

**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**

**LEW RUTKIN, JR.**

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**PREPARED DIRECT TESTIMONY**

**OF**

**LEW RUTKIN, JR.**

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

**A.** My name is Lew Rutkin, Jr. 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 Vice President of Gas Supply and Development.

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

**A.** I lead our Gas Supply and Development team, which performs several functions for Peoples. The team is responsible for ensuring that the company has adequate gas supply and pipeline transportation capacity to serve our growing system and performs our natural gas commodity and transportation trading activities. It manages the company’s Natural Choice Transportation Service and Individual Transportation Services programs as approved by the Florida Public Service Commission (“Commission”). It also coordinates the company’s system expansion activities for large commercial and industrial customers, electric power generators, and customers who are interested in using compressed natural gas (“CNG”), liquified natural gas (“LNG”), and renewable natural gas (“RNG”) as part of their energy solutions. I will refer to these customers collectively as “Large Customer(s)” in my direct testimony.

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

**A.** I began working for our affiliate, Tampa Electric Company (“Tampa Electric”), as a cooperative education student in 2001, graduated from the University of South Florida with a Bachelor of Arts degree in Mathematics in 2003, and then joined Tampa Electric as a risk analyst. I left Tampa Electric in 2005, and from 2005 to 2019 worked for three different competitive energy companies where I performed a variety of functions, including: (1) gas supply management; (2) marketing and trading derivative and physical structures, including exchange futures, fixed-price swaps, basis swaps, swing swaps, storage spreads, exchange options, and forward physical gas; and (3) developing and marketing two interstate natural gas pipeline systems (Gulfstream Natural Gas System and Sabal Trail Transmission pipeline) that serve the state of Florida. I rejoined the TECO Energy family in 2019 as Director of Gas Supply and Development for Peoples. I was promoted to my current position in 2021.

**Q.** Please describe the company’s Gas Supply and Development team.

**A.** Peoples’ Gas Supply and Development team consisted of 28 team members as of December 31, 2022 and is expected to grow to 38 team members by December 31, 2024. I will discuss the addition of 11 team members between 2023 and 2024 later in my direct testimony, which includes the replacement of one team member that left in January 2023. Approximately half of my team is focused on gas supply, pipeline transportation capacity, resource planning, and gas trading activities. Another portion of my team manages relationships with existing and new Large Customers and another portion is dedicated to supporting customers pursuing LNG, CNG, or RNG options for gas service. Our relationship managers stay alert for opportunities to: (1) serve new customers by expanding our system and (2) serve existing customers who plan to use more gas by expanding our system. I will discuss the growth of the Gas Supply and Development team later in my direct testimony.

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

**A.** The purposes of my direct testimony are to: (1) describe the company’s system of distribution pipeline, contracted pipeline capacity, and supply arrangements, and how Peoples manage and expand those system assets to serve our growing small and Large Customer base; (2) describe how the company developed our 2024 test year revenue forecast for the Large Customer classes; (3) discuss the major capital projects Peoples is undertaking to serve Large Customers from our last general base rate proceeding to the 2024 test year, (4) describe how the company is investing to support customers who seek innovative CNG, LNG, and RNG energy solutions; and (5) demonstrate that the level of Gas Supply and Development area operations and maintenance (“O&M”) expenses in the company’s 2024 test year is reasonable and prudent. I will also explain the company’s proposed Minimum Volume Commitment Gas Transportation Agreement.

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

**A.** Yes. Exhibit No. LR-1, entitled “Exhibit of Lew Rutkin, Jr.” 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 information and belief. It consists of these four documents:

Document No. 1 List of Minimum Filing Requirement

 Schedules Sponsored or Co-sponsored by

 Lew Rutkin, Jr.

 Document No. 2 Articles on benefits of CNG, LNG, and RNG

 Document No. 3 Peoples’ RNG Florida Trend Article

 Document No. 4 Capital Projects Summary

**PEOPLES’ DISTRIBUTION SYSTEM**

**Q.** Describe the system of distribution pipeline, contracted transportation capacity, and supply arrangements used by Peoples to serve its customers.

**A.** Peoples receives natural gas from the Florida Gas Transmission (“FGT”), Gulfstream, Southern Natural Gas Company (“SONAT”), Sabal Trail interstate, and SeaCoast intrastate pipelines and distributes that gas to its customers using a distribution system consisting of gas mains, laterals, and service lines, and ancillary equipment such as meters, regulators, and pressure monitoring equipment. Peoples had approximately 14,900 miles of gas mains in service as of December 31, 2022.

 The company purchases gas (the commodity) at market prices from dozens of suppliers, brokers, and marketers and ensures that it has adequate interstate and intrastate transportation capacity to deliver the gas it purchases to customers on its system. Peoples ensures that it has enough distribution pipeline capacity so customers that purchase gas commodity directly from suppliers, brokers, or pool managers, and transportation capacity from interstate or intrastate pipelines, can receive the gas they buy at delivery points on the company’s distribution system. Ensuring that Peoples has adequate gas supply and transportation capacity is an important function of the Gas Supply and Development team. The team works with the company’s Operations and Engineering teams to monitor projected and actual demand, pipeline pressures and other operating information to ensure Peoples can serve our customers.

