

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition for rate increase by  
Peoples Gas System.

Docket No. 20200051-GU  
Submitted for Filing: June 8, 2020

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**PETITION OF PEOPLES GAS SYSTEM**

Peoples Gas System ("Petitioner", "Peoples" or the "Company"), files its Petition under Section 366.06(3), *Florida Statutes*, for authority to increase rates and charges for natural gas service so that such rates and charges will be sufficient to enable it to earn reasonable compensation for the services rendered, and pursuant to Section 366.06(3), *Florida Statutes*, hereby notifies the Commission of the filing herewith of new rate schedules designed to enable it to achieve such compensation, and requests that the Commission consent to the new rates going into effect. Peoples also seeks other modifications to its natural gas tariff on file with the Commission, and requests the Commission's consent to the placing in effect of these modified provisions.

In support of this Petition, the Company states:

1. The name, address and telephone number of the petitioner are:

Peoples Gas System  
702 N. Franklin Street – 6<sup>th</sup> Floor  
Tampa, FL 33602  
(813) 228-4111

2. The names and addresses of the persons authorized to receive notices and communications with respect to this Petition are:

Andrew M. Brown, Esquire  
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Tampa, Florida 33601

Ms. Paula K. Brown  
Tampa Electric Company  
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Ms. Kandi M. Floyd  
Peoples Gas System  
P.O. Box 2562  
Tampa, Florida 33601

### **Jurisdiction and Test Period**

3. Peoples is a public utility as defined by Section 366.02, *Florida Statutes*, and subject to the regulatory jurisdiction of the Commission established by Chapter 366, *Florida Statutes*.

4. A 12-month period ending December 31, 2021, based upon the historic base year ended December 31, 2019, will be used as the projected test year in this proceeding. The 2021 projected test year will match projected revenues with the projected costs of service and capital investment required by the Company to provide natural gas service to its customers. This provides an appropriate period of utility operations that may be analyzed so that the Commission can set reasonable rates for the period when the new rates will be in effect.

### **The Company**

5. Peoples is a public utility engaged in the distribution and sale of natural gas to residential, commercial, industrial and electric generation customers located in 14 separate geographic areas of the state, or "service areas." The Company primarily

provides transportation of customer-owned natural gas to its electric generation, industrial and commercial customers, and makes sales of gas on a delivered basis to its residential and smaller commercial customers.

6. Company headquarters are located at 702 North Franklin Street, Tampa, Florida. The 14 geographic service areas are grouped into three "territories" that serve both franchised and non-franchised areas through delivery facilities common to both. The South Territory consists of the Daytona Beach, Eustis, Orlando, Palm Beach, Southwest Florida and Dade/Broward service areas. The Central Territory consists of the Tampa, St. Petersburg, Lakeland, Avon Park and Sarasota service areas. The North Territory consists of the Jacksonville, Panama City and Ocala service areas. Each territory is administered by a Territory Manager who is responsible for all operations and maintenance within the territory. These Territory Managers report to the Vice President, Operations.

7. Under the administrative and operational control of these regional offices, the Company owns and operates a system of natural gas mains and related infrastructure providing natural gas service to its customers. Within each region there are facilities to permit receipt of natural gas from the interstate and intrastate natural gas pipelines that deliver gas to the Company, and also facilities to allow the receipt of renewable natural gas ("RNG"). Facilities also provide for the distribution of natural gas through the necessary mains and services, and delivery to customers, together with necessary pressure regulation and metering facilities to control and measure such deliveries. Also included within each territory are the necessary office, warehouse, and storage facilities, together with construction and transportation equipment to support the Company's

operations.

8. In its last base rate proceeding in Docket No. 20080318-GU, Petitioner used a projected test year ending December 31, 2009. By its Order No. PSC-09-0411-FOF-GU in that docket, the Commission authorized the Company to revise its base rates and charges to give the Company an opportunity to earn a midpoint return on common equity (“ROE”) of 10.75%.

