



January 30, 2025

The Honorable Mike La Rosa  
Chairman  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

**Re: Peoples Gas System, Inc. - Test Year Notification  
Pursuant to Rule 25-7.140, Florida Administrative Code**

Dear Chairman La Rosa:

Peoples Gas System, Inc. (“Peoples” or the “company”) is proud to be an important energy provider in Florida. Peoples' distribution system provides safe and reliable natural gas service to residential, commercial, and industrial customers and supports the growing demand for electric generation and energy in our state. Floridians are choosing natural gas for its cost-effectiveness and reliability, particularly as weather events become more frequent and there is increasing demand for other sources of energy. Our customers prioritize the dependability of natural gas. The company continues to meet exceptional customer demand, delivers industry-leading customer service, cares for our communities, and understands the growing importance of natural gas for Florida.

As detailed below, we have carefully considered the needs of our customers and expanding system, as well as the associated effects of growth, inflation, and other cost drivers on our operations. We have also implemented actions which partially mitigate some of these cost drivers. In the course of assessing our path forward, we have deeply considered these factors and the potential effect on our customers and have concluded that we must seek an increase in rates to continue to safely and reliably meet the needs of our customers. This letter is our notice that Peoples intends to file a petition for a general base rate increase with the Florida Public Service Commission (“FPSC” or “Commission”) on March 31, 2025. Our proposed new base rates and charges will be based on a forecasted 2026 calendar test year so that we can implement new base rates and charges effective January 2026.

About Peoples

Peoples was established in 1895 and is Florida's largest natural gas local distribution company. The company serves over 500,000 residential, commercial, industrial, and power generation customers across 43 of Florida’s 67 counties, including five major metropolitan areas. Peoples is a subsidiary of Emera Incorporated and is an affiliate of Tampa Electric Company.

### Our Customer Service

Customer service is a priority of the company and will remain so as Peoples' system grows and changes with Florida. Our track record is unrivaled.

Peoples has been recognized for exceptional customer service for more than a decade. According to J.D. Power, the company has ranked first in residential customer satisfaction in the South Mid-Size segment for 11 consecutive years and first in commercial customer satisfaction in the South for six years. The company's residential satisfaction scores were the highest in the nation nine times, and we have attained the highest scores for commercial satisfaction six times in the last 10 years. Independent customer feedback continues to show that Peoples provides exceptional customer service. Floridians across our state continue to choose natural gas service for their energy needs.

In 2024, J.D. Power ranked Peoples first in brand appeal for gas utilities in the South and second overall in the South Mid-Size Segment. That same year Cogent Syndicated named Peoples a Most Trusted Brand and Customer Champion. The company also received high scores from Cogent for ease of doing business. Peoples received fewer than 100 FPSC complaints (just 0.02 percent of our over 500,000 customers) annually in the past three years.

### Florida Depends on Peoples

The businesses and entities that drive Florida's economy depend on safe and reliable natural gas every hour of every day, 365 days a year. Our distribution system serves food service, hospitality, and tourism industries. Hospitals, healthcare facilities, nursing homes, schools, law enforcement, ports, and the military rely on natural gas to serve the public. Commercial and industrial enterprises and electric power generators are crucial for Florida's economic growth and depend on natural gas from Peoples. We are proud to serve small businesses and large-volume customers that contribute to the state's development. Peoples' infrastructure investments also generate property tax revenue that supports schools, infrastructure, and community services.

Natural gas service is even more important during emergencies. Hurricanes Helene and Milton left over 1.3 million and 3.3 million Florida electric customers without power, respectively; however, fewer than 1,500 of Peoples' over 500,000 customers experienced a gas service interruption. None of our 53 Compressed Natural Gas ("CNG") customers, providing waste management and transportation services to thousands of Floridians, experienced fuel disruptions. As electric utilities worked to restore electricity to their customers, Peoples' gas distribution system provided fuel for vital emergency backup electric generation for homes, businesses, emergency shelters, and healthcare facilities. Resilience and reliability are now the cornerstones of Florida's energy policy, and our electric generating customers are increasingly focused on those two goals.

While our customers (including residential, small and large businesses, nursing homes, and hospitals) continue to use our service to cook, heat water, launder, run boilers and heat swimming pools they have become more focused on resilience and are installing natural gas

generators for backup power after hurricanes and other extreme weather events. This additional power source requires a safe and reliable delivery of natural gas, and also, at times, requires an upgrade in system infrastructure to serve these expanded needs.

