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October 14, 2019

**VIA E-PORTAL FILING**

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

Re: Docket No. 20190171-GU – In re: Petition for Approval of 2018 True-up, Projected 2019 True-up and 2020 Revenue Requirements and Surcharges Associated with Cast Iron/Bare Steel Pipe Replacement Rider, by Peoples Gas System

Dear Mr. Teitzman:

Attached for electronic filing in the above docket on behalf of Peoples Gas System, please find its Response to Staff's Amended Second Data Request (Nos. 1-4).

Your assistance in this matter is greatly appreciated.

Sincerely,

Andrew M. Brown

AB/plb  
Attachments

cc: Office of Public Counsel  
Ms. Kandi M. Floyd  
Ansley Watson, Jr., Esq.

**PEOPLES GAS SYSTEM  
DOCKET NO. 20190171-GU  
STAFF'S SECOND DATA REQUEST  
REQUEST NO. 1  
BATES STAMPED PAGE: 1  
FILED: OCTOBER 14, 2019**

1. Please state why PGS did not make a consistency and proration adjustment to the WACC to comply with the normalization rules in IRC § 1.167(1)-1(h)(6).
  - A. Per IRS normalization rules, prorating the ADFIT is required only if a Company does not meet or exceed the limitation provision. PGS did not make a consistency and proration adjustment to the WACC in the 2020 projection filing, because the Company is currently meeting or exceeding the limitation provision and is therefore not in violation of Normalization.

**PEOPLES GAS SYSTEM  
DOCKET NO. 20190171-GU  
STAFF'S SECOND DATA REQUEST  
REQUEST NO. 2  
BATES STAMPED PAGE: 2  
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- 2.** How does PGS know its WACC is compliant with IRC § 167 and § 168?
  - A.** PGS has determined that its WACC is compliant with IRC § 167 and § 168. The Limitation Provision in Treasury Regulation Section § 1.167(1)-1(h)(6)(i) states that as long as the amount of depreciation-related ADFIT used in ratemaking is lower than the amount that would have been used under the Consistency Rule, then there is no violation of Normalization.

**PEOPLES GAS SYSTEM  
DOCKET NO. 20190171-GU  
STAFF'S SECOND DATA REQUEST  
REQUEST NO. 3  
BATES STAMPED PAGES: 3 - 5  
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- 3.** Please provide the WACC using the consistency rule per IRC § 168(i)(9)(B) and proration adjustments according to IRC § 1.167(1)-1(h)(6)(ii), even if an adjustment to the WACC is not required.
  - A.** Although it is not required by the IRC, the WACC calculation using consistency rule per IRC § 168(i)(9)(B) and proration adjustment according to IRC § 1.167(1)-1(h)(6)(ii) is attached.