### **Recent Developments**

9. On February 7, 2020, Peoples filed its test year letter to initiate the process of seeking an adjustment to base rates which required the filing of the Petition to adjust rates on or before April 7, 2020. Shortly after Peoples filed its test year letter, the Coronavirus (later known as COVID-19) spread throughout Asia, Europe and North America. The virus, and attempts to slow its spread, have created economic and societal disruption across the globe. Peoples is well aware of the financial hardship that this is causing for citizens of Florida including many of Peoples’ customers. As a result of these hardships, Peoples asked for and received Commission approval to delay its filing deadline to June 8, 2020. During this filing delay, Peoples has suspended service disconnections due to non-payment and has taken additional steps to assist customers having difficulty making payments. The Company is increasing its financial commitment to Peoples’ Share Program, which assists customers who are experiencing difficulty paying their utility bills due to unforeseen financial hardship, and is also financially supporting organizations across the state committed to assisting those suffering economic hardship from the effects of COVID-19. Despite the effects of COVID-19, as will be discussed further in this Petition, there are compelling reasons why the Company must now file for a rate base

adjustment in order to have the new rates in effect in early 2021. The Company is hopeful that by that time Florida and the nation will be recovering economically from the effects of COVID-19.

### **Developments Since The Last Rate Case**

10. Since 2009, the year Peoples most recent rates went into effect, Peoples' construction costs have increased substantially. The per foot cost to install polyethylene service lines, including labor and materials, has increased from 34% - 76% depending on the size of pipe and type of installation and the cost of steel line installation has increased by 90%. These increases would undoubtedly have been higher if not for Peoples' efforts to reduce construction costs. The Company has consolidated the number of construction contractors and implemented a separate bidding process for larger projects, consolidated inventory and supply, and has improved the oversight of construction projects by using fully dedicated construction inspectors and managers. Other increased costs include employee health care and the additional costs driven by an aging workforce.

11. Since its last rate case, Peoples has improved operations companywide and enhanced the Company's customer experience. The success of these efforts is demonstrated by the numerous awards and designations Peoples has received for customer service, including leading all categories and ranking highest in the nation for residential customer satisfaction for gas utilities in the third wave of the 2020 J.D. Power residential customer satisfaction study. The final results of the 2020 study will be published in September. In 2019, Peoples ranked highest in customer satisfaction with Midsize Residential Natural Gas Service in the South for the seventh consecutive year in the 2019 J.D. Power residential study, and ranked highest in Customer Satisfaction with

Business Natural Gas Service in the South in the J.D. Power business study for the third time. Peoples was also named Most Trusted Utility in the nation in Escalent's Cogent Reports residential study for the fifth year in a row, and was designated a Customer Champion by Escalent for the sixth consecutive year. In 2020, the Company was designated an Environmental Champion by Escalent for the sixth year in a row and named one of the Easiest Utilities in the Nation to do Business With for the second consecutive year, also by Escalent based on the Cogent study.

12. In recent years, Peoples has made numerous operational and system upgrades that have improved safety, compliance and service to customers. Peoples has improved mapping and leak detection systems. Peoples has undertaken to improve its inspection and compliance program by the implementation of an enterprise wide compliance program. The Company has also added a centralized gas control management operation room and team, a state of the art training center, reorganized its engineering department to improve efficiency, and implemented a new shared Customer Relationship Management ("CRM") platform that combined the customer service, billing and credit and collections departments. A centralized statewide dispatch team, new damage prevention programs and new quality and safety management systems have also been introduced to enhance safety and improve the customer experience. In 2012, the Company began a program to retire and replace all cast iron/bare steel ("CI/BS") from the system and recovered through a rider which was approved by the Commission in Order No. PSC-12-0476-TRF-GU. In 2017, the Commission approved adding the retirement and replacement of problematic plastic pipe ("PPP") to the CI/BS Rider in Order No. PSC-17-0066-AS-GU.

