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ELECTRONIC FILING

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

Re: Docket 20250029-GU, Petition for Rate Increase by Peoples Gas System, Inc.

Dear Mr. Teitzman:

Attached for filing on behalf of Peoples Gas System, Inc. in the above-referenced docket is the Rebuttal Testimony of John Taylor.

Thank you for your assistance with this matter.

(Document 6 of 7)

Sincerely,

Virginia Ponder

cc: Major Thompson, OGC
Jacob Imig, OGC
Walt Trierweiler, Public Counsel
Jon Moyle, FIPUG

VLP/dh
Attachments

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 20250029-GU

PETITION FOR RATE INCREASE

BY PEOPLES GAS SYSTEM, INC.

REBUTTAL TESTIMONY

OF

JOHN TAYLOR

ON BEHALF OF

PEOPLES GAS SYSTEM, INC.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

JOHN TAYLOR

ON BEHALF OF PEOPLES GAS SYSTEM, INC.

I. INTRODUCTION

Q. Please state your name, address, occupation, and employer.

A. My name is John Taylor, and my business address is 10 Hospital Center Commons, Suite 400, Hilton Head Island, South Carolina 29926.

Q. On whose behalf are you appearing in this proceeding?

A. I am appearing on behalf of Peoples Gas System, Inc. ("Peoples" or the "company").

Q. Are you the same John Taylor who filed direct testimony in this proceeding?

A. Yes, I am.

II. PURPOSE, SUMMARY AND OVERVIEW

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address specific positions presented in the testimony of Florida Industrial Power Users Group ("FIPUG") witness Jeffry Pollock. Specifically, I will address his recommendations related to the Class Cost of Service Study ("COSS") and the revenue requirement apportionment.

Q. If you do not address an issue or state a position in your testimony, does that indicate you agree with the intervenors on that point?

A. No. I have not attempted to respond to every argument made by FIPUG. The fact that I may not have responded to any specific argument or statement does not indicate my agreement with that argument or statement.

Q. Are you sponsoring an exhibit with your rebuttal testimony?

A. No.

Q. Please summarize the key issues addressed in your rebuttal testimony.

A. The key issues addressed in the testimony relate to the following topics:

- **Gradual integration of customer classification for distribution mains.** The testimony outlines a deliberate and incremental approach to classifying distribution mains as both customer and demand related.
- **Methodology for estimating the customer component of distribution mains.** This section addresses the two widely accepted methods for identifying the customer-related portion of distribution mains costs: the zero-intercept method and the minimum system method. It evaluates the appropriate application of each approach, emphasizing how underlying assumptions, such as pipe material and sizing affect the classification outcomes. The discussion highlights how the results of these studies inform a balanced and supportable allocation of costs between customer and demand components.
- **Use of Peak Month throughput for demand allocation.** The testimony supports the use of January throughput as the demand allocator within the COSS framework. This approach reflects operational realities in Florida's moderate climate, where monthly usage patterns show consistent seasonal peaks, aligning the methodology with regulatory requirements.
- **Revenue requirement class apportionment approach.** The revenue apportionment approach emphasizes a measured progression toward aligning rates with cost-of-service, while limiting abrupt or excessive impacts on any customer class.

III. CLASS COST OF SERVICE STUDY

Q. Witness Pollock argues that Peoples improperly applied the customer component only to small diameter distribution mains, advocating instead for applying this component to all mains. How do you respond to this assertion?

A. The company agrees in principle with witness Pollock's assertion that all distribution mains contain both customer-related and demand-related cost elements. This recognition is well-grounded in established cost allocation practices and the principle of cost causation. However, witness Pollock himself acknowledges, on page 2, lines 28-30 of his testimony, that because the Customer/Demand Study represents a new methodological approach for Peoples, the company conservatively applied the customer-related classification only to small diameter mains in this proceeding, while continuing to classify larger diameter mains fully as demand-related under the traditional Peak and Average ("P&A") method.

This incremental approach taken by Peoples ensures that the transition to a more refined classification and allocation framework is gradual and minimizes abrupt shifts in cost responsibility among customer classes. Such a transition is consistent with sound ratemaking principles, including

stability and gradualism. Abrupt or significant reallocation of costs could result in sudden and potentially disruptive rate impacts for some classes. By limiting the customer classification to small diameter mains — where the customer-related component is typically most evident due to the direct relationship between customer connections and the extension of smaller mains — Peoples balances the need for methodological improvement with the objective of maintaining rate stability.