**Q.** How does the company manage its gas supply and transportation capacity arrangements to benefit customers?

**A.** The Gas Trading and Transportation group in Peoples’ Gas Supply and Development team develops and executes strategies that: (1) lower the overall gas supply costs to our customers and (2) optimize our pipeline transportation agreements to manage risks related to extreme weather events and high gas supply prices. The trading group continuously evaluates ways to mitigate risk exposure to fuel supply, transportation, and pricing changes that may adversely affect our customers. The company’s diverse pipeline transportation portfolio, and our working relationships with large shippers, enable Peoples to meet growing customer demand in a safe and reliable manner, even during extreme weather events, periods of commodity price volatility, and when operational challenges occur.

**Q.** How does the company identify the need to expand its distribution system or pipeline transportation capacity?

**A.** In two primary ways. Peoples works with real estate developers to ensure that the company install gas distribution facilities to meet expected demand from residential and small commercial customers and the Gas Supply and Development team works with Large Customers and those seeking to use or develop CNG, LNG, and RNG to plan for and meet the demand in these market segments. Both teams collaborate with our engineering team led by company witness Christian C. Richard to plan the most efficient way to expand our system to meet customer demand for supply and transportation arising from all customer classes. I will discuss the expansion of our facilities to meet Large Customer demand later in my direct testimony. Witness Richard describes the company’s planning processes in his direct testimony.

**Q.** How many Large Customers does Peoples serve?

**A.** As of December 31, 2022, Peoples served 405 Large Customers which includes 53 industrial and power generation customers. By December 31, 2024, Peoples expect to serve approximately 415 Large Customers, including 61 industrial and power generation customers. The company considers our Large Customer group to include customers that take service under our GS-4, GS-5, WHS, SIS, IS, ISLV, and CIS rate schedules or pursuant to special contracts authorized by the Commission.

**Q.** Is Large Customer demand for natural gas growing in Florida?

**A.** Yes. As company witnesses Dr. Richard K. Harper and Helen J. Wesley explain in their direct testimonies, Florida’s population growth and economic success has been remarkable, especially over the past few years. Customer interest in sustainable and renewable energy continues to grow and has expanded beyond solar. Although natural gas prices recently have been volatile, the abundant supply of domestic natural gas has reduced the cost of natural gas well below levels a decade ago and has made the United States a major exporter of natural gas. The price of natural gas and its clean energy attributes has made natural gas a cost-effective and environmentally friendly alternative to coal, diesel, heavy oil, and propane. As of February 28, 2023, as posted on the CME Group’s website, the average natural gas price for all future contract months through December 2023 was $3.27/MMBtu. The price of crude oil and propane were $12.96/MMBtu and $9.56/MMBtu respectively as posted on the CME Group’s website. In other words, natural gas is currently 65 percent less expensive than the closest alternative. These factors have increased demand for natural gas from Peoples’ Large Customers.

**LARGE CUSTOMER REVENUE FORECASTING**

**Q.** Please describe how Peoples forecasts therms and base revenue for Large Customers.

**A.** Forecasting therms for base revenues for Large Customers is a joint effort by the company’s Gas Supply and Development team and Finance department. This portion of the company’s overall revenue forecast does not require economic modeling and regression techniques like those used by company witness Eric Fox for residential and small commercial customers.

 Rather, since a large volume of demand is concentrated in a small number of Large Customers, the company develops its Large Customer demand and revenue forecast by examining prior and expected usage on a customer-by-customer basis. As part of this process, members of our Gas Supply and Development team communicate with our Large Customers about their planned natural gas usage and transportation needs for the budget period and beyond. Peoples uses customer-specific projected usage and applicable rates and charges to forecast revenues for the customers taking service under our GS-4, GS-5, WHS, SIS, IS, ISLV and CIS rate schedules, or service pursuant to a special contract.

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

**Q.** Did Peoples use the process described above to forecast revenues from Large Customers in the 2024 test year?

**A.** Yes. The projected revenues from Large Customers in 2024 are shown on MFR schedule G-2, page 8, which I co-sponsor with Peoples’ witness Rachel B. Parsons.

**Q.** Describe how Peoples prepares the off-system sales forecast?

**A.** The amount of off-system sales (“OSS”) net revenue budgeted for 2024 at approximately $2.5 million projection was based on historical OSS net revenues. Although in 2022, Peoples had experienced a significant increase in revenues due to favorable natural gas price spreads and higher market demand conditions. These factors resulted in a $3.1 million increase above the budgeted $1.4 million margin to the bottom line. OSS revenues for 2024 are expected to moderate due to lower natural gas prices and less favorable market conditions.

