

**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**

**CHRISTIAN C. RICHARD**

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**PREPARED DIRECT TESTIMONY**

**OF**

**CHRISTIAN C. RICHARD**

**POSITION, QUALIFICATIONS AND PURPOSE**

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

**A.** My name is Christian C. Richard. I am employed by Peoples Gas System, Inc. (“Peoples” or the “company”) as its Vice President of Engineering, Construction and Technology (“ECT”). My business address is 702 North Franklin Street, Tampa, Florida 33602.

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

**A.** I am responsible for (1) the design, engineering and construction of the company’s transmission and distribution facilities; (2) the company’s supply chain management; and (3) information technology (“IT”) oversight. I am also responsible for developing annual capital and operating budgets for the ECT area.

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

**A.** I graduated from the University of New Brunswick (New Brunswick, Canada) with a bachelor’s degree in engineering in 2000 and earned a master’s degree in business administration (“MBA”) from l'Université de Moncton (New Brunswick, Canada) in 2003.

I have worked in the utility industry for over 15 years, with seven at an electric utility in New Brunswick, Canada, and eight years in the natural gas sector. I served as General Manager of Emera Brunswick Pipeline in New Brunswick, Canada, and was on the Management Committees of Maritimes and Northeast Pipeline United States and Maritimes and Northeast Pipeline Canada. My work experience also includes managing industrial operations in the forestry sector (sawmills) and the tidal energy sector. I joined Peoples in 2019 as its Vice President-Strategy and assumed my current position in 2022.

**Q.** Please describe the company’s ECT team.

**A.** Peoples’ ECT team consisted of 150 team members as of December 31, 2022 and is expected to grow to 191 by December 31, 2024. I will discuss the reasons behind the growth of the ECT team later in my direct testimony.

As of December 31, 2022, 146 members of the ECT team were dedicated to designing, engineering, and constructing gas infrastructure and related activities. These activities include maintaining the company’s “as built” construction records and its Geographic Information System (“GIS”), integrity management, codes and standards, and gas control, measurement, and regulation.

Three team members currently focus on supply chain management and this team needs to expand to eight by the end of 2023. The Supply Chain Management team oversees the company’s procurement process and applies supply chain principles to business processes. Additionally, this team ensures that the company’s supply chain principles are followed by outside service providers or contractors working for the company. I discuss specific supply chain management approaches and the drivers for the team expansion later in my direct testimony.

One member of the company’s ECT team focuses on IT and serves as a liaison between Peoples and its shared services provider, Tampa Electric Company (“Tampa Electric”), for IT related activities.

The ECT team works closely with both the Residential and Small Commercial team and the Gas Supply and Development team. Together we design, engineer, and construct distribution facilities to serve the growing demand from the company’s customers. My team also collaborates with the Gas Operations and Safety teams to ensure that the company’s system complies with federal and state safety requirements. The ECT and Gas Operations teams work to identify and mitigate risk across the company’s transmission and distribution system while ensuring reliability, resiliency, and efficiency (“RRE”).

**Q.** What role does safety play at Peoples?

**A.** The safety of Peoples’ team members, contractors, customers, and the public is paramount. As the largest local gas distribution company (“LDC”) in the state, Peoples seeks to set the standard for LDCs in Florida and beyond. Peoples seeks to lead by example with safety, compliance, and reliable operations with a sharp focus on customer service. Peoples expects its contractors adhere to the company’s safety standards and devotes resources to ensure that happens.

Peoples’ approach to safety is founded on its Pipeline Safety Management System (“PSMS”), which is based on the American Petroleum Institute’s (API) Recommended Practice 1173. The PSMS’ 10 elements encompass all facets of safety management for the company’s business and promote continuous improvement through a plan, do, check, and act cycle.

Peoples’ witness Timothy O’Connor will discuss the company’s efforts to operate safely in his direct testimony. I will discuss ECT’s Contract Business Partner Safety Program later in my testimony.

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

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

(1) Explain how the ECT group works with other areas of the company to prudently expand the company’s distribution system;

(2) Describe the company’s supply chain management system and how that system enables the company to procure goods and services at the lowest reasonable cost and greatest value;

(3) Explain how Peoples works with Tampa Electric to deliver IT solutions;

(4) Describe the capital budgeting and forecasting processes in place in the ECT area and how those feed into the company’s overall financial forecasting process;

(5) Discuss the residential and small commercial, RRE, legacy pipe, and technology capital projects undertaken by the company since its last general base rate proceeding and why they are prudent; and

(6) Demonstrate that the level of ECT operations and maintenance (“O&M”) expenses in the company’s 2024 projected test year is reasonable and prudent.

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

**A.** Yes. Exhibit No. CCR-1, entitled “Exhibit of Christian C. Richard,” was prepared under my direction and supervision and accompanies my prepared direct testimony. The contents of my exhibit and the MFR schedules referenced in them were derived from the business records of the company and are true and correct to the best of my knowledge and belief. My exhibit consists of the following documents:

Document No. 1 List of Minimum Filing Requirement

Schedules Sponsored or Co-sponsored by

Christian C. Richard

Document No. 2 Residential and Small Commercial Capital

Spending 2022 to 2024

Document No. 3 Work and Asset Management System (“WAM”) Components and Cost

Document No. 4 IT Project Costs

Document No. 5 Major IT Project Descriptions

**DISTRIBUTION SYSTEM EXPANSION AND IMPROVEMENTS**

**Q.** How does the company identify areas where it needs to expand its gas distribution infrastructure?

**A.** The company identifies the need to expand Peoples’ gas distribution system in two ways. First, the company and its Sales team collaborate with large residential developers to understand and anticipate potential areas of growth. This collaboration allows the company to plan where, when, and how to expand its gas distribution facilities to meet expected demand from residential and small commercial customers. Second, the company’s Gas Supply and Development team works with large commercial and industrial customers, and companies seeking alternative energy solutions, to plan for and meet the demand in these market segments.

**Q.** How does Peoples identify the need to improve its distribution system?

**A.** The company identifies the need to improve the RRE of its distribution system on both a day-to-day and long-term planning basis. The Gas Operations and ECT team members (gas control and technical services) work closely to identify facilities in need of replacement and improvement to maintain the safe and reliable operation of the system. Together these teams plan and achieve replacements and upgrades, as necessary.

The ECT team uses a long-term and risk-based systems planning view to identify larger RRE projects by evaluating system pressures, locating reliability issues and concerns, and forecasting growth through system modeling. RRE projects are primarily designed to enhance the safety and reliability of the natural gas supply to customers. These projects include activities to maintain adequate pressure or flows and ensure the availability of a primary and secondary feed of supply. RRE projects also include construction activities related to mandatory municipal relocation activities.

**Q.** Please describe the principles that guide the investments the company makes to improve the RRE of its systems.

**A.** When evaluating potential RRE capital projects, the ECT team focuses on: (1) ensuring the safe and reliable operations that customers expect, (2) being effective and efficient in the design and engineering of pipeline infrastructure, and (3) constructing pipeline facilities to deliver value to customers.

The company includes safety and reliability considerations in all aspects of engineering, construction and technology from the design and engineering stage to ongoing integrity management. For example, the ECT team continuously evaluates and integrates new construction codes and standards into the company’s practices. This allows the company to construct and place new facilities in service using the latest and safest construction practices. This approach facilitates the company’s compliance with evolving Pipeline and Hazardous Materials Safety Administration (“PHMSA”) and Florida Public Service Commission (“Commission”) engineering and construction requirements. The company’s Codes and Standards group evaluates and approves the materials used by the company to provide service.

