



February 7, 2020

The Honorable Gary F. Clark, Chairman  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

**Re: Peoples Gas System - Test Year Notification pursuant to Rule 25-7.140, F.A.C.**

Dear Chairman Clark:

Peoples Gas System, ("Peoples" or Company") is the largest natural gas Local Distribution Company ("LDC") in the state of Florida, providing sales and transportation delivery of natural gas throughout most of the state and is a public utility subject to the Commission's regulatory jurisdiction under Chapter 366, Florida Statutes. Peoples operates 14 divisions with over 400,000 residential, commercial, industrial and electric power generation customers.

Based on a review of the Company's projected 2020 and 2021 financial performance, Peoples has determined it must seek an increase in base rates to continue to meet the natural gas needs of existing and new customers and continue to provide safe, reliable, high quality customer service and have an opportunity to earn a fair rate of return on the Company's investment.

This letter is provided as notification to the Commission that Peoples intends to seek general rate relief pursuant to the provisions of Section 366.06 (3), Florida Statutes, as soon as the new rate schedules, the petition relating thereto, and the minimum filing requirements specified in Rule 25-7.039, Florida Administrative Code, can be completed and filed. The Company contemplates a filing date on or about April 7, 2020, and will use a projected test year ending December 31, 2021, based upon the historic base year ended December 31, 2019. The proposed 2021 test year will accurately reflect the economic conditions during the first 12 months the new rates will be in effect.

Peoples will not request that the Commission process its petition using the proposed agency action process authorized in Section 366.06(4), Florida Statutes. The Company will not seek interim rate relief pursuant to Section 366.071, Florida Statutes.

Peoples' last general rate case (Docket No. 20080318-GU) was filed on August 11, 2008 with a final order approving stipulation and settlement issued on April 5, 2010. 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%. Without the

rate relief it plans to request, Peoples projects that its earned ROE will be significantly below the bottom of the range in 2021.

It has been approximately twelve years since Peoples last filed to increase its base rates. Since that time, the natural gas landscape in the United States has changed dramatically due to an abundant supply of domestic natural gas and significant reductions in natural gas production costs. Over the last decade, natural gas prices have become lower resulting in significant demand for delivered natural gas to meet Florida's growing energy requirements. Peoples' customer growth rates in recent years have exceeded 3 percent, which is approximately double the state growth in population.

Peoples is dedicated to a relentless focus on safety and has been a leader in the development and implementation of a Safety Management System which is the framework for the Company's safety programs and includes prescriptive guidelines, strategic partnerships and use of technology to protect Peoples employees and the public. In 2019, Peoples received the American Gas Association Safety Achievement Award for excellence in employee safety.

Since 2008, Peoples has received multiple recognitions and awards for its excellence in customer service from third party national consumer research and behavior organizations. Peoples ranked highest in the south midsize segment of the J.D. Power 2019 Gas Utility Residential Customer Satisfaction study for the seventh year in a row, and highest in the south segment of the 2019 Gas Utility Business Customer Satisfaction study for the third time. Additionally, Peoples was named the Most Trusted Utility in the nation for the fifth time, receiving the highest overall score in the 2019 Cogent Syndicated Utility Trusted Brand & Customer Engagement™: Residential study by Escalent. Also in 2019, Peoples was designated a Customer Champion by Escalent for the sixth consecutive year for its exceptional performance in the brand trust, service satisfaction and product experience categories of the study, and an Environmental Champion for the fifth year in a row for its high scores in environmental dedication.

Peoples has significantly expanded and enhanced its systems and use of technology across Florida to safely and reliably provide clean-burning natural gas and improve customer responsiveness and the overall customer experience. Since Peoples' last rate case, the Company has installed over 2,700 miles of mains and added over 105,000 customers in over 200 communities it serves, many of which were previously unserved or underserved. The expansion into these communities has helped spur economic growth through Peoples' direct investment and by providing competitively priced reliable energy to residential, commercial and industrial customers.

Peoples has held rates stable for over a decade through managing costs and achieving balanced regulatory outcomes despite experiencing significant system and customer growth. The following key regulatory actions and settlements approved by the Commission, along with cost savings efforts have allowed Peoples to avoid a base rate increase for such an

extended period, reduce its base rates by approximately 5% since the last base rate proceeding.