**LARGE CUSTOMER SYSTEM EXPANSION AND CAPITAL PROJECTS**

**Q.** How does Peoples determine the need to expand its distribution system to serve Large Customers?

**A.** The company’s internal need determination process for Large Customer expansions begins with communications between members of our Gas Supply and Development team and existing or potential new Large Customers. Our Gas Supply and Development team members routinely communicate with existing and potential new Large Customers to understand whether they can benefit by: (1) building a new facility that uses natural gas, (2) converting existing manufacturing and industrial processes to utilize natural gas, or (3) expanding their existing use of natural gas. Our Gas Supply and Development team members often work with local economic development organizations when they target new large commercial and industrial businesses for location or relocation within a local area.

 Once Peoples understand what a Large Customer needs or wants, the Gas Supply and Development team works with Peoples’ operations and engineering teams to determine whether the increased customer demand can be served by existing capacity of our distribution facilities or whether the company needs to construct new distribution infrastructure (considering sufficient upstream transportation capacity) to serve the customer. It also considers the impact of residential and small commercial growth in the area. The key issue in this evaluation is whether the company’s existing infrastructure and transportation arrangements can safely and reliably deliver the forecasted volumes and pressures of gas to the customer without impairing safe and reliable service to our existing customers.

 If the company can serve the Large Customer’s needs with existing distribution infrastructure, Peoples will offer to serve the customer pursuant to the applicable rate schedule and regulations in our tariff. If Peoples must build new distribution infrastructure to serve the Large Customer, members of our Gas Supply and Development team collaborate with the company’s engineering team to evaluate the options for building new infrastructure, identify the most cost-effective way to meet the demand, and develop cost estimates to determine whether the company should offer service under an existing rate schedule or standard contract, or alternatively, enter a special contract with the Large Customer.

 The processes described above occurs in concert with the company’s overall process of monitoring its distribution system for changes in volumes and pressures, planning to serve forecasted peak demand, complying with new safety requirements, and identifying projects to improve overall system reliability, resiliency, and efficiency (“RRE”). This overall planning process is detailed by witness Richard in his prepared direct testimony.

**Q.** How does the general body of ratepayers benefit from the addition of Large Customer loads?

**A.** Large Customers generate annual throughput of at least 250,000 therms, which is equivalent to the annual throughput of approximately 1,000 residential customers. This additional load broadly results in increased system utilization, thus bringing scale benefits to every capital dollar spent by spreading capital costs over larger billing determinants and thus lowering fixed costs for all rate payers.

**Q.** What major capital projects has the company constructed to serve Large Customers since its last general base rate proceeding?

**A.** Peoples has constructed several major capital projects for Large Customers since its last general base rate proceeding, including the FGT to Big Bend Lateral. As part of this project, the company constructed approximately nine miles of transmission pipeline to provide additional gas transportation capacity to Tampa Electric at its Big Bend Power Station. The total cost of the project is being recovered by Peoples from Tampa Electric using a distribution rate that recovers Peoples’ revenue requirement on a levelized basis over the life of the contract. This rate base addition was prudent, because it was needed by our customer, was constructed in a cost-effective manner, and is supported by customer specific revenues.

**Q.** Is the company planning major projects to Large Customers for periods beyond the 2024 test year?

**A.** Yes. The company is planning to construct pipeline infrastructure facilities to enable the transportation of capacity from the FGT pipeline in northeast Florida to an LNG facility in the Jacksonville area, that serves the marine industry and others. This project, which Peoples call the FGT to the Jacksonville Export Facility (“JEF”) Project, is expected to be under contract by the end of the second quarter of 2023, under construction by the third quarter of 2024, and in-service by the third quarter of 2025, which is later than the company projected in our 2023 and 2024 capital budgets. In addition, the cost estimates for the project in the initial budgets have changed. However, due to its size and the length of time it will take to build, the project 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 rate base calculation for the 2024 test year. This project is a clear example of how our natural gas infrastructure can enable the cost-effective and carbon-friendly use of natural gas to fuel the marine industry for years to come.

**INVESTING IN INNOVATION AND CLEAN ENERGY SOLUTIONS**

**Q.** Is the way customers think about and use natural gas evolving?

**A.** Yes, natural gas has essentially replaced coal, diesel, and heavy oil as the fuel choice for electric generators in Florida. CNG and LNG have become increasingly popular as alternative ways to fuel motor vehicle fleets and marine vessels. The abundant, low cost of domestic natural gas and existing natural gas infrastructure have helped position the United States as a significant exporter of natural gas to countries around the world.

 In addition, environmental concerns have driven corporate commitments to reduce greenhouse gas emissions across their value chain and increased customer interest in innovative, Florida-sourced, carbon-friendly renewable energy solutions like RNG. As explained in witness Wesley’s direct testimony, Peoples is committed to advancing the growth of RNG, LNG, and CNG because: (1) our customers value sustainability and environmental stewardship, (2) sustainable natural gas service is important to the future of Florida, and (3) it is simply the right thing to do. Offering service to support LNG, CNG, and RNG enables Peoples to lead and participate in a cleaner energy future for Florida. These solutions are cost effective and make an immediate impact on emission levels.

