

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: September 22, 2022

TO: Office of Commission Clerk (Teitzman)

FROM: Division of Accounting and Finance (D. Buys, Mouring) *ALM*
Office of the General Counsel (Watrous, Sandy) *JSC*

RE: Docket No. 20220146-PU – Joint application for authority to issue and sell securities for year ending December 31, 2023, by Tampa Electric Company and Peoples Gas System.

AGENDA: 10/04/22 – Regular Agenda – Final Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On August 24, 2022, Tampa Electric Company (Tampa Electric or Company) filed a joint application with Peoples Gas System (PGS) for authority to issue and sell securities. In its petition, Tampa Electric stated it is preparing to transfer the assets used by its PGS division into a separate corporation named Peoples Gas System, Inc. (PGS, Inc.). PGS, Inc. intends to access the third-party lending market during 2023 but cannot predict when during 2023 that it will do so. To assist its affiliate and to facilitate an orderly transfer of its gas assets, Tampa Electric has agreed to continue to be responsible for providing capital as needed to PGS, Inc. under an Intercompany Debt Agreement until December 31, 2023.

In its joint application, Tampa Electric bifurcated its securities application into two separate sections; one for Tampa Electric and another for PGS, Inc. Therefore, in this recommendation, Issue 1 will address Tampa Electric's application, Issue 2 will address PGS, Inc.'s application,

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and Issue 3 will address the filing of the consummation reports and the closure of this docket. To be clear, in this docket the Commission is only voting on the legality of the companies' securities application and not on the spin-off of PGS.

The Commission has jurisdiction over the application for authority to issue securities pursuant to Section 366.04, Florida Statutes..

Discussion of Issues

Issue 1: Should the Commission approve Tampa Electric Company's application for authority to issue and/or sell securities for the calendar year ending December 31, 2023?

Recommendation: Yes. The amount of all equity and long-term debt securities issued during calendar year 2023 should not exceed \$1.5 billion, and the maximum amount of short-term debt outstanding at any one time during calendar year 2023 should not exceed \$2.2 billion. (D. Buys)

Staff Analysis: In its joint application with PGS to issue securities during calendar year 2023, Tampa Electric stated that on January 1, 2023, the Company is planning to transfer the assets, liabilities, and equity that have been recorded on the books of its PGS division into a separate corporation called Peoples Gas System, Inc. The new company will be a wholly owned subsidiary of a newly formed gas operations holding company, TECO Gas Operations, Inc., which would be a subsidiary of TECO Energy, Inc.

Included in the liabilities transferred will be PGS's allocation of outstanding unsecured notes issued by Tampa Electric and outstanding short-term borrowings that are planned to be converted into an Intercompany Debt Agreement with Tampa Electric, with interest rates on each allocation being maintained accordingly. During 2023, Tampa Electric will provide additional short-term debt funding to PGS, Inc. through the Intercompany Debt Agreement at Tampa Electric's prevailing cost of short-term debt borrowings. The Intercompany Debt Agreement will remain outstanding until PGS, Inc. pays Tampa Electric all principal and interest due on the Intercompany Debt Agreement. PGS, Inc. plans on paying off the debt associated with the Intercompany Debt Agreement in 2023 by issuing its own long-term and short-term debt. The initial obligation of PGS, Inc. under the Intercompany Debt Agreement is expected to be approximately \$800 million. The total amount of borrowing available to PGS, Inc. under the Intercompany Debt Agreement will be approximately \$1.2 billion.

Tampa Electric requests the authority to issue, sell and/or exchange equity securities and issue, sell, exchange and/or assume long-term or short-term debt securities and/or to assume liabilities or obligations as guarantor, endorser or surety during calendar year 2023. The Company also seeks authority to enter into interest rate swaps or other derivative instruments related to debt securities. Any exercise of the requested authority will be for the benefit of the Tampa Electric or its affiliate PGS, Inc. under the Intercompany Debt Agreement.

The amount of all equity and long-term debt securities issued, sold, exchanged, or assumed and liabilities and obligations assumed or guaranteed as guarantor, endorser, or surety should not exceed in the aggregate \$1.5 billion during the calendar year 2023, including any amounts issued to retire existing long-term debt securities. The maximum amount of short-term debt outstanding at any one time during calendar year 2023 will not exceed \$2.2 billion.

In connection with this application, the Company confirms that the capital raised pursuant to this application will be used in connection with the activities of the Company's regulated electric and gas divisions, or its affiliate PGS, Inc. under the Intercompany Debt Agreement, and not the unregulated activities of the utilities or their affiliates.