### Peoples Supports the Communities We Serve

For over a century, Peoples has collaborated with organizations to create stronger, safer, and more innovative communities. Peoples has an established history of aiding its customers in overcoming challenges related to public health crises, economic volatility, and severe weather conditions. The Share program, in partnership with Tampa Electric Company and administered by the Salvation Army and Catholic Charities, assists customers with utility bills. Peoples helps match donations from customers and employees up to \$500,000 annually.

Peoples makes a concerted effort to connect customers in need of financial assistance with organizations like 211 and the Low-Income Home Energy Assistance Program.

After Hurricane Helene, Peoples donated \$75,000 to United Way organizations aiding impacted communities. Following Hurricane Milton, the company established an employee-funded assistance program with an initial \$50,000 donation. Collectively in 2024, Peoples contributed over \$400,000 to organizations like the American Red Cross, American Cancer Society, United Way, and others across its service areas. These investments in Florida's communities are funded by shareholders, not customers.

### Florida Continues to Grow

Florida continues to be one of the fastest growing states in America, and Peoples serves many of its fastest growing areas. Florida attracts over 1,000 newcomers each day due to its strong economy, appealing lifestyle, and diverse natural resources. This growth spurs the construction of new homes, hotels, hospitals, stores, restaurants, and roads, and the redevelopment of other areas. It also increases the demand for electricity generated with natural gas, which currently fuels over 70% of Florida's electric generation.

To keep up with this growth, we installed approximately 1,260 miles of new main and service gas lines from January 2023 to December 2024, and plan to add another 1,200 miles by December 2026. We welcomed approximately 37,000 new residential customers (8.5% increase) and 1,500 new commercial customers (3.7% increase) from January 2023 to December 2024. We expect to add nearly 34,000 new residential and 1,400 new commercial customers from January 2025 to December 2026. If laid end to end, our new gas lines for this period would stretch farther than the driving distance from Tampa to New York City.

### Safety

The company's safety record continues to be strong, keeping the public and team members safe. The company has one of the lowest OSHA Lost Time Injury rates for team members and contractors in the industry. Peoples received the Industry Leader Accident Prevention Award from the American Gas Association for maintaining a DART (Days Away, Restricted, or

Transferred) rate below the industry average in 2023. Peoples' and its contractors' damage prevention programs are driven by industry best practices as established by the Common Ground Alliance.

Since 2023, Peoples' intense focus on reducing pipeline damages through public education and locator training resulted in fewer operator-caused, no-notification, and high-risk damages, all of which improves public safety. The company consistently complies with and exceeds the evolving requirements of the Pipeline and Hazardous Materials Safety Administration ("PHMSA"). Its Safety Management System ("SMS") promotes safety by reducing risk and supporting a positive safety culture.

#### Cost Pressures and Revenue Growth

The customer growth and changing importance of natural gas described above impact Peoples in multiple ways. Adding gas lines to serve new neighborhoods requires significant capital investment. The vastness of Florida and the availability of green space to build new residential and commercial developments contribute to the additional operating and maintenance costs incurred with a more extensive distribution system. Investing in improving the reliability and resilience of the company's existing system is costly. Evaluating and upgrading existing facilities to meet demand not anticipated when the facilities were installed initially will also impose new and higher costs.

The company expects residential revenue in 2026 to be 6.0% higher than in 2024 and commercial revenue to increase by 2.3% over the same period. The associated revenue growth will not be sufficient to cover the cost increases our business is experiencing (labor, materials, insurance, property taxes, and cost of capital), nor will it allow the company to earn a reasonable return on its investments to serve our customers. The company projects that it will earn below the bottom of its approved return on equity range (9.15%) in 2025, and approximately a 5.70% return on equity in 2026, without rate relief.

#### Test Year Request

Accordingly, Peoples intends to seek general rate relief under Section 366.06, Florida Statutes, as soon as it completes the new rate schedules, the related petition and prepared testimony, and the minimum filing requirements. The company plans to file its petition and supporting materials on March 31, 2025, and proposes to use a projected test year ending December 31, 2026, with a historical base year ending December 31, 2024. This proposed 2026 test year is appropriate because it will reasonably reflect the economic and operating conditions expected during the first 12 months that the company's proposed new rates will be in effect and will be more representative than a historic test year.

Peoples is finalizing its revenue requirement calculations for the 2026 test year but anticipates requesting a net incremental base rate revenue increase of approximately \$90 million to \$110 million, with a subsequent year adjustment of about \$25 million to \$40 million in 2027, to recover the revenue requirement associated with the annualized incremental capital investment at the conclusion of 2026, other reliability investments and an associated adjustment for related

operating expenses. The anticipated 2026 request includes about \$6.7 million in revenue requirements that will be transferred from the current Cast Iron/Bare Steel Pipe Replacement Rider (“CIBS Rider”) into base rates.