**Q.** What are the environmental benefits of CNG, LNG, and RNG?

**A.** LNG and CNG use for transportation, results in lower emissions (SOX, NOX, and greenhouse gases) compared to fuel oil or diesel. RNG facilities capture and clean methane that would have ordinarily been emitted to the atmosphere from landfills, wastewater treatment facilities or livestock farms, and conditions this potentially environmentally hazardous waste product into pipeline quality natural gas and transports it for end-use via a pipeline system. Document No. 3 in my exhibit contains a collection of articles explaining the environmental benefits of CNG, LNG, and RNG.

**Compressed Natural Gas**

**Q.** What role does CNG play in Florida?

**A.** CNG is growing in popularity as a safe, alternative fuel for fleets of vehicles. Owners and operators of large motor vehicle fleets in Florida are turning to CNG as an affordable and sustainable way to power their vehicles – especially mass transit buses, garbage collection trucks and large trucks. The Jacksonville Transportation Authority plans to convert a large portion of its fleet to CNG by 2023. Major metropolitan transit agencies are expanding their use of CNG. Growth in the CNG market is being driven by the affordability of natural gas, the reliability of natural gas via underground pipelines, the availability of proven gas compression and natural gas engines, and the attractiveness of CNG to entities that seek cost-effective ways to achieve sustainability and carbon reduction goals. The company’s sales to CNG filling stations measured in therms grew 2.1 percent from 2020 to 2021, and 7.7 percent from 2021 to 2022.

**Q.** How does Peoples serve customers who seek CNG?

**A.** Peoples currently serves approximately 60 CNG filling stations in Florida. The company owns and operates one CNG facility that provides CNG services for the City of Orlando’s refuse trucks. Projects to serve new CNG customers benefit the company and its customers by increasing the throughput of natural gas through the company’s system, which in turn increases the volume of gas over which the company’s fixed costs can be recovered when setting rates. The company invested about $1.0 million dollars in 2022 to serve new CNG stations and expects to add new CNG customers in 2023 and 2024. It is difficult to predict when CNG customers will seek service from Peoples, and most of them can be served with existing infrastructure, so the company’s 2023 and 2024 financial forecasts do not include any capital expenditures specifically for serving new CNG customers. Peoples intends to continue to support local governments, motor vehicle fleet owners, and CNG providers as they seek to develop CNG stations and convert vehicle fleets from gasoline or diesel to CNG.

**LiquIfied Natural Gas**

**Q.** What role does LNG serve in Florida?

**A.** LNG is quickly becoming very important to Florida’s maritime industry for powering vessels (including container ships and the cruise ship industry) and as a cost-effective way to export natural gas around the world. Nine cruise ships that will be fueled by LNG are expected to be served from Florida ports by 2027, and five of those are already in service and operate out of Florida ports. This represents a substantial capital investment in the order of approximately $1.0 billion per vessel by the maritime industry to allow for the conversion of these vessels to use LNG. The peninsular shape of Florida, its geographic location, and the significant and growing water-borne shipping activities operating from Florida’s numerous deep-water, high-volume ports make our state attractive for LNG providers.

 The aerospace industry is shifting to more sustainable fuels and LNG represents an excellent choice. Space Florida is at the center point for the use of LNG as an aerospace fuel. The space industry has plans to power launch vehicles with LNG for space missions due to its high energy content. With the increase in launches from the space industry, fuel sources are needed nearby to support efficient refueling at launch sites.

 Consequently, because LNG is a carbon friendly alternative and provides environmental and economic benefits to customers using it, demand for pipeline infrastructure and LNG facilities to support the economic development of Florida’s LNG market is growing. LNG export, marine, aerospace, and rail sectors are developing markets for Florida and LNG.

**Q.** How does Peoples serve customers who operate LNG facilities?

**A.** Peoples currently provides natural gas to two operating LNG facilities in Jacksonville, and both facilities plan to expand over the next few years. The company supports these customers by providing gas distribution facilities that deliver industrial quantities of natural gas. Peoples has an LNG service tariff, but the LNG tariff excludes liquefaction services. In most instances, Peoples will be a distribution infrastructure provider to LNG and the company is not proposing to change the liquefaction restriction in its LNG tariff in this proceeding. LNG creates long-term infrastructure for the State of Florida resulting in direct investment in Florida, high-paying local jobs, and promoting economic development in the state. Peoples will continue to support the growing demand for LNG to supply marine and other industries, including natural gas exports to other parts of the world. The availability and expansion of natural gas distribution systems in Florida, including Peoples, enables the market development of LNG which produces further economic opportunities for our State.