13. The overall size of Peoples' system has grown considerably since 2009. In 2007, the base year in the Company's last rate case filing, Peoples had approximately 325,000 customers. In the 2019 base year for this rate case filing, that number is now more than 400,000, representing a 23% increase in the number of customers served. Peoples has broadened its clean energy offerings to customers including compressed natural gas ("CNG") facilities, liquefied natural gas ("LNG") service and is also a leader in facilitating the production of renewable natural gas ("RNG") in Florida.

#### **Current and Future Capital Investments**

14. The price of natural gas has decreased substantially since the Company's last rate filing resulting in accelerated demand for natural gas. In addition, as Peoples' system expands, it becomes necessary to undertake more investment to sustain the system and ensure its safety and reliability. Part of the demand for natural gas stems from the fact that it is a cleaner energy choice with greater efficiency, as well as being more economical, especially for commercial and industrial customers. The Company has started three large scale capital pipeline projects, (Panama City, Southwest Florida and Jacksonville), which will be responsive to increased customer demand and will improve system reliability. All three projects are expected to be in service by the end of 2020.

The Panama City Project is for construction of a second feed to the FGT lateral in the area which will add capacity and redundancy to the Panama City system. The Southwest Florida Project creates a new loop in the southern part of the Southwest Florida system in response to increased customer growth in the area. This loop will provide service to new customers seeking natural gas service and improve system redundancy and reliability by providing a back feed to a significant portion of the

Southwest Florida system. The Jacksonville Project is a result of an increasing number of customers on the system, as well as significant commercial and industrial growth. Peoples executed agreements to provide additional capacity from SONAT to Peoples' Fernandina Beach line which was approved by the Commission in Order No. PSC-2020-0027-CO-GU. Peoples is upgrading its Fernandina Beach South Pipeline to increase the flow of natural gas at optimal pressures, and the Company is constructing a new 16-inch pipeline running from the Nassau/Duval County Line into the Jacksonville Port. Additionally, a compression station is being built at Baldwin, Florida which will increase pressure into the western end of the Jacksonville system. The line to Jacksonville will position Peoples to provide LNG service to maritime customers. The cost of these projects alone will be approximately \$135.9 million.

15. Peoples is also planning a liquefied natural gas storage facility in the Miami area. The purpose is to provide on system peaking capability. The cost of this project is approximately \$20.6 million and it is set to become operational in late 2021 or early 2022.

16. In this filing, Peoples is also moving \$200.7 million of CI/BS Rider investments made through December 31, 2020 into rate base, thereby adding the related \$23.6 million of 2021 revenue requirements to be recovered through base rates, pursuant to Commission Order No. PSC-12-04760-TRF-GU. Although the \$23.6 million is included in the 2021 projected test year revenue requirement, it does not represent new revenue to the Company as this is revenue that the Company already receives through the CI/BS rider surcharge.

17. As shown by Exhibit A attached to and made a part of this Petition, when the adjusted net operating income of \$40.8 million resulting from Peoples' present base



rates is related to a 13-month average adjusted net investment rate base of \$1,578.7 million (which includes moving CIBSR into rate base) for the 12-months ending December 31, 2021, it results in a rate of return of 2.58%. Obviously, this rate of return does not, and will not in the future, afford Peoples reasonable compensation for the use of its property devoted to public service, is grossly insufficient to meet the Company's reasonable needs and requirements, and fails to furnish it with a reasonable basis for maintaining its present credit standing and obtaining future needed credit.

**Requested Rate of Return and Revenue Requirement**

18. It is essential that Peoples has fair and reasonable earnings so that investors will have sufficient confidence to enable it to maintain and raise new capital as needed for public service. Such financial integrity bears directly upon the Company's ability to furnish service to its present and future customers, upon the cost of the service rendered, and upon the continuity, efficiency and extension of such service. In essence, the Company's financial integrity depends upon whether the base rates it is allowed to charge under the Commission's authority are adequate under efficient management to produce earnings in an amount sufficient to reasonably compensate its investors for the public use of their property, and to encourage them, and others inclined to invest, to make further investments, as needed, in the Company's business.

