AUSLEY MCMULLEN

Attorneys and Counselors at Law
123 South Calhoun Street
P.O. Box 391 32302
Tallahassee, FL 32301
P: (850) 224-9115
F: (850) 222-7560
ausley.com

October 6, 2023

VIA ELECTRONIC FILING

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

Re: Docket No. 20230023-GU; Petition for Rate Increase by Peoples Gas System, Inc.

Docket No. 20220219-GU; Peoples Gas System's Petition for Rate Approval of 2022 Depreciation Study

Docket No. 20220212-GU; Peoples Gas System's Petition for Approval of Depreciation Rate and Subaccount for Renewable Natural Gas Facilities Leased to Others

Dear Mr. Teitzman:

Attached for filing in the above docket is Peoples Gas System, Inc.'s Post Hearing Brief.

Thank you for your assistance in connection with this matter.

Sincerely,

J. Jeffry Wahlen

JJW/ne
Attachment

cc: All parties of record (w/att.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Petition for Rate Increase by Peoples Gas System, Inc.	DOCKET NO. 20230023-GU
Peoples Gas System's Petition for Rate Approval of 2022 Depreciation Study	DOCKET NO. 20220219-GU
Peoples Gas System's Petition for Approval of Depreciation Rate and Subaccount for Renewable Natural Gas Facilities Leased to Others	DOCKET NO. 20220212-GU FILED: October 6, 2023

POST HEARING BRIEF OF PEOPLES GAS SYSTEM, INC.

J. JEFFRY WAHLEN
jwahlen@ausley.com
MALCOLM N. MEANS
mmeans@ausley.com
VIRGINIA PONDER
vponder@ausley.com
Ausley McMullen
Post Office Box 391
Tallahassee, Florida 32302
(850) 224-9115

Attorneys for Peoples Gas System, Inc.

TABLE OF CONTENTS

I. INTRODUCTION

Peoples proudly continues to support the growth and economic vitality of Florida by providing safe, reliable, and clean natural gas to Floridians while evolving with changing energy markets and maintaining exceptional customer service. However, strong customer demand, the effects of inflation, and higher costs of capital have significantly impacted the company's operations such that the company expects to earn less than eight percent return on equity in 2023. [Tr. 267] Peoples requests that the Florida Public Service Commission ("FPSC" or "Commission") approve an increase to its base rates and charges effective with the first billing cycle in January 2024.

These consolidated dockets address three petitions filed by Peoples Gas System, Inc. ("Peoples," "PGS," or the "company"): (1) a petition for approval of depreciation rates and subaccount for renewable natural gas facilities leased to others [Docket No. 20220212-GU]; (2) a petition for approval of a new depreciation study [Docket No. 20220219-GU]; and (3) a Petition for Rate Increase [Docket No. 20230023-GU]. These dockets were consolidated by the Order Establishing Procedure ("OEP"), Order No. PSC-2023-0128-PCO-GU, issued April 12, 2023.

Peoples filed its Petition for a Rate Increase on April 4, 2023, and reduced its request twice, first in the rebuttal testimony of Rachel Parsons [Tr. 1977-1985] and again in its prehearing statement [Ex. 218, BSP G1-250-G1-251; Tr. 2074]. Peoples' revised request seeks to increase its base rates and charges by approximately $135.3 million annually, which includes $11.6 million of Cast Iron/Bare Steel Rider revenues that Peoples proposes to move from the Rider to base rates [Ex. 218, BSP G1-250-G1-251; Tr. 2074]. Consequently, the company is requesting new net annual revenues of approximately $123.7 million [Ex. 218, BSP G1-250-G1-251; Tr. 2074]. Peoples' proposed base rates and charges (and the resulting typical bills) are based on a reasonable cost of service study; were developed using traditional rate design principles; and compare favorably with the Florida Public Utility Company and Florida City Gas rates recently approved by the Commission, even before any adjustments to the company's proposed revenue requirement. [Tr. 116]

The Commission conducted six service hearings and a final evidentiary hearing in Tallahassee on September 12-15, 2023. At the final hearing, the Commission heard live testimony (in-person or remote) from ten witnesses and admitted the pre-filed direct and/or rebuttal testimony of another nine witnesses into the record by stipulation. A total of 222 exhibits were admitted into the record.

The Parties identified 75 specific issues to be decided in this case, but five general areas drew the most attention: (1) recoverability of recurring costs associated with the 2023 Transaction that moved the Peoples Gas System assets from Tampa Electric Company into a separate corporation, Peoples Gas System, Inc. [Issues 31, 32, 71, and 72]; (2) the company's proposed level of operations and maintenance expenses in 2024 [Issues 13, 19, 41, 42, 43, 47, and 49]; (3) the company's proposed depreciation rates [Issues 5, 6, 7, 9, 10, 11, and 22]; (4) whether the assets, revenues, and expenses associated with the company's three proposed renewable natural gas ("RNG") projects should be included "above the line" in the calculation of new base rates [Issues 16, 17, and 18]; and (5) return on equity, equity ratio, and related capital structure issues [Issues 28, 29, and 31 through 36]. Thirty of the issues were resolved by stipulations approved by the Commission at the final hearing, including Issues 16, 17, and 18 on RNG. One issue was withdrawn (Issue 73 Tax Change Mechanism). The parties will brief the deferral accounting issue for the company's New River and Brightmark RNG Projects under Issue 57. [Tr. 2084-2087]

The company offers the following key points in support of its request for rate relief and detailed briefing below:

1. The company's current mid-point return on equity is 9.9 percent and was approved by the Commission in 2020. Even OPC's expert witness acknowledges that interest rates and the cost of capital have increased substantially since then [Tr. 1070-1071], so increasing the company's return on equity is reasonable. Indeed, the Commission recently approved effective equity returns (equity ratio times equity return) of approximately 5.65 or 5.66 percent for two other local gas distribution companies ("LDCs"). [Tr. 1194] Rating agencies can be expected to make peer comparisons and evaluate whether the Commission approves a comparable effective equity return for Peoples, which given the company's proposed equity ratio of 54.7 percent, would work out to be approximately 10.33 percent. [Tr. 1194]

2. The company's proposed equity ratio of 54.7 percent is consistent with the equity ratios recently approved for two other LDCs and is unchanged from the company's last rate case. [Tr. 1135]

3. The 2023 Transaction is prudent, and benefits customers by legally separating the business of Peoples Gas System from the business operations of Tampa Electric Company ("Tampa Electric"). [Tr. 89-90] This gives Peoples a commonly used business structure. It will allow the company to develop its own board of directors, create and execute its own financing plans based on its needs and credit profile, and to better focus its attention on its customers and operations across Florida. [Tr. 88-90]

4. Peoples expects the 2023 Transaction to facilitate more efficient operations and risk sequestration/mitigation, both of which will benefit customers in the long run. [Tr. 90] Although the consumer parties have criticized the transaction, Tampa Electric and Peoples have successfully

separated the electric and gas assets of Tampa Electric into two separate corporations before either the electric or gas operations of Tampa Electric suffered a catastrophic event (e.g., hurricane) that would impair the operations of the other, which is fortunate, because separation after a catastrophic event would be too late. [Tr. 111]

5. Peoples' proposed level of test year O&M expense is reasonable and should be approved. The company's customer growth and the effects of inflation have been significant. The company added 41,500 new residential and commercial customers in 2021 and 2022 and projects to add over 29,000 customers in 2023 and 2024. [Tr. 73] From January 2021 to December 2024, the company expects to add 2,200 miles of mains and service lines. [Tr. 73] Since the company's last rate case in 2020, inflation has accelerated to levels not seen in the United States since the 1970s and 1980s. [Tr. 1435] Using the Commission's O&M benchmark multiplier, the company's 2024 O&M Benchmark is $158.4 million; its proposed 2024 test year O&M expenses are $144.8 million (Issue 49) or about $13.6 million below the benchmark. [Tr. 120]

6. The Office of Public Counsel's ("OPC") proposals to reduce the company's proposed O&M expenses are not reasonable and fail to recognize that the growth in Florida and Peoples' service area has significantly increased the level of work to be performed by Peoples and its team members. This growth means more work and more work requires more people. [Tr. 784] The company experienced a total increase in service, compliance, locate, and meter reading work orders of five percent from 2021 to 2022 and projects a five-year compound annual growth rate in those orders of four percent over the period 2020 to 2024. [Ex. 27, doc. 1 at BPS E2-66]

7. The company's actual capital spending exceeded the budget in 2022 and the company is on track to spend its capital budget for 2023 [Tr. 1837], so OPC's efforts to prove that the

company will not spend its 2023 and 2024 capital budget should fail and OPC's proposed rate base adjustments should be rejected.

8. Peoples filed a depreciation study as required in its last rate case settlement on December 28, 2022. [Tr. 1873] On July 20, 2023, Peoples submitted, with the rebuttal testimony of its depreciation witness, an updated depreciation study that addressed issues identified during discovery. [Tr. 579; Ex. 32, doc. 2] The OPC recommends depreciation rates that reflect lives longer than those proposed by Peoples for five asset classes (five life parameter changes) and to lower the company's depreciation expense by amortizing the company's hypothetical depreciation reserve surplus over ten years rather than over the remaining lives of the company's assets. Peoples has shown that its proposed lives are reasonable for developing depreciation rates and that the longer lives proposed by OPC are not reasonable. [Tr. 581-625] OPC's proposed amortization of the hypothetical reserve surplus is inconsistent with the way the Commission has traditionally set depreciation rates [Tr. 1962-1963] and inconsistent with the position OPC took in the recent Florida City Gas case. [Tr. 2072]

II. <u>LEGAL STANDARDS</u>

Peoples filed its petition for a permanent increase in its base rates and charges pursuant to Chapter 366, Florida Statutes, which gives the Commission authority to "determine and fix fair, just, and reasonable rates" for a public utility. Fla. Stat. §366.06(1). Section 366.06(2), Florida Statutes, directs the Commission to consider, to the extent practicable, the "cost of providing service to the class, as well as the rate history, value of service, and experience of the public utility; the consumption and load characteristics of the various classes of customers; and public acceptance of rate structures." Fla. Stat. §366.06(2). The Commission may also consider "the efficiency, sufficiency, and adequacy of the facilities provided and the services rendered; the cost of providing such service and the value of such service to the public; [and] the ability of the utility to improve such service and facilities." Fla. Stat. §366.041(1). However, "no public utility shall be denied a reasonable rate of return upon its rate base in any order entered pursuant to such proceedings." Id.

The Commission conducts rate case proceedings like this one in accordance with Florida's Administrative Procedure Act ("APA"), which is codified in Chapter 120, Florida Statutes. Under the APA, "findings of fact shall be based upon a preponderance of the evidence...and shall be based exclusively on the evidence of record and on matters officially recognized." Fla. Stat. §120.57(1)(j). The Commission's findings and conclusions must be supported by competent, substantial evidence in the record. *Citizens of Fla. v. Brown*, 269 So. 3d 498, 505 (Fla. 2019); *Sierra Club v. Brown*, 243 So. 3d 903, 907-08 (Fla. 2018). As shown below, Peoples has met its burden of proof and has proven its positions on the contested issues by a preponderance of competent substantial evidence.

III. <u>STATEMENT OF POSITIONS AND ARGUMENT</u>

<u>TEST PERIOD AND FORECASTING</u>

> **<u>ISSUE 1:</u>** Is PGS's projected test period of the twelve months ending December 31, 2024, appropriate?
>
> **<u>PGS</u>:** *Yes. PGS requests an increase in rates effective January 1, 2024. The twelve-month period ending December 31, 2024 is the most appropriate test period because it is representative of PGS' future operations and reflects the company's expected operations during the first year its proposed rates will be in effect.*

Calendar year 2024 is appropriate for use as the test year in this case because it is representative of the company's projected revenues and expenses, capital structure, and rate base required to provide safe, reliable, and cost-effective service to customers when the company's new rates will be in effect. [Tr. 1857] Except for accelerating its preparation, which was a practical necessity [Tr. 1939], the company's 2024 financial forecast in this case was prepared using the same process the company uses each year to develop its annual budgets [Tr. 1868]. As noted in confidential discovery responses and by Ms. Wesley on cross-examination, there are no pending or anticipated merger or acquisition activities involving Peoples that would cast doubt on the reasonableness of the 2024 test year data or financial forecast. [Tr. 233-243; Ex. 177C, BSP G2-521-] OPC has proposed adjustments to specific elements of the company's 2024 test year forecast, each of which Peoples addresses below; however, the company's proposed 2024 test year is reasonable and should be approved.