**Q.** Do the company’s engineering, design and construction practices vary depending on whether the project is classified as a growth or RRE project?

**A.** No. The company builds projects using safe practices and in a cost-effective manner - no matter the size or purpose. This practice extends to contractors used by the company for any project. The size, purpose, and complexity of a project determine whether a project is considered growth or RRE.

The company uses standard design, engineering and construction practices for its routine operational projects such as small pipeline and lateral extension projects or simple equipment changeouts. These routine projects are performed by the company’s team members or contractors.

The projects advanced by the Gas Supply and Development team are typically driven by a customer’s specific needs and are larger in scale and more complex. Typically, only a few of these types of projects are active at any given time. The company uses a team of professional project managers to design, engineer and construct these projects. The company uses the same project management approach for large RRE projects.

**Q.** What other processes and controls does Peoples use for large growth and RRE projects?

**A.** The company uses more governance, controls and rigor in design and construction for the higher dollar value, large growth, and RRE projects.

The company applies a class design estimate process and decision stage-gate approach for larger projects. Classes are ranked from Five to One. As you proceed from Five towards One, each class involves more specificity for the design, engineering, and cost estimate for the project. The (-/+) percentage for each class, is the margin of error in price estimating that considers past similar projects while incorporating the lack of design of the project being scoped. Design and engineering for large projects begins with a Class Five estimate (-70/+90 percent) and, if project economics continue to meet the requirements, design, and engineering advances to a Class Four (-45/+55 percent), Class Three (-30/+40 percent), Class Two (-25/+30 percent), and eventually a Class One estimate (-10/+10 percent), provided all decision stage-gate requirements have been met. A Class One design includes construction drawings, firm pricing and schedules and makes a project ready for construction.

I will describe the system of management approvals the company applies before beginning construction later in my direct testimony.

**Q.** How does the company procure the materials, supplies, and contractor support to construct its routine and large projects?

**A.** The company uses supply chain management practices for all system growth, RRE projects, and legacy pipe replacement projects described later in my direct testimony. Doing so enables the company to grow and improve the RRE of its distribution infrastructure, and replace legacy pipe, in a safe and efficient manner and at the lowest reasonable cost to the company and its customers.

**Q.** How does the company apply technology to the assets it constructs to promote safety, RRE?

**A.** Peoples uses technology to monitor and protect the integrity of its distribution system so it can provide safe and reliable gas to its customers and protect the public.

PHMSA imposes requirements for asset traceability, asset tracking, mapping, and system monitoring, all of which influence how the company applies technology and the costs of engineering, designing, constructing, and operating its systems.

Once pipeline assets are placed into service, Peoples uses state-of-the-art barcode tagging and GPS Technologies to capture as-built information. This information is loaded directly into the company’s GIS systems to ensure accurate and up-to-date maps and records of assets are maintained. Accurate and timely updates to maps and records promote effective and efficient system operation and maintenance, enable the company to locate its facilities quickly and efficiently, and facilitate routine and emergency repairs.

The company’s Gas Control team uses advanced information technology including its Supervisory Control and Data Acquisition (“SCADA”) system to monitor the operating status of the company’s gate stations and compressor operations 24 hours a day and 365 days a year.

The company’s new Work and Asset Management system (“WAM”) will increase productivity, efficiency, and safety by centralizing work in one system. It will also digitalize and standardize manual processes while providing data and process support to enable the company to optimize the efforts of its operations workforce. WAM is described in greater detail later in my direct testimony.

**Q.** What role does inspection play during construction activities?

**A.** Peoples uses internal and contracted construction inspectors throughout the construction process on both large (transmission projects) and high-volume work (new services) to ensure construction practices are followed.

**SUPPLY CHAIN MANAGEMENT**

**Q.** What does the term “supply chain management” mean to Peoples?

**A.** Supply chain management is the active management of supply chain activities to maximize value and support the safe and reliable provision of gas services to the company’s customers. It is a way of managing company procurement of goods and services and applies principles to business processes to promote efficiency, manage or reduce costs and avoid supply disruptions.

**Q.** How has the company historically supported its supply chain activities?

**A.** Peoples’ supply chain activities have historically been supported entirely by the company’s affiliate, Tampa Electric, as a shared service. Effective January 1, 2023, Peoples established its supply change management group within the ECT area with three team members. It is necessary to expand to a team of eight by the end of 2023 to enable strategic sourcing of materials and services, provide inventory management functions, and impose governance procedures and controls on all aspects of the company’s supply chain system.

**Q.** Why did the company establish its Supply Chain Management team?

**A.** AlthoughTampa Electric has done a good job over the years supporting Peoples’ supply chain needs, Peoples chose to establish its own dedicated Supply Chain Management team for the following reasons.

First, as Peoples’ witness Helen J. Wesley explains in her prepared direct testimony, Florida is growing at a remarkable pace and Peoples is growing with it. As a result, Peoples must: (1) invest in new mains, laterals, service lines and meters; (2) hire team members to operate and maintain a growing system; and (3) spend money building, upgrading, and relocating the company’s gas distribution infrastructure to accommodate public infrastructure construction. Peoples’ growth challenged Tampa Electric’s ability to keep pace with the company’s supply chain needs.

Second, the company’s supply chain needs are different than Tampa Electric’s. Not only do the two companies operate in different geographic areas of Florida, but also in different segments of the utility industry, which means they procure different types of materials, supplies and services. Peoples has key suppliers that were not critical to Tampa Electric and needed to enhance its communications, coordination and working relationship with these suppliers. One example was the need to apply the company’s unique gas safety standards to its contractors.

In working with Tampa Electric, Peoples identified two options, namely: (1) Tampa Electric could modify and enhance its supply chain operations to address Peoples’ growing and specific needs or (2) Peoples could establish its own supply chain management system. After careful analysis, and to enable Peoples to continue to grow and meet customer demand in the most cost-effective manner, Peoples concluded that establishing its own supply chain management operation was the best option. The company views this move as part of Peoples’ natural evolution as described in witness Wesley’s direct testimony.

**Q.** What supply chain management functions will Peoples perform with its new Supply Chain Management team?

**A.** As previously stated, the expansion of the supply chain management team to eight team members will enable the company to implement several key processes and best practices, such as Category Management, Strategic Sourcing, Total Cost of Ownership and Contractor and Supplier Relationship Management. Transaction-intensive functions like Procure-to-Pay, Master Data and Contractor Lifecycle Management will continue to be provided by Tampa Electric. Its efforts will help optimize the company’s capital spending and stewardship of IT resources, which is increasingly important to safe, reliable, and efficient gas operations.

**Q.** Did Peoples perform a cost-benefit or other business analysis showing that it is prudent for the company to establish its own Supply Chain Management team?

**A.** Yes. Utilizing a third-party supply chain consulting firm to develop the strategy and business case, the company concluded having its own Supply Chain Management team was most cost effective. The value comes from using supply chain best practices: governance, systems, and processes; contracting; total cost of ownership; strategic sourcing; category management; and supplier relationship management. Peoples will still utilize Tampa Electric’s procure-to-pay software system, as well as the shared services provided by Tampa Electric. The new Supply Chain Management function will deliver benefits to the company’s customers by maintaining or reducing costs for new construction and cultivating supplier relationships to ensure that projects are done on time and are ready for service within the timeline promised.

**Q.** What supply chain challenges has the company experienced since its last general base rate proceeding?

**A.** Global supply chain issues and inflation have not spared the natural gas industry. Peoples has experienced upward cost pressure on materials and labor, shortages of gas meters and higher prices for pipeline materials. The cost to the company of polyethylene (plastic) pipe increased 23 percent and the cost of steel pipe increased by 165 percent from 2020 to 2022.

