**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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| In re: Petition for rate increase by Peoples Gas System | DOCKET NO.: 20200051-GU |
| In re: Petition for approval 2020 depreciation study by Peoples Gas System | DOCKET NO.: 20200166-GU |
| | FILED: September 28, 2020 |

**PREHEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL**

The Citizens of the State of Florida, through the Office of Public Counsel ("Citizens"), pursuant to the Order Establishing Procedure in this docket, No. PSC-2020-0198-PCO-GU, issued July 2, 2020, and the Revised Order Establishing Procedure, No. PSC-2020-0272-PCO-GU, issued July 30, 2020, hereby submit this Prehearing Statement.

APPEARANCES:

A. Mireille Fall-Fry
Associate Public Counsel

J.R. Kelly
Public Counsel

Office of Public Counsel
c/o The Florida Legislature
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On behalf of the Citizens of the State of Florida

1. WITNESSES:

| Witness | Subject Matter | Issue Numbers |
|---|---|---|
| David J. Garrett | Depreciation Study and Cost of Capital | 5, 6, 7, 22-26 |
| Andrea C. Crane | Revenue Requirement Issues | 1-3, 8-21, 27-57, 71, and proposed issue |

2. EXHIBITS:

| Witness | Proffered by | Exhibit No. | Description |
|---|---|---|---|
| Andrea C. Crane | OPC | Exhibit ACC-1 | List of Prior Testimonies |
| Andrea C. Crane | OPC | Exhibit ACC-2 | Supporting Schedules |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 1 | Revenue Requirement Summary |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 2 | Required Cost of Capital |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 3 | Rate Base Summary |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 4 | Gross Utility Plant-in-Service |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 5 | Construction Work in Progress |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 6 | Accumulated Depreciation |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 7 | Operating Income Summary |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 8 | Additional Employees Expense |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 9 | Incentive Compensation Award Expense |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 10 | Payroll Tax Expense |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 11 | 401K Expense |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 12 | Other Employee Related Expense |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 13 | Other (Non Labor) Trended Expense |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 14 | Membership Dues Expense |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 15 | LNG and Economic Develop Expense |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 16 | Advertising and Marketing Expense |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 17 | Rate Case Expense |

| Witness | Proffered by | Exhibit No. | Description |
|---|---|---|---|
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 18 | TIMP Pipeline Reassess. & Risk Analysis Expense |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 19 | Other (Non Labor) Not Trended Expense |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 20 | Depreciation Expense—Plant |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 21 | Depreciation Expense—Rates |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 22 | Property Tax Expense |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 23 | Interest Synchronization |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 24 | Composite Income Tax Rate |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 25 | Revenue Multiplier |
| Andrea C. Crane | OPC | Exhibit ACC-2 Schedule 26 | Revenue Requirement Impact of Adjustments |
| David Garrett | OPC | Exhibit DJG-1 | Curriculum Vitae |
| David Garrett | OPC | Exhibit DJG-2 | Proxy Group Summary |
| David Garrett | OPC | Exhibit DJG-3 | DCF Stock Prices |
| David Garrett | OPC | Exhibit DJG-4 | DCF Dividend Yields |
| David Garrett | OPC | Exhibit DJG-5 | DCF Terminal Growth Determinants |
| David Garrett | OPC | Exhibit DJG-6 | DCF Final Results |
| David Garrett | OPC | Exhibit DJG-7 | CAPM Risk-Free Rate |
| David Garrett | OPC | Exhibit DJG-8 | CAPM Betas |
| David Garrett | OPC | Exhibit DJG-9 | CAPM Implied Equity Risk Premium Calculation |
| David Garrett | OPC | Exhibit DJG-10 | CAPM Equity Risk Premium Results |
| David Garrett | OPC | Exhibit DJG-11 | CAPM Final Results |
| David Garrett | OPC | Exhibit DJG-12 | Cost of Equity Summary |
| David Garrett | OPC | Exhibit DJG-13 | Market Cost of Equity |
| David Garrett | OPC | Exhibit DJG-14 | Utility Awarded Returns vs. Market Cost of Equity |