QUALITY OF SERVICE

ISSUE 4: Is the quality of service provided by PGS adequate?

PGS: *Yes. PGS has delivered on its commitment to exceptional customer service as evidenced by the company's J.D. Power customer satisfaction scores, participation in customer service hearings, comments filed by customers in this case, and its industry low FPSC customer complaint levels.*

Peoples' record of safety, reliability, and exceptional customer service is not seriously in dispute. In 2022, the company ranked highest in the *south* midsize segment of the J.D. Power Gas Utility Residential Customer Satisfaction study for the 10^{th} year in a row, and highest in the south segment of the Gas Utility Business Customer Satisfaction study for the fourth year in a row and sixth time since 2016. [Tr. 691-692] Peoples has led the *nation* in the J.D. Power residential study in eight of the past ten years and ranked highest in the nation in the business study in six of the last eight years. [Tr. 691-692] Peoples was among the Most Trusted Utilities for the ninth time in the 2022 Cogent/Escalent Syndicated Utility Trusted Brand & Customer Engagement residential study. [Tr. 691-692]

Two customers participated in the Commission's six customer service hearings, and neither complained about Peoples' quality of service. Peoples' customer complaint history with the FPSC compares favorably to the other natural gas local distribution companies in Florida, and Peoples has the lowest level of complaints per thousand customers by far. [Tr. 115, Ex. 26, doc. 1, BSP E1-22] The customer comments submitted in this docket do not reveal systemic service problems [Ex. 176, BSP G2-502-G2-520], and the Commission Staff's analysis of complaints from June 1, 2018 to May 31, 2023 did not reveal a violation of the Commission's rules [Tr. 2082]. The Commission should find that the service Peoples provides is adequate.

DEPRECIATION STUDY

> **ISSUE 6**: Are vehicle retirements, including salvage, properly matched with the prudent level of additional vehicles included in rate base? If not, what adjustments should be made?
>
> **PGS:** *No adjustment should be made. While the company did not properly match vehicle retirements with associated forecasted additions, adding the retirements to 2023 and 2024 has no impact as they would equally reduce the plant in service and accumulated depreciation. Therefore, adding retirements would not impact the 2024 test year rate base amount.*

No adjustment to test year NOI or rate base is necessary to reflect expected vehicle retirements in 2023 and 2024, because Peoples did not include vehicle depreciation expense in the calculation of the depreciation expense component of net operating income in the 2024 test year. [Tr. 1970] Instead, Peoples reflected vehicle depreciation expense in test year O&M and capital expenditures through a transportation cost allocation. [Tr. 1970] Including expected retirements in 2023 and 2024 would *slightly increase* rate base due to lower vehicle depreciation expense. [Tr. 1971] The Commission should decline to make any vehicle retirement-related adjustments.

Contrary to OPC's assertion,[1] Peoples met its burden of proof to demonstrate that the projected level of vehicle expense in 2023 and 2024 is necessary to provide safe and reliable

[1] *Prehearing Order*, Order No. PSC-2023-0273-PHO-GU, issued August 28, 2023 in Docket No. 20230023-GU, at 13.

service.[2] Mr. O'Connor provided several data points that illustrate the necessity of maintaining an adequate number of vehicles. First, he testified that Peoples' distribution system has grown from 14,175 miles of mains in 2020 to an expected 15,494 miles by the end of 2024. [Tr. 735] Second, he testified that the company's Jacksonville service area alone is twice the square mileage of the state of Delaware. [Tr. 790] Third, he explained that a team of 21 to 22 employees must cover the company's Ft. Myers division, which spans almost 100 miles north to south, and respond to any leak call within that area within 60 minutes. [Tr. 849-850] Finally, he testified that the company's Gas Operations employees collectively drive seven million miles per year. [Tr. 907] This record clearly demonstrates Peoples' need to maintain an adequate transportation fleet to provide safe and reliable service to customers, and that no adjustment is warranted.

> **ISSUE 7**: What depreciation parameters (remaining life, net salvage percentage, and reserve percentage) and resulting depreciation rates for each distribution and general plant account should be approved?

> **PGS:** *The appropriate depreciation parameters and rates are those set forth in Exhibit DAW-2, Document No. 3, to the rebuttal testimony of Dane Watson. The Commission should reject the five life parameter changes proposed by OPC.*

Given that the parties stipulated under Issue 8 that Peoples' depreciation rates should be calculated using a depreciation study date of December 31, 2023, the Commission should find that Mr. Watson's depreciation rates and parameters as presented in Exhibit 32, Document No. 3 are appropriate. As explained below, these rates were calculated in accordance with the applicable Commission Rule, based on a Commission-approved methodology, and utilizing the most current data and information available. The Commission should reject OPC's proposed parameter changes and approve these rates and parameters without modification.

[2] Peoples notes that the projected level of vehicle expense is an NOI issue, but OPC mentioned it in its position on this issue, so Peoples has addressed the issue here. Notwithstanding where the issue is briefed, no adjustment to vehicle expense is warranted.

Peoples' witness Dane Watson prepared the company's depreciation study in accordance with Rule 25-7.045, Florida Administrative Code, which specifies the required contents of a gas utility depreciation study. [*See* Tr. 543; Tr. 577; Exhibit 32, BPS E7-294] Mr. Watson used the straight-line method, Average Life Group procedure, remaining life technique depreciation system to prepare the study. [Ex. 32, Document No. 2, at BPS E7-301] The company's study presents: (1) average service lives for Distribution and General Plant; (2) net salvage percentages for Distribution and General Plant; (3) a calculation of the theoretical reserve of each property group based on the remaining life, total life, and estimated net salvage for that group; (4) depreciation rates and an annual depreciation accrual; and (5) depreciation rates for new plant that is not currently capitalized on the company's books, all based on a December 31, 2024 study date. [Tr. 548]

Mr. Watson prepared the depreciation study through four phases. First, Mr. Watson collected data and conducted field interviews with Peoples' personnel. [Tr. 553; Ex. 32, Document No. 2 at BPS E7-309]. This data included: (1) actual historical data regarding asset lives and net salvage as of December 31, 2021; (2) plant and reserve balances as of December 31, 2024; (3) information related to operations, conditions, plans, and programs collected from interviews; and (4) information regarding new assets. [Tr. 550-551] In the second phase, Mr. Watson used this information to developed observed life tables for life analysis. [Ex. 32, Document No. 2, at BPS E7-309-E7-310] These tables are compared to industry standard tables to determine historical life characteristics. [Ex. 32, Document No. 2, at BPS E7-309-E7-310] The second phase also includes net salvage analysis. [Ex. 32, Document No. 2, at BPS E7-310]. In the third phase, Mr. Watson makes a final selection of asset lives and net salvage parameters based on the analysis from the second phase, interviews, and operational characteristics. [Ex. 32, Document No. 2, at BPS E7-

310] The fourth and final phase involves calculation of accrual rates, making recommendations, and documenting the conclusions of the study. [Ex. 32, Document No. 2, at BPS E7-310]

Mr. Watson used the same methodology to prepare this study that was used by Peoples and approved by the Commission in the company's last base rate case. [Tr. 554] Mr. Watson testified that the depreciation rates included in the company's study encompass the best and most recent information for calculating Peoples' depreciation expense and are reasonable and appropriate for use in recovering the costs of Peoples' assets. [Tr. 549] Mr. Watson also prepared a computation of depreciation rates using a December 31, 2023 study date. [Tr. 578; Ex. 32, Doc. No. 3, BSP E7-448-E7-486] Based on this record and given that the parties stipulated under Issue 8 that Peoples' depreciation rates should be calculated using a depreciation study date of December 31, 2023, the Commission should find that Mr. Watson's depreciation rates and parameters as presented in Exhibit 32, Document No. 3 are appropriate.

OPC's witness did not perform his own depreciation study, but instead considered Peoples' study and proposed extending the service lives of five accounts.[3] [Tr. 967; 1044-1053] The Commission should reject these recommendations for three reasons. First, he only utilized one placement and experience band to arrive at his service life recommendations, while depreciation treatises recommend the use of multiple bands. [Tr. 585-587] Second, his choice to utilize a short placement band of the years 1983-2021 violates the principles of actuarial analysis by failing to analyze trends in service lives over time. [Tr. 588] Third, he relied solely on the output of a statistical model and ignored company-specific experience and operational information, which is

[3] Account 376 – Mains Steel, Account 376 – Mains Plastic, Account 379- Measuring and Regulating Equipment – City Gate, Account 380 – Plastic Services, and Account 382 – Meter Installations. [Tr. 1044-1053]

not an accurate way to set asset lives. [Tr. 588-591][4] For each of these reasons, OPC's approach is unreasonable, and the Commission should reject its recommended adjustments to service lives.

> **<u>ISSUE 9</u>**: Based on the application of the depreciation parameters to PGS's data that the Commission has adopted, and a comparison of the theoretical reserves to the book reserves, what, if any, are the resulting imbalances?

> **<u>PGS</u>:** *The appropriate theoretical reserve imbalance is a surplus of $160.4 million as of December 31, 2024 based on the recommended life and net salvage parameters as reflected in Exhibit DAW-2.*

The appropriate theoretical reserve imbalance is a surplus of $160.4 million as of December 31, 2023 based on the recommended life and net salvage parameters as reflected in Exhibit 32, Document No. 3.[5] OPC presented an alternative calculation of the theoretical reserve surplus as of December 31, 2023 based on its proposed adjustments to Peoples' depreciation parameters. [Tr. 1264] As shown in Issue 7, OPC's recommended adjustments are unreasonable, do not follow sound depreciation practice, and those adjustments and OPC's resulting theoretical reserve surplus should be rejected.

> **<u>ISSUE 10</u>**: What, if any, corrective depreciation reserve measures should be taken with respect to any imbalances identified in Issue 9?

> **<u>PGS</u>:** *The surplus should be amortized over the remaining life of the assets.*

Peoples' witness, Mr. Watson, designed his proposed depreciation rates to eliminate the theoretical depreciation reserve surplus over the remaining life of the depreciable assets and the average remaining life for the accounts where the company proposed general plant amortization. [Tr. 572-573] OPC recommends that PGS amortize the reserve surplus over ten years. [Tr. 1055]

---

[4] Peoples' Account 379 – City Gate Equipment illustrates the problem with this approach. In interviews with Mr. Watson, Peoples' subject-matter experts estimated lives for equipment in Account 379 ranging from 20 to 50 years. [Tr. 590] Based on his statistical analysis, Mr. Garrett recommended a component life of 60 years, or ten years longer than the longest estimate from company experts. [Tr. 590]

[5] The surplus amount may be derived using the figures on page 202 of Exhibit 32, specifically by summing Column d (Book Reserve), summing Column e (Theoretical Reserve), and subtracting Column e from Column d.

This approach is a departure from the remaining life technique, and as such, it does not follow normal depreciation study practice. [Tr. 1962-1963] It is also inconsistent with OPC's position in the recent Florida City Gas case, which was to follow the remaining life technique. [Tr. 2072] Peoples recommends that the Commission follow standard depreciation study practice and amortize the surplus using the remaining life technique. [Tr. 626;1963]

RATE BASE

ISSUE 13: Has PGS made the proper adjustments to remove all costs attributable to the operations of Seacoast Gas Transmission (SGT)? If not, what adjustments should be made?