**Renewable Natural Gas**

**Q.** What is renewable natural gas?

**A.** RNG is a natural by-product of above-ground decomposing waste, and contrasts with traditional natural gas that was formed underground from decomposing materials over long periods of time. When organic waste from farms, landfills, and wastewater facilities decomposes, it releases methane, a powerful greenhouse gas, into the atmosphere. Naturally occurring methane (CH4) and carbon dioxide (CO2) emissions from energy and anthropogenic waste are two of the largest contributors to climate change in the United States. According to the United States Environmental Protection Agency, methane emissions make up about 10.9 percent of the human-caused greenhouse gas (GHG) emissions in the United States.

**Q.** How do RNG projects work?

**A.** RNG projects: capture methane from landfills, livestock farms, and wastewater treatment plants; remove the harmful constituents; condition the natural gas to gas pipeline quality specifications; and inject it into a pipeline system for consumption by natural gas customers. These projects can be considered carbon neutral or carbon negative because they take methane that otherwise would have been emitted into the atmosphere and create clean natural gas which can be injected into Florida’s pipeline system. RNG is unique as a fuel source because it simultaneously reduces greenhouse gas (GHG) emissions from both methane and carbon dioxide on a net basis.

**Q.** What role can RNG play in the energy future for Florida?

**A.** RNG can be an important part of a sustainable, reliable, and affordable energy future for Florida and can provide real benefits.

 Rather than generating out-of-state jobs to extract traditional natural gas and deliver it to Florida, RNG projects developed in Florida are local investments that create local jobs and promote economic development in Florida, not elsewhere.

 RNG can contribute diversity to the state’s fuel portfolio, providing Floridians with a local fuel source that displaces natural gas that would otherwise be supplied from outside the state. Having localized and distributed RNG supply increases the resiliency of Florida’s natural gas distribution system and mitigates the risks associated with potential pipeline or upstream supply disruptions.

 RNG is a natural complement to solar and other renewable energy options like wind. These renewable options are intermittent energy sources dependent upon weather conditions, so RNG can be used to generate electricity and maintain the reliability of the electric supply system when the weather or time of day is not favorable for other renewable options.

 RNG can also bring added reliability and resiliency to underserved or hard-to-serve rural areas because it can be sourced and produced locally.

**Q.** How will Peoples support the development of RNG in Florida?

**A.** Peoples’ size, the resources available to it, the expertise of its team members, and the size and reach of its distribution system uniquely position Peoples to support the growth of RNG in Florida. The statewide reach of the company’s existing gas distribution system is near landfills, wastewater treatment plants, and livestock farms that are potential RNG production sites. Peoples is actively working with RNG developers and facility owners to evaluate RNG potential at sites throughout the state. The company is making investments to support RNG using our renewable natural gas tariff Rate Schedule Renewable Natural Gas Services (“RNGS”).

**Q.** What investments has Peoples made in RNG?

**A.** Peoples is investing approximately $62.0 million to support or construct three of the first operating RNG facilities in Florida, namely New River RNG, Brightmark RNG and Alliance Dairies RNG. A general description and illustration of the company’s RNG activities are included in Document No. 4 of my exhibit.

**Q.** When will these three RNG projects be in-service?

**A.** Absent unforeseen circumstances, Peoples expects these three projects to be in service by the time this rate proceeding goes to final hearing. Once in service, these projects will generate enough RNG to serve approximately 40,000 residential customers, or approximately ten percent of the company’s residential customers.

**Q.** Are the three RNG projects the same?

**A**. No. The projects are different and reflect the suite of services Peoples can provide to support RNG development. Two of the projects, Brightmark and New River, which I discuss later, use the company’s Rate Schedule RNGS and cost of service pricing to support the efforts of two RNG developers.

 Alliance Dairies is aunique project between a dairy owner and Peoples, under which Peoples has made rate base investments in RNG facilities and will recover its capital investment through a revenue-sharing arrangement with the farmer that monetizes the environmental attributes arising from the project. I will explain each of these projects in more detail.

**New River RNG Project**

**Q.** Please describe the New River project.

**A.** The New River RNG project was developed under the company’s RNG tariff and provides cost of service-based recovery to Peoples for the facilities required to transport RNG produced and conditioned at the New River landfill into Peoples’ pipeline system. Peoples will test the RNG to be produced by the landfill to ensure that it meets pipeline quality standards before it is injected into our gas distribution system and then on to the FGT interstate pipeline. Peoples expects the peak daily amount of RNG to be transported through our system from New River will be equivalent to the daily natural gas demand of approximately 30,000 residential customers.

**Q.** Please describe the contract that governs the New River project.

**A.** The Renewable Natural Gas Services Agreement (“RNGSA”) that governs the relationship between the operator of the New River RNG conditioning facility, Opal Fuels, is a cost-of-service agreement which fully recovers the investment by Peoples over a 20-year term. The agreement includes guarantees and firm commitments by Opal Fuels to meet the full revenue requirements of the project. Peoples will not own the environmental attributes generated by the project; they will be owned by the developer, who can market the environmental attributes at its discretion. Opal Fuels will own the title to the gas produced at the facility and will sell it in the open market.