| Witness | Proffered by | Exhibit No. | Description |
|---|---|---|---|
| David Garrett | OPC | Exhibit DJG-15 | Summary Accrual Adjustment |
| David Garrett | OPC | Exhibit DJG-16 | Depreciation Parameter Comparison |
| David Garrett | OPC | Exhibit DJG-17 | Detailed Rate Comparison |
| David Garrett | OPC | Exhibit DJG-18 | Depreciation Rate Development |
| David Garrett | OPC | Exhibit DJG-19 | Account 378 Iowa Curve Fitting |
| David Garrett | OPC | Exhibit DJG-20 | Account 380 Iowa Curve Fitting |
| David Garrett | OPC | Exhibit DJG-21 | Account 380.02 Iowa Curve Fitting |
| David Garrett | OPC | Exhibit DJG-22 | Account 385 Iowa Curve Fitting |
| David Garrett | OPC | Exhibit DJG-23 | Observed Life Tables and Iowa Curve Charts |
| David Garrett | OPC | Exhibit DJG-24 | Remaining Life Development |
| David Garrett | OPC | Exhibit DJG-25 | Appendices |
| David Garrett | OPC | Exhibit DJG-25 Appendix A | Discounted Cash Flow Model Theory |
| David Garrett | OPC | Exhibit DJG-25 Appendix B | Capital Asset Pricing Model Theory |
| David Garrett | OPC | Exhibit DJG-25 Appendix C | The Depreciation System |
| David Garrett | OPC | Exhibit DJG-25 Appendix D | Iowa Curves |
| David Garrett | OPC | Exhibit DJG-25 Appendix E | Actuarial Analysis |

## 3. STATEMENT OF BASIC POSITION

On June 8, 2020, Peoples Gas System ("Peoples" or "Company"), filed a Petition with the Commission seeking a base revenue increase of $85.3 million, or approximately 34.8%. This increase includes the effect of rolling-in to base rates approximately $23.6 million annually that is currently being collected through a Cast Iron / Bare Steel Rider

("CI/BSR") that was authorized by the PSC in Order No. PSC-2012-0476-TRF-GU. Therefore, the net impact of the Company's request is a net revenue increase of approximately $61.7 million or 22.9%. PGS is proposing to increase residential rates by slightly more than the system average. The Company is proposing a residential ("RS") revenue increase of 36.8%, or 25.0% after consideration of the CI/BSR roll-in.

The Company's filing is based on a Historic Base Year ending December 31, 2019, and on a Projected Future Test Year ending December 31, 2021. Hence, the entire Future Test Year is forecasted in this case. PGS is requesting a return on equity of 10.75% and a capital structure consisting of 54.7% common equity (excluding customer deposits and deferred income taxes). The Company's last base rate case was filed in Docket No. 20080318-GU and was based on a 2009 Projected Test Year. That case was resolved with a Commission Order on April 5, 2010.

In addition to this base rate filing, on June 8, 2020, PGS also filed a Petition (Docket No. 20200166-GU) requesting approval of new depreciation rates for its gas system. On June 22, 2020, the Commission consolidated the depreciation case with the base rate case.

OPC witnesses, Andrea C. Crane and David Garrett, reviewed PGS's petition and MFRs, testimonies, and rebuttal testimonies, and conducted discovery through OPC. After their review, OPC's witnesses recommended adjustments to PGS's requests.

On August 31, 2020, OPC filed the Direct Testimonies of Ms. Crane and of Mr. Garrett. In her Direct Testimony, Ms. Crane recommended a base revenue increase of no more than $42,221,562 (Exhibit ACC-2, Schedule 1). After consideration of the roll-in of the CI/BSR, Ms. Crane recommended a net revenue increase of no more than $18,612,979. In summary, Ms. Crane made the following recommendations:

- Given the fact that the Company is using a fully-forecast Projected Test Year, consisting of the twelve months ending December 31, 2021, the PSC should be especially cautious in evaluating the projections contained in the Company's Petition.
- As discussed in the testimony of Mr. Garrett, the PSC should authorize a pro forma cost of equity of 9.50% for PGS, and a capital structure consisting of no more than 54.7% common equity (excluding customer deposits and deferred income taxes), resulting in an overall cost of capital of 6.05% (see Exhibit ACC-2, Schedule 2). This represents a fair and reasonable rate of return for PGS based upon current economic conditions.
- PGS has a pro forma, Future Test Year rate base of no more than $1.495 billion (see Exhibit ACC-2, Schedule 3).
- PGS has pro forma, Future Test Year operating income at present rates of at least $58.8 million (see Exhibit ACC-2, Schedule 7).
- The Company has a pro forma, revenue deficiency of no more than $42.3 million, as shown on Exhibit ACC-2, Schedule 1. This is in contrast to PGS' claimed deficiency of $85.3 million.
- After consideration of the roll-in of approximately $23.6 million related to the CI/BSR, the net impact is a revenue increase of no more than approximately $18.6 million.[1]

[1] This amount is adjusted to $19.252 million based on corrections discussed below.

- In addition to the adjustments discussed in the testimony of OPC's witnesses, the Commission should also reflect a parent company interest adjustment in the Company's revenue requirement.
- The Company's request to increase its annual storm damage accrual from $57,500 to $380,000 is not unreasonable. In addition, the Company's request to increase the annual amortization expense of the Manufactured Gas Plant regulatory asset from $640,000 to $1,000,000 is not unreasonable.

