credits totaling $34 million during its term to keep rates stable and improve the ability to earn within its range of returns allowed in the Agreement. Peoples did not use the depreciation credits in 2021, used $14 million in 2022 to earn below its mid-point, and will use the remainder in 2023 consistent with the letter and spirit of the 2020 Agreement. Despite the company’s careful use of depreciation credits, Peoples expects to earn below the bottom of its authorized ROE range in 2023, the last year of the term of the 2020 Agreement.

**Q**. What impact will the requested base rate increase have on typical residential and small commercial customers’ bills?

**A**. Based on the company’s current gas commodity price forecast and the company’s proposed base rate increase, we expect the average residential and small commercial customer bill to increase about 17.3 and 14.4 percent, respectively, over the typical residential and small commercial bills in 2021 arising from our 2020 rate case. Considering the average bills in effect in 2009 after our 2008 rate case, our proposed base rate increase in this case and current commodity forecast will result in a 29 and 35 percent increase for residential and small commercial customers, respectively, over 16 years, or a simple average of about 1.8 percent (residential) to 2.2 percent (small commercial) a year. As shown in Document No. 4 of exhibit HJW-1, these 29 and 35 percent cumulative bill increases from 2009 to 2024 compare favorably to Consumer Price and Producer Price indices increases from 2009 to 2022. We understand that our customers do not like rate increases but believe the total proposed price our customers will pay, and our proposed base rates and charges are fair, just, and reasonable, and will continue to position gas service as a good alternative to other energy choices.

**Q.** What is the company’s outlook for 2025 and beyond?

**A.** The company expects Florida and its service areas to continue to grow in 2025 and thereafter, and Peoples will need to continue investing and expanding its infrastructure, systems, and work force to meet that growth. We have several major projects on the drawing board or in progress that will be significant to our future operations, including moving into new corporate office space in 2025 at the end of the term of the company’s existing lease. As this case proceeds, we will be open to creative regulatory tools to extend the life of the rates established in this case, such as base rate adjustments to recover the cost of specific rate base additions and extension of our existing depreciation credit mechanism.

**SUMMARY**

**Q**. Please summarize your prepared direct testimony.

**A**. Peoples is proud to serve the growing State of Florida and appreciates the opportunities and responsibilities it has as a regulated gas public utility. We are proud of the way we support the success of Florida and view this increase request as a means to continue providing safe, reliable, and award-winning natural gas distribution service to customers in Florida. The base rates and charges proposed in this case are fair, just, and reasonable and should be approved.

**Q**. Does this conclude your prepared direct testimony?

**A**. Yes.

# EXHIBIT

**OF**

**HELEN J. WESLEY**

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