2020 PGS Clause Projection Adjusted WACC Schedule										
2019 Budgeted Surveillance (in 000's)										
	Sys Per Book	Retail Per Book	Pro Rata Adj	Specific Adj.	Adj'd Retail	Cap Ratio	Cost Rate	Weighted Cost		
Common Equity	501,735	501,735	(68,807)	(2,684)	430,244	42.74%	10.75%	4.59%		
Long Term Debt	337,945	337,945	(46,161)	(3,142)	288,642	28.67%	4.72%	1.35%		
Short Term Debt	67,172	67,172	(9,261)	-	57,911	5.75%	3.58%	0.21%		
Res. Cust. Deposits	6,431	6,431	-	-	6,431	0.64%	2.00%	0.01%		
Com. Cust. Deposits	20,588	20,588	-	-	20,588	2.04%	3.00%	0.06%		
Cust Dep InActive	366	366	-	-	366	0.04%	0.00%	0.00%		
Invest Tax Cr	-	-	-	-	-	0.00%	0.00%	0.00%		
Deferred Inc Tax	203,159	203,159	-	(572)	202,587	20.12%	-	-		
<b>Total</b>	<b>1,137,396</b>	<b>1,137,396</b>	<b>(124,229)</b>	<b>(6,398)</b>	<b>1,006,768</b>	<b>100.00%</b>		<b>6.22%</b>		<b>pretax WACC 7.78%</b>
2019 Budgeted Surveillance with ADFIT Consistency and Proration Adjustments										
	Sys Per Book	System Per Consistency & Proration Adj.	Books Adj'd	Retail Per Books	Pro Rata Adj	Specific Adj	Adjusted Retail	Cap Ratio	Cost Rate	Weighted Cost
Common Equity	501,735	(54,817)	446,918	446,918	(68,816)	(2,684)	375,418	37.30%	10.75%	4.01%
Long Term Debt	337,945	(36,922)	301,023	301,023	(46,144)	(3,142)	251,736	25.00%	4.72%	1.18%
Short Term Debt	67,172	(7,339)	59,833	59,833	(9,269)	-	50,564	5.02%	3.58%	0.18%
Res. Cust. Deposits	6,431	(703)	5,728	5,728	-	-	5,728	0.57%	2.00%	0.01%
Com. Cust. Deposits	20,588	(2,249)	18,339	18,339	-	-	18,339	1.82%	3.00%	0.05%
Cust Dep InActive	366	(40)	326	326	-	-	326	0.03%	0.00%	0.00%
Invest Tax Cr	-	-	-	-	-	-	-	0.00%	0.00%	0.00%
Deferred Inc Tax	203,159	102,070	305,229	305,229	(124,229)	(6,398)	304,657	30.26%	100.00%	5.43%
<b>Total</b>	<b>1,137,396</b>	<b>-</b>	<b>1,137,396</b>	<b>1,137,396</b>	<b>(124,229)</b>	<b>(6,398)</b>	<b>1,006,768</b>	<b>100.00%</b>		<b>pretax WACC 6.79%</b>
Proration Adjustment and Consistency Adjustment to Reflect Projected ADFIT Consistent with Projection Year										
	Month	ADIT Bal	Deprec-Related ADFIT Bal	Days to Prorate	Future Days in Period	Prorated Deprec-Related ADFIT Activity	Prorated Deprec-Related ADFIT Bal			
projected	Dec-19	213,685	256,770	31	335	567	256,770			
projected	Jan-20	214,755	257,389	31	306	518	257,337			
projected	Feb-20	216,406	258,008	29	275	465	257,854			
projected	Mar-20	217,463	258,628	31	245	414	258,320			
projected	Apr-20	218,521	259,247	30	214	362	258,734			
projected	May-20	219,579	259,866	31	184	311	259,096			
projected	Jun-20	220,637	260,485	31	153	259	259,666			
projected	Jul-20	221,695	261,104	31	122	206	259,873			
projected	Aug-20	222,752	261,724	30	92	156	260,028			
projected	Sep-20	223,810	262,343	31	61	103	260,132			
projected	Oct-20	224,868	262,962	30	31	52	260,184			
projected	Nov-20	225,926	263,581	30	-	-	260,184			
projected	Dec-20	227,080	264,200	31	-	-	260,184			
		220,554	260,485	366			260,184			
		203,159	158,114				260,485			
2019 Budgeted Surv Bal. (13-mo avg)		17,395	102,371				260,485			
Consistency Adjustment			(301)							
Proration Adjustment			102,070							
Total Adjustment										

Peoples Gas System  
Cast Iron/Bare Steel Replacement Rider  
Calculation of Debt and Equity Return  
January 2020 through December 2020

Normalization Scenario with Consistency and Proration Adjustments based on 2019 Budget Surveillance Report and Strat Plan  
Calculation of Revenue Requirement Rate of Return  
(In Dollars)