The company will not request interim rates and will not ask for its petition to be processed using the proposed agency action process authorized in Section 366.06(4), Florida Statutes.

#### Actions and Measures Taken to Avoid Requesting a Rate Increase

Peoples continues to search for ways to boost efficiency and control costs in running its growing distribution system. Peoples has allocated resources and implemented process improvements to efficiently operate its business and will continue to do so. Peoples has taken the following steps to avoid requesting rate relief and to moderate the amount of the increase that it will be requesting:

The Design and Construction Performance Improvement project achieved capital savings by enhancing inspector productivity and improving processes, which resulted in reduced labor and consulting expenses.

Peoples has avoided cost increases by in-sourcing various operations activities previously conducted by outside contractors, including locators, meter readers and inspectors. Furthermore, the company has delayed planned hiring to accommodate rising costs that are influencing our business.

Peoples has made smart use of technology to be more efficient, which moderates operating and maintenance expenses. Peoples’ new Work and Asset Management system (WAM) has improved operating efficiency.

Through its Supply Chain team, Peoples has attained cost savings for the company by negotiating better contracts, finding more favorable material pricing, and capturing rebates.

Additionally, Peoples has evaluated labor and corresponding costs and updated assumptions used to allocate costs to capital. These updates better align accounting treatment with the cost drivers, which benefitted customers through lower O&M by over \$6 million in 2024.

#### Major Factors Necessitating a General Base Rate Increase

The major factors necessitating a general base rate increase for Peoples are summarized below.

##### 1. Rate Base Growth

Peoples operates its system across the state of Florida and is expanding to serve residential and commercial development while expectations of natural gas service have evolved. To meet this demand and new expectations, Peoples must invest capital to serve the next home or business while ensuring the safety, reliability, resiliency, and efficiency of the existing distribution

system. Peoples expects to invest over \$800 million in capital projects in 2025 and 2026. These investments will result in higher depreciation expenses, property taxes, and cost of capital during the test year. Rate base growth and related impacts will account for more than 70% of the company's proposed base rate increase.

#### A. Customer Growth

Peoples is investing significantly in new gas mains, laterals, regulating stations, and meters to accommodate tens of thousands of new residential and commercial customers throughout the state. The company anticipates investing approximately \$330 million to support customer growth from January 1, 2025, to December 31, 2026. These investments will extend affordable natural gas into new areas and will enhance the fuel resilience, and efficiency that homeowners and businesses desire for everyday activities like heating water, laundry, running boilers, and cooking. These investments will also allow us to meet the increasing backup generation needs of customers when power outages occur due to hurricanes and other natural disasters.

We also expect to invest approximately \$31 million to connect new renewable natural gas ("RNG") to the natural gas systems. These facilities capture pipeline-quality RNG in Florida, reducing carbon emissions and supporting local energy needs. These projects will benefit rural and urban Florida by making local farms more viable and by adding new revenue streams for waste facilities.

#### B. Reliability, Resiliency, and Efficiency

Peoples must continue to invest to maintain its distribution system. The company plans to invest about \$369 million in 2025 and 2026 to boost reliability, resiliency, and efficiency. These expenditures will improve natural gas safety and reliability by maintaining pressure, flow, and supply across the company's 14 service areas. Our test year financial forecast will reflect the impact of moving our corporate headquarters (with Tampa Electric Company) to a location less susceptible to storm surges and flooding. This relocation will ensure we can operate continuously, especially after extreme weather, and serve customers when they need us most.

#### C. Legacy Pipe Replacement

The company's CIBS Rider program continues to provide important safety, reliability and environmental benefits to Peoples, its customers, and Florida. Although the related costs are recovered via a rider, the capital being invested in this valuable program contributes to the company's rate base growth. The company expects to invest approximately \$101 million to replace legacy pipe from January 1, 2025, to December 31, 2026.<sup>1</sup>

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<sup>1</sup> On July 26, 2024, Peoples petitioned the Commission for approval to expand the definition of eligible replacements under the CIBS/PPP Rider and to rename the Rider as the Safety of Facilities and Infrastructure Replacement Rider ("SAFIR"). The Commission established Docket No. 20240107-GU, to review this request, and the company anticipates a decision by the Commission in the first quarter of 2025. The company has finalized its 2026 financial forecast but could not predict the Commission's decision on its SAFIR petition, so it will propose to make any necessary adjustments to reflect the SAFIR decision during its base rate proceeding.