The company’s contractors who rely on labor to perform services are experiencing the same labor pressures Peoples is experiencing for its internal labor. Those pressures are discussed in the prepared direct testimonies of Peoples’ witnesses Donna L. Bluestone and O’Connor and include: (1) general labor market disruptions seen by most industries; (2) changing workforce demographics; and (3) the relative newness and small size of the natural gas industry and the resulting lack of workers in Florida with natural gas experience. These factors make it challenging to recruit skilled talent, require companies to spend more time and money to train inexperienced workers when experienced workers are not available to hire and are causing upward pressure on contractor labor rates.

The company’s new supply chain management team is working diligently to mitigate price increase pressures when contracting for services; however, applying best practices and its diligent efforts may not be sufficient to completely overcome the impacts of rising labor market costs.

**Q.** What specificsupply chain management practices does the company use to ensure that the materials, supplies and services that it uses to serve its customers are procured at the lowest reasonable total cost of ownership?

**A.** The company’s supply chain management team is focused on strategic sourcing, contracting, inventory management and supply chain governance to ensure materials and supplies are contracted to provide the best value for Peoples’ customers.

The company is developing and enhancing its uniform material standards to reduce the different number of items it must purchase and maintain in inventory. This includes the management of more efficient inventory levels across its 14 service areas.

Peoples competitively bids management of its consolidated material inventory and supply through a centralized material management firm, Vendor Managed Inventory. This approach allows the company to secure necessary construction material resources at pre-established competitive prices.

The supply chain management team uses competitive sourcing and competitive bidding to procure materials and supplies not normally maintained in inventory and construction services. It is also strengthening its controls over reviewing, approving, and paying vendor invoices. These controls ensure that vendor invoices do not include negative penalties and that the company gets the full benefits of rebates and incentives that are generally available or specified in the company’s contracts.

**INFORMATION TECHNOLOGY**

**Q.** What general principles guide the company’s use of IT in its operations?

**A.** Peoples’ digitization pursuits include continuous improvement of safety, asset management, business processes and customer experience. Peoples believes the continued investment in technology, such as WAM, will directly serve the company’s customers by delivering efficiencies, risk management and enhanced customer service experiences. The partnership between the company’s IT shared services provider (Tampa Electric) and the Peoples’ operation team ensures that the digital and technology investments align with Peoples’ strategic objectives.

**Q.** How does Peoples obtain IT services?

**A.** As mentioned previously, Peoples receives most of its IT services on a shared service basis from Tampa Electric, but on limited occasions the company has contracted with third-party vendors for specific, Peoples-focused applications.

**Q.** What IT services does Tampa Electric provide to Peoples?

**A.** Tampa Electric provides two general categories of IT services to Peoples.

The first category can be considered “common” IT services because the same services are provided to both Peoples and Tampa Electric. These services include cybersecurity; IT strategy and leadership; enterprise desktop support; service desk and access administration; application development and support; IT project management; IT infrastructure services (computers, storage, networking, and telecommunications); enterprise resource planning suite support; customer relationship management and billing suite support; IT asset and vendor management; and IT compliance.

The second category includes procuring or developing and operating Peoples-specific applications the company needs to provide safe and reliable services to its customers. Examples include the company’s SCADA system, GIS, MobileGuard and WAM systems that are discussed later in my direct testimony. All these technologies are linked to pipeline safety and compliance, and will promote public safety, efficiency, and environmental stewardship.

The costs of both categories are directly charged or allocated by Tampa Electric to Peoples according to the company’s intercompany agreement. For some of the common services provided by older, legacy systems, Tampa Electric charges Peoples a user fee that covers the capital and O&M expenses associated with the service. For common services provided by newer systems, Tampa Electric incurs the capital and O&M expenses to build or buy, and operate, maintain, and upgrade the system, and allocates a percentage of the related capital and O&M expenses to Peoples. Peoples is charged all the capital and O&M expenses when Tampa Electric provides a Peoples-specific application.

**Q.** Please describe the working relationship between Peoples and Tampa Electric for IT services.

**A.** Tampa Electric has a sophisticated IT organization that provides the backbone for all common and company-specific IT applications to Peoples and Tampa Electric. Within its IT organization, Tampa Electric has eight team members who are dedicated to meeting the IT needs of Peoples. These team members treat Peoples as a client and coordinate their efforts with Peoples through a member of the company’s ECT team, who serves as the Peoples IT liaison to Tampa Electric, and the company’s Technology Strategy Council (“TSC”). In addition to these eight team members, Tampa Electric’s IT organization also provides overarching team member support across all affiliates including Peoples, which the company and its customers benefit from as part of the company’s shared service agreement.

**Q.** What role does cybersecurity play in the company’s IT operations?

**A.** Peoples takes cybersecurity concerns and threats very seriously. The company has a comprehensive cybersecurity program to address its due diligence efforts in this area. Tampa Electric has 13 full time cybersecurity team members dedicated to protecting IT infrastructure that Peoples shares as part of the affiliate shared service model. They follow the National Institute of Standards and Technology (“NIST”) prescribed best-practice functions of identify, protect, detect, respond, and recover. Using a defense-in-depth methodology, the program uses a combination of best-of-class technology tools and best practice processes to provide around-the-clock protection and response to the thousands of daily intrusion attempts at the company. The company also implements an IT culture of security, ensures that cybersecurity risks are considered for all services that IT delivers, and embeds risk mitigations into the service delivery.

**Q.** What is the TSC and what role does it serve for Peoples?

**A.** Peoples implemented the TSC to guide formal governance and value—driven decision-making for technology investments and is developing a technology strategy for all Peoples technologies, both IT and Operations Technology (“OT”). It consists of Peoples’ team members from multiple business functions, including finance, gas operations, safety, regulatory, and technology.

Peoples invests in technology that enhances safety, increases efficiency, and increases customer value.

The TSC: (1) reviews technology project proposals; (2) evaluates the risks and business/customer value of proposed projects; (3) determines if the need to be met by a proposed project can be met with existing IT or OT resources; (4) works with Tampa Electric’s IT team on project and resource prioritizations and implementations; (5) provides oversight on technology capital and O&M spending; and (6) evaluates completed projects to confirm desired results were achieved.

The TSC’s primary goal is to ensure that Peoples continues to invest in value-based technology solutions and team members that enable the business, meet the needs of Peoples’ customers, center on value proposed and realized, and support current and future technological capabilities.

The company’s 2022 actual and budgeted 2023 and 2024 capital, including key projects, and O&M spending for technology is described later in my direct testimony.

**CAPITAL BUDGETING AND FORECASTING**

**Q.** How does the company classify capital projects for internal purposes and capital budgeting?

**A.** The company classifies capital projects into three groups: (1) growth projects; (2) RRE projects; and (3) legacy pipe replacement projects. Technology projects are considered RRE projects.

I have previously described how Peoples identifies the need for growth and RRE projects. The legacy pipe program is addressed later in my direct testimony.

Many larger-scale capital projects have elements of both growth and system sustainability features. All infrastructure expansion and RRE projects consider the company’s short and long-term capacity needs. Proper planning ensures that projects are developed and constructed in a timely and cost-effective manner.