**Q.** What is the projected in-service date for the New River project?

**A.** The total capital investment made by Peoples for the New River project is approximately $8.2 million. The project is in-service, operating and transporting RNG.

**Q.** Is the company’s investment in facilities to serve the New River RNG facility prudent?

**A.** Yes. The company’s New River Project RNG is prudent. It was constructed to meet a specific customer need and the revenue requirement associated with the project will be recovered over the life of the contract via payments from the customer. Although the RNG generated by the project will not be owned by Peoples, the New River RNG project will generate the environmental, resiliency, and other RNG benefits previously described in my direct testimony.

**Brightmark RNG Project**

**Q.** Please describe the Brightmark RNG project.

**A.** The Brightmark RNG project was developed under Peoples’ RNG tariff and is composed of RNG collection, conditioning, and transportation facilities required to transport RNG produced and conditioned at the Larson Dairy Farm into the FGT and Florida Southeast Connection interstate pipeline systems. Peoples will test the RNG produced by the project to ensure the gas specifications meet the requirements of each respective interstate pipeline system before injection. Peoples expects the peak daily amount of RNG to be transported through our system from Brightmark will be equivalent to the daily natural gas demand from about 8,000 residential customers. Peoples will not own the environmental attributes created by the project; they will be owned by the developer, who can market them at their own discretion. Brightmark will own title to the gas produced at the facility and will sell it in the open market.

**Q.** Please describe the contract that governs the Brightmark RNG project.

**A.** The RNGSA between Peoples and Brightmark, a Chevron-backed developer, is a cost-of-service agreement that fully recovers the revenue requirement associated with the company’s investment in the project over a 15-year term. Under the contract, Brightmark will construct, and Peoples will purchase, the digester, biogas conditioning equipment, and RNG transportation facilities necessary to collect, condition, transport and inject the RNG from the project and Peoples will charge Brightmark a levelized, cost of service-based rate over the life of the contract. Brightmark is responsible for the operation and maintenance of the digester, biogas collection line and biogas conditioning equipment. Peoples will retain ownership and be responsible for the O&M expense of the RNG transportation facilities associated with the project during and after the term of the agreement. The agreement includes guarantees and a firm commitment by Brightmark to pay the full revenue requirements of the project.

**Q.** What is the total capital investment and projected in-service date for the Brightmark RNG project?

**A.** Including spend from 2021, the total capital investment made by Peoples for the Brightmark project is expected to be approximately $42.7 million. Absent unforeseen circumstances, the project is estimated to be in service during the second quarter of 2023.

**Q.** Has Peoples proposed a special depreciation rate for the RNG facilities associated with the Brightmark project?

**A.** Yes. Peoples filed a petition with the Commission on December 15, 2022, seeking approval of a depreciation rate with a 15-year life for use with the Brightmark RNG assets. The petition was assigned Docket No. 20220212-GU and appears to be on a procedural schedule that will run parallel to this case.

**Q.** Why did the company propose a 15-year life for depreciation of the Brightmark RNG assets?

**A.** The company proposed using a 15-year life for these assets to match depreciation cost recovery with the company’s revenue stream under the contract, and so the net book value of the Brightmark RNG assets will be zero when the contract expires and title to the RNG assets will be transferred to Brightmark. This proposal honors the matching principle for ratemaking and will prevent the company from recording a loss on the disposition of the assets or having a depreciation reserve deficiency at the end of the term of the agreement. Company witness Dane A. Watson discusses the proposed depreciation rate for the Brightmark RNG assets further in his prepared direct testimony.

**Q.** Is the company’s investment in the Brightmark RNG project prudent?

**A.** Yes. The company’s Brightmark RNG project is prudent. The company’s involvement in the project meets a specific customer need and the revenue requirement associated with the project will be recovered over the life of the contract via monthly service charge payments for the Brightmark RNG assets and related RNG transportation facilities. Although the RNG generated by the project will not be owned by Peoples or provided by Peoples to its customers, the Brightmark project will generate the environmental, resiliency, and other RNG benefits previously described in my testimony.

**Alliance Dairies RNG Project**

**Q.** Please describe the Alliance Dairies RNG project.

**A.** As part of the Alliance Dairies RNGproject, Peoples has constructed and will own the RNG conditioning, and transportation facilities required to transport RNG produced at the Alliance Dairies Farm into the FGT interstate pipeline system. The RNG produced by the project will be tested by Peoples to ensure the gas specifications meet the requirements of FGT’s interstate pipeline system before injection into the pipeline system. Peoples expects the peak daily amount of RNG to be transported through our system from the Alliance Dairies Farm to be equivalent to the daily natural gas demand of about 6,000 residential customers.

**Q.** Who will own the RNG facilities associated with the project?

**A.** Alliance Dairies will own the digester and all facilities on the farm side of the digester. Peoples will own the RNG conditioning, and transportation facilities on the pipeline side of the digester and has included that investment in its proposed rate base for the 2024 test year. However, as mentioned above, Peoples will recover its capital investment through a revenue sharing arrangement with the farmer that monetizes the environmental attributes of the project.