19. Peoples is afforded by statute the opportunity to receive a reasonable return upon its property used and useful in providing public service, and its base rates should be sufficient to yield reasonable compensation for the services rendered.

20. Peoples' present base rates and charges, as previously approved by this Commission, are inadequate and insufficient to allow the Company to realize fair and

reasonable compensation for the services it provides to the public.

21. Present economic conditions make it imperative that the Company's authorized rate of return be increased. Peoples represents that its ROE should be within the range of 9.75% to 11.75% per annum. An overall return of 6.63% based on the midpoint of this range is asserted by the Company to be a reasonable rate of return predicated on a December 31, 2021, 13-month average adjusted net investment rate base. The application of a rate of return of 6.63% to this rate base results in a revenue deficiency of \$85.3 million, as demonstrated by Exhibit A. The \$85.3 million revenue deficiency includes the \$23.6 million of 2021 revenue requirements related to Peoples moving \$200.7 million of CI/BS Rider investments made through December 31, 2020 into adjusted rate base. As a result, the net revenue deficiency is \$61.7 million.

22. It is necessary that the rates and charges applicable to the natural gas service furnished by Petitioner be increased so Petitioner will have the opportunity to recover its total cost of service, including a reasonable return upon its properly used and useful assets in providing service to the public.

#### **Storm Damage Reserve**

23. The additional revenue requirements Peoples is requesting by this Petition include an increase in the annual accruals to related to storm damage reserve from \$57,500 to \$380,000. Peoples believes that in light of the effects of Hurricane Michael, a larger storm damage reserve is necessary to account for the increasing severity and costs of storm damage in general.

#### **Manufactured Gas Plant**

24. The additional revenue requirements Peoples is requesting by this Petition

include an increase in the annual amortization expense of the Manufactured Gas Plant (“MGP”) regulatory asset from \$640,000 to \$1,000,000. The increase would provide for an approximate 20-year amortization period of the MGP regulatory asset.

### **Depreciation Study**

25. Peoples has filed a separate petition for approval of a Depreciation Study that the Company is proposing to be effective on January 1, 2021, commensurate with new base rates. The Depreciation Study concludes that Peoples will need an estimated \$3.7 million of additional revenue to account for the impact of increased depreciation.

### **Maximum Allowable Construction Cost (MACC)**

26. Peoples extends main pipelines and service facilities in accordance with the provisions of Rule 25-7.054, Florida Administrative Code. As shown in Exhibit C to this petition, Peoples proposes to change its tariff, pages 5.601 through 5.601-2 to make the MACC calculation based on ten (10) years revenue rather than the four (4) years in place currently. Peoples believes the ten (10) year calculation better reflects the realities of the cost of extending service to customers which have increased considerably since its last rate case. This revised tariff provision will help make gas service more affordable to consumers seeking gas service who would not otherwise be able to afford it.

### **Virtual Pipeline Natural Gas Service**

27. Peoples is proposing to implement a new tariff which is designed to provide natural gas service to customers who are unable to obtain access from traditional pipelines. As shown in Exhibit C to this petition, this tariff would allow Peoples to respond to customer demand in situations where traditional natural gas delivery would not be economically or logistically feasible.

### **Other Tariff Changes**

28. As shown in Exhibit C to this petition, Peoples is proposing several changes to the tariff that updates antiquated language, corrects grammar and typos. Additionally, changes are proposed to modify the RNG, CNG and NGVS tariffs to make these services more widely available to customers and reflects adjustments to adapt to changing market conditions.