	(1)	(2)	(3)	(4)
	December Rate Base 2019 Bdgt SR - Adj. (\$000)	Ratio %	Cost Rate %	Weighted Cost Rate %
Long Term Debt	\$ 251,736	25.00%	4.72%	1.1800%
Short Term Debt	50,564	5.02%	3.58%	0.1797%
Preferred Stock	0	0.00%	0.00%	0.0000%
Residential Customer Deposits	5,728	0.57%	2.00%	0.0114%
Commercial Customer Deposits	18,339	1.82%	3.00%	0.0546%
Inactive Customer Deposits	326	0.03%	0.00%	0.0000%
Common Equity	375,418	37.30%	10.75%	4.0098%
Deferred Income Tax	304,657	30.26%	0.00%	0.0000%
Tax Credits - Zero Cost	0	0.00%	0.00%	0.0000%
Total	\$ 1,006,768	100.00%		5.4355%

**ITC split between Debt and Equity:**

Long Term Debt	\$ 251,736	Long Term Debt	40.14%
Equity - Preferred	0	Equity - Preferred	0.00%
Equity - Common	375,418	Equity - Common	59.86%
Total	\$ 627,154	Total	100.00%

**Deferred ITC - Weighted Cost:**

Debt = 0.0% * 40.13%	0.0000%
Equity = 0.0% * 59.87%	0.0000%
Weighted Cost	0.0000%

**Total Equity Cost Rate:**

Preferred Stock	0.0000%
Common Equity	4.0098%
Deferred ITC - Weighted Cost	0.0000%
	4.0098%
Times Tax Multiplier	1.35236
Total Equity Component	5.4227%

**Total Debt Cost Rate:**

Long Term Debt	1.1800%
Short Term Debt	0.1797%
Customer Deposits	0.0660%
Deferred ITC - Weighted Cost	0.0000%
Total Debt Component	1.4257%
	6.8484%

**Notes:**

Column (1) - From 2019 PGS Budgeted ESR, adjusted for Consistency and Proration  
Column (2) - Column (1) / Total Column (1)  
Column (3) - From 2019 PGS Budgeted ESR, adjusted for Consistency and Proration  
Column (4) - Column (2) x Column (3)

**PEOPLES GAS SYSTEM  
DOCKET NO. 20190171-GU  
STAFF'S SECOND DATA REQUEST  
REQUEST NO. 4  
BATES STAMPED PAGES: 6 - 7  
FILED: OCTOBER 14, 2019**

- 4.** Please provide a revised revenue requirement using the consistency and proration adjustments per IRC § 168(i)(9)(B) and § 1.167(1)-1(h)(6)(ii), even if an adjustment to its WACC is not required.
  - A.** A revised revenue requirement using the consistency rule and proration adjustment per IRC § 168(i)(9)(B) and § 1.167(1)-1(h)(6)(ii) is attached.

Peoples Gas System  
Cast Iron/Bare Steel Replacement Rider  
Calculation of the TOTAL C/BS + PPP Projected Amount for the Period  
January 2020 to December 2020

Return on Capital Investments, Depreciation and Taxes for Eligible Replacements  
(in Dollars)