**Q.** Who will own the RNG created by the project?

**A.** Peoples will own the RNG arising from the project and will market the environmental attributes associated with the RNG through a relationship the company has with an environmental attribute broker. The environmental attributes associated with the Alliance Dairies RNG project will essentially be stripped from the “green” RNG and monetized by selling the attributes in an environmental credit market. Peoples will own the resulting “brown gas” for use by its customers.

**Q.** What does the company propose to do with the brown gas arising from the Alliance Dairies RNG project?

**A.** The company proposes that the brown gas remaining after the environmental attributes are monetized, be provided to Peoples’ gas supply customers through the Purchased Gas Adjustment Cost Recovery Clause (“PGA”) at a zero-commodity price resulting in immediate savings to all gas supply customers.

**Q.** What impact will the Alliance Dairies RNG project have on the company’s revenue requirement for the 2024 test year?

**A.** Even though the investments and expenses of the Alliance Dairies RNG project will be included “above-the-line” for ratemaking in the 2024 test year, the value of environmental attributes expected from the project will support the overall revenue requirement of the project in the 2024 test year and beyond. Peoples’ witness Parsons will explain this further in her prepared direct testimony.

**Q.** Please describe the contract that governs the Alliance Dairies RNG project and the structure of payments to Alliance Dairies.

**A.** Peoples has entered into a Biogas Incentives agreement with Alliance Dairies under which Peoples will own the RNG generated by the project as well as the environmental attributes associated with the Alliance Dairies RNG project. Peoples will make monthly payments to Alliance Dairies based on the monetized value of the environmental attributes associated with the RNG.

The agreement was structured so that revenues from the sale of the environmental attributes associated with the RNG created by the project will be Peoples’ primary source of cost recovery for its capital investment in the project. The payments by Peoples to Alliance Dairies were structured to ensure Peoples retains a greater percentage of project revenues until the company’s project costs are fully recovered. Based on current projections, Peoples expects to recover the full cost of its investment in RNG facilities for the Alliance Dairies RNG project by 2030. The parties adopted this approach to accelerate cost recovery for Peoples and to mitigate any financial risks the project may have on the company’s general body of ratepayers.

**Q.** What is the total capital investment and projected in-service date for the Alliance Dairies RNG project?

**A.** The total capital investment made by Peoples for the Alliance Dairies RNG project is approximately $11.0 million, which includes spending in 2021. Absent unforeseen circumstances, the company expects the Alliance Dairies RNG project to be in service by the end of the second quarter of 2023.

**Q.** Does the Alliance Dairies RNG project benefit the company’s customers?

**A.** Yes. The project is prudent and benefits the company’s customers in several ways.

 First, as previously mentioned, Peoples proposes that the brown gas remaining after the environmental attributes of the RNG generated by the project have been sold will be provided to Peoples’ customers through the PGA at a zero-commodity price. Since the cost of the Alliance Dairies RNG facilities owned by Peoples will be recovered via revenue from the sale of environmental attributes, Peoples’ customers will essentially receive the brown gas from the project for free. The company expects the annual commodity value of the Alliance Dairies brown gas to be approximately $396,000 every year assuming the market value of traditional natural gas is $3.00/MMBtu.

 Second, the projected revenue stream from the sale of the environmental attributes will support the revenue requirement for the project in the 2024 test year and beyond. This is forecasted to be true even though the investments and expenses of the Alliance Dairies RNG project will be included “above the line” for ratemaking in the 2024 test year.

 Third, the project will allow the company’s customers to participate in an RNG project that will deliver sustainable, carbon-negative, pipeline-quality gas produced and distributed in Florida, that can be used in homes and businesses.

 Fourth, because the RNG from Alliance Dairies will be produced in Florida, it can be delivered to customers in Florida without paying the interstate transportation charges needed to deliver traditional natural gas purchased out of state into Florida. If the company had to purchase interstate transportation capacity to deliver an equivalent amount of traditional natural gas from out-of-state to Peoples’ system, the annual cost would be approximately $93,000, which represents an avoided cost benefit to Peoples’ customers.

 Fifth, the company’s customers will benefit because Peoples’ involvement in the project will provide the company with valuable experience operating an RNG facility for the purposes of potentially offering add-on renewable products to all customers in the future.

**Q.** How does the Alliance Dairies RNG project mitigate risks to the company’s general body of ratepayers?

**A.** Whenever the company builds facilities to serve new Large Customers or greater demand from an existing Large Customer, it faces a risk that the customer will go out of business before the company gets full cost recovery of its investment to serve the customer. The significance of this risk is a function of numerous factors, including general business conditions, market forces impacting the specific industry in which the customer operates, and the long lives used to calculate depreciation rates for public gas utilities like Peoples.

 The risks associated with the Alliance Dairies RNG project are modest and have been mitigated by the design of the transaction.

 First, the company’s total investment in the project is approximately $11.0 million, which is modest by utility project standards.