OPC is recommending an overall cost of capital of no more than 6.05%, based on the following capital structure and cost rates:

| | Percent | Cost | Weighted Cost |
|---|---|---|---|
| Long Term Debt | 32.07% | 4.47% | 1.43% |
| Short Term Debt | 6.27% | 2.80% | 0.18% |
| Customer Deposits | 1.64% | 2.51% | 0.04% |
| Common Equity | 46.30% | 9.50% | 4.40% |
| Deferred Taxes | 13.71% | 0.00% | 0.00% |
| Total | | | 6.05% |

Mr. Garrett recommended the Commission award the Company a maximum 9.5% ROE, explaining that although PGS's cost of equity is clearly much lower than 9.5% by any objective measure, the Commission should gradually reduce PGS's awarded return towards market-based levels, consistent with the *Hope* Court's end result doctrine. Regarding depreciation, Mr. Garrett recommended adjustments to the Company's proposed service life and net salvage for several accounts. Regarding service life, Mr. Garrett recommended that the Company's recommended service lives are too short, based on its own historical data, which has resulted in overestimated depreciation rate proposals. Regarding net salvage, Mr. Garrett recommends the Commission limit the Company's proposed net salvage increases by 50% for several accounts in the interest of gradualism.

PGS filed its rebuttal testimony on September 21, 2020. On pages 28-31 of the rebuttal testimony of Sean Hillary, PGS identified several formula errors contained in the schedules to Ms. Crane's testimony. After correction of these formula errors, Ms. Crane's recommended increase is now a maximum of $42,860,644, or a net increase of no more than $19,252,061 after consideration of the CI/BSR roll in. OPC reserves the right to raise other issues as a result of the Company's rebuttal testimony and to present evidence on further adjustments that should be made by the Commission, which may further increase or decrease OPC's revenue requirement recommendation.

4. STATEMENT OF FACTUAL ISSUES AND POSITIONS

## TEST PERIOD AND FORECASTING

**ISSUE 1:** Is PGS's projected test period of the twelve months ending December 31, 2021, appropriate?

OPC: Yes, the twelve months ending December 31, 2021, is an appropriate test year period, although the use of a fully-forecast future test year, by definition, adds additional uncertainty to the determination of the revenue requirement and demands closer scrutiny than the use of an historic or partially-forecast test year.

**ISSUE 2:** Are PGS's forecasts of customer and therms by rate class for the projected test year ending December 31, 2021 appropriate? If not, what adjustments should be made?

OPC: While OPC did not make any adjustment to forecasts of customers and therms in its testimony, based on the Company's discussion of higher than projected growth in its rebuttal testimony, OPC reserves the right to make adjustments.

**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?

OPC: While OPC did not make any adjustment to estimated revenues in its testimony, based on the Company's discussion of higher than projected growth in its rebuttal testimony, OPC reserves the right to make adjustments.

## QUALITY OF SERVICE

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

OPC: OPC reserves the right to address this issue after customer service hearings are conducted.

## DEPRECIATION STUDY

**ISSUE 5:** Should the Commission establish an annual depreciation rate applicable to PGS's liquefied natural gas storage, renewable natural gas and compressor equipment assets?

OPC: At this point there are no such assets contemplated as the Blue Marlin project is either indefinitely delayed or cancelled. Any other such assets related to the company's intended entry into the competitive provision of LNG services — including for foreign export — should not be allowed in regulated rate base.

**ISSUE 6:** What are the appropriate depreciation parameters, resulting rates, reserve allocation, and amortization schedules?

OPC: OPC recommends adjustments to service lives as represented in the table below:

| | | OPC Position | | | |
|---|---|---|---|---|---|
| Account | | Iowa Curve | | Net Sal | Depr |
| No. | Description | Type | AL | Rate | Rate |
| 376.00 | Mains Steel | R1.5 - | 65 | -50% | 2.11% |
| 376.02 | Mains Plastic | R2 - | 75 | -33% | 1.57% |
| 378.00 | Meas & Reg Station Eqp Gen | R1 - | 46 | -10% | 2.25% |
| 380.00 | Services Steel | R0.5 - | 57 | -125% | 3.55% |
| 380.02 | Services Plastic | R1.5 - | 64 | -68% | 2.24% |
| 382.00 | Meter Installations | R1 - | 44 | -25% | 2.21% |
| 384.00 | House Regulator Installs | R1 - | 47 | -25% | 1.86% |
| 385.00 | Meas & Reg Station Eqp Ind | R3 - | 41 | -2% | 1.90% |

**ISSUE 7:** What should be the implementation date for revised depreciation rates, capital recovery schedules, and amortization schedules?

OPC: OPC is not recommending an adjustment to the Company's requested implementation date at this time but reserves the right to recommend an adjustment based on the evidence presented at hearing.