PGS: *Yes. In rebuttal testimony of witness Parsons, the company proposed an adjustment to its calculation of corporate overhead costs to SGT from PGS that would increase the allocation by $189,347 based on a revision to the Modified Massachusetts Method ("MMM") used for determining the overhead allocation to include directly charged payroll and benefit costs from the company and Tampa Electric. The resulting revised MMM calculation fairly allocates PGS overhead costs to SGT.*

SGT is a limited liability company that designs, constructs, and operates intrastate natural gas transmission pipelines in Florida. It is an affiliate of Peoples, has no employees, and receives shared services from Tampa Electric and Peoples. [Tr. 1965-1966]. It is much smaller than Peoples; SGT has only two direct customers, four pipeline assets, and 200 miles of pipe. [Tr. 262, 265-266] The labor costs of business activities performed by Peoples for SGT are attributed or allocated from Peoples to SGT on a direct charge basis for some employees and through standard labor distributions where Peoples team members allocate a fixed portion of their time to SGT. [Tr. 1966] General overhead is allocated using the Modified Massachusetts Method ("MMM"), which considers relative ratios of net revenues, payroll and benefits expenses, and gross property, plant, and equipment. [Tr. 1966-1967] The total costs attributed and allocated from Peoples to SGT have grown from about $500,000 in 2019 to over $2.7 million in 2024, or at a compound annual growth rate of 40 percent. [Ex.33, doc. 7, BSP E8-551-E8-552]

During discovery, OPC questioned whether Peoples properly allocates costs from Peoples to SGT. Upon reflection, Peoples concluded that it should treat directly charged and allocated payroll and benefits costs incurred by Peoples and Tampa Electric for SGT as "gross payroll" in the MMM. [Tr. 1967-1968] By including $1,150,287 of direct and allocated labor and benefits expenses incurred by Peoples and Tampa Electric for SGT in the MMM, the company increased the allocation of corporate overhead from Peoples to SGT by $189,347 in the test year, which resulted in a base revenue requirement reduction of $190,837 [Tr. 1968; Ex. 33, doc. 7, BSP E8-551-E8-552], which adjustment is reflected in the company's revised revenue requirement [Ex. 218, BSP G1-250-G1-251].

OPC does not assert that Peoples has intentionally misallocated costs to SGT. [Tr. 2057] The evidence presented by Peoples shows that the total amount of test year costs attributed and allocated from Peoples to SGT has grown over time [Ex. 33, doc. 7, page 1, BSP E8-551] and is reasonable, and the company is willing to conduct a comprehensive study of the services and costs that SGT receives from Peoples and update its cost attribution and allocation protocols for filing in its next general base rate proceeding. [Tr. 2058] No further adjustments are needed for SGT in this case.

ISSUE 15: Should PGS's proposed Advanced Metering Infrastructure (AMI) Pilot be approved? If not, what adjustments should be made?

PGS: *Yes. The proposed AMI Pilot is prudent and should be included in rate base and Net Operating Income. The company's MFRs reflect $2.2 million for capital expenditures and $100,000 of O&M expenses associated with the pilot and should be approved.*

The Commission should approve Peoples' proposed AMI Pilot and include it in rate base in the 2024 test year because Peoples met its burden of proof to demonstrate that the project is prudent. Peoples' witness O'Connor testified that AMI meters are widely used in the electric utility industry to improve utility service and that Peoples' Pilot will assess the ability of this technology to provide similar benefits to gas customers. [Tr. 766] These benefits may include cost reductions; remote leak and outage detection; remote disconnection; improvements to billing accuracy; and enhanced customer experience by providing individual customer energy usage data. [TR. 766] Peoples sized the program to balance cost with the need to provide a sufficient sample size of AMI meters. [Tr. 765] Peoples selected Hillsborough County as the location for the Pilot because the company may be able to connect the meters to the existing Tampa Electric AMI meter infrastructure. [Tr. 766] The Commission approved a similar pilot for Florida City Gas. *See Order Granting in Part and Denying in Part Florida City Gas' Petition for Certain Rate Increases*, Order No. PSC-2023-0177-FOF-GU, issued June 9, 2023 in Docket No. 20220069-GU, at 18-20. The AMI Pilot is a reasonable and prudent investment to assess a technology that may ultimately benefit Peoples' customers, and the pilot should be approved.

> **ISSUE 19**: Has PGS properly reflected in the projected test year the cost saving benefits to be gained from implementation of the Work and Asset Management (WAM) system? If not, what adjustments should be made?
>
> **PGS:** *Yes, in its initial filing based on its 2024 forecast, PGS properly reflected no cost savings benefits associated with WAM in the projected test year; however, for ratemaking purposes in this case, the company proposes to reduce test year O&M expenses by $750,000 to give customers the O&M value benefits for the first two years of implementation (2024 and 2025) identified when the company decided to implement the WAM.*

The company's WAM system is a central technology platform used by most utilities today to track all aspects of an asset's life, including planning, design, construction, use and retirement, and to provide for safe operations. [Tr. 1615] WAM will allow the company to use capital and O&M resources more effectively through better planning and work management. [Tr. 1616] Though the company did not reflect cost savings benefits associated with WAM in its initial filing, Peoples has imputed $750,000 in cost savings in reduced O&M costs in its revised revenue requirement for the 2024 test year. [Tr. 1768; Ex. 218, BSP G1-250-G-1251] This amount is based on the company's identified potential value benefits of WAM as set forth in the WAM Benefits Realization Metrics 2022 Update ("WAM 2022 Update"). [Ex 187, BSP G-2-544-G-2-546] Specifically, the WAM 2022 Update identified approximately $363,000 in O&M benefits in year one of WAM's implementation and approximately $726,000 in year two. [Tr. 817, 1788-1789] Thus, the $750,000 commitment is an effort to combine two years of expected savings even though the 2024 test year will be the first year the company expected to recognize O&M Benefits from WAM.

OPC argues that WAM efficiencies have not been properly reflected in the test year and that the WAM investment should eliminate the need for some of the company's requested additional employee positions (Issue 42). [Tr. 1240-1241,1298] However, the company demonstrated that WAM will generate minimal O&M cost savings in the 2024 projected test year and that benefits realizations are expected gradually by year four of operating the system. [Tr. 1618-1619] Peoples' witness Richard explained that it is reasonable not to project immediate cost savings following the implementation of a new system like WAM and instead, to expect the first twelve to twenty-four months post-implementation to be a period for team members to work with and become proficient in the use of the system, and for the business to fully integrate its features. [Tr. 802] The $750,000 [Ex. 218, BSP G1-250-G-1-251] adjustment made by the company to reflect WAM cost savings for ratemaking purposes is reasonable, conservative in favor of customers, and no further adjustments for WAM are appropriate.

ISSUE 21: What level of projected test year plant in service should be approved?

PGS: *The appropriate projected test year plant in service is $3,298,318,785, which is a reduction of $11,530,336 from the $3,309,849,121 shown on MFR Schedule G-1, page 1, line 1 due to the removal of Alliance plant in service. The Commission should reject OPC's proposed adjustment to the forecasted 2024 plant in service.*

The appropriate amount of plant-in-service is $3,298,318,785 for the 2024 projected test year, which is a reduction of $11,530,336 from the $3,309,849,121 shown on MFR Schedule G-1, page 1, line 1 due to the removal of Alliance plant in service. [Ex. 7, BSP K169] The company expects to invest over $1.0 billion in capital expenditures from January 1, 2022, to December 31, 2024, to support customer growth, enhance customer service, and enhance the safety and reliability of its system. [Tr. 1912-1913; Ex. 23, BSP D12-1006]

Mr. Richard explained that the company makes capital investments to serve growing customer demand (not just to grow rate base) [Tr. 1606-1612] and to ensure safe and reliable operations. [Tr. 1592-1593]. Peoples classifies capital projects for internal purposes and capital budgeting into three groups: (1) growth projects; (2) reliability, resiliency, and efficiency ("RRE") projects; and (3) legacy pipe replacement projects. [Tr. 1592-1593] The company's approximately $1.0 billion in capital investments include: (1) $600.8 million to support customer growth and environmental sustainability; (2) $404.4 million to enhance RRE; and (3) $79.5 million to replace legacy pipe. [Tr. 1503-1594; Ex. 23, BSP D12-1006]

The company's development of its capital budget differs depending on the size and type of projects. [Tr. 1597] For growth in residential and small commercial customers, the company budgets its capital costs by considering the level of anticipated demand, customer forecasts, and estimates of labor and materials. [Tr. 1597-1598] For large customer and RRE projects, the company develops a preliminary design and cost estimates and evaluates the importance of the project for safety, compliance, reliability, environmental value and supporting growth. [Tr. 1598-1599] The company uses the preliminary cost estimates and its rankings to develop a capital budget that reflects a reasonable total amount of capital spending. [Tr. 1599] The company continues to refine the design of a project and its cost estimates once included in the capital budget until the design of the project and the cost estimates are construction ready. [Tr. 1599]

Despite these rigorous practices, the cost to construct distribution system projects has increased over the past few years and is expected to increase 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. [Tr. 1594-1595]

OPC recommends the Commission approve no more than $3,274,834,064 of projected test year plant in service. It also recommends reductions to the company's revenue requirement of $2.9 million and a related $905,000 reduction to test year depreciation expense because it believes the company will not spend its projected capital budget for 2023 and 2024. [Tr. 1234-1235] OPC's proposed adjustments – which are based on five-year averages – do not recognize the company's capital governance changes that have improved the capital budging process and capital spending controls for small projects, including distribution funding projects less than $1.5 million, as well as for large capital projects including distribution funding projects over $1.5 million. [Tr. 1639-1640] They also fail to recognize that the company spent more on capital than budgeted in 2022 and is on track to spend it capital budget in 2023. [Tr. 1837]

The company built a new budgeting tool for distribution work (residential and commercial) in 2021 that allows the company to improve work predictions by division. [Tr. 1640] For larger projects, which may include distribution and transmission projects related to growth, RRE, and/or AFUDC, Peoples revised, improved, and implemented new class estimation processes that include better defined stage gates and class estimates. [Tr. 1640-1641] Peoples also changed and improved its project planning, contingency planning process, and use of project inflation assumptions. [Tr. 1641-1642]

OPC's misguided efforts to attack the company's 2024 projected plant in service amounts by highlighting changes to its budgeting process should not be credited because to do so would create a disincentive to improve budgeting processes, and more importantly, because the improvements have reduced the variances between budget and actuals since 2018. The average variance to budget has improved from actual 14 percent under budget in 2018 and 2019 to 0.7 percent actual over budget between 2020 and 2022. [Tr. 1642; Ex. 28, BSP E3-88] Most of the variance in 2022 (8.8 percent actual over budget) was driven by higher than projected growth in the number of residential and commercial customers. [Tr. 1643; Ex. 28, BSP E3-88] The company's actual capital spending exceeded the budget in 2022 and the company is on track to spend its capital budget for 2023 [Tr. 1837], so OPC's efforts to prove that the company will not spend its 2023 and 2024 capital budget should fail and OPC's proposed capital adjustments should be rejected.

ISSUE 22: What level of projected test year plant accumulated depreciation and amortization should be approved?

PGS: *This fallout issue depends on the outcome of the other rate base and depreciation issues. The company's five adjustments to accumulated depreciation reflected in its revised net revenue requirement increase are reflected in Exhibit 218.*

This fallout issue depends on the outcome of the other rate base and depreciation issues. The company's five adjustments to accumulated depreciation are reflected in its revised net revenue requirement increase in Exhibit 218. [Ex. 218, BSP G1-250-G1-251]

ISSUE 23: What level of projected test year Construction Work in Progress (CWIP) should be approved?

PGS: *The appropriate projected test year CWIP is $24,309,448 as shown on MFR Schedule G-1, page 1, line 2.*

This issue is related to Issue 21, and for both issues, Peoples has shown that its budgeting process is reliable [Tr. 1868-69, 1910-1917] and that its projected plant in service and CWIP balances should not be adjusted as proposed by OPC. OPC's focus on the budgeted amounts of CWIP prepared in 2021 [Tr. 2039] is misplaced because the company updated its 2023 budget and prepared its 2024 budget so its rate case filing would have up to date data. [Tr. 2039] Moreover, although actual CWIP for 2022 varied from budget, the differences were largely attributable to timing of large projects like WAM and RNG projects that accrued AFUDC. [Tr. 2040] The company does not include large projects that earn AFUDC in rate base [Tr. 1917], so CWIP variances attributable to the timing of large projects would not impact rate base or CWIP in this case. The company's actual capital spending exceeded the budget in 2022 and the company is on track to spend its capital budget for 2023. [Tr. 1837] For these reasons, the Commission should not adjust the company's test year CWIP balance.

ISSUE 27: What level of projected test year rate base should be approved?

PGS: *The appropriate amount of projected test year rate base is $2,355,546,414. This amount reflects the $2,366,788,452 of adjusted rate base shown on MFR Schedule G-1, page 1, and the $288,298 adjustment included in Issue 22 to decrease accumulated depreciation and amortization and the removal of the Alliance project plant in service of 11,530,336 in Issue 21.*

This is a fallout issue that is dependent on the outcome of the other rate base issues. The company's revised proposed rate base of $2,355,546,414 is reflected in Exhibit 218. [Ex. 218, BSP G1-250-G1-251] As discussed under Issue 49, the company has shown that its allocation of administrative and general ("A&G") expenses to capital is reasonable, and OPC's proposal to increase the allocation of A&G to rate base should be rejected. However, if the Commission accepts OPC's proposal under Issue 49, it should make a corresponding increase to rate base [Tr. 2072].