**Q.** How much does Peoples expect to invest in each of these categories from January 1, 2022, to December 31, 2024?

**A.** As stated in the prepared direct testimony of company witness Rachel B. Parsons, the company expects to invest a total of approximately $1.1 billion from January 1, 2022, to December 31, 2024, in the following ways:

(1) $600.8 million to support customer growth and environmental sustainability, of which $150.0 to $160.0 million is attributable to major, customer-specific projects;

(2) $404.4 million to enhance RRE; and (3) $79.5 million to replace legacy pipe.

**Q.** Which company witnesses will explain why these levels of capital spending and rate base growth are prudent and should be included in rate base for the 2024 projected test year?

**A.** The capital spending is split as follows among Peoples’ witnesses:

1. Witness O’Connor will explain $144.5 million of RRE projects.

2. Witness Lew Rutkin, Jr. will explain $131.2 million of growth projects.

3. Witness Karen K. Sparkman will explain $10.5 million of RRE projects.

4. I will explain $469.6 million of growth projects, $249.4 million of RRE projects and $79.5 million of legacy pipe projects. I will also describe the capital budgeting process applicable to all infrastructure projects.

**Q.** Are natural gas system construction costs increasing, and if so, why?

**A.** Yes, the cost to construct distribution system projects has increased since the company’s last general base rate proceeding and is expected to continue increasing due to: (1) higher material costs; (2) strong industry demand for external contractors; (3) governmental, regulatory and compliance requirements, including permitting and maintenance of traffic requirements; (4) higher costs to retire, remove and restore existing plant; and (5) new construction safety protocols and enhanced construction management, inspection, and quality control activities.

Additionally, new federal regulations issued by PHMSA, and other Transportation Safety Administration (“TSA”) requirements have increased the costs of building, operating, and maintaining new facilities and in some cases have required the company to improve existing facilities. The PHMSA regulation, known as the “Mega Rule,” is intended to **improve pipeline safety by reducing the frequency of pipeline failures. The new TSA rules include enhanced** cybersecurity and physical security requirements for pipeline owners and operators. These safety and reliability requirements, and others, have and will continue to increase the costs of constructing new plant, improving existing plant and operating and maintaining the company’s distribution system.

**Q.** What challenges has the company experienced in recruiting new team members and contractors for its construction projects?

**A.** The company’s recruitment efforts have been challenged by a very active labor market, especially for technical resources such as engineers, project managers, and other industry specialists. Recruitment for highly technical positions typically requires more time to fill and requires Peoples to recruit out of state, which means the company must compete on salaries with external markets. This puts upward pressure on labor costs. Hiring experienced and technically trained experts directly impacts the safety and reliability of Peoples’ gas distribution system.

Peoples has mitigated its labor market risks for construction projects through long-term contracts with national contractors for new services. However, the company’s construction contract partners have shared with Peoples that attracting and retaining labor has been challenging. This has forced them to increase labor rates, which impacts Peoples when contracts expire. Others have requested labor rate increases during the term of a contract.

The same issue materializes differently for construction contractors working on larger projects. These contractors bid for larger projects on a project-by-project basis, typically travel nationally or regionally for these types of projects, have access to a broader labor market, and reflect national and regional labor market rates in their bids. Peoples considers these labor challenges when it evaluates the business case for potential construction projects.

**Q.** How did Peoples develop its capital budget for 2023 and the 2024 projected test year?

**A.** The process differs depending on the size and type of the project. Projects designed to serve anticipated new residential and small commercial customers are budgeted differently than large customer and RRE projects.

**Q.** How does the company budget for growth in residential and small commercial customers?

**A.** The company budgets the capital costs for the mains, services, meters, regulators, and equipment needed to serve anticipated new residential and small commercial customers by considering the level of anticipated demand identified by its Residential and Small Commercial team as well as customer forecasts provided by external parties such as company witness Eric Fox’s customer forecast for 2023 and 2024. The company considers estimates of labor and material price increases and anticipated overall demand estimates by service area to budget the capital costs required for the equipment described above to meet the overall customer forecasts.

Capital budgeting for this type of growth is less project specific, because it is often difficult to predict a year or more in advance which specific residential lots will seek service or where a restaurant will be constructed. The company can, however, reasonably predict the total number of new residential and small commercial connections in future periods and uses those estimates to create a capital plan for serving these kinds of customers. Peoples considers the capacity required to serve development – both short-term and long-term – so it can efficiently plan and construct facilities to serve the growing population and energy demand of Florida.

**Q.** How does the company budget for large customer and RRE projects?

**A.** The process for large customer and RRE projects is more complex due to the typically larger dollar values of the projects. For these projects, the process begins by identifying the need (which occurs as previously discussed), developing a preliminary design and cost estimate and evaluating the importance of the project for safety, compliance, reliability, environmental value and supporting growth. The company primarily focuses on whether a large project: (1) is necessary to serve a specific customer need and/ or (2) will be supported by a revenue stream based on a regular or special contract with the customer. Large projects like these may also be considered if they support anticipated demand for residential and small commercial customers. The evaluation process involves the consideration of these varying factors and is accompanied by the process for determining whether large customers are offered tariffed-based pricing or negotiated rates by special contract as described by witness Rutkin.

Once the projects have been evaluated, the company uses preliminary cost estimates and its rankings to develop a capital budget that reflects a reasonable total amount of capital spending and supports its efforts to provide safe and reliable gas service to customers at fair, just, and reasonable rates. Once a project is included in the capital budget, the ECT team continues to refine the design of the project and its cost estimates using the class estimating and gating process described above until the design of the project and cost estimates are construction ready.

**Q.** How are capital budgets approved?

**A.** As described by witness Parsons, the company’s capital budgets are approved by senior management annually as part of the overall budget approval process; however, the company has an internal system of management approvals that considers construction, design, costs, safety, risks, and other factors before individual projects are approved for construction. The levels of approval required increase as the dollar value of projects increase.

**Q.** Please explain the approval process for the company’s higher dollar value projects.

**A.** Approval ofPeoples’ capital projects is governed by a TECO Energy procurement policy. All projects above $5.0 million must be first reviewed by the Capital Leadership Team (“CLT”) that is made up of executives from Peoples, Tampa Electric and Emera that are appointed by the Emera Chief Financial Officer (“CFO”). The CLT works with the Project team seeking approval to ensure that the customer benefit and impact, financial analysis and risk assessment used in the evaluation of the project is accurate and complete. The CLT performs its review of the project and ultimately makes a recommendation to the President and Chief Executive Officer (“CEO”) of Peoples, TECO Energy’s CEO, and the TECO Energy CFO (together referred to as “Company Senior Management”). The Company Senior Management then approves or rejects the project. All company projects over $10.0 million must also be approved by the company’s Board of Directors.

**Q.** How does the company perform the work included in its capital budget?

**A.** Once capital execution has been approved to proceed, projects are categorized as either Blanket Work, Funding Projects, or Large Projects. The company applies the supply chain management principles and practices previously described in my direct testimony to all three categories.

Blanket Work refers to service main and service line installation for new residential and commercial customers. This high-volume work has averaged nearly 22,000 services per year during the past three years (i.e., 2020 to 2022) and is typically awarded to construction contractors via fixed unit price multi-year contracts (“blanket contracts”). Company witness Dr. Richard K. Harper discusses the economic conditions, value of natural gas service to the growing population of Florida and customer development of these markets.

Funding Projects include distribution projects that exceed a financial threshold of $500,000 but are less than $1.5 million. The company assigns these projects to a project manager who leads the design, engineering, and construction process. Smaller and less complex projects take advantage of unit prices established in blanket contracts while more complex projects go to market for formal construction bids and proposals.

For all project types (Growth, RRE, Legacy Replacements and Large Projects), ECT is responsible to complete engineering, construction, and commissioning. The evolving needs of the operations teams in maintaining, ensuring compliance, and serving customers as the company expands its systems are described by witness O’Connor.