## RATE BASE

**ISSUE 8:** Has PGS made the appropriate adjustments to remove all non-utility activities from Plant in Service, Accumulated Depreciation, and Working Capital?

OPC: Yes, OPC believes that while substantial non-utility activities relating to Plant in Service, Accumulated Depreciation, and Working Capital were removed by the Company, to the extent that there are costs included in rate base or the revenue requirement that are attributable to the competitive provision of LNG services, those costs should be removed from regulated cost of service in accordance with Commission policy. To the extent that the Commission adjusts components of the Company's rate base claim, then corresponding adjustments to non-utility activities may be necessary.

**ISSUE 9:** Should any adjustments be made to the amounts included in the projected test year for acquisition adjustment and accumulated amortization of acquisition adjustment?

OPC: OPC is not recommending any adjustment at this time relating to the acquisition adjustment and accumulated amortization of acquisition adjustment.

**ISSUE 10:** What is the appropriate level of CWIP to include in the projected test year?

OPC: OPC recommends CWIP of no more than $130,315,754, as shown in Exhibit ACC-2, Schedule 3. This CWIP claim is based upon the Company's projected December 31, 2020, balance as filed in its application, as adjusted to reflect corresponding timing adjustments relating to CI/BSR plant and to CWIP that is eligible to accrue an allowance for funds used during construction ("AFUDC").

**ISSUE 11:** What is the appropriate level of Gas Plant Accumulated Depreciation and Amortization for the projected test year?

OPC: OPC recommends Accumulated Depreciation of $776,968,515, as shown in Exhibit ACC-2, Schedule 3. This Accumulated Depreciation balance is based upon the

Company's projected December 31, 2020, balance as filed in its application, as adjusted to reflect corresponding timing adjustments relating to CI/BSR plant and to non-utility common plant.

**ISSUE 12:** What are the appropriate amounts of plant in service and accumulated depreciation to be included in the projected test year for PGS's Cast Iron/Bare Steel program?

OPC: OPC is not recommending an adjustment at this time to the amounts of plant in service and accumulated depreciation to be included in the projected test year for PGS's Cast Iron/Bare Steel program.

**ISSUE 13:** Is PGS's proposed LNG facility reasonable? If so, what is the appropriate amount for plant in service for PGS's proposed LNG facility?

OPC: This facility will not be completed in the test year and should not be included in rate base. This renders moot any consideration of the dual capability of the Blue Marlin facility and whether adjustments to cost of service for costs attributable to competitive LNG service should be made. OPC's utility plant in service adjustment includes the impact of the slippage of this project.

**ISSUE 14:** Is PGS's proposed Jacksonville expansion project reasonable? If so, what is the appropriate amount for plant in service for PGS's proposed Jacksonville expansion project?

OPC: To the extent that the Jacksonville expansion project is being sized to accommodate PGS's desire to enter the competitive provision of LNG services, the costs related to such oversizing should be allocated to the competitive LNG service and not incurred by the general body of customers. Otherwise, the OPC has not proposed a specific adjustment relating to the Jacksonville project. However, any slippage of the project is incorporated in the overall utility plant in service adjustment being recommended by OPC.

**ISSUE 15:** Is PGS's proposed Panama City expansion project reasonable? If so, what is the appropriate amount for plant in service for PGS's proposed Panama City expansion project?

OPC: OPC has not specifically objected to the Panama City expansion project and has not proposed a specific adjustment relating to the Panama City project. However, any slippage of the project is incorporated in the overall utility plant in service adjustment being recommended by OPC.

**ISSUE 16:** Is PGS's proposed Southwest Florida Expansion project reasonable? If so, what is the appropriate amount for plant in service for PGS's proposed Southwest Florida Expansion project?

OPC: OPC has not specifically objected to the Southwest Florida expansion project and has not proposed a specific adjustment relating to the Southwest Florida project. However, any slippage of the project is incorporated in the overall utility plant in service adjustment being recommended by OPC.

**ISSUE 17:** What is the appropriate level of plant in service for the projected test year?

OPC: OPC recommends plant in service of no more than $2,186,432,697, as shown in Exhibit ACC-2, Schedule 3. This plant in service balance is based upon the Company's projected December 31, 2020, balance as filed in its application, as adjusted to reflect corresponding timing adjustments relating to CI/BSR plant and to non-utility common plant.

**ISSUE 18:** Have under recoveries and over recoveries related to the Purchased Gas Adjustment, Energy Conservation Cost Recovery, and Cast Iron/Bare Steel Rider been appropriately reflected in the Working Capital Allowance?

OPC: OPC is not recommending any adjustments to the manner in which under recoveries and over recoveries related to the Purchased Gas Adjustment, Energy Conservation Cost Recovery, and Cast Iron/Bare Steel Rider have been reflected in the working capital allowance.