COST OF CAPITAL

ISSUE 28: What amount of projected accumulated deferred taxes should be approved for the projected test year capital structure?

PGS: *The amount of accumulated deferred taxes to be included in the capital structure for the projected test year is $279,720,428.*

This issue is dependent on the outcome of other issues. The company's proposed amount of $279,720,428 reflects three adjustments to the $280,240,209 shown on MFR Schedule G-3, page 2. These adjustments reflect the company's positions on Issues 18, 22, and 27. [Ex. 139, BSP F7089; Ex. 218, BPS G1-250 – G1-251].

ISSUE 29: What cost rate should be approved for the unamortized investment tax credits for the projected test year capital structure?

PGS: *The cost rate of the unamortized investment tax credits to include in the projected test year capital structure is 8.49 percent, as shown on MFR Schedule G-3, page 2, line 6.*

The company calculated an 8.49 percent ITC cost in its initial filing and the related MFR schedule referred to in the company's position is included in Exhibit 7, BSP K278; however, removing the Alliance Dairies RNG project below the line means that there will be no ITC in the company's regulated capital structure in 2024, so the cost rate issue is essentially moot.

ISSUE 31: What cost rate of short-term debt should be approved for the projected test year capital structure?

PGS: *The appropriate amount of short-term debt for the projected test year is $99,662,408, and the cost rate is 4.85 percent.*

OPC did not present testimony contesting the level of the company's short-term borrowing rate but proposes that certain incremental borrowing expenses attributable to the 2023 Transaction be disallowed. Peoples addresses that proposal under Issue 72.

The company's proposed 4.85 percent short-term cost rate is shown on MFR G-3, page 4 [Ex. 7, BSP K280] and reflects the company's forecasted short-term borrowing rates for the test year [Tr. 1117]. This market-based forecasted rate was developed based on the Secured Overnight Financing Rate plus credit spreads at a targeted BBB+ credit rating plus program fees. [Tr. 1117-1118] The increase in short-term interest rates since the company's last base rate proceeding is attributable to the efforts of the Federal Reserve to combat inflation by increasing its overnight borrowing rate. [Tr. 1118-1119]

The Commission has consistently concluded that utilities should recover their projected debt costs through base rates [Tr. 1129-1130] and a departure from this practice would negatively impact rating agency assessments of the company's regulatory environment and cash flow generating ability. [Tr. 1131] The company is in the process of obtaining an independent, stand-alone credit rating [Tr. 1113-1114] and is making progress toward that end [1199-1120]. The company's proposed $99.7 million of short-term debt reflects the $99,671,451 of short-term debt on MFR G-3, page 2 [Ex. 7, BSP K279], adjusted for the decrease in rate base in Issue 27 ($9,262 decrease) and increased for pro rata allocation over investor sources of offset for change in accumulated deferred income taxes in Issue 28.

ISSUE 32: What cost rate of long-term debt should be approved for the projected test year capital structure?

PGS: *The appropriate amount of long-term debt for the projected test year is $827,335,811 and the cost rate is 5.54 percent and is shown on MFR G-3, page 3.*

OPC did not present testimony contesting the level of the company's long-term borrowing rate but proposes that certain incremental borrowing expenses attributable to the 2023 Transaction be disallowed. Peoples addresses that proposal under Issue 72.

The company's proposed 5.54 percent long-term debt rate reflects the company's forecasted long-term borrowing costs on a stand-alone basis, reflecting forecasted market conditions and the company's credit quality. [Tr. 1119-1120] The company proposes to issue $825 million of long-term debt in three tranches with differing terms to mitigate the long-term costs of debt and refinancing risks, [Tr. 1120-22] at estimated rates based on underlying U.S. Treasury rates sourced by Bloomberg [Tr. 1120; Ex. 21, doc. 3, BSP D10-698] plus a forecasted spread for a typical gas distribution company with a BBB+ credit rating. [Tr. 1120] The increase in long-term interest rates since the company's last base rate proceeding is attributable to the efforts of the Federal Reserve to combat inflation by increasing its overnight borrowing rate. [Tr. 1120-1121; Ex. 21, doc. 4, BSP D10-700]

The Commission has consistently concluded that utilities should recover their projected debt costs through base rates [Tr. 1129-1130] and a departure from this practice would negatively impact rating agency assessments of the company's regulatory environment and cash flow generating ability. [Tr. 1131] The company is in the process of obtaining an independent, stand-alone credit rating [Tr. 1113-1114] and is making progress toward that end. [Tr. 1199-1120] The company's proposed amount of long-term debt for the test year reflects the $832,185,531 [Ex. 137, BSP F7047] of long-term debt on MFR G-3, page 2, adjusted for the decrease in rate base in Issue 27 and increased for pro rata allocation over investor sources of capital offset for change in accumulated deferred income taxes in Issue 28.

<u>ISSUE 33</u>: Has PGS made the proper adjustments to remove all non-utility investments from the projected test year common equity balance? If not, what adjustments should be made?

<u>PGS</u>: *Yes.*

PGS has made the proper adjustments to remove all non-utility investments from the projected test year common equity balance as shown on MFR G-3, page 2 [Ex. 7, BSP K278], Exhibit RBP-1, Document No. 9 [Ex. 23, BSP D12-1036] to witness Parsons' direct testimony and Exhibit 218 (revised revenue increase). [Ex. 218, BSP G1-250-G1-251]

<u>ISSUE 34</u>: What equity ratio should be approved for the projected test year capital structure?

<u>PGS</u>: *The appropriate equity ratio for the projected test year capital structure is 54.7 percent (investor sources). OPC's proposed equity ratio would not be sufficient to maintain the company's financial integrity, is far below actual levels since 1998, and should be rejected.*

The company proposes an equity ratio of 54.7 percent for the projected test year capital structure. [Tr. 1115-1116; 1917-1918] OPC recommends a 49.26 percent equity ratio. [Tr. 965] Maintaining financial integrity is important for all of the reasons explained by witness McOnie in his direct testimony. [Tr. 1099-1102] OPC's proposed equity ratio would not be sufficient to maintain the company's financial integrity.[6] [Tr. 1135] A more highly leveraged capital structure with a lower overall authorized return will make it more difficult for the company to achieve credit metrics sufficient to support its targeted rating of BBB+. [Tr. 1135] Strong financial integrity better serves Peoples' obligation to serve its customers and the significant capital expenditure requirements needed to maintain and grow its system. [Tr. 1126] The company's proposed equity ratio of 54.7 percent is consistent with the capital structure approved by the Commission in its last rate case, Order No. PSC-2020-0485-FOF-GU in Docket No. 20200051-GU ("2020 Agreement"). [Tr. 1115; 1918] The Commission should approve the company's proposed 54.7 percent equity ratio.

The company notes that the Commission recently approved a 55.1 percent equity ratio for Florida Public Utilities and a 59.7 percent equity ratio for Florida City Gas. Peoples' proposed equity ratio compares favorably to these equity ratios. [Tr. 1119, 1135] The company's proposed equity ratio of 54.7 percent is also consistent with the equity ratio actually maintained by the

---

[6] Financial integrity refers to a relatively stable condition of liquidity and profitability in which the company can meet its financial obligations to investors while maintaining the ability to attract investor capital as needed on reasonable terms, conditions, and costs. [Tr. 1099]

company for the past few years. [Tr. 1116; Ex. 31, BSP E6-232] Further, as explained by witness D'Ascendis, the company's 54.7 percent equity ratio is consistent with its peers and appropriate for ratemaking purposes as it is both typical and essential for utilities to have significant proportions of common equity in their capital structures. [Tr. 319-320]

ISSUE 35: What return on equity (ROE) should be approved for establishing PGS's projected test year revenue requirement?

PGS: *The appropriate authorized return on equity (ROE) for the projected test year is a midpoint of 11 percent with a range of plus or minus 100 basis points. OPC's proposed rate of return on equity is not reasonable and should be rejected.*

Under the United States Supreme Court's decisions in *Hope* and *Bluefield*, a fair return on equity "must be (1) commensurate with returns available on investments having comparable risks, (2) sufficient to assure financial soundness and integrity and support reasonable credit quality, and (3) adequate to allow a company to raise capital on reasonable terms."[7] As the Commission has explained, "neither case law nor statute mandates that the awarded ROE be tied to the result of a particular financial model."[8] Instead, the Commission will establish "a reasonable ROE that is consistent with *Hope* and *Bluefield* and supported by competent, substantial evidence in the record."[9] The Commission "has a long history of establishing an ROE midpoint and a range of 100 basis points on either side to create a range of reasonableness and ensure rate stability."[10]

Here, the competent, substantial evidence in the record supports an ROE of 11 percent, with a range of 100 basis points on either side. Peoples presented testimony and analysis from Dylan D'Ascendis supporting this ROE. Mr. D'Ascendis prepared a recommended ROE based on

---

[7] *Order Granting in Part and Denying in Part Florida City Gas' Petition for Certain Rate Increases,* Order No.PSC-2023-0177-FOF-GU, issued June 9, 2023 in Docket No. 20220069-GU, at 40.; citing *Bluefield Water Works and Improvement Co. v. Public Service Comm'n*, 262 U.S. 679, 692 (1923); *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944).
[8] *Id*, at 40.
[9] *Id*.
[10] *Id*.

the application of multiple cost of common equity models.[11] [Tr. 301] Because Peoples is not publicly traded, Mr. D'Ascendis developed a group of six comparable publicly traded companies to serve as "proxies" for Peoples. [Tr. 312-313] Mr. D'Ascendis then applied the cost of common equity models to the proxy group companies to derive a recommended ROE for Peoples. [Tr. 301] Mr. D'Ascendis then adjusted this indicative range to reflect Peoples' smaller size, high level of customer growth, overall performance, and capital investment plans compared to the proxy group. [Tr. 302] Based on this adjusted range, Mr. D'Ascendis recommended that the Commission adopt an ROE midpoint of 11 percent for Peoples. Tr. 302. Mr. D'Ascendis later updated this analysis based on the most current data available at the time he filed rebuttal testimony and, based on the updated analysis, maintained his initial recommendation of 11 percent. [Tr. 381]

Mr. D'Ascendis' approach to estimating Peoples' required ROE by applying multiple widely accepted cost of common equity models to a proxy group is reasonable and appropriate. The Commission has previously stated that the models used by Mr. D'Ascendis "are generally recognized as being consistent with the market-based standards of a fair return enunciated in the Hope and Bluefield decisions."[12] OPC's witness, Mr. Garrett, also utilized two of the same models and described them as "the two most widely used and accepted in regulatory proceedings for many years." [Tr. 980][13] Mr. D'Ascendis and Mr. Garrett agree that an ROE analysis should be based on the use of multiple models. [Tr. 322; 960] Mr. Garrett also supports the use of a proxy group and utilizes the same proxy group companies as Mr. D'Ascendis for his own analysis. [Tr. 981] Mr.

---

[11] These include the Discounted Cash Flow ("DCF") model, the Risk Premium Model ("RPM"), and the Capital Asset Pricing Model ("CAPM"). [Tr. 301]

[12] *Order Denying in Part, and Granting in Part, Florida Power & Light Company's Request for Permanent Rate Increase and Setting Depreciation and Dismantlement Rates and Schedules*, Order No. PSC-10-0153-FOF-EI, issued March 27, 2010 in Docket No. 090130-EI.

[13] Mr. Garrett did take issue with some aspects of Mr. D'Ascendis' RPM analysis but does not object to the utilization of risk premium models in general. *See* Tr. 980 (stating he utilized the CAPM); Tr. 1017 ("the CAPM itself is a risk premium model").

D'Ascendis' analysis thus constitutes competent, substantial evidence that the Commission may rely on in establishing a reasonable ROE that is consistent with *Hope and Bluefield*. [14]

While OPC witness Garrett followed the same general approach to estimating ROE as Mr. D'Ascendis, the results of his alternative analysis are unreasonable and lack credibility. In Peoples' last rate case in 2020, Mr Garrett recommended that the Commission adopt an ROE of 9.5 percent for Peoples. [Tr. 1070] Mr. Garrett concedes, however, that capital costs have increased since 2020. [*See* Tr. 1070-1071; Ex. 131, at 4, BSP F1853] Despite this concession, Mr. Garrett nonetheless recommends that the Commission reduce Peoples' authorized ROE by 90 basis points, or 50 points as compared to his recommended ROE in Peoples' 2020 rate case. [Tr. 1069-1070] Mr. Garrett's recommended ROE is simply irreconcilable with the higher costs of capital and should be rejected.