- On September 18, 2012, the Commission approved Peoples' Cast Iron/Bare Steel Replacement Rider ("CI/BSR") program that supports the replacement of approximately 570 miles of main, enabling the Company to significantly improve system safety and reduce carbon emissions.
- On June 28, 2016, Peoples petitioned the Commission for approval of new depreciation rates. On February 7, 2017, the Commission approved a settlement agreement that reduced annual depreciation expense, accelerated \$32 million of regulatory asset amortization associated with manufactured gas plants ("MGP") environmental remediation costs, allowed for the inclusion of approximately 550 miles of obsolete plastic pipe replacements through the existing CI/BSR, and established a ROE range of 9.25% to 11.75%.
- On October 18, 2018, the Commission approved a settlement agreement authorizing Peoples to net approximately \$10.9 million of accelerated MGP environmental remediation costs against the estimated 2018 federal tax reform benefits. Beginning in January 2019, Peoples reduced its base rates by approximately 5% or \$11.6 million for the impact of tax reform and reduced annual depreciation expense by an estimated \$10.3 million. Per the 2018 settlement, Peoples is permitted to initiate a general base rate proceeding during 2020 regardless of its earned ROE at the time, provided the new rates do not become effective prior to January 1, 2021.
- Peoples has moderated the financial impact of its significant investment in system assets by reducing its overall cost of capital. In 2019, the Company's overall cost of capital using the 10.75% midpoint ROE is approximately 6.6%, which is nearly two hundred basis points lower than the Commission approved 8.52% in the last base rate proceeding. This reduction is the result of the Company's prudent management of long-term debt financings which have reduced the Company's debt interest rates and maximizing available tax deductions that have significantly increased deferred income taxes as a funding source of capital.
- The Company has proactively taken measures to improve operational efficiencies, including centralization of operational support teams; standards, compliance, dispatch, gas control and training; and deployment of new technology and software systems which have helped reduced the need for higher rates. In addition, over the last several years Peoples has engaged in numerous continuous improvement projects.

Key drivers to Peoples' growth are Florida's expanding population and energy demands since the end of 2008. Over the last decade, the natural gas infrastructure across the state has become the backbone for securing Florida's energy needs today and for the foreseeable future. Peoples' customers rely on the Company to provide a resilient and dependable energy source, especially through the recent active hurricane seasons. The bulk of the natural gas distribution system is buried underground, which provides significant reliability during a hurricane event resulting in minimal outages and providing energy resiliency post event.

In addition to safety related investments made through the CI/BSR program Peoples has also invested in system improvements to establish two-way feeds, mitigate areas susceptible to large customer outages due to line damage, upgrade gate stations and increase available capacity to serve more customers. While we have made tremendous progress improving our system for the benefit of our customers, we have identified areas of our system that need significant investment to meet customer demand while maintaining the system reliability and service our customers expect.

The factors contributing to the need for the Company to seek rate relief include the following:

1. In order to respond to customer growth and demand, improve system safety, and enhance system resiliency, the Company has an obligation to make prudent and necessary infrastructure investments that provides a safe and reliable natural gas distribution system in the communities we serve. Peoples' projects its adjusted rate base in 2021 to be nearly \$1.6 billion, which is an increase of approximately \$1 billion over the \$560 million amount approved in the last base rate proceeding. This includes moving the CI/BSR investments into rate base as contemplated in Order No. PSC-12-0476-TRF-GU. Additionally, the increase in system assets is accompanied by increased depreciation expense, property taxes and associated interest expense.
2. In addition to normal inflationary pressures, the Company's operating costs continue to increase due to significant customer growth and system expansion, expanding compliance requirements, increased damage prevention efforts, enhanced oversight over safety and quality control, implementation of additional technology in operations and customer expectations, and replenishment of an aging and retiring workforce. Additionally, liability insurance and health care costs continue to escalate at a rate significantly higher than inflation. Construction costs have increased significantly since the last rate case as a result of increased contractor costs, oversight and regulatory requirements, and material costs.
3. The Company is adding technical capabilities to provide customers innovative and environmentally responsible energy solutions related to liquified natural gas ("LNG") and renewable natural gas ("RNG").
4. The Company engaged an independent consultant to complete a Depreciation Study. The Company proposes to implement new depreciation rates effective January 1, 2021, to reflect updated estimates for asset useful lives and costs of removal. The impact is an expected increase to depreciation expense in 2021.

While Peoples' efforts have allowed it to avoid seeking any base rate increases for approximately twelve years, the combination of continued investment in system assets, evolving customer expectations and technology, increased operations requirements and inflation now causes the Company to seek rate relief. Peoples is currently finalizing its 2021 revenue requirements, but the Company estimates that a base rate revenue increase of approximately \$85 million to \$95 million will be required. Approximately \$24 million of the revenue requirement is associated with moving CI/BSR program investments into rate base. These costs are currently reflected in existing customer rates and will have a neutral impact

on customer bills. Therefore, the net incremental 2021 revenue requirement is estimated to be approximately \$60 million to \$70 million. Without rate relief, Peoples' access to capital on reasonable and sustainable terms will be impacted during a time of significant investments.

Peoples operates in an extremely competitive energy environment, and the decision to petition for rate relief is not something that Peoples takes lightly. This is an exciting time in Florida, as energy options for all customers are a critical driver to continued economic expansion and energy stability statewide. Peoples is proud to serve our customers, all of whom have chosen natural gas. We believe that our ability to offer cost-effective, reliable and safe natural gas requires an increase in rates which will ensure continued high-quality customer service and financial integrity.

Sincerely,



Thomas J. Szelistowski  
President, Peoples Gas System

cc: Honorable Julie I. Brown, Commissioner  
Honorable Andrew G. Fay, Commissioner  
Honorable Art Graham, Commissioner  
Honorable Donald J. Polmann, Commissioner  
Mr. Braulio L. Baez, Executive Director  
Mr. Keith Hetrick, General Counsel  
Mr. Mark Futrell, Deputy Executive Director Technical  
Mr. Andrew Maurey, Director Accounting & Finance  
Mr. Adam Teitzman, Commission Clerk  
Mr. J.R. Kelly, Office of Public Counsel