**ISSUE 19:** What is the appropriate level of working capital for the projected test year?

OPC: As shown in Exhibit ACC-2, Schedule 3, OPC has reflected a working capital allowance of no more than ($12,053,001) in rate base.

**ISSUE 20:** What is the appropriate level of rate base for the projected test year?

OPC: As shown in Exhibit ACC-2, Schedule 3, OPC is recommending a rate base of $1,494,906,141.

## COST OF CAPITAL

**ISSUE 21:** What is the appropriate amount of accumulated deferred taxes to include in the projected test year capital structure?

OPC: OPC has not recommended any adjustment to the amount of accumulated deferred taxes to be included in the projected test year capital structure, but notes that an adjustment may be necessary depending upon the capital expenditures accepted by the Commission, as discussed on page 16 of Ms. Crane's testimony.

**ISSUE 22:** What is the appropriate amount and cost rate for short-term debt to include in the projected test year capital structure?

OPC: OPC is not recommending an adjustment to the Company's request at this time, but reserves the right to recommend an adjustment based on the evidence presented at hearing.

**ISSUE 23:** What is the appropriate amount and cost rate for long-term debt to include in the projected test year capital structure?

OPC: OPC is not recommending an adjustment to the Company's request at this time, but reserves the right to recommend an adjustment based on the evidence presented at hearing.

**ISSUE 24:** What is the appropriate authorized return on equity (ROE) to use in establishing PGS's projected test year revenue requirement?

OPC: Analysis of an appropriate awarded ROE for a utility should begin with a reasonable estimation of the utility's cost of equity capital. Applying reasonable inputs and assumptions to these models indicates that the Company's estimated cost of equity is approximately 6.9%. If the Commission were to award a return equal to the Company's estimated cost of equity of 6.9%, it would be accurate from a technical standpoint, and it would also significantly reduce the excess wealth transfer from ratepayers to shareholders that would otherwise occur if the Company's proposal were adopted. Notwithstanding, OPC recommends an authorized ROE of no more than 9.5% for OPC in this docket. An awarded return as low as 6.9% in any current rate proceeding would represent a substantial change from the "status quo," which involves awarded ROEs that clearly exceed market-based cost of equity for utilities. However, while generally reducing awarded ROEs for utilities would move awarded returns closer to market-based costs and reduce part of the excess transfer of wealth from ratepayers to shareholders, it is advisable to do so gradually. If the Commission were to make a significant, sudden change in the awarded ROE anticipated by regulatory stakeholders, it could have the undesirable effect of notably increasing the Company's risk profile and would arguably be at odds with the *Hope* Court's "end result" doctrine. An awarded ROE of 9.5% represents a good balance between the Supreme Court's indications that awarded ROEs should be based on cost, while also recognizing that the end result must be reasonable under the circumstances. An awarded ROE of 9.5% also represents a gradual move toward the Company's market-based cost of equity, and it would be fair to the Company's shareholders because 9.5% is over 250 basis points above the Company's market-based cost of equity.

**ISSUE 25:** Has PGS made the appropriate adjustments to remove all non-utility investments from the common equity balance?

OPC: OPC is not recommending an adjustment to the Company's request at this time, but reserves the right to recommend an adjustment based on the evidence presented at hearing.

**ISSUE 26:** What is the appropriate weighted average cost of capital to use in establishing PGS's projected test year revenue requirement?

OPC: OPC is not recommending an adjustment to the Company's request at this time, but reserves the right to recommend an adjustment based on the evidence presented at hearing.

**ISSUE 27:** Should a parent company debt adjustment be made per Rule 25-14.004, Florida Administrative Code, and if so, what is the amount of the adjustment?

OPC: A parent company debt adjustment should be made, based on the Company's confidential response to Staff IRR-36. OPC notes that this response is in Canadian dollars.

## NET OPERATING INCOME

**ISSUE 28:** Has PGS properly removed Purchased Gas Adjustment, Cast Iron/Bare Steel Rider and Energy Conservation Cost Recovery Revenues, Expenses, and Taxes-Other from the projected test year?

OPC: OPC believes that PGS has properly removed the Purchased Gas Adjustment, Cast Iron/Bare Steel Rider and Energy Conservation Cost Recovery Revenues, Expenses, and Taxes-Other from the projected test year.

**ISSUE 29:** What is the appropriate amount of miscellaneous revenues?

OPC: OPC has accepted PGS's claim for miscellaneous revenues.

**ISSUE 30:** Is PGS's projected Total Operating Revenues for the projected test year appropriate (fallout issue)?

OPC: As stated in OPC's response to Issues 2 and 3, OPC did not recommend any adjustment to the Company's revenue claim. However, based on the Company's rebuttal, which claims higher than projected growth, OPC may recommend an adjustment.