Finally, the Commission recently approved effective equity returns (equity ratio times equity return) of approximately 5.65[15] or 5.66[16] percent for two other LDCs. [Tr. 1194], which given the company's proposed equity ratio of 54.7 percent, would work out to be approximately 10.33 percent.[17] [Tr. 1194] Although LDCs may be different, the Commission should consider its recent decisions and the upward trend in interest rates when setting the company's mid-point return on equity.

---

[14] Order No.PSC-2023-0177-FOF-GU, at 40.

[15] The Commission approved a 10.25 percent return on equity and 55.1 percent equity ratio for FPUC. This yielded an effective equity cost in the capital structure of 5.65 percent (10.25 percent times 55.1 percent equals 5.65 percent). *Order Granting Florida Public Utilities Company's Petition for a Rate Increase,* issued March 15, 2023, Docket No. PSC-2023-0103-FOF-GU at 57 (equity ratio) and 69 (ROE).

[16] The Commission approved a 9.50 percent return on equity and an equity ratio of 59.6 percent. This yielded an effective equity cost in the capital structure of 5.66 percent (9.5 percent times 59.6 percent equals 5.66 percent). *Order Granting in Part and Denying in Part Florida City Gas' Petition for Certain Rate Increases*, Issued June 9, 2023 in Docket No. PSC-2023-0177-FOF-GU at 39 (equity ratio) and 44 (ROE).

[17] A 5.65 percent effective equity cost divided by a 54.7 percent equity ratio equals 10.33 percent.

<u>ISSUE 36</u>: What capital structure and weighted average cost of capital should be approved for establishing PGS's projected test year revenue requirement?

<u>PGS</u>: *The appropriate capital structure and average cost of capital is shown in the below table, and the resulting average cost of capital is 7.41 percent, but needs to be updated based on the results of other issues, including elimination of ITC in Issue 29.

	Jurisdictional Capital MFR G-3, p.2	ADIT Adj.	Rate Base Adj.	Jurisdictional Adjusted Capital	Capital Ratio	Cost Rate	Weighted Cost
Long Term Debt	832,185,531	1,815	(4,851,535)	827,335,811	35.12%	5.54%	1.94%
Short Term Debt	99,671,451	219	(9,262)	99,662,408	4.23%	4.85%	0.21%
Customer Deposits	27,528,183	-	(2,558)	27,525,625	1.17%	2.53%	0.03%
Deferred Taxes	280,240,209	(4,486)	(515,295)	279,720,428	11.87%	0.00%	0.00%
Tax Credit - Weighted	3,156,892	-	(293)	3,156,598	0.13%	8.49%	0.01%
Common Equity	1,124,006,187	2,453	(5,863,095)	1,118,145,545	47.47%	11.00%	5.22%
Total Capital	2,366,788,452	-	(11,242,038)	2,355,546,414	100.00%		7.41%

*

This fallout issue depends on the decisions made on other capital structure issues. The chart above and the overall rate of return in the company's position and the chart is based on the jurisdictional adjusted capital amounts shown in the company's positions on Issue 28 (ADIT), Issue 31 (short-term debt), Issue 32 (long-term debt), and Stipulated Issue 30 (customer deposits). As noted in Issue 29, there will be no ITC in the capital structure in 2024, so the capital structure and overall rate of return will need to be updated to reflect that adjustment and the Commission's decisions regarding other capital structure issues.

NET OPERATING INCOME

ISSUE 38: Has PGS made the proper adjustments to remove all non-utility activities from projected test year operating expenses, including depreciation and amortization expense? If not, what adjustments should be made?

PGS: *Yes.*

The company made appropriate adjustments to remove all non-utility activities from operation expenses as shown on MFR Schedule G-2, pages 2-3 [Ex. 7, BSP K220-K221] and Exhibit 218 (revised revenue increase) [Ex. 218, BSP G1-250-G1-251].

ISSUE 41: What amount of projected test year contractor and contract services cost should be approved?

PGS: *The appropriate amount of projected test year contractor and contract services cost should be $24,989,844. This amount reflects a total of $25,179,844 included in PGS' filing less an adjustment of $190,000 for the decrease in the projected test year standalone audit fees based.*

The appropriate amount of projected test year contractor and contract services cost is $24,989,844 (adjusted). This amount reflects a total of $25,179,844 included in the company's filing, less an adjustment of $190,000 for the decrease in the projected test year standalone audit fees. [Tr. 1982; Ex. 33, BSP E8-551-E8-552] OPC does not recommend a reduction to the level of test year contractor and contractor services cost but rather argues that the company did not reduce contractor expense by an amount that justifies the company's forecasted increase in new employees. [Tr. 1239] Thus, OPC recommends a lower number of employees in the projected test year and states that corresponding reductions in contractor expense should be made if the Commission allows the number of employees to increase. [Tr. 1239-1241]

Peoples has demonstrated that its projected test year contractor and contract services cost is reasonable and prudent. Peoples' witness Tim O'Connor testified that Peoples is obligated to ensure that non-discretionary job activities are completed. [Tr. 742] Mr. O'Connor explained that contractors allow the company to quickly adjust the size of the company's workforce to meet operational, performance, and geographic needs. [Tr. 742] Peoples also works to balance internal labor and contract labor costs. Mr. O'Connor testified that the company has worked diligently to hire and train new apprentice classes. [Tr. 743] Based on these planned headcount additions, Peoples projects that outside services expense for Gas Operations will decline by $1.1 million in the test year as compared to 2022. [Tr. 800] Finally, Mr. O'Connor testified that the proposed mix of labor and contracted services embedded in the company's base rate request is necessary to properly maintain adequate levels of safety, reliability, and customer service. [Tr. 801] The Commission should not adjust the company's projected test year contractor and contract services amount.

ISSUE 42: What number of projected test year employees should be approved for ratemaking purposes?

PGS: *The company has proven the need for each of its proposed additional employees and how those proposed additions moderate the need for outside contractor services in the test year, so OPC's staffing adjustments should be rejected. The appropriate number of projected 2024 test year employees should be an average of 837 after vacancy allowances. The 837 average count includes the following by month: January to February – 830, March to May – 834, May to December – 840. The 837 average employees in 2024 reflects the additional 90 and 64 employees shown on MFR Schedule G-2, pages 19c-19e. However, based on its position on Issues 16, 17, and 18, the company proposes to reduce projected 2024 operating expenses by $37,882[18] to reflect its updated plans to forgo cost recovery for one Business Development Manager for RNG.*

The appropriate number of projected test year employees for the projected 2024 test year should be an average of 837 after vacancy allowances. [Tr. 78; 1350] The 837 average employees reflects the additional 90 employees in 2023 and 64 employees in 2024 as shown on MFR Schedule

[18] This amount was calculated during the settlement discussions with OPC and FIPUG that led to the stipulations on Issues 16, 17, and 18. The base salary part of this amount is $25,137, which ties to MFR Schedule G-2, page 19e of 31 (Bates page 491), line 26. [Ex. 7]. The balance are the amounts of benefit and short-term incentive amounts described in the company's position on Issue 43. Peoples does not believe that OPC or FIPUC contest these dollar amounts.

G-2, pages 19c-19e. [Tr. 1350] It is important to note that of the additional 90 employees the company requested in 2023, 63 of those were for replacement positions - vacancies at the end of December 2022 created from promotions, retirements, and attrition. [Tr. 1382-1303; Ex. 133, BSP F6986] Peoples' witness Bluestone testified that the increase in team members in 2023 and 2024 is a result of the company strengthening its workforce to operate the company's growing system safely and reliably. [Tr. 1350-1351] Ms. Bluestone explained that each position the company budgets for is well thought through to ensure it meets the business need for that specific function and that the decision to replace a vacant position or add a new team member is based on careful examination of the justifications identified by the functional leader for that new position. [Tr. 1365]

OPC recommends that the number of projected test year employees should remain at the 2022 level, with limited exceptions, based on OPC witness Kollen's testimony that the requested increases in employees in the test year are excessive as compared to the base year and prior years. [Tr. 1237-1238] Witness Kollen also states that adding employees is discretionary and that the requested increase is not justified by business requirements, customer growth, or reductions in contractor expenses. [Tr. 1238-1241]

OPC's position on employee increases does not account for the talent market challenges experienced by the company in the past few years that made it more difficult to attract qualified workers to fill open positions and led to an increase in the need to use contractors. [Tr. 1324] Nor does it account for the company's reasonable projection of employee additions needed to operate its system safely and reliably. The company provided proof of its careful consideration and justifications for each position proposed to be added in 2023 and 2024 through the company's combined testimony and interrogatory responses. [Tr. 1943, Ex. 133, BSP F6986; Ex. 139, BSP F7077, F7095;Ex. 164, BSP G2-493-G2-497] OPC's general criticisms of the company's employee count increases are insufficient to defeat the company's specific showing of need on a position-by-position basis, especially in the operations and construction and engineering areas. OPC's proposed headcount adjustment for staffing increases ($9.762 million) and office supplies and expenses for employee additions ($1.162 million) should accordingly both be rejected.

Peoples' witness O'Connor testified that gas operations work activities are increasing over time due to strong customer growth. [Tr. 786] Peoples projects that customer service-related work activities will grow by six percent annually, locate requests will increase by six percent annually, and that meter reading activities will increase by four percent annually. [Tr. 789] The company needs additional trained employees to keep up with this growth in activity. [Tr. 785] To illustrate, Mr. O'Connor testified that over the last two years, Peoples has not achieved the industry standard of responding to 98.5 percent of damage calls within 60 minutes. [Tr. 849-850]

Peoples' witness Richard explained how additional team members are needed to meet business requirements - to ensure safe and reliable service as Peoples' natural gas system is growing in size and complexity. [Tr. 1645] Mr. Richard testified that the company plans to hire 41 employees in the Engineering, Construction and Technology ("ECT") area in 2023 and 2024, with 17 being replacements (vacancies at the end of December 2022 created from promotions, retirements, and attrition) and 24 being new positions. [Tr. 1645] Of the 24 new positions, five are in Supply Chain, four are in Gas Control and Measurement and Regulation, seven are in support of improved capital management, while the balance (8) will support design, engineering, and construction. [Tr. 1645] Mr. Richard explained the purpose and underlying justification for each of these positions. [Tr. 1645-1652]

Peoples' witness Bluestone explained the additional team members needed to support: Human Resources (3 team members); Strategy, Marketing and Communications (6 team members); Regulatory and Pipeline Safety (3 team members); Process Improvement and Analytics (3 team members); and Real Estate (3 team members). [Tr. 1366-1371] Lastly, witness Parsons described the need for the eight finance positions. [Tr. 1941-1942]

For these reasons, OPC's arguments to keep the projected test year employees at the 2022 level should be rejected, except as specified above. The company has justified its forecasted staffing increases for 2023 and 2024. [Tr. 785-789: Tr. 1941-1942; Tr. 1366-1371; Tr. 1645-1652; Tr. 1943, Ex. 133, BSP F6986; Ex. 139, BSP F7077, F7095; Ex. 164, BSP G2-493-G2-497]. Therefore, the Commission should not make adjustments to the company's proposed 2024 staffing levels for ratemaking purposes.

ISSUE 43: What amount of projected test year salaries and benefits, including incentive compensation, should be approved?

**PGS: ***The company's proposed salaries and benefits amount targets total compensation for employees at the market median, reflects reasonable payroll escalation factors, and should be approved. The appropriate amount of projected test year salaries and benefits expenses, including incentive compensation, is: $77,135,028.*

The appropriate projected test year salaries expense is $56,832,906 which reflects the $56,858,043 shown on MFR Schedule G-2, page 19a, line 26 [Ex. 7, BSP K256] reduced by $25,137[19] for the salary of one Business Development Manager for RNG discussed in Issue 42. The appropriate amount of projected test year short-term incentive compensation included in FERC account 920 is $8,046,556, which reflects the $8,050,000 as shown on MFR Schedule G-2, page 19b, line 9 [Ex. 7, BSP K257] reduced by $3,444[20] for the short-term incentive of one Business Development Manager for RNG discussed in Issue 42. The appropriate amount of projected test year employee pension and benefits included in FERC account 926 is $12,255,566 which reflects the $12,264,867 as shown on MFR Schedule G-2, page 18a, line 6 [Ex. 7, BSP

[19] See footnote 15.
[20] See footnote 15.