**Q.** Does the company use contractors to build capital projects?

**A.** Yes. Peoples relies on experienced national contractors because it is the most cost-effective way to construct some types of facilities including: (1) the approximately 22,000 new services Peoples installs each year and (2) all large construction projects. Experienced contractors have the expertise to ensure that Peoples can execute planned projects safely and in the most cost-effective way. Using construction contractors gives Peoples the ability to rapidly increase and decrease the resources applied to construction contracts or shift resources from one geographic area to another based on customer demand. Relying solely on internal labor for construction projects would otherwise limit Peoples’ agility to meet customer demand in a cost effective and timely manner.

**Q.** What policies and procedures does Peoples use to ensure that capital projects are constructed at the lowest reasonable cost?

**A.** As part of the company’s supply chain activities, Peoples competitively sources or bids contractors to perform blanket capital projects and larger construction projects.

The company uses construction project managers, job-site inspectors, and system-wide project management to monitor construction projects for compliance with construction standards and contractual provisions and to help avoid problems that may cause costly delays before they occur.

**Q.** How does Peoples manage safety performance of construction activities?

**A.** In 2016, Peoples developed a robust construction quality assurance program. The Quality Assurance team performs audits of operational controls, safety programs, and contractor operator qualification programs. This program is designed to ensure continuous improvement and is governed by Peoples’ PSMS.

In 2018, Peoples implemented a Contract Business Partner Safety Program that helps to ensure pipelines are built safely even though this has resulted in an increase to construction costs. This program is designed to ensure that there is adequate oversight of the contractors working on and constructing Peoples’ system and reduce costs to customers by mitigating safety incidents.

Peoples uses a third-party system, ISNetWorld.com, to track and review pertinent contractor documentation (e.g., drug and alcohol plan, safety program participation, insurance certification, etc.) and to verify the contractor’s operator qualifications and inspection reports recorded by the company’s inspectors.

Peoples’ Safety and Construction Management Departments monitor the inspection reporting for any potential safety issues and respond when needed. Throughout the construction process, inspectors use ISNetWorld.com to confirm that crews working on Peoples’ system have appropriate operator qualifications.

**Q.** What happens when construction projects are completed?

**A.** The company’s accounting department has its own set of processes for closing work orders and recording the project in the company’s financial records. From an operations perspective, completed projects are placed under the care of the Operations and Measurement and Regulation teams when they are placed in service and are monitored by the Gas Control team.

**CAPITAL PROJECTS**

**A. Growth Projects 2022 to 2024**

**Q.** How much did the company spend in 2022 on capital projects to serve residential and small commercial customers, and how much does it plan to spend in 2023 and in the 2024 projected test year to serve those customers?

**A.** The company spent approximately $174.4 million on capital projects to serve residential and small commercial customers in 2022 and expects to spend approximately $148.2 and $147.0 million in 2023 and 2024, respectively. The budgeted amounts for 2023 and 2024 were developed using the budgeting process described above. These amounts are based on projected new customer counts, service area growth, historical experience, market conditions, and known residential and commercial developments. A schedule showing the major categories of capital spending in these areas for actual 2022 and forecasted 2023 and 2024 is shown on Document No. 2 of my exhibit.

**Q.** Are these levels of spending prudent and should they be included in rate base for the 2024 projected test year?

**A.** Yes. The levels of capital spending to serve residential and small commercial customers shown on Document No. 2 of my exhibit are needed to serve anticipated demand, are consistent with the level of customer growth reflected in the demand forecast outlined by witness Fox and will be performed as previously described in my direct testimony. The overall spending levels to serve residential and small commercial customers reflects Peoples’ view that Florida and the areas served by Peoples will continue to experience strong residential growth as discussed in the direct testimonies of witnesses Harper and Wesley.

**B. RRE Projects Since Last General Base Rate Proceeding**

**Q.** What major projects has Peoples placed in service to support the distribution system RRE since its last general base rate proceeding?

**A.** Four major projects with both growth and RRE elements were under construction and discussed in the company’s 2020 general base rate proceeding, namely the Jacksonville, Thomas/Baldwin Compressor Station, Southwest Florida, and Panama City projects. These four projects were engineered, designed, and constructed using the processes previously described, are prudent, and should be included in rate base in this proceeding.

Peoples also completed the Florida Gas Transmission Company (“FGT”) to Big Bend project, which is a customer-backed project serving Tampa Electric’s Big Bend Power Station and is discussed in the prepared direct testimony of witness Rutkin. The Dade City Connector project, which began at the end of the 2020 general base rate proceeding, was included in the settlement agreement that resolved that case and will be discussed later in my direct testimony as a 2022 to 2024 RRE project.

**Q.** Please explain the Jacksonville project.

**A.** The recent Jacksonville system expansion to meet customer growth and demand resulted in higher inlet pressure requirements and was the primary reason for this capital investment. Peoples completed the Jacksonville project in October 2021. The project expanded the company’s Jacksonville system in four areas to provide additional system RRE and serve existing and new customers. The cost of this project was $66.0 million and involved adding nine miles of new pipe and uprating 17 miles of existing pipe to a higher maximum operating pressure (“MAOP”).

**Q.** Please describe the Thomas/Baldwin Compressor Project.

**A.** Like the Jacksonville project, the Thomas/Baldwin Compressor project helped meet Jacksonville inlet pressure requirements to serve the Jacksonville market. TheThomas/Baldwin Compressor project added a 3,800-horsepower compressor station to the company’s system to move approximately 60 to 120 MMCFD of gas. The compressor station went in service in April 2021 and cost approximately $25.0 million.

**Q.** Please describe the Southwest Florida project.

**A.** Southwest Florida is one of the fastest growing areas of the Peoples system. As highlighted by witness Harper, the population growth in Collier and Charlotte Counties in Southwest Florida from 2000 to 2019 has increased by 52.1 percent and 30.4 percent, respectively. These increases exceed the U.S. population growth of 17.1 percent for the same period. Additionally, Collier County population growth has exceeded the 34.0 percent population growth of Florida from 2000 to 2019. This growth is contributing to customer demand for natural gas, and this trend is expected to continue.

The increase in customer demand has caused pressure drops and an associated reliability risk on the south side of the Southwest Florida service area, so Peoples completed the Southwest Florida project in October 2020 to maintain pressures and reliable service. The project expanded Peoples’ distribution system to the east and reinforced the Southwest Florida part of Peoples’ distribution system by adding a loop from Fort Myers to Naples at a cost of approximately $47.0 million. The project involved adding 65 miles of mains and was engineered, designed, and constructed using the processes previously described in my direct testimony. The project is prudent and should be included in rate base in this case.

**Q.** Please describe the Panama City project.

**A.** Much like Southwest Florida and other parts of the state, Panama City has also experienced significant population growth. Witness Harper’s direct testimony describes the Panama City population growth increase of 26.1 percent between 2000 to 2019, which exceeded the national growth of 17.1 percent. The population growth in this period and projected future growth underpins the need for natural gas expansion of the Panama City project. This project was completed in April 2021 and enabled the company to access incremental natural gas capacity to address current and future growth by constructing a line to connect the 18-inch FGT pipeline to the west with the eight-inch FGT pipeline to the east. The cost of this project was $33.0 million, and it involved adding 21 miles of mains. It was engineered, designed, and constructed using the processes previously described in my direct testimony. The project is prudent and should be included in rate base in this case.