### **New Rate Schedules and the Effective Date Thereof**

29. New rate schedules in tariff form modifying the rates and charges of the Company to provide additional gross revenues sufficient to permit the Company to recover its total cost of service, and addressing the other modifications described above, are filed with this Petition as shown in Exhibit C. A summary of the estimated annual revenue change involved and the gross revenue increase which would result from these new rate schedules is set forth in Exhibit B attached to this Petition.

30. Pursuant to Section 366.06(3), *Florida Statutes*, notice is hereby given of the filing of the new rate schedules. Unless consent is withheld to the placing in effect of the new rate schedules or a part thereof, such new rate schedules or the portion thereof having consent will be placed in effect in accordance with Section 366.06(3), *Florida Statutes*. Should the Commission continue to withhold consent to the placing in effect of all or a part of the new rate schedules for a period exceeding eight months from the date of their filing, and if no final order has been entered during such period in an investigation made in this proceeding, then, pursuant to Section 366.06(3), *Florida Statutes*, the new rate schedules or such portion thereof as to which consent has not been given shall be placed in effect by Peoples under bond or corporate undertaking at the end of such eight-

month period.

31. In compliance with Rule 25-7.039, *Florida Administrative Code*, Petitioner has filed the information required by such rule.

32. This Petition initiates a proceeding that may involve disputed issues of material fact. It is not known which, if any, of the material issues of fact set forth in this Petition, or in the testimony, exhibits and minimum filing requirements filed with this Petition, may be disputed by any person(s) planning to participate in the proceeding initiated by the filing of this Petition.

**WHEREFORE**, Petitioner respectfully requests:

A. That pursuant to Section 366.06(3), *Florida Statutes*, the Commission will consent to the placing in effect of the new rate schedules and other tariff modifications filed with this Petition, as shown on Exhibit C, which increase the rates and charges for natural gas service rendered by the Company to a level of reasonable compensation for such services and incorporate the other modifications described in this Petition, said new rate schedules being just and reasonable and designed to recover the Company's cost of service, including the additional annual revenue requirement of \$85,324,894.

B. That should the Commission withhold its consent to the placing in effect of all or any part of such new rate schedules or other revised tariff sheets, it will undertake an investigation to determine the level of reasonable compensation for the services rendered and the just and reasonable rates and charges to be established as a result thereof, and will ultimately conclude that:

1) the Company should be authorized to increase its storm damage reserve and recover the expense of annual accruals to such a reserve through

its base rates;

2) the Company's present rates and charges are insufficient to yield reasonable compensation for the services rendered;

3) the projected December 31, 2021 adjusted average net investment rate base of \$1,578.7 million represents that property used and useful in serving the public and on which the Company is, by law, entitled to earn a reasonable rate of return;

4) a reasonable ROE lies within the range of 9.75% to 11.75%, and an overall return of 6.63% based on the midpoint of this range is reasonable;

5) the application of the reasonable rate of return to the December 31, 2021 adjusted average net investment rate base requires additional annual gross revenues of \$85.3 million based on the Company's total cost of service for the projected test year;

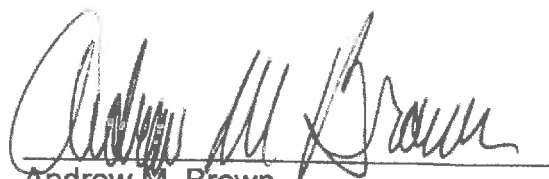
6) the Company should adjust its rates and charges by placing in effect the new rate schedules filed herewith so as to produce such additional revenue requirement on a permanent basis in order that the Company might have the opportunity to earn its reasonable rate of return;

7) the new rates filed with this Petition constitute fair and reasonable rates within the meaning of Chapter 366, *Florida Statutes*; and

8) the other tariff modifications set forth in the new and revised tariff sheets filed with this Petition are just and reasonable, and should be approved and implemented by the Company.