K254] reduced by $9,301[21] for the benefits and loading of one Business Development Manager for RNG discussed in Issue 42.

Peoples' witness Bluestone testified that a fair and market-based compensation and benefits package is critical to attract and retain skilled and experienced team members. [Tr. 1324] Witness Bluestone explained that the company's total compensation and benefits programs include: (1) base salary; (2) short-term incentive; (3) long-term incentive (where applicable); (4) pension/401K; (5) paid time off programs; (6) Employee Common Share Purchase Plan; and (7) medical, dental and vision insurance plans. [Tr. 1324]

Witness Bluestone demonstrated that the company's compensation systems and levels for 2024 were reasonable based on the company's practice of benchmarking its total compensation against applicable markets using relevant and competitive benchmarks for compensation. [Tr. 1339-1340] Ms. Bluestone explained that the company uses an independent consultant, Mercer, to evaluate its healthcare plan, as well as its pension and retirement savings plans. [Tr. 1345-1346] Overall, the company's healthcare plan is aligned with the median based on the recent study described in Ms. Bluestone's testimony. [Tr. 1344] The company's pension and retirement savings plans are aligned with the market when compared to the company's peer group. [Ex. 17,BSP D6-402]

OPC proposes to reduce payroll and related expenses in the test year to reflect lower wage escalation factors. [Tr. 1243-1244] Specifically, OPC witness Kollen recommends that the Commission utilize four percent and three percent escalation factors for trended payroll expenses in 2023 and 2024, which has the effect of a $1.903 million reduction in payroll and payroll related expenses and a reduction in the claimed base revenue requirement of $1.918 million. [Tr. 124]

[21] See footnote 15.

The company budgeted a five percent annual merit increase for 2023 and 2024 for non-union payroll expense because the company's actual wage rate increases for 2020 and 2021 were lower than the overall level of inflation for those years. [Tr. 1354, 1371] The inflation rate in Florida was 4.7 percent and eight percent in 2020 and 2021, respectively, while the company's wage increases were only 2.20 percent in both years. Thus, because Peoples' wage increases in 2021 and 2022 did not keep up with inflation, the company budgeted a five percent escalation rate for 2023 and 2024 to help close the gap created in 2021 and 2022. [Tr. 1371] While witness Bluestone explained that using a five percent non-union wage escalator for 2023 and 2024 does not mean that actual merit increases for these years will reach five percent, she emphasized the importance of having budgeted dollars available to be competitive in attracting and retaining qualified team members. [1372] Additionally, these dollars are used to retain team members and give off-cycle adjustments to remain competitive. [Tr. 1372-1373] The company's escalation factors are reasonable under the circumstances and should be approved.

ISSUE 47: What adjustments, if any, should be made to projected test year expenses being incurred by, or charged to, PGS related to merger & acquisition development or pursuit activity?

PGS: *None. The company's proposed 2024 test year O&M expenses do not include merger or acquisition related costs.*

As noted by Ms. Parsons in her rebuttal testimony, there are no merger and acquisition costs included in the company's 2024 test year O&M expenses. [Tr. 1976] As noted in confidential discovery responses and by Ms. Wesley on cross-examination, there are no pending or anticipated merger or acquisition activities that would impact the 2024 financial forecast information upon which the company based its case. [Tr. 233-243; Ex. 177C, G2-521] No adjustments should be made for merger and acquisition activity.

ISSUE 49: What amount of projected test year O&M expenses should be approved?

PGS: *The appropriate amount of projected test year adjusted O&M expenses is $144,856,712.*

This is a fallout issue that depends on the resolution of the other O&M issues. The company's proposed amount of $144,856,712 reflects the $150,817,212 of adjusted O&M expenses on MFR Schedule G-2, page 1, line 5 less the following adjustments that are discussed in the rebuttal testimony of witness Parsons: (1) reduction of $500,000 discussed in Issue 44; (2) reduction of $189,347 for increased overhead cost allocation to SGT discussed in Issue 13 [Tr. 1968; Ex. 33, BPS E8-552]; (3) reduction of $190,000 for the decrease in standalone audit fees discussed in Issue 41 [Tr 1982; Ex. 218, at line 9, BPS G1-251]; (4) reduction of $60,234 for updated treasury analyst costs [Tr. 1983; Ex. 218, at line 10, BPS G1-251]; (5) reduction of $37,882 for removal of RNG BD Manager discussed in Issue 42 [Ex. 218, at line 16, BPS G1-251]; (6) reduction of $750,000 for WAM costs discussed in Issue 19 [Ex. 218, at line 17, BPS G1-251]; (7) reduction of $3,956,653 [Ex. 139, BSP F7089] for removal of Alliance as discussed in Issue 18; (8) reduction of $120,000 for storm reserve adjustment as discussed in Issue 46 [Ex. 218, at line 18, BPS G1-251]; and (9) reduction of $156,384 for revised rate case expense amortization as discussed in Issue 48 [Ex. 218, at line 19, BPS G1-251].

Peoples has demonstrated that its proposed 2024 O&M expense levels are reasonable and necessary to continue providing safe and reliable gas service in the rapidly growing areas it serves. Using the Commission's O&M benchmark multiplier, the company's 2024 O&M Benchmark is $158.3 million; its proposed 2024 test year O&M expenses are $144.8 million or about $13 million below the benchmark. [Tr. 120] OPC's broad-brush proposals to reduce the company's O&M expenses should be rejected.

The Commission should not make OPC's proposed adjustment to decrease A&G expense by $2.125 million (and decrease the overall revenue requirement by $2.142 million). [Tr. 1213] The company's proposed A&G allocation to capital of $11.0 million in the 2024 test year is $3.0 million higher than the allocation in 2020, $2.0 million higher than the allocation in 2021, consistent with the actual amount allocated in 2022, and is reasonable based on the number of team members who charge time to A&G accounts and work on the company's capital program. [Tr. 1946; Ex. 33, doc. 9, BSP E8-554-E8-586; Tr. 2012] That being said, if the Commission accepts OPC's proposed adjustment to reduce A&G expenses, it should make the corresponding adjustment to increase rate base under Issue 27 [Tr. 2072].

ISSUE 50: What amount of projected test year Depreciation and Amortization Expense should be approved?

PGS: *The appropriate amount of Depreciation and Amortization Expense for the 2024 projected test year used for calculating NOI is $87,271,966.*

The appropriate amount of Depreciation and Amortization Expense for the 2024 projected test year to calculate NOI is $87,271,966. This figure represents the total of $87,613,968 in Depreciation and Amortization Expense in the company's initial MFR Schedule G-2, page 1, line 6[22] as well as several adjustments. First, depreciation expense should be reduced by $252,303 to reflect the updated depreciation study included in Exhibit 32, Document No. 2, BSP E7-290-E7-447, and the calculation of depreciation rates as of December 31, 2023 in Exhibit 32, Document No. 3, BSP E7-486. [Ex. 218, at line 1, BSP G1-251] Second, depreciation expense should be adjusted to remove the Alliance RNG Project, the result of which is to decrease depreciation expense by $359,701. [Ex. 128, at 8, BSP F1664; Ex. 218, at line 5, BSP G1-251] Third, the company proposed a reclassification for certain New River RNG Project assets to different

[22] [Ex. 7, BSP K19] As explained in the company's position under Issue 6, this amount excludes vehicle depreciation expense, which is charged through a transportation cost allocation to O&M and capital expenditures. [Tr. 1970]

accounts. [Tr. 1979] The effect of this reclassification is a decrease in depreciation expense of $51,505. [Tr. 19791-980; Ex. 218, at line 6, BSP G1-251] Finally, if the Commission directs Peoples to depreciate the Brightmark RNG Project pipeline extension over 15 years, this change will increase depreciation expense by $321,507. [Tr. 1981; Ex. 218, at line 7, BSP G1-251]

OPC witness Garrett analyzed Peoples' study and proposed extending the service lives of five accounts[23] in Peoples' study. [Tr. 967; 1044-1053] For the same reasons stated in Peoples' position on Issue 6, these proposed changes are unreasonable and should be rejected. As a result, no adjustment to Depreciation Expense is necessary as a result of Mr. Garrett's recommendations.

ISSUE 51: What amount of projected test year Taxes Other than Income should be approved?

PGS: *The appropriate amount of projected 2024 test year Taxes Other than Income is $29,604,654.*

The appropriate amount of Taxes Other than Income in the projected 2024 test year is $29,604,654. Peoples initially proposed a total of $31,701,341 in Taxes Other than Income, as shown on MFR Schedule G-2, page 1. Ex. 7, at 51, BSP K219. During this proceeding, Peoples identified an error in the property tax forecast workpapers used for the 2024 budget. [Tr. 1951] Peoples recommends that property tax be adjusted downward by $2.008 million to correct this error. Further, property taxes should be reduced by $88,687 for the removal of Alliance. [Ex. 139, F7089]

OPC witness Kollen opined that the test year property taxes should be reduced based on the exclusion of the "experience trend factor"[24] from the forecasting process. [Tr. 1255] Peoples presented historical data demonstrating that the taxing authorities consistently derive higher taxable values than those proposed by Peoples. [Tr. 1952-1953] Use of the experience trend factor for budgeting purposes

[23] Account 376 – Mains Steel, Account 376 – Mains Plastic, Account 379- Measuring and Regulating Equipment – City Gate, Account 380 – Plastic Services, and Account 382 – Meter Installations. [Tr. 1044-1053]

[24] The experience trend factor represents the difference between the taxable values that the company has historically proposed to counties and the actual final taxable values derived by the counties. [Tr. 1952]

is therefore reasonable and consistent with the company's experience. Furthermore, Peoples selected a trend factor of 3.7 percent, which is lower than the company's actual 5-year average trend factor of 3.9 percent. [Tr. 1953] The record demonstrates that using the company's selected factor is reasonable and that OPC's recommended property tax adjustment should be rejected.

> **<u>ISSUE 52</u>**: What amount of Parent Debt Adjustment is required by Rule 25-14.004, Florida Administrative Code?

> **<u>PGS</u>:** *Emera Incorporated is the ultimate parent company used for purposes of calculating a parent debt adjustment as provided for in Rule 25-14.004. Based on its proposed equity ratio of 54.7 percent, the parent company debt adjustment should be $3,084,000.*

The company's proposed parent debt adjustment and amount ($3,084,000) is based on the company's proposed 54.7 percent equity ratio (Issue 34), complies with the current parent debt adjustment rule [Tr. 1976], is shown on MFR schedule C-26 [Ex. 4, BSP K80], and is explained in the direct testimony of Rachel Parsons [Tr. 1876]. There is no difference between the adjustment methodology used by Peoples and the one used by OPC; the difference in amounts arises from OPC's use of a lower equity ratio, which the Commission should not adopt for the reasons explained under Issue 33.

> **<u>ISSUE 53</u>**: What amount of projected test year Income Tax Expense should be approved?

> **<u>PGS</u>:** *The appropriate amount of projected 2024 test year Income Tax Expense is $3,770,671.*

This is a fallout issue. Income tax expense will need to be calculated based on the results of any adjustments approved by the Commission in other issues. The company's proposed 2024 test year Income Tax Expense inherent in the company revised revenue requirement is $3,770,671, which is the net test year Income Tax Expense of $3,093,175 shown on MFR Schedule G-2, page 1, lines 10-13 [Ex. 7, BSP K219], plus an increase of $677,496, which is the income tax offset related to the $2,673,097 pre-tax increase in NOI discussed in Issue 55.

ISSUE 54: What amount of projected test year Total Operating Expenses should be approved?

PGS: *The appropriate amount of Total Operating Expenses for the projected 2024 test year is $266,008,087.*

The company's proposed total operating expenses of $266,008,087 reflects the $273,729,779 amount shown on MFR Schedule G-2, page 1, line 16 [Ex. 7, BSP K219], less the total pre-tax operating expense adjustments of $8,399,189, which is offset by the associated increase in test year Income Tax Expense of $677,496. The net adjustment is a decrease in Total Operating Expenses of $7,721,692 from the $273,729,779 shown on MFR Schedule G-2, page 1, line 16. [Ex. 7, BSP K219]

ISSUE 55: What amount of projected test year Net Operating Income should be approved?