**C. RRE Projects from 2022 to 2024**

**Q.** What major RRE projects were underway in 2022 and will be placed in service in 2023?

**A.** There are four major RRE projects and a collection of technology projects, including the company’s WAM system. Two of the RRE projects were ongoing in 2022 and will be completed in 2023. Construction on two of the projects will begin in 2023 and extend into 2025. A schedule summarizing the projects and their projected capital spending for them from 2022 to 2024 is included in Document No. 2 of my exhibit.

**Q.** What major RRE projects were underway in 2022 and will be placed in service in 2023?

**A.** There are two, the Sumterville-Dade City Connector (“Dade City Connector”) project and the WAM project. Both projects will provide important RRE benefits to Peoples and its customers, are being constructed using the processes I previously described in my direct testimony, are prudent, and should be included in rate base for the 2024 projected test year.

Dade City Connector

**Q.** Please describe the Dade City Connector project.

**A.** The Dade City Connector project is currently under construction and projected to be in service by December 31, 2023. This project involves constructing a 30-mile lateral using eight-inch steel pipe. The facilities are being installed mainly in the public rights-of-ways adjacent to US Highway 301 from Dade City to Sumterville, Florida. The pipeline will address capacity and reliability issues in the Ocala service area. As part of the project, the company will install three Main Line Valve sites equidistance along the lateral on fee-owned parcels. The new pipeline will be fed from the Lakeland to Dade City 12-inch pipeline.

**Q.** How does the Dade City Connector project address the company’s capacity needs in its Ocala service area?

**A.** The Ocala service area has seen significant load growth in the past six years with loads increasing by 28 million therms, or 97 percent, since 2018. In terms of customers, total customer count went from 43,408 in 2018 to 54,583 in 2022 for the Ocala service area. This growth has caused pressure drops in the southern parts of the Ocala service area, which is several miles away from the Ocala main gate station located in the northern part of the Ocala service area. These pressure drops and other day-to-day system balancing and operating challenges are the reasons this project is needed. In short, the company needed the additional capacity to serve the growing Ocala service area.

**Q.** What are the company’s capacity needs in its Ocala service area and how will the Dade City Connector provide the necessary additional capacity?

**A.** The current peak demand in the Ocala service area is approximately 38,900 MMBtu/day, and the company’s current system is designed to handle approximately 12,500 MMBtu/day. The Dade City Connector will add approximately 33,500 MMBtu/day of additional capacity to the Ocala system, thus, raising the Ocala service area’s peak capacity to approximately 46,000 MMBtu/day. The incremental load handling capacity of the system will result in better service to existing and new customers across the system. The new capacity will immediately improve system pressure across the Ocala service area.

**Q.** Did Peoples consider any alternatives to address the increasing demand in its Ocala service area?

**A.** Yes. Peoples initially considered a new long-term interstate transportation service from FGT and Sabal Trail Transmission (“STT”) as a solution to capacity restraints; however, the new cost of this alternative became prohibitive and the resulting rate impact on the company’s customers was a concern. This led Peoples to explore other alternatives, including the Dade City Connector project, which ultimately proved to be the lowest cost and best overall long-term solution for customers.

**Q.** How will the Dade City Connector project benefit customers?

**A.** The Dade City Connector will provide a back-feed to the company’s entire Ocala service area and hydraulically connect the Tampa and Ocala service areas. It will provide system hardening to the company’s entire distribution system and will bolster the Ocala service area’s current capacity which will benefit all customers in the Ocala area.

The project will also: (1) allow the company to redeploy and repurpose its Pasco Cogen line that formerly served the Pasco Cogen Power Plant; (2) support the safe addition of new customers seeking gas service and will enable existing customers to add high-load appliances, including standby generators, without experiencing gas supply delivery curtailments or limitations; and (3) improve gas service availability in a geographic area with a growing population with increasing energy demand.

**Q.** What is the projected total cost of the Dade City Connector project and how does that cost compare to the estimated cost provided by the company in its last general base rate proceeding?

**A.** In the 2020 general base rate proceeding, the 2019 cost estimate was approximately $69.0 million. With the project being constructed four years later, the estimate for Dade City Connector is now $79.0 million. This increased estimate reflects the inflationary pressures of the materials and labor increases experienced by Peoples over that period. The Project team continues to work to identify opportunities for cost reduction including cost savings with route selection, the strategic procurement of pipe at lower than estimate pricing, and lower than expected costs from the contractor by using Peoples’ bid process, which now incorporates early contractor engagement to ensure greater price certainty.

WAM

**Q.** Please describe the company’s WAM project.

**A.** WAM is a central technology platform used by most utilities to track all aspects of an asset’s life including planning, design, construction, use and retirement and provide for safe operations. It facilitates better work planning and execution, centralized management of assets, enhanced customer service and system safety. The company expects its WAM system to deliver efficiency improvements that will support system growth and reduce risks.

**Q.** How does WAM fit into the company’s overall strategy?

**A.**  The company’s strategy revolves around meeting customer demand for safe, clean, and affordable natural gas. The challenge for the company is to determine the best, most cost-effective, and efficient way to meet this demand. Deploying technology is part of that answer. WAM will allow Peoples to use technology to efficiently meet customer demand as Peoples manages an increasingly complex gas system.WAM will enable more effective use of capital and O&M resources through better planning and work management.

**Q.** What is the projected cost of the WAM system and when will it be in service?

**A.** The company budgeted the capital portion of the WAM system to cost approximately $34.4 million, which is reflected in the company’s proposed rate base for the 2024 projected test year. The project is expected to be completed mid-2023. As of March 31, 2023, all major components were purchased, contracts were place and the project was within budget. The company spent approximately $12.7 million on WAM in 2022 and expects to spend approximately $10.0 million in 2023.

**Q.** Is the company’s projected investment in its WAM system reasonable and prudent?

**A.** Yes. The WAM system will provide substantial operational, customer service and risk reduction benefits for the company and its customers. It was procured using the company’s standard supply chain practices which are designed to ensure that goods and services are purchased at the lowest reasonable cost. WAM systems are considered the industry standard.

**Q.** How did the company procure the equipment and services for the WAM system?

**A.** The company ultimately selected SAP as its major software vendor using Deloitte as its system integrator through a technical requirement and needs assessment and a rigorous procurement process that evaluated multiple options. The objective technical review of multiple proposals showed that SAP: (1) offered the most cost-effective and robust solution, (2) is a known industry leader, and (3) integrates well in the Peoples SAP information technology ecosystem. More importantly, SAP’s products can be updated and improved as new applications become available. A schedule detailing the major components and projected costs for the company’s WAM project by year is included in Document No. 3 of my exhibit.

**Q.** How will WAM benefit Peoples’ customers?

**A.** The WAM system will allow the company to centralize work in one system, eliminating the need for multiple independent niche systems and will serve as the hub for all work including new construction, system reliability and maintenance and compliance. WAM will: 1) reduce the risk associated with multiple niche systems; 2) digitalize and standardize manual processes; and 3) integrate them with existing enterprise financial and customer systems (e.g., ERP and CRB).

WAM will enable the optimization of work planning, scheduling and dispatch, and better project planning and tracking. In providing a new source of operational data and reporting, WAM will improve decision-making, eliminate manual work, and enable tighter controls.

These benefits will provide net efficiency gains, mitigate cost increases, reduce risks, and allow Peoples to continue to efficiently grow and meet customer demand for safe and reliable gas service with an exceptional customer experience.