**ISSUE 31:** Has PGS made the appropriate adjustments to remove all non-utility activities from operation expenses, including depreciation and amortization expense?

OPC: OPC did not quantify an adjustment relating to the removal of non-utility activities from operation expenses. However, OPC notes that there may be non-utility economic development activities and costs related to the competitive provision of LNG services embedded in the Company's test year cost claim.

**ISSUE 32:** Should an adjustment be made to Bad Debt Expense and for Bad Debt in the Revenue Expansion Factor?

OPC: OPC did not recommend any adjustment to the Company's claim for uncollectibles and bad debts and has accepted the Company's bad debt factor. However, as stated in OPC's response to Issues 2 and 3, OPC is currently reviewing if an adjustment to revenue should be made, based on higher than projected growth noted in the

Company’s rebuttal testimony. If the Commission adjusts the Company’s as-filed revenues at present rates, then a corresponding uncollectible expense adjustment would be appropriate.

**ISSUE 33:** Should the projected test year O&M expenses be adjusted to reflect changes to the non-labor trend factors for inflation and customer growth?

OPC: Yes, based on actual inflation since the end of the base period, OPC is recommending that an inflation factor of 0% be used for trended non-labor expense. This results in an adjustment of $2,018,666 as shown in Exhibit ACC-2, Schedule 13.

**ISSUE 34:** Should an adjustment be made to the number of added positions in the projected test year?

OPC: OPC recommends that the Commission eliminate the Company’s claim for additional employees, as shown in Exhibit ACC-2, Schedule 8.

**ISSUE 35:** What is the appropriate amount of salaries and benefits to include in the projected test year?

OPC: OPC recommends that the Commission eliminate the Company’s claim for additional employees, as shown in Exhibit ACC-2, Schedule 8. OPC is not recommending any adjustment to the Company’s claim for pension and post-retirement benefits expense. OPC recommends that the Commission eliminate $1,558,657 in long-term incentive awards, as shown in Exhibit ACC-2, Schedule 9. In addition, OPC recommends that the Commission eliminate $2,256,054 relating to financial benchmarks reflected in the short-term incentive awards. OPC is further evaluating its adjustment to the short-term incentive plan based on the Company’s rebuttal testimony.

**ISSUE 36:** Are there membership dues expense that should be adjusted in the projected test year?

OPC**:** OPC recommends that 20% of all AGA Membership Dues expenses be excluded from regulated utility rates. In addition, $25,000 in lobbying costs paid to the

Associated Gas Distributors of Florida should be excluded. Both of these adjustments are shown in Exhibit ACC-2, Schedule 14.

**<u>ISSUE 37:</u>** What is the appropriate amount for Miami LNG O&M storage expense in the projected test year?

OPC: Given that the Miami LNG facility will not be in-service during the projected test year, the amount of Miami LNG storage expense included in rates should be $0. OPC removed $25,000 of expense in Exhibit ACC-2, Schedule 16. To the extent that there are additional Miami LNG facility operating costs included in the Company's filing, those additional costs should be removed as well.

**<u>ISSUE 38:</u>** Are all costs related to PGS's provision of LNG services to end users properly allocated?

OPC: PGS has indicated that it intends to be a provider of competitive LNG services as evidenced by its pending tariff filed in Docket No. 20200093-EI. In addition, evidence received in discovery indicates further support for this intent. Furthermore, the Company has conceded that facilities' enhancements related to supporting the competitive provision of LNG services should be allocated to the costs recovered from specific LNG services end users. At this point PGS has not met its burden to demonstrate that it has removed such costs from being borne by the general body of customers.

**<u>ISSUE 39:</u>** What is the appropriate amount for LNG/RNG consulting expense in the projected test year?

OPC: OPC is recommending that the Commission remove $50,000 of LNG/RNG consulting expense from the Company's claim, as shown in Exhibit ACC-2, Schedule 15.

**<u>ISSUE 40:</u>** What is the appropriate amount of expense in the projected test year for additional economic development initiatives?

OPC: OPC is recommending that $415,802 in economic development costs be eliminated from the Company's claim, as shown in Exhibit ACC-2, Schedule 15.

**ISSUE 41:** What is the appropriate amount of expenses in the projected test year for additional advertising and marketing expense?

OPC**:** OPC recommends that $35,000 in additional customer communications expense, $829,871 in additional marketing costs to promote natural gas, and $200,000 in additional pipeline awareness campaign expense be disallowed, on the basis that these incremental projected test year costs have not been justified, as shown in Exhibit ACC-2, Schedule 16.

**ISSUE 42:** What is the appropriate amount of projected test year TIMP Pipeline Reassessment and Risk Analysis expense and is reserve accounting treatment appropriate?