Staff has reviewed Tampa Electric's projected capital expenditures. Tampa Electric's projected construction budget for 2023 is \$1.151 billion. The amount requested by the Company (\$3.7 billion) exceeds its projected capital expenditures (\$1.151 billion in 2023). The additional amount requested exceeding the projected capital budget expenditures allows for funding of the Intercompany Debt Agreement with PGS, Inc. (\$800 million) and financial flexibility for unexpected events such as hurricanes, financial market disruptions, and other unforeseen circumstances. Staff believes the requested amounts are appropriate. Staff recommends Tampa Electric's application for authority to issue securities during calendar year 2023 be approved.

Issue 2: Should the Commission approve Peoples Gas System, Inc.'s application for authority to issue and/or sell securities for the calendar year ending December 31, 2023.

Recommendation: Yes. The amount of all equity and long-term debt securities issued during calendar year 2023 should not exceed \$1.4 billion, and the maximum amount of short-term debt outstanding at any one time during calendar year 2023 should not exceed \$1.2 billion. (D. Buys)

Staff Analysis: As discussed in Issue 1, on January 1, 2023, PGS, Inc., a new wholly owned subsidiary of TECO Energy, Inc., is planned to be established and the assets, liabilities, and equity that have been recorded on the books of PGS and reported in its Annual Report to the Florida Public Service Commission and Earnings Surveillance Reports are planned to be legally moved from Tampa Electric to the newly formed Peoples Gas System, Inc. During 2023, short-term debt funding will be provided to PGS, Inc. through an Intercompany Debt Agreement at Tampa Electric's prevailing cost of short-term debt. The Intercompany Debt Agreement will remain outstanding until PGS, Inc. pays Tampa Electric all principal and interest due on the Intercompany Debt Agreement. PGS, Inc. plans on paying off the debt associated with the Intercompany Debt Agreement in 2023 by issuing its own long-term and short-term debt.

The initial obligation of PGS, Inc. under the Intercompany Debt Agreement is expected to be approximately \$800 million. PGS, Inc. intends to access the third-party lending market during 2023 but cannot predict when during 2023 it will do so. If necessary, PGS, Inc. may obtain temporary short-term bank borrowings (used to retire the Intercompany Debt Agreement principal and interest) that would be replaced with a combination of long-term debt and short-term debt borrowings.

PGS, Inc., through Tampa Electric, requests the authority to issue, sell, and/or exchange equity securities and issue, sell, exchange, and/or assume long-term or short-term debt securities and/or to assume liabilities or obligations as guarantor, endorser or surety during the period covered by this Application. PGS, Inc. also requests authority to enter into interest rate swaps or other derivative instruments related to debt securities. Any exercise of the requested authority will be for the benefit of PGS, Inc.

In connection with this application, PGS, Inc. confirms that the capital raised pursuant to this application will be used in connection with the activities of PGS, Inc.'s regulated gas distribution services and not the unregulated activities of the utility or its affiliates

The amount of equity (excluding equity moved from Tampa Electric to the new Peoples Gas System, Inc. on January 1, 2023, as described above) and long-term debt securities issued, sold, exchanged, or assumed and liabilities and obligations assumed or guaranteed as guarantor, endorser, or surety (excluding the initial obligation assumed by PGS, Inc. on January 1, 2023 under the Intercompany Debt Agreement of approximately \$800 million) will not exceed in the aggregate \$1.4 billion during the period covered by this Application (2023), including any amounts issued to retire the Intercompany Debt Agreement with Tampa Electric and amounts needed for potential long-term emergency funding. The maximum amount of short-term debt, as described above to potentially retire the Intercompany Debt Agreement with Tampa Electric, outstanding at any one time and to avail PGS, Inc. of short-term emergency funding and other purposes, will not exceed \$1.2 billion.

Staff has reviewed PGS, Inc.'s request and its projected capital expenditures. PGS Inc.'s projected construction budget for 2023 is \$333 million. The amount requested by the Company (\$2.6 billion) exceeds its projected capital expenditures (\$333 million in 2023). The additional amount requested exceeding the projected capital budget expenditures allows for the repayment of the Intercompany Debt Agreement with Tampa Electric (\$800 million) and financial flexibility for unexpected events such as hurricanes, financial market disruptions, and other unforeseen circumstances. Staff believes the requested amounts are appropriate. Staff recommends PGS Inc.'s application for authority to issue securities during calendar year 2023 be approved.

Issue 3: Should this docket be closed?

Recommendation: No. This docket should remain open to allow the Companies time to file the required Consummation Reports. (Watrous)

Staff Analysis: For monitoring purposes, this docket should remain open until May 3, 2024, to allow the Companies time to file the required Consummation Reports. Tampa Electric and Peoples Gas System, Inc. should be required to file separate consummation reports within 90 days after the end of calendar year 2023.