**Q.** Will WAM result in lower O&M expense in the 2024 projected test year?

**A.** In time,WAM will generate O&M cost savings and avoidance, but only minimally in the 2024 projected test year. Benefits realizations are expected gradually by year three of operating the system. In 2024, WAM will deliver a technological foundation to gain efficiencies in managing the limited personnel resources, supply chain costs, and other project costs for engineering and construction. Once the infrastructure is fully implemented, WAM will also provide a technological foundation to enhance routing, resource management, and task prioritization efforts described in witness O’Connor’s direct testimony. Peoples has operated without a WAM system in the past, but with the expanding customer base, evolving compliance requirements and overall workload challenges, this implementation is the most prudent option to maximize current and future resources using the most current technology.

**Q.** What major RRE projects are beginning in 2023 and will extend into the 2024 projected test year?

**A.** There are two, the Tampa City Distribution Trunk and the Downtown Tampa Main projects. Both will be engineered, designed, and constructed using the processes previously described in my direct testimony. Due to the size of these projects and their 2025 in-service dates, they will be eligible to accrue an Allowance for Funds Used During Construction (“AFUDC”) and the capital cost will not be included in the company’s 2024 projected test year rate base calculation.

Tampa City Distribution Trunk Project

**Q.** Please describe the Tampa City Distribution Trunk project.

**A.** This projectinvolves using approximately 15 miles of six-inch, 125 pounds per square inch (“psi”) of pressure coated steel pipe to form high-pressure trunk line, mainlines which connect at distant points, through the 60-psi large urban Tampa distribution system. The trunk line will connect the high-pressure mainlines at Crest and Hubert Avenues with the Tampa Southwest gate station and the Estuary regulator station. The company will install three to four additional regulator stations off the coated steel pipeline in strategic areas to feed the existing 60 psi distribution system, eliminate pressure issues, and support a significant amount of new demand. Construction of this project is expected to begin in 2023 and end in 2025 and is budgeted to cost approximately $14.0 million.

Tampa Downtown Main Project

**Q.** Please describe the Tampa Downtown Main project.

**A.** This project willreplace approximately 12 miles of aging gas main and accompanying service lines in the downtown area of Tampa. The existing pipeline infrastructure consists of steel pipe and some sections of plastic pipe incased in steel pipe under existing sidewalks and pavement which needs to be removed and replaced to ensure proper leak detection. Replacement of these mains will allow operation up to 60 psi and provide better service for increased load in the downtown area. It will also enhance the company’s ability to physically locate its assets to facilitate repairs and prevent damages. Construction of this project is expected to begin in 2023 and end in 2025 at a budgeted cost of approximately $19.0 million.

Technology Projects

**Q.** Other than for WAM, what amount did the company spend on technology capital projects in 2022, and how much does it expect to spend in 2023 and 2024?

**A.** The company spent approximately $9.5 million on technology capital projects in 2022 and has budgeted to spend approximately $9.0 and $15.1 million in 2023 and 2024, respectively. These amounts represent either (1) Peoples’ share of the capital cost of common IT projects being performed by Tampa Electric or (2) specific projects for Peoples to be executed by Tampa Electric or Peoples. The allocation and attribution process is described earlier in my direct testimony.

**Q.** What are the non-WAM IT projects in 2022, 2023 and 2024?

**A.** The company’s non-WAM IT project costs for 2022 through 2024 are shown in Document No. 4 of my exhibit. Explanations of the most significant non-WAM IT projects, how they benefit customers and why they are prudent are captured in Document No. 5 of my exhibit.

**Q.** Are the non-WAM IT projects for 2022 to 2024 prudent?

**A.** Yes. They are needed to provide safe, reliable, and efficient gas service to Peoples’ customers. They were or will be procured at the lowest reasonable cost, will benefit Peoples’ customers, and should be included in rate base for the company’s 2024 projected test year.

**D. LEGACY PIPE PROJECTS**

**Q.** Please describe Peoples’ Cast Iron/Bare Steel Replacement (“CI/BSR”) rider program.

**A.** Maintaining safe and reliable assets while delivering value to customers is Peoples’ primary focus, especially for the ECT group. Like many other utilities in the U.S., Peoples identified legacy assets that required replacement to ensure long-term reliability and system integrity, namely legacy cast iron pipe, bare steel pipe (“CI/BS”) and problematic plastic pipe (“PPP”).

In 2012, Peoples began a program to retire and replace all CI/BS pipe from its system through the CI/BSR rider, which was approved by the Commission in Docket No. 20110320-GU, by Order PSC-12-0476-TRF-GU, issued on September 18, 2012. The Commission later approved extending the program to include PPP. The company will continue to minimize safety risks and improve operational reliability for its customers and the public by replacing these high-risk legacy pipes. The CS/BSR program has enhanced the safety of Peoples’ distribution system and has reduced methane emissions by mitigating pipeline assets that have a higher prevalence for leaks.

**Q.** What progress has the company made replacing legacy pipe?

**A.** By the end of 2023, Peoples will have replaced all but approximately 0.5 miles of CI/BS pipe, or a total of 431 miles. The replacement of the remaining 0.5 miles of CI/BS is delayed due to a local government-imposed construction moratorium in place until 2027.

Peoples removed all remaining low-pressure pipelines, 11 miles, from the system as of mid-2019. These low-pressure pipelines were considered high safety risks since there are no added protections (e.g., pressure regulators) installed at the connected customer premises.

Peoples began replacing PPP on July 1, 2017 and has replaced approximately 528 miles of PPP since that date. By the end of 2023, the company will have approximately 239 miles of PPP remaining for replacement. The company expects to complete PPP replacements by 2028.

**Q.** What amount did the company spend in 2022 to replace CI/BS and PPP pipe, and how much does it expect to spend in 2023 and 2024?

**A.** Peoples spent approximately $31.3 million for legacy pipe replacement in 2022. It expects to spend $27.3 and $20.8 million, respectively, in 2023 and 2024. This represents the capital costs associated with replacing a total of 71 and 53 miles of legacy pipe in 2023 and 2024, respectively. The company performs work associated with these projects in accordance with the supply chain and other processes described earlier in my direct testimony. This work is needed for safety and is prudent. The company’s proposal for recovering the cost of these projects and other CI/BSR projects will be explained by witness Parsons in her prepared direct testimony.

**TEST YEAR OPERATIONS AND MAINTENANCE EXPENSES**

**Q.** What amount of ECT O&M expenses is included in the 2024 projected test year and calculation of the company’s proposed rate increase?

**A.** The ECT group is forecasted to incur approximately $7.1 million of O&M attributed in the 2024 projected test year. Of this amount, $4.4 million is categorized as trended O&M, while $2.7 million is categorized as not trended O&M. Witness Parsons addresses trended O&M in her direct testimony and my direct testimony provides explanations for not trended O&M including team member additions.

**Q.** How does the 2024 not trended O&M expense amount compare to the actual ECT not trended O&M amount in 2022 and 2023, and projected for 2024?

**A.** The ECT not trended O&M for ECT was $2.3 million and $2.7 million in 2022 and 2023, respectively. The increase from 2023 to 2024 is negligible (less than $10,000) and the increase over the two-year period of 2022 compared to 2024 is approximately $400,000, or 18 percent. The major causes of the variance between 2022 and 2024 are attributed to an increase in Distribution Integrity Management Program (“DIMP”) costs and IT-related costs including software licensing and WAM support, which are being offset by reductions in Transmission Integrity Management Program (“TIMP”) costs and Tampa Electric allocations for Supply Chain.