## 2. Depreciation Expense

Using the company's currently approved depreciation rates, depreciation expense is projected to rise by 22%, from \$87 million in 2024 to \$107 million in 2026, due to an increased rate base. Peoples petitioned on November 13, 2024, and the Commission created Docket No. 20240157-GU, for approval to create a new regulatory subaccount and amortization rate for reclassifying the customer software investment and reserve balance related to the Work and Asset Management System ("WAM"). If approved, then Peoples' base rate increase request would be reduced to reflect the outcome of the WAM docket. Apart from this WAM related request, Peoples believes its 2022 depreciation study accurately represents the company's depreciation rates.

## 3. Pipeline Safety and Compliance for a Growing Distribution System

As Peoples' customer base and distribution system grow, so do the company's efforts and costs to ensure safety and compliance. Evolving federal safety and security requirements add to the need for more activities and investments. Peoples' safety and compliance programs prevent incidents by establishing rigorous safety standards and procedures for the design, construction, operation, and maintenance of the natural gas distribution system. Essential safety and maintenance activities like locating, leak and atmospheric surveillance, emergency response, and cathodic protection continue to expand in volume and breadth as the system grows to serve Florida. Although revenue from new customers help offset some of these costs, the influence of distance, labor costs and contractor pricing, among many other inflationary factors, contribute to our need to adjust rates.

Peoples' damage prevention efforts are integral to preventing natural gas related incidents. Sunshine 811 ticket volumes remain well over 500,000 a year and we incurred more than 1,700 total damages to our system in 2024. The company's proposed rate increase will reflect its investment in a new locate ticket management system that will enhance the timeliness and accuracy of locate responses. Other safety-related capital investments planned for 2025 and 2026 include enhancements to the Geographic Information System (mapping system), advancements in GPS Barcoding Technology, upgrades to WAM, improvements to the cathodic protection system, and measures to ensure the detectability of underground infrastructure.

## 4. General Inflationary Cost Pressures

Inflation continues to add to the cost of doing business and Peoples is not immune to these impacts. These higher costs are reflected in operations and maintenance ("O&M") and capital costs during 2025 and our proposed 2026 test year. Peoples has shielded customers from construction labor cost increases over the last five years, yet in 2025, the company anticipates a significant increase based on renegotiated construction rates. Despite these pressures, the company has implemented process efficiencies, enhanced capitalization policies and avoided costs to keep 2024 O&M expenses below the Commission's benchmark. Nevertheless, higher labor costs, contractors, materials, insurance, and healthcare benefits continue to put significant upward pressure on the company's business costs.

## 5. Rate Design and Cost-of-Service

The rapid growth of our distribution system has led Peoples to reevaluate whether the cost-of-service methodology and rate design it has used for many years are appropriate. The company's proposed base rate increases will rely on an updated cost of service study and rate design changes to simplify customer bills, promote fairness based on cost-causation principles, improve administrative efficiency, and enhance revenue stability. These improvements will simplify billing classes and better allocate growth-related costs to customers.

## 6. Return on Equity

A reasonable return on equity ("ROE") is essential for a regulated utility to attract the capital necessary to make long-term investments, maintain and improve the company's quality of service, and control costs for customers over time. Peoples anticipates requesting that the Commission approve an authorized ROE of 11.1%, with a range of plus or minus 100 basis points.

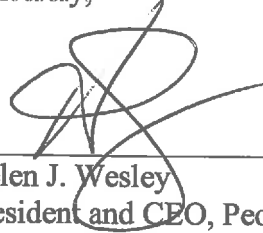
## Conclusion

Peoples excels in customer service and maintains the highest commitment to safety. The company provides reliable natural gas to meet Florida's growing and evolving needs. Peoples supports the state's commercial and industrial sectors and serves as a backup energy source during and after storms. Peoples is actively working to meet the demand for natural gas and deliver high-quality distribution service at fair and reasonable rates.

We acknowledge that there is never a good time to request rate relief and that our requested increase will have an impact on our customers. We do, however, believe that our proposed rates will reflect the value of natural gas to our customers and that the bills for our services will continue to be commensurate with the value our service provides. The general base rate relief addressed in the company's upcoming petition will be crucial for maintaining the company's financial integrity so it can continue to provide safe, reliable, and efficient service while meeting customer expectations.



Sincerely,



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Helen J. Wesley  
President and CEO, Peoples Gas System, Inc.

cc: All via Electronic Mail

Honorable Art Graham, Commissioner  
Honorable Gary F. Clark, Commissioner  
Honorable Andrew Giles Fay, Commissioner  
Honorable Gabriella Passidomo Smith, Commissioner  
Ana Ortega, Chief Advisor to Chairman La Rosa  
Jim Varian, Chief Advisor to Commissioner Graham  
Amanda Marsh, Chief Advisor to Commissioner Clark  
Eddie Phillips, Chief Advisor to Commissioner Fay  
Katherine Fleming, Chief Advisor to Commissioner Passidomo Smith  
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