PGS: *The appropriate amount of Net Operating Income in the projected test year is $74,332,841.*

This is a fallout issue. NOI will need to be calculated to reflect adjustments approved by the Commission on other issues. The company's proposed NOI amount of $74,332,841 reflects the $72,337,240 shown on MFR Schedule G-2, page 1, line 17 [Ex. 7, BSP K19] plus the $7,721,692 decrease in Total Operating Expenses in Issue 54 and the removal of $5,726,092 of Alliance project revenue and is reflected in the company's revised revenue requirement [Ex. 218, BSP G1-249-G1-251].

REVENUE REQUIREMENTS

ISSUE 57: What annual operating revenue increase should be approved for the projected test year?

PGS: *The appropriate operating revenue increase for the projected test year is $135,341,798, which includes the transfer of $11,647,804 of CI/BSR revenue requirements to base rates. The Commission should reject OPC's proposal to use deferral accounting for the New River and Brightmark RNG projects.*

This is a fallout issue. The annual operating revenue increase will need to be calculated to reflect adjustments approved by the Commission on other issues. The company's proposed annual operating revenue increase of approximately $135.3 million reflects the adjustment made in the rebuttal testimony of Rachel Parsons and in the company's prehearing statement, is reflected in Exhibit 218, and is a net decrease of approximately $3.9 million from the $139,271,846 Revenue Deficiency shown on MFR Schedule G-5 [Ex. 7, BSP K289].

The Commission should reject OPC's proposal to use deferral accounting for the New River and Brightmark RNG projects. The company will recover the revenue requirement for the two projects over the life of the projects. [Tr. 1950] Still, as is the case with all fixed-rate, long-term customer contracts, the annual contract revenues will not recover the annual revenue requirement in the early years and will exceed the revenue requirement in later years. [Tr. 1950; Ex. 33, doc. 4, BSP E8-546-E8-547]. There is nothing remarkable or improper about this; it is simply a function of how depreciation expense reduces the net book value of assets subject to a fixed-rate, long-term contract over the useful life of the assets. [Tr. 1950]. The kind of single-asset or project-specific ratemaking inherent in OPC's deferral accounting proposal for two RNG projects developed in reliance on and consistent with the company's approved RNG tariff [Tr. 1538-1539] is inconsistent with the way the Commission has treated the contract revenues and revenue requirement of other long-term customer projects (e.g., pipeline extensions) [Tr. 1950], would present an administrative burden to the company [Tr. 2045], and should be rejected.

COST OF SERVICE AND RATE DESIGN

ISSUE 60: What customer charges should be approved?

PGS: *This is a fallout issue based on the revenue requirement approved by the Commission and its decisions on issues that impact the inputs to the company's stipulated cost of service methodology.*

<u>ISSUE 61</u>: What per therm distribution charges should be approved?

<u>PGS</u>: *This is a fallout issue based on the revenue requirement approved by the Commission and its decisions on issues that impact the inputs to the company's stipulated cost of service methodology.*

<u>ISSUE 69</u>: Should the Commission approve PGS's proposed tariffs reflecting the Commission-approved target revenues?

<u>PGS</u>: *Yes. Once the Commission approves the company's customer and per therm charges, the company should submit updated tariff sheets reflecting the new rates and charges, including those approved by stipulation, and the Staff of the Commission should be given administrative authority to approve the updated tariff pages.*

<u>ISSUE 70</u>: What is the effective date for PGS's revised rates and charges?

<u>PGS</u>: *The revised base rates and charges approved in this case should be effective with the first billing cycle in January 2024.*

The appropriate effective date for Peoples' revised rates and charges should be the first billing cycle in January 2024.

<u>OTHER ISSUES</u>

<u>ISSUE 71</u>: Should the Commission approve PGS's proposed long-term debt cost rate true up mechanism?

<u>PGS</u>: *Yes. The proposed mechanism is appropriate under the circumstances and fairly protects the general body of ratepayers.*

The company's proposed one-time long-term debt true up mechanism is described in the direct testimony of Rachel Parsons and should be approved for the reasons she explains therein. [Tr. 1926-1929] Peoples will be seeking its own financing based on its own business profile and credit rating later this year. [Tr. 1111-1112; 1926] Although the company's forecasted long-term debt interest rates are reasonable and should be approved (Issue 32), there is some uncertainty about what the actual rates will be. [Tr. 1926] The mechanism will ensure that the company's 2024 base rates will reflect the company's actual cost of long-term debt – no more and no less - which is fair to customers and the company. [Tr. 1926] The proposed mechanism would likely be viewed as credit positive by rating agencies. [Tr. 1193] The Commission should approve the company's proposal.

> **<u>ISSUE 72</u>**: What adjustments, if any, should be made to the projected test year related to the spin-off of PGS?
>
> **<u>PGS</u>:** *None. The 2023 Transaction adopted a commonly used business structure for Peoples and is prudent. It will sequester risks and allow Peoples to focus on providing safe and reliable gas service to customers and meet the growing demand for gas in Florida. The type of recurring incremental costs (audit fees, credit rating agency fees, interest expense) are the kind of expenses routinely incurred by regulated utilities and recovered through base rates. The level of projected short-term and long-term interest expense reflect the company's forecasted, market-based borrowing costs on a stand-alone basis.*

No adjustments should be made to the projected test year related to the spin-off of Peoples from Tampa Electric. The company demonstrated that the 2023 Transaction was conceived of and executed thoughtfully, is in the long-term best interest of Peoples' customers, and is prudent. [Tr. 108-110; 1133-1134] Witness Wesley testified that the 2023 Transaction will sequester risks and allow the company to continue its focus on providing safe and reliable gas service to customers. [Tr. 110-111] It was done on a "non-taxable" basis so that no one – neither Peoples, Emera, Tampa Electric, nor their customers – would shoulder a tax burden from the transaction. [Tr. 109, 164] By executing the 2023 Transaction, Peoples is simply adopting a legal form commonly used by regulated and unregulated companies of all types.

OPC recommends the Commission disallow $9.693 million in incremental costs associated with the 2023 Transaction which equates to a revenue requirement reduction of $9.699 million. [TR. 1223- 1224] The identified incremental costs include the (1) additional interest expense; (2) cost of audited standalone financial statements; (3) additional rating agency fees; and (4) additional treasury analyst position. [Tr. 1223 -1224] Of this total, approximately $8.9 million is attributable to incremental interest expense, of which $7.1 million relates to repricing the $570 of long-term debt to be exchanged under the Intercompany Loan Agreement, and $1.8 million relates to rating differentials and short-term debt changes. [Tr. 1181]

While OPC correctly identified the incremental costs and their amounts, its proposed adjustment should be rejected because these types of costs are the kind of costs that are incurred in the normal course of business, are routinely recovered through base rates, and which should be recovered through the base rates to be set in this case. [*See* Tr. 2059] The record is clear that the company planned and created its new supply chain team for reasons independent of the 2023 Transaction [Tr. 106-107; 174-179], so the costs associated with that activity should not be considered incremental costs of the transaction. Further, the company notes that the Peoples' Supply Chain positions are supported by a reduction in allocations from Tampa Electric from $839,000 in 2022 to $382,000 in 2024. [Tr. 1646] As noted under Issues 31 and 32, the company is simply seeking to recover its projected, market-based, short-term and long-term borrowing costs through base rates – something the Commission has consistently concluded that utilities should be allowed to do. [Tr. 1129-1130] Likewise, OPC's efforts to avoid inter-company subsidies and allocate benefits of the 2023 Transaction should be rejected for the reasons explained by Peoples witness McOnie on pages 1132-1133 of the transcript.

OPC's criticisms of the 2023 Transaction and characterizations of the company's motives are misplaced [Tr. 104], and its questions about the timing and timing alternatives amount to a backward-looking critique, something the Commission disfavors.[25] The company has a strong track record of exceptional service, a history of taking care of its customers, and no record of making decisionn to harm them. [Tr. 104-105] The company considered the interests of multiple stakeholders – including its customers and the Commission – before moving forward with the

[25] *In re Petition on Behalf of Citizens of the State of Florida to Require Progress Energy Florida, Inc. to Refund Customers $143 million*, Order No. PSC-07-0816-FOF-EI, issued October 10, 2007 in Docket No. 060658-EI, at 4.

transaction, which was designed to protect customers from the risk of harm over the long-term, and to allow customers to benefit from the hard to quantify benefits of the transaction. [Tr. 104-105] Although the company did not identify any specific, short-term financial benefits to customers from the 2023 Transaction in the test year [Tr. 169-170], the long-term benefits are significant. The new structure will allow Peoples to manage the timing and quantum of market debt issuances and to optimize the level of short-term and long-term debt solely at Peoples' discretion based on its needs. [Tr. 88] Peoples will have the flexibility to manage its affairs to maintain credit ratings that reflect its risk profile and associated cost of debt. [Tr.89] Peoples serves a different territory than Tampa Electric, is growing differently than Tampa Electric, and faces different risks than Tampa Electric, so it was time for Peoples to operate out of a separate legal entity. [Tr. 110]

The new structure will provide a better platform for Peoples as it grows and changes with evolving natural gas markets. [Tr. 89] Peoples was relatively small in comparison to Tampa Electric when it was acquired in 1997 but has grown to serve more than half the number of customers served by Tampa Electric in a geographic service territory that extends around the state into five major metropolitan areas and far beyond Tampa Electric's service area. [Tr. 89-90] Although the members of the Tampa Electric and Peoples boards of directors are now essentially the same, the new structure will enable the company to populate its board over time with different members who can focus on gas only and the company's statewide service area. [Tr. 90] It will also protect Peoples and its customers from financing and operating disruptions that could occur if Peoples had continued to operate as part of Tampa Electric and Tampa Electric experiences a catastrophic event like a hurricane or fire that would impair Peoples' access to capital. [Tr. 111, 274-275] Predicting the timing and costs associated with a catastrophic event is uncertain [Tr. 259], but the risk sequestration benefits of the 2023 Transaction are real and began on January 1, 2023.

> **ISSUE 74**: Should PGS be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?
>
> **PGS:** *Yes. Peoples does not object to this requirement.*
>
> **ISSUE 75**: Should this docket be closed?
>
> **PGS:** *Yes. This docket should be closed after the Commission has issued its final order and the time for filing an appeal has expired.*

IV. CONCLUSION

Peoples Gas System, Inc. is a good company. It has a strong safety record, provides superior customer service, and is trusted by its customers. The company's Commission complaint record is the best (lowest) in the industry. It participated in this proceeding in a cooperative, reasonable, and transparent way and gave the Commission and parties a clear view of its operations and decision making processes.

Peoples has invested heavily to meet a remarkable level of customer demand in our rapidly growing state. It supports the economic health of Florida by providing important natural gas infrastructure for residential, commercial, industrial, and power generation customers. With its petition, Peoples seeks an opportunity to earn a fair rate of return on the company's investments in an environment where the cost of capital and general costs of providing service are increasing. Its requested rate increase will allow Peoples to continue providing the kind of safe and reliable gas service its customers expect and deserve.

Peoples understands that its customers have energy choices. The company's requested increase will: maintain the company's solid value proposition; result in typical bills comparable to other LDCs; and result in rates, charges and bills that are fair, just, and reasonable. Peoples respectfully requests that the Commission grant its petition and approve new customer rates and charges that reflect the positions reflected in this brief to be effective with the first billing cycle in January 2024.

Respectfully submitted this 6th day of October, 2023

____

J. JEFFRY WAHLEN
MALCOLM N. MEANS
VIRGINIA PONDER
jwahlen@ausley.com
mmeans@ausley.com
vponder@ausley.com
Ausley McMullen
Post Office Box 391
Tallahassee, Florida 32302
(850) 224-9115

Attorneys for Peoples Gas System, Inc.

V. CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Post Hearing Brief, filed on behalf of Peoples Gas System, Inc., has been furnished by electronic mail on this 6th day of October 2023 to the following:

Major Thompson
Ryan Sandy
Austin Watrous
Daniel Dose
Chasity Vaughan
Danyel Sims
Office of General Counsel
Florida Public Service Commission
Room 390L – Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850
rsandy@psc.state.fl.us
mthompso@psc.state.fl.us
awatrous@psc.state.fl.us
ddose@psc.state.fl.us
dsims@psc.state.fl.us
cvaughan@psc.state.fl.us

Amber Norris
Dylan Andrews
Division of Accounting and Finance
Florida Public Service Commission
Room 160B – Gerald L. Gunter Bldg.
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850
amnorris@psc.state.fl.us
dandrews@psc.state.fl.us

Jon C. Moyle, Jr.
Karen A. Putnal
Moyle Law Firm, P.A.
118 North Gadsden Street
Tallahassee, Florida 32301
jmoyle@moylelaw.com
kputnal@moylelaw.com

Walt L. Trierweiler
Charles J. Rehwinkel
Patricia A. Christensen
Mary A. Wessling
Office of Public Counsel
111 West Madison Street – Room 812
Tallahassee, FL 32399-1400
trierweiler.walt@leg.state.fl.us
rehwinkel.charles@leg.state.fl.us
christensen.patty@leg.state.fl.us
wessling.mary@leg.state.fl.us

ATTORNEY

APPENDIX:
STIPULATED ISSUES

The following issues were resolved by Type I or Type II stipulations and approved by the Commission at the Final Hearing:

ISSUE 2: Should the Commission approve PGS's forecasts of customers and therms by rate class for the projected test year ending December 31, 2024? If not, what adjustments should be made?

STIPULATION: Yes. The company used linear regression models for both customer counts and average use for the test year. These models are both theoretically and statistically strong as measured by model coefficient and overall model fit statistics. The chosen modeling framework has been adopted by numerous utilities in the United States and Canada for forecasting.

ISSUE 3: Are PGS's estimated revenues from sales of gas by rate class at present rates for the projected test year appropriate? If not, what adjustments should be made?

STIPULATION: Yes. Residential and small commercial customer and sales forecasts were used to estimate the 2024 test year revenues at current rates. These forecasts were prepared using theoretically and statistically strong models that have been adopted by numerous utilities in the United States and Canada for forecasting.

ISSUE 5: Should PGS' request to establish a new subaccount and annual depreciation rate applicable to its renewable natural gas (RNG) plant leased to others for 15 years be approved, and, if so, what depreciation rate and implementation date should be approved?

STIPULATION: Yes. The Commission shall approve a new subaccount under Account 104 (Gas Plant Leased to Others) to be denominated "Account 336.01 – RNG Plant Leased – 15 Years" and a depreciation rate of 6.7 percent for that subaccount effective January 1, 2023. The proposed new depreciation rate will ensure that the cost recovery period for the Brightmark RNG Project (Issue 17) will match the period over which the project will generate revenues, that the costs of the project will be removed by the time the customer takes ownership of the RNG plant assets at the end of the contract term and will prevent the company from experiencing a gain or loss on the sale of the assets at the end of the contract term. The new subaccount will facilitate application of the new depreciation rate.

ISSUE 8: In establishing the projected test year's depreciation expense, should the approved depreciation rates be calculated using a depreciation study date of December 31, 2023 or December 31, 2024?

STIPULATION: Although the terms of the 2020 Agreement approved by the Commission in in Order No. PSC-2020-0485-FOF-GU, suggests otherwise, the company agrees with OPC that the depreciation rates that become effective on January 1, 2024 should be calculated using a depreciation study date of December 31, 2023.

ISSUE 11: What should be the implementation date for revised depreciation rates, capital recovery schedules, and amortization schedules?

STIPULATION: The implementation date should be January 1, 2024.

ISSUE 12: Has PGS made the proper adjustments to remove all non-utility activities from the projected test year Plant in Service, Accumulated Depreciation, and Working Capital? If not, what adjustments should be made?

STIPULATION: Yes. All required adjustments to remove non-utility items have been included in the 2024 projected test year, as shown on MFR Schedule G-1, page 4.

ISSUE 14: Has PGS made the proper adjustments to reflect Cast Iron/Bare Steel Rider (CI/BSR) investments as of December 31, 2023, in rate base? If not, what adjustments should be made?

STIPULATION: Yes. The appropriate CI/BS Rider investment amounts as of December 31, 2023 to be transferred into rate base are $91,733,660 for plant in service, $2,808,776 for Construction Work in Progress and $1,273,990 for accumulated depreciation, as shown on Exhibit No. RBP-1, Document No. 2, lines 2-4.

ISSUE 16: Should the New River RNG project be included in rate base, and if so, are the revenues under Service Agreement pursuant to the RNG Service Tariff adequate to cover the revenue requirements of the project? If not, what adjustments should be made?

STIPULATION: The New River RNG Project (interconnection) was planned and executed based on and in reliance on the company's Rate Schedule RNGS and will be included above the line in the calculation of the company's 2024 revenue requirement, with whether to use deferral accounting for the project as proposed by OPC to be decided under issues 27 (rate base) and 57 (revenue requirement). Subject to the Commission's approval in this docket of the company's new Renewable Gas Service Interconnection Service tariff (RNGIS) to be effective January 1, 2024 as agreed to with OPC, the company will close its RNGS tariff to new projects effective August 29, 2023, so New River and Brightmark will be the only two projects it undertakes under that rate schedule.

ISSUE 17: Should the Brightmark RNG project be included in rate base, and if so, are the revenues under Service Agreement pursuant to the RNG Service Tariff adequate to cover the revenue requirements of the project? If not, what adjustments should be made?

STIPULATION: The Brightmark RNG Project (bio conditioning and interconnection) was planned and executed based on and in reliance on the company's Rate Schedule RNGS and will be included above the line in the calculation of the company's 2024 revenue requirement, with whether to use deferral accounting for the project as proposed by OPC to be decided under issues 27 (rate base) and 49 (NOI). Subject to the Commission's approval in this docket of the company's new Renewable Gas Service Interconnection Service tariff (RNGIS) to be effective January 1, 2024 as agreed to with OPC, the company will close its RNGS tariff to new projects effective August 29, 2023, so New River and Brightmark will be the only two projects it undertakes under that rate schedule.

ISSUE 18: Should the Alliance Dairies RNG project be included in rate base, and if so, are the terms and conditions of the Biogas Incentives Agreement adequate to protect ratepayers and cover the revenue requirements of the project? If not, what adjustments should be made?

STIPULATION: No. The Alliance Dairies RNG Project should be accounted for on an unregulated, below the line basis and the company's proposed revenue requirement should be increased by approximately $220,000 to reflect the movement of this project below the line.

ISSUE 20: Should any adjustments be made to the amounts included in the projected test year for acquisition adjustment and accumulated amortization of acquisition adjustment?

STIPULATION: No. As shown on MFR Schedule B-6, page 1, as of December 31, 2022, the company has fully amortized the $5,031,897 of acquisition adjustments and the related net rate base amount is $0.

ISSUE 24: Has PGS made the proper adjustments to the Working Capital Allowance to reflect under recoveries and over recoveries in the projected test year related to the Purchased Gas Adjustment, Energy Conservation Cost Recovery, and CI/BSR? If not, what adjustments should be made?

STIPULATION: Yes. The company has made the proper adjustments to the Working Capital Allowance to reflect under recoveries and over recoveries in the projected test year related to the Purchased Gas Adjustment, Energy Conservation Cost Recovery, and CI/BSR as shown in MFR Schedule G-1, pages 2 and 3.

ISSUE 25: What amount of projected test year unamortized rate case expense should be included in working capital?

STIPULATION: None. The company did not include unamortized rate case expense in working capital for the 2024 projected test year.

ISSUE 26: What level of projected test year working capital should be approved?

STIPULATION: The appropriate amount of projected test year working capital is a negative $28,047,011 as shown on MFR Schedule G-1, page 1, line 11.

ISSUE 30: What amount and cost rate for customer deposits should be approved for the projected test year capital structure?

STIPULATION: The amount of customer deposits for the 2024 projected test year is $27,528,000. The cost rate of the customer deposits to include in the projected test year capital structure is 2.53 percent, as shown on MFR Schedule G-3, page 2, line 4.

ISSUE 37: Has PGS made the proper adjustments to remove the Purchased Gas Adjustment, Natural Gas Conservation Cost Recovery Clause, and CI/BSR Revenues and Expenses from the projected test year? If not, what adjustments should be made?

STIPULATION: Yes, as shown on MFR Schedule G-2, pages 2-3.

ISSUE 39: What amount of projected test year Uncollectible Accounts and Bad Debt should be included in the Revenue Expansion Factor?

STIPULATION: The Bad Debt Expense is $1,611,232, as shown on MFR Schedule G-2, page 19b, line 7, and the bad debt rate of 0.2805 percent was incorporated into the Revenue Expansion Factor, as shown on MFR Schedule G-4.

ISSUE 40: What non-labor trend factors should be used for inflation and customer growth for the projected test year?

STIPULATION: The appropriate non-labor trend factor for inflation is 2.80 percent and 2.20 percent for 2023 and 2024, respectively. The appropriate non-labor trend factor for customer growth is 3.81 percent and 3.23 percent for 2023 and 2024, respectively.

ISSUE 44: Has PGS made the proper adjustments to remove lobbying, charitable contributions, sponsorships, and institutional and image advertising from the projected test year? If not, what adjustments should be made?

STIPULATION: Not in its original filing; however, as reflected in Witness Parsons' rebuttal testimony, the company has agreed to make an adjustment to the projected test year O&M expense of $500,000 to remove lobbying, charitable contributions, sponsorships, and institutional and image advertising. These adjustments arise from Commission Staff Audit findings, agreed upon reductions during a review of these items by Office of Public Counsel, and PGS self-disclosed reductions related to review of these items.

ISSUE 45: What amount of projected test year Economic Development Expense should be approved?

STIPULATION: The appropriate amount of added Economic Development expense in the 2024 test year is $265,498. This amount reflects the $367,920 stated in the direct testimony of Witness O'Connor, pages 60-61 less a reduction of $102,422 for the adjustments described in issue 44 related to economic development.

ISSUE 46: What amount of projected test year annual storm damage accrual and storm damage reserve cap should be approved?

STIPULATION: The company agrees to maintain its existing annual storm damage accrual of $380,000 and its existing storm reserve target of $3.8 million without prejudice to its ability to seek relief pursuant to Section 25-7.0143(1)(j), Florida Administrative Code.

ISSUE 48: What amount of projected test year Rate Case Expense should be approved? What amortization period should be used?

STIPULATION: The appropriate rate case expense is $2,778,647 and amortization period should be three years. This amount is a reduction from the $3,247,810 shown on MFR Schedule C-13.

ISSUE 56: What revenue expansion factor and net operating income multiplier should be approved for the projected test year?

STIPULATION: The appropriate revenue expansion factor in this case is 74.0723 percent and the net operating income multiplier proposed in this case is 1.3500, as shown on MFR Schedule G-4, page 1.

ISSUE 58: Should the Commission approve PGS's proposed cost of service study?

STIPULATION: Yes. The Company's cost of service study appropriately reflects cost causation, and each allocation factor is consistent with the factors that drive the underlying costs of providing service to customers.

ISSUE 59: If the Commission grants a revenue increase to PGS, how should the increase be allocated to the rate classes?

STIPULATION: The increase should be allocated to the rate classes to achieve an equalized rate of return for the Residential and Commercial rate classes and as shown for the company's proposed increase and rates on Document Nos. 6, 9, 10, 11, and 12 of Exhibit No. GT-1.

ISSUE 62: What miscellaneous service charges should be approved?

STIPULATION: The Commission should approve the company's proposed miscellaneous service charges as shown on Document No. 3 of Exhibit No. KLB-1. They are fair, just, and reasonable.

ISSUE 63: Should the Commission approve PGS's revised annual residential rate reclassification review?

STIPULATION: Yes. The proposed revisions are reasonable and should be approved.

ISSUE 64: Should the Commission approve PGS's revision to the Residential and Commercial Generator rate design?

STIPULATION: Yes. The proposed revisions are reasonable and should be approved.

ISSUE 65: Should the Commission approve PGS's revised termination fee for the Natural Choice Transportation Program (Tariff Sheet No. 7.803-3)?

STIPULATION: Yes. The proposed revised termination fee is reasonable and should be approved.

ISSUE 66: Should the Commission approve PGS's revised Individual Transportation Administration Fee (Tariff Sheet No. 7.805)?

STIPULATION: No. The company's existing Individual Transportation Fee should remain in effect.

ISSUE 67: Should the Commission approve PGS's new Minimum Volume Commitment provision (Tariff Sheet No. 5.601) and associated Agreement (Tariff Sheet Nos. 8.126-8.126-11)?

STIPULATION: Yes. The proposed new provision is reasonable and should be approved.

ISSUE 68: Should the Commission approve PGS's non-rate related tariff modifications?

STIPULATION: Yes. The proposed revisions are reasonable and should be approved.

ISSUE 73: Should the Commission approve PGS's proposal for addressing a change in tax law?

STIPULATION: Request withdrawn.