Peoples’ TIMP O&M remained constant between 2022 and 2023 at $1.4 million each year due to a levelized accounting treatment approved by the Commission in the company’s last general base rate proceeding in 2020. As discussed further in the direct testimony of witness Parsons, the term of this approved levelized accounting treatment expires in 2023 and the company proposes continuing the treatment but lowering the O&M to just under $1.0 million based on projected TIMP spending for 2024 through 2026. Peoples’ O&M spending for the DIMP system is projected to increase from $27,000 to $154,000 between 2022 and 2023 (and $157,000 in 2024) due to the introduction of a new DIMP probabilistic risk modeling system to replace the existing index-based risk model.

Renewal of the Microsoft Enterprise Agreement (EA) will come due in 2023 and into 2024, and increased licensing costs are expected. In addition, WAM maintenance will begin in 2023. Combined, these items add $334,000 in 2023 and $341,000 in 2024 for vendor license and maintenance costs.

The WAM-related increase of approximately $407,000 between 2022 and 2023 is primarily caused by a shift from capital to O&M contractor support. The projection for WAM maintenance will slightly increase to approximately $416,000 as more support is needed and additional releases and enhancements are deployed.

By implementing its own Supply Chain team, Peoples has reduced its dependency on Tampa Electric. This is evidenced by the reduction of procurement allocation costs of $839,000 in 2022 to around $374,000 in 2023, with a projected amount of $382,000 in 2024.

**Q.** What factors have contributed to the growth in ECT not trended O&M expenses since 2022?

**A.** Currently, Peoples is making a strategic capital investment into a new DIMP probabilistic risk model system. The new system is scheduled for deployment by end of year 2023, meets PHMSA recommendations and best practices, and will replace the company’s current DIMP index-based risk modeling system. Implementation in 2023 will generate an increase in O&M expense for DIMP Risk Analysis and Planning.

In 2022, the WAM project deployed its first release to Peoples. This release has produced a shift in contractor project resources from implementation to support and maintenance. This has resulted in a move from capital to O&M in 2023, with continued O&M expense into 2024.

Additionally, starting in the second half of 2023, Peoples will not be able to capitalize a major portion of the company’s existing enterprise agreement with Microsoft. Peoples capitalized the cost of license agreements for prior projects as part previous workstation refresh and server infrastructure capital investments. From these workstation and server investments, Peoples now transitions to support these systems, which also shifts funding to maintenance and compliance efforts. This will move portions of the company’s investment from capital to O&M for the EA licensing and maintenance agreement.

**Q.** Has the company needed to add personnel in the ECT area?

**A.** Yes. Demand for natural gas as a safe, clean, and reliable source of energy continues to be high in Florida. The value of natural gas coupled with the continued population growth in Florida is projected to result in the addition of over 51,000 new customers from 2022 to 2024. This growth, in combination with reliability projects and emerging market projects, notably Renewable Natural Gas (“RNG”), has increased the company’s need for team members and outside service providers in the ECT area.

The company need to add people to its ECT team so it can continue to focus on improving processes and leveraging technologies to better manage an increasingly complex natural gas system, operate safely and reliably, and support the capital portfolio to ensure projects are delivered with value in mind.

**Q.** Please describe how the ECT team has grown since the company’s last general base rate proceeding and its hiring plans through 2024?

**A.** Peoples added 20 additional team members to the ECT team in 2022, and as shown on pages 19c through 19e of MFR Schedule G-2, intends to add 33 and eight additional team members in 2023 and 2024, respectively. The 41 added personnel are categorized as “operation supervision and engineering” (FERC Account 870), “other expenses (Operations)” (FERC Account 880), and “administrative and general salaries” (FERC Account 920). It is worth noting that only a fraction of the costs for the added positions for the ECT team result in an O&M impact. Most of the costs relate directly to capital work and will be capitalized as part of the cost of capital projects.

**Q.** Please describe the roles and responsibilities of the ECT team members the company has and plans to add in 2023 and 2024?

**A.** 28 of the 41 ECT positions to be added between 2023 and 2024 are in support of operation supervision and engineering - FERC account 870. These positions will support customer growth (installation of new services), capital management (planning, execution, and governance) and support services (GIS, engineering and design, and system planning).

Of the 28 new positions for FERC account 870, 17 will support customer growth. These 17 positions include a combination of replacements and new positions. These positions are needed to support the continued growth of new services installed each year including Gas Design Technicians, Construction Inspectors, Gas Design Supervisors and Construction Supervisors.

Seven of the 28 positions will be members of a new Capital Management Group. The purpose of this group is to reinforce, monitor, and govern capital investment execution to ensure continued customer value. Use of a capital management group is a common utility best practice.

The balance of the 28 team member additions - FERC account 870 support the natural gas system integrity. These four positions will support Peoples expanding and increasingly complex system to ensure safe operations. These positions include Engineers, GIS Technicians, and system modelling personnel. These positions are critical to ensure compliance with regulatory requirements, safe operations, and prudent system planning.

In addition to the 28 positions supporting FERC account 870, the company plans to add eight team members under FERC account 880 – other expenses (Operations) in 2023 and 2024. These personnel will support a growing natural gas system through 24hr monitoring of the natural gas system from the Gas Control and Measurement and Regulation teams.

The remaining five of the 41 ECT additional positions in 2023 and 2024 will be included in FERC account 920 – Administrative and General Salaries. These personnel will support delivering greater value to customers through strategic materials and supplies contract management. A portion of the team was established in 2022 with the balance hired or to be hired in 2023. The Supply Chain team will ensure strategic contracting and management for Peoples materials and services so Peoples can effectively deliver on its O&M and capital budgets with the best value for customers in mind.

Finding qualified persons to fill these positions has been a challenge in the current labor market. The current labor market challenges experienced in the ECT area are explained by witness Bluestone in her prepared direct testimony.

**Q.** What actions has the company taken to control the level of ECT O&M expenses in the 2024 projected test year?

**A.** With the growth experienced in the past few years, the Peoples system continues to evolve and grow in complexity. To ensure Peoples continues to operate a safe and reliable system while delivering value to customers, the team continues to evaluate and implement opportunities to increase productivity, efficiency and reduce costs. This includes formal process improvement projects, refinement, and implementation of better Key Performance Indicators (KPIs), lessons learned on large projects, implementation of the Supply Chain team to reduce materials and supply costs, and implementation and leveraging of technologies such as GPS and Barcoding, MobilGuard leak detection, WAM, and Integrity Management software.

**Q.** Is the level of ECT O&M expenses in the 2024 projected test year reasonable?

**A.** Yes. Positions have been added in areas to support customer demand, better manage a growing capital budget, lower supplies and materials costs, and operate a growing and more complex system. The year-over-year growth in O&M, including 2024, is aligned and in support of system growth.

**SUMMARY**

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

**A.** Peoples is committed to operating a safe and reliable system while delivering value to customers. Florida’s population growth has resulted in greater demand for natural gas. As the company expands its distribution system to meet growing customer demand, the ECT group works with other areas of the company to ensure those commitments are met. The team works with its affiliate service provider, Tampa Electric, to deliver IT solutions that are foundational to delivering safe, reliable, and efficient gas service and an exceptional customer experience for Peoples’ customers. Understanding that the increase in demand drives costs, the supply chain management system enables Peoples to secure goods and services at the greatest value and lowest reasonable cost to its customers. The residential and small commercial, RRE, legacy pipe, and technology capital projects undertaken by the company since its last general base rate proceeding and the ECT O&M expenses in the company’s 2024 projected test year are reasonable and prudent.

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

**A.** Yes.

# EXHIBIT

**OF**

**CHRISTIAN C. RICHARD**

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**MINIMUM FILING REQUIREMENT SCHEDULES**

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