OPC: OPC recommends that the TIMP Pipeline Reassessment and Risk Analysis expense be normalized based on a five-year average, as shown in Exhibit ACC-2, Schedule 18. This results in an adjustment of $667,420 to the Company's expense claim.

**ISSUE 43:** Are there other projected test year operating expenses that should be adjusted, such as engineering services, engineering training, or others?

OPC**:** As shown in Exhibit ACC-2, Schedule 19, the Company has not justified projected future test year adjustments of $300,000 for engineering services expense and of $50,000 for engineering training expense, and OPC recommends that these costs be disallowed. Any such O&M costs attributable to the competitive provision of LNG services should also be identified and disallowed.

**ISSUE 44:** Over what time period should operating costs associated with the implementation of a new Work Asset Management system be amortized and recovered?

OPC**:** As shown on Exhibit ACC-2, Schedule 19, implementation costs associated with a new Work Asset Management system should be amortized and recovered over a five-year period.

**ISSUE 45:** What is the appropriate amount of added expenses in the projected test year for other employee-related expense, such as operation employees' expenses and materials costs, additional A&G employee expenses, and increased allocations from Shared Services due to additional employees?

OPC**:** OPC is recommending adjustments to remove various employee related expenses, as shown in Exhibit ACC-2, Schedule 12. These include Operation Employee Materials Expense of $163,200, Additional A&G Employee Expense of $98,000, Information Technology Allocation Expense of $607,242, Human Resources Allocation Expense of $246,994, and Other Shared Services Expense of $65,652. Any such O&M costs attributable to the competitive provision of LNG services should also be identified and disallowed.

**ISSUE 46:** What is the appropriate annual storm damage accrual and cap?

OPC: OPC has not recommended any adjustment to the Company's proposed storm damage accrual and cap.

**ISSUE 47:** What is the appropriate annual Manufactured Gas Plant environmental remediation amortization expense?

OPC: OPC has not recommended any adjustment to the Company's proposed annual Manufactured Gas Plant environmental remediation amortization expense.

**ISSUE 48:** Should an adjustment be made to Rate Case Expense for the projected test year and what is the appropriate amortization period?

OPC: OPC is not recommending any adjustment to the Company's claim for Rate Case Expense but is recommending that these costs be amortized over five years, as shown in Exhibit ACC-2, Schedule 17.

**ISSUE 49:** What is the appropriate amount of projected test year O&M expenses (fall-out issue)?

OPC: This appropriate amount of projected test year O&M expenses is still being developed, based on the adjustments discussed in Ms. Crane's testimony, and based on OPC's continued review of the Company's rebuttal testimony.

**ISSUE 50:** What is the appropriate amount of depreciation expense to be removed in the projected test year for PGS's Cast Iron/Bare Steel program?

OPC: OPC has not recommended any adjustment to the Company's proposed depreciation expense to be removed in the projected test year for CI/BSR.

**ISSUE 51:** What is the appropriate amount of Depreciation and Amortization Expense for the projected test year?

OPC: OPC is recommending two adjustments to the Company's claim for depreciation expense. First, as shown in Exhibit ACC-2, Schedule 20, OPC is recommending a reduction of $2,165,156 in depreciation expense relating to OPC's utility plant in service adjustment. In addition, OPC is recommending new depreciation rates in this case. As shown in Exhibit ACC-2, Schedule 21, OPC's recommended depreciation rates result in an additional expense adjustment of $4,104,580.

**ISSUE 52:** What is the appropriate amount of projected test year Taxes Other than Income (fall-out issue)?

OPC: Taxes other than income taxes should be adjusted consistent with any adjustments to labor costs and utility plant in service. OPC has reflected a payroll tax adjustment at Exhibit ACC-2, Schedule 10, that corresponds with its proposed labor adjustment. In Exhibit ACC-2, Schedule 22, OPC has reflected a property tax adjustment that corresponds to its proposed utility plant in service adjustment.

**ISSUE 53:** What is the appropriate amount of projected test year Income Tax Expense (fall-out issue)?

OPC: The test year income tax expense should be based on the utility operating income authorized by the Commission and on the tax rates reflected in the Company's filing. In addition, OPC recommends that the Commission adopt a parent company debt adjustment, as discussed in Issue 27.

**ISSUE 54:** What is the appropriate amount of Total Operation Expenses for the projected test year (fall-out issue)?

OPC: This appropriate amount of projected test year Total Operation Expenses is still being developed, based on the adjustments discussed in Ms. Crane's testimony, and based on OPC's continued review of the Company's rebuttal testimony.

**ISSUE 55:** What is the appropriate amount of Net Operating Income for the projected test year (fall-out issue)?

OPC: Based on OPC's recommended rate base and cost of capital, OPC recommends that the Commission authorize utility operating income of $90,423,180, as shown in Exhibit ACC-2, Schedule 1.