ROI Normalization Scenario with Consistency and Proration Adjustments

Line	Description	Beginning of Period Amount	January	February	March	April	May	June	July	August	September	October	November	December	End of Period Total
1.	Investments		\$2,001,112	\$3,001,112	\$3,001,112	\$3,001,112	\$3,001,112	\$3,001,112	\$3,001,112	\$3,001,112	\$3,001,112	\$3,001,112	\$3,001,112	\$3,001,112	\$35,013,339
	a. Eligible Replacements - Mains	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	b. Eligible Replacements - Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	c. Eligible Replacements - Regulators	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	d. Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	e. Cleanings to Plant	2,365,374	3,024,308	3,024,308	3,018,509	3,014,160	3,010,898	3,008,451	3,006,616	3,005,240	3,004,208	3,003,434	3,002,853	3,002,418	35,466,469
2.	Gross Plant-in-Service/Depreciation Base	\$148,534,786	\$150,900,159	\$153,974,468	\$156,942,977	\$159,957,137	\$162,968,034	\$165,976,485	\$168,983,102	\$171,988,342	\$174,992,550	\$177,995,984	\$180,998,837	\$184,001,255	
	Less: Accumulated Depreciation	(6,615,036)	(6,791,211)	(6,970,169)	(7,152,699)	(7,338,795)	(7,528,452)	(7,721,666)	(7,918,435)	(8,118,754)	(8,322,624)	(8,530,043)	(8,741,010)	(8,955,524)	
3.	Net Book Value (Lines 2 + 3 + 4)	\$141,919,750	\$144,108,948	\$146,994,299	\$149,790,278	\$152,618,342	\$155,439,582	\$158,254,823	\$161,064,667	\$163,874,667	\$166,683,926	\$169,493,940	\$172,304,827	\$175,115,765	\$177,926,731
4.	CWIP - Noninterest Bearing	3,458,163	3,093,898	3,070,702	3,053,304	3,040,256	3,030,470	3,023,130	3,017,626	3,013,497	3,010,401	3,008,078	3,006,337	3,005,030	
5.	Net Book Value (Lines 2 + 3 + 4)	\$145,377,910	\$147,202,847	\$150,025,001	\$152,843,582	\$155,658,597	\$158,470,052	\$161,277,949	\$164,082,293	\$166,885,085	\$169,680,326	\$172,474,019	\$175,264,164	\$178,050,761	
6.	Average Net Book Value	146,290,378	148,613,923	148,613,923	151,434,292	154,251,089	157,064,325	159,874,001	162,680,121	165,482,689	168,281,705	171,077,172	173,869,091	176,657,462	
7.	Return on Average Net Book Value		\$661,074	\$671,574	\$684,319	\$697,048	\$709,761	\$722,457	\$735,138	\$747,802	\$760,451	\$773,083	\$785,700	\$798,300	\$8,746,707
	a. Equity component Grossed up for taxes (A)	173,805	176,566	179,917	183,263	186,606	189,944	193,278	196,607	199,933	203,254	206,571	209,884	209,884	2,299,628
	b. Debt component (B)	\$834,879	\$848,140	\$864,236	\$880,311	\$896,367	\$912,401	\$928,416	\$944,409	\$960,384	\$976,337	\$992,271	\$992,271	\$1,008,184	\$11,046,335
8.	Investment Expenses		\$184,042	\$186,881	\$190,511	\$194,133	\$197,749	\$201,362	\$204,972	\$208,580	\$212,186	\$215,792	\$219,396	\$223,000	\$2,438,604
	a. Depreciation (C)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	b. Amortization	211,697	211,697	211,697	211,697	211,697	211,697	211,697	211,697	211,697	211,697	211,697	211,697	211,697	2,540,364
	c. Property Taxes (D)	(7,867)	(7,923)	(7,980)	(8,036)	(8,092)	(8,148)	(8,204)	(8,260)	(8,316)	(8,373)	(8,429)	(8,485)	(8,541)	(96,113)
	d. Depreciation Savings														
9.	Revenue Requirements (Lines 7 + 8)	\$1,222,751	\$1,238,794	\$1,258,464	\$1,278,105	\$1,297,721	\$1,317,312	\$1,336,881	\$1,356,426	\$1,375,951	\$1,395,453	\$1,414,935	\$1,434,396	\$1,453,836	\$15,927,190
10.	Est Projected 2019 true-up/(under)	\$ (1,891,506)													
11.	Revenue Requirements Net of Est Projected Recovery	\$ 3,114,257	\$ 4,353,051	\$ 5,611,515	\$ 6,889,621	\$ 8,187,342	\$ 9,504,654	\$ 10,841,535	\$ 12,197,961	\$ 13,573,912	\$ 14,969,365	\$ 16,384,300	\$ 17,818,696	\$ 19,277,190	\$ 208,604

Notes:  
(A) Line 7a = Line 6 x 5.4227% x 1/12, Based on ROE of 10.75%, and weighted income tax rate of 25.345%, Net Operating Income Multiplier of 1.35236  
(B) Line 7b = Line 6 x 1.4357% x 1/12  
(C) Depreciation rates: 1.4% Mains Plastic, 1.8% Mains Steel, 2.3% Services Plastic, 2.6% Services Steel, 3.3% Regulator Stations  
(D) Ad Valorem Tax Rate is 1.79%