 Second, the company is not constructing or owning the digester, which is one of the more expensive components of the project.

 Third, the company has performed due diligence on Alliance Dairies and has found it to be one of the most professionally operated dairies in Florida, and if the growing base of Florida consumers continue to drink milk, the risk of major market changes that would put the dairy out of business seems remote.

 Fourth, the revenue payments under the contract have been designed in favor of Peoples in the early years of the contract to promote full cost recovery by Peoples in approximately seven years, which is a short period by traditional utility standards.

**TEST YEAR OPERATIONS AND MAINTENANCE EXPENSES**

**Q.** What amount of Gas Supply and Development O&M expense was incurred in 2022?

**A.** The total O&M expenses attributable to base rates in 2022 was $2.6 million. This total amount is primarily reflected in the amounts for FERC Accounts 920 and 921 shown on MFR schedule G-2, page 17.

**Q.** What are the projected O&M expenses for your area in 2023 and 2024?

**A.** The totals in 2023 and 2024 are $2.8 million and $3.6 million, respectively. The distribution of these amounts is primarily within the amounts for FERC Accounts 920 and 921 shown on MFR schedule G-2, page 17.

**Q.** Why is the total projected amount of 2024 O&M expenses for your area higher than the actual amount in 2022?

**A.** The total in 2024 is $1.0 million higher than in 2022. Approximately $600,000 of this increase is labor costs that were budgeted on a trended basis as described by company witness Donna L. Bluestone in her direct testimony. The remainder of the increase is not trended labor costs.

**Q.** Why are not trended labor costs increasing from 2022 to 2024?

**A.** Most of the O&M expenses incurred in the Gas Supply and Development area are labor related, so our O&M expense levels have been influenced by the need to add personnel to meet Florida’s significant growth, and by upward market pressures on labor and wage rates.

 The company has expanded Gas Supply and Development’s responsibilities to include: (1) enhancing the trading and transportation group to manage our system of gas supply and transportation; (2) meet increased gas demand across multiple gas markets, including new pipeline development to serve end users in RNG, industrials and LNG; and (3) development of a resource planning team to provide forecasting and analytical support to expand our system efficiently and effectively.

**Q.** Why does the company need to add personnel in the Gas Supply and Development Area?

**A.** Peoples intends to add new Gas Supply and Development positions in the next couple years, equivalent to six replacement positions in 2023 and two replacement positions and three new positions in 2024, exclusive of any allocations. These positions are listed on MFR G-2, page 19e and are needed so the Gas Supply and Development team can perform its enhanced responsibilities described above, and to help the company respond to the growth of Florida and changing market conditions and customer expectations. Finding qualified persons to fill these positions has been a challenge in the current labor market but Peoples has been pleased with our ability to hire talented people so far. The challenges of the current labor market are explained in witness Bluestone’s direct testimony and have been experienced in the Gas Supply and Development area.

**Q.** Why is the level of Gas Supply and Development O&M expenses in the 2024 test year reasonable?

**A.** The projected O&M expenses are based on current market costs with reasonable inflationary adjustments and represent best estimates of anticipated O&M expenses in 2024. The additional team members to be hired in 2023 and 2024 are needed so the Gas Supply and Development team can continue to support Peoples’ efforts to provide safe and reliable gas system to its growing customer base.

**MINIMUM VOLUME COMMITMENT GAS TRANSPORTATION AGREEMENT**

**Q.** What new form of agreement is Peoples proposing to add it its tariff?

**A.** As discussed in company witness Karen L. Bramley’s direct testimony, Peoples is proposing to add a new minimum volume commitment gas transportation form agreement to ensure that certain industrial and large commercial customers requesting gas transportation service that need construction of new mains and/or additional facilities are bound by contract to use and pay for the transportation service requested. The proposed changes will protect the general body of ratepayers and should be approved.

**SUMMARY**

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

**A.** Peoples’ customers have the choice to use natural gas or other alternatives for their energy needs. Our focus on meeting customer expectations and understanding their daily operational and future needs through regular interactions has placed us in a position to be the preferred choice for providing affordable and reliable energy. As a result, Large Customers are increasing seeking natural gas as an environmentally beneficial option for power generation, transportation and other direct end-uses. Further, Peoples’ Gas Supply and Development activities and costs are reasonable and appropriately position Peoples to meet future Large Customer demand while prudently managing its costs. Peoples is committed to providing safe and reliable service and have reinforced our ability to mitigate the effect of peak pricing on our customers during volatile energy market events, evidenced by the outcome of a significant supply disruption event, Storm Uri in 2021. Our system integrity was maintained throughout the event and did not result in a single service interruption to our customers.

 Peoples is proud of the work the company is doing to support the development of Florida’s economy by making low-cost and clean natural gas accessible to more customers as well as supporting the development of sustainable energy solutions including CNG, LNG, and RNG.

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

**A.** Yes.

# EXHIBIT

**OF**

**LEW RUTKIN, JR.**

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