## REVENUE REQUIREMENTS

**ISSUE 56:** What is the appropriate revenue expansion factor and the appropriate net operating income multiplier (fall-out issue)?

OPC: OPC is not recommending any adjustment to the revenue expansion factor and net operating income multiplier proposed by PGS. As shown in Exhibit ACC-2, Schedule 1, OPC's recommendation is based on a revenue multiplier of 1.3361.

**ISSUE 57:** What is the appropriate annual operating revenue increase for the projected test year (fall-out issue)?

OPC: Based on correction of certain formula errors discussed in Sean Hillary's rebuttal testimony at pages 28-31, OPC is recommending a base revenue increase of $42,860,644, or a net increase of $19,252,061 after consideration of the CI/BSR roll in.

## COST OF SERVICE AND RATE DESIGN

**ISSUE 58:** Is PGS's proposed cost of service study appropriate?

OPC: No position.

**ISSUE 59:** What are the appropriate customer charges?

OPC: No position.

**ISSUE 60:** What is the appropriate class revenue allocation?

OPC: No position.

**ISSUE 61:** What are the appropriate per therm distribution charges?

OPC: No position.

**ISSUE 62:** What are the appropriate miscellaneous service charges (account opening charge, meter turn on charges, meter reconnection charges, trip charge/collection at customer premises, temporary meter turn off charge)?

OPC: No position.

**ISSUE 63:** Is PGS's proposed revision to its Maximum Allowable Construction Cost from four to 10 times the estimated annual revenue reasonable?

OPC: No position.

**ISSUE 64:** Are PGS's proposed revisions to its counties and communities tariff maps representative of the company's service territory?

OPC: No position.

**ISSUE 65:** Is PGS's proposed new Virtual Pipeline Natural Gas Service (VPNGS) rate schedule appropriate?

OPC: No position.

**ISSUE 66:** Are PGS's proposed revisions to its Renewable Natural Gas (RNG) rate schedule appropriate?

OPC: No position.

**ISSUE 67:** Is PGS's proposal to remove its Natural Gas Vehicle Service-1 (NGVS-1) rate schedule appropriate?

OPC: No position.

**ISSUE 68:** Are PGS's proposed revision to its Natural Gas Vehicle Service-2 (NGVS-2) rate schedule appropriate?

OPC: No position.

**ISSUE 69:** Are PGS's proposed revisions to its Individual Transportation Service Rider (Rider ITS) appropriate?

OPC: No position.

**ISSUE 70:** What is the appropriate effective date of PGS's revised rates and charges?

OPC: No position.

## OTHER ISSUES

**ISSUE 71:** Should PGS be required to notify the Commission within 90 days after the date of the final order in this docket, that it has adjusted its books and records for all applicable accounts as a result of the Commission's findings in this rate case?

OPC: Yes, PGS should be required to notify the Commission within 90 days after the date of the final order in this docket that it has adjusted its books and records for all applicable accounts as a result of the Commission's findings in this rate case.

**ISSUE 72:** Should this docket be closed?

OPC: Not at this time.

## PROPOSED ISSUES

ISSUE: Should the Commission consider, and if so, should it approve, the capital additions proposed by the Company in rebuttal testimony and/or simultaneously filed discovery responses?

OPC: The Commission should not consider the new, incremental capital additions proposed by the Company in rebuttal testimony and/or simultaneously filed discovery responses. Given the procedural schedule in this case, there is inadequate time to fully consider these proposed additions. In addition, allowing the utility to add additional expenditures in order to offset savings due to cancelled or delayed projects, prohibits objective analysis of the Company's projected test year since it ensures that a specific level of spending will be included in rates regardless of whether the underlying projects are needed for the provision of safe and reliable service and regardless of the actual capital projects included in the Company's original test year approved budget. If the Commission nevertheless deems it appropriate to consider the late filed capital additions, OPC experts should be afforded the opportunity to filed or provide rebuttal testimony on the projects.

5. STIPULATED ISSUES:

None at this time.

6. PENDING MOTIONS:

None.

7. STATEMENT OF PARTY'S PENDING REQUESTS OR CLAIMS FOR CONFIDENTIALITY:

None.

8. OBJECTIONS TO QUALIFICATION OF WITNESSES AS AN EXPERT:

None at this time.

9. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:

There are no requirements of the Order Establishing Procedure with which the Office of Public Counsel cannot comply.

Dated this 28th day of September, 2020

Respectfully submitted,

J.R. Kelly
Public Counsel

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of the State of Florida

**CERTIFICATE OF SERVICE**
**Docket No. 20200051-GU**
**Docket No. 20200166**

**I HEREBY CERTIFY** that a true and correct copy of the foregoing Citizens' Prehearing Statement has been furnished by electronic mail on this 28th day of September, 2020, to the following:

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