C. That a final order should not be entered within eight months from the date of filing of the new rate schedules, pursuant to Section 366.06(4), *Florida Statutes*, the rate schedules or such portion thereof to which the Commission has not consented shall be placed in effect under corporate undertaking at the end of such eight-month period pending the entry of a final order.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Andrew M. Brown", is written over a horizontal line.

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Attorneys for Peoples Gas System

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing Petition of Peoples Gas System has been furnished via electronic mail to the following, this 8th day of June, 2020:


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Andrew M. Brown



**EXHIBIT A**

**SUMMARY OF NET OPERATING INCOME  
RATE BASE, RATE OF RETURN AND REVENUE DEFICIENCY**

PEOPLES GAS SYSTEM

Summary of Net Operating Income  
Rate Base, Rate of Return and Revenue Deficiency

	<u>2021</u> <u>Adjusted</u>
Rate Base - 13-Month Average	\$ 1,578,725,509
Net Operating Income	\$ 40,779,039
Rate of Return	2.58%
<u>Calculation fo Revenue Deficiency:</u>	
Adjusted Rate Base	\$ 1,578,725,509
Requested Rate of Return	X <u>6.63%</u>
Net Operating Income Required	\$ 104,638,261
Less: Adjusted Net Operating Income	<u>\$ 40,779,039</u>
Net Operating Income Deficiency	\$ 63,859,222
Expansion Factor	X <u>1.3361</u>
Total Revenue Deficiency	\$ 85,324,894
Less: Shift of Cast Iron Bare Steel Rider Revenue Requirement *	<u>\$ 23,608,583</u>
Net Revenue Deficiency	\$ 61,716,311

\* Note: The \$85.3 million revenue deficiency includes \$23.6 million of 2021 revenue requirements related to Peoples moving \$200.7 million of Cast Iron Bare Steel Rider investments made through December 31, 2020 into adjusted rate base.

**EXHIBIT B**

**SUMMARY OF PROPOSED INCREASE**

PEOPLES GAS SYSTEM

Summary of Proposed Increase

Customer Class	Annual Customer Cost (1)		Increase	
	Present Rates	Proposed Rates	Amount	Percent
Residential	\$168,571,521	\$193,073,148	\$24,501,627	14.5%
Residential Generator	205,253	301,468	96,215	46.9%
Residential Heat Pump	34,897	32,195	(2,702)	-7.7%
Commercial Generator	2,032,230	2,426,248	394,018	19.4%
Commercial Heat Pump	36,319	36,069	(250)	-0.7%
Small General Service	15,674,646	17,298,515	1,623,868	10.4%
General Service - 1	117,964,525	125,744,142	7,779,617	6.6%
General Service - 2	179,490,334	189,168,683	9,678,349	5.4%
General Service - 3	103,360,366	108,631,447	5,271,081	5.1%
General Service - 4	77,376,435	80,436,295	3,059,860	4.0%
General Service - 5	154,134,460	158,607,097	4,472,636	2.9%
Commercial Street Lightning	603,001	633,994	30,994	5.1%
Natural Gas Vehicles	52,344	-	(52,344)	-100.0%
Wholesale	1,893,396	1,968,843	75,447	4.0%
Small Interruptible Service	42,183,083	43,560,164	1,377,080	3.3%
Interruptible Service	120,655,507	122,633,470	1,977,963	1.6%
Large Interruptible Service	49,748,371	49,877,256	128,885	0.3%
Special Contracts	1,119,310,312	1,119,260,168	(50,144)	0.0%
Sub-Total	2,153,327,002	2,213,689,203	60,362,201	2.8%
Miscellaneous Revenue	13,140,189	14,495,547	1,355,358	10.3%
<b>Total</b>	<b>\$2,166,467,191</b>	<b>\$2,228,184,750</b>	<b>\$61,717,559</b>	<b>2.8%</b>

(1) Includes Purchase Gas Adjustment for sales customers and estimated cost of gas for transportation customers