As the company continues to refine its cost allocation methods, it will evaluate expanding the classification of mains to reflect customer components across all relevant pipe sizes, supported by updated minimum system or zero-intercept studies, consistent with regulatory precedents and cost-of-service best practices. This staged implementation aligns with the overarching goal of aligning cost recovery more closely with cost causation, while ensuring fair and gradual impacts for customers.

Q. Witness Pollock determined that approximately 41 percent of all distribution mains should be classified as customer-related, applying a zero-intercept analysis based on minimum-size unit cost. Do you agree with this determination?

A. No. While both the zero-intercept method, proposed by the company, and the minimum system method used by witness Pollock are the two most commonly used methods for determining the customer cost components of distribution mains, I do not fully agree with witness Pollock's determination. The key issue with his application of the minimum-size unit cost method is that it does not account for differences in pipe material types, specifically between steel and plastic mains. Under Mr. Pollock's method, the analysis assumes that all mains would be replaced with plastic, which overlooks the significant cost difference when steel mains are used, as well as the operational and safety requirements for using steel. As data shows, the system still has significant amounts of higher cost steel mains in-service and large-diameter segments. If, instead, the minimum unit cost of steel pipe is used in the analysis, the portion of mains classified as customer-related would increase materially. In fact, using the steel pipe cost results in a customer-related portion of about 62 percent, compared to the 41 percent customer component produced by Mr. Pollock's approach, as demonstrated in Table 1. Therefore, the choice of pipe type has a material impact on the results, and Mr. Pollock's method understates the true customer-related portion of distribution mains costs by not distinguishing between pipe materials.

Table 1 – FIPUG Classification of Mains

Minimum System (Plastic with 2" Plastic, Steel with 2" Steel)

Line No.	Material	Footage	Cost 2024	Minimum Size Unit Cost	Customer Component ($)	Customer Component (%)
	Column (a)	(b)	(c)	(d)	(e)	(f)
1	Plastic	48,643,619	$ 1,249,356,856	$ 21.64	$ 1,052,824,610	84%
2	Steel	25,641,037	$ 2,631,148,014	$ 52.74	$ 1,352,414,650	51%
3	**Total**	**74,284,656**	**$ 3,880,504,870**		**$ 2,405,239,259**	**62%**

Minimum System (Plastic with 2" Plastic, Steel with 2" Plastic)

Line No.	Material	Footage	Cost 2024	Minimum Size Unit Cost	Customer Component ($)	Customer Component (%)
4	Plastic	48,643,619	$ 1,249,356,856	$ 21.64	$ 1,052,824,610	84%
5	Steel	25,641,037	$ 2,631,148,014	$ 21.64	$ 554,965,190	21%
6	**Total**	**74,284,656**	**$ 3,880,504,870**		**$ 1,607,789,799**	**41%**

Q. How do the results of the zero-intercept study compare to the method proposed by FIPUG?

A. As stated in my direct testimony, the zero-intercept method was used to determine the customer-related component of distribution mains. My direct testimony also outlines the differences between the two methods. The summary of Peoples' proposed customer component is presented in Table 2 below and can be compared to Table 1 above.

Table 2 – Peoples' Classification of Mains

Line No.	Material	Footage	Cost 2024	Zero-Intercept Unit Cost	Customer Component ($)	Customer Component (%)
	Column (a)	(b)	(c)	(d)	(e)	(f)
1	Plastic	48,643,619	$ 1,249,356,856	$ 18.91	$ 919,836,060	74%
2	Steel	25,641,037	$ 2,631,148,014	$ 36.67	$ 940,370,202	36%
3	**Total**	**74,284,656**	**$ 3,880,504,870**		**$ 1,860,206,261**	**48%**

Q. How are the results of the COSS affected by the modifications proposed by Mr. Pollock to apply customer components to all main sizes?

A. As shown in Table 3 below, under the FIPUG proposal, cost responsibility is shifted by allocating additional customer-related costs to all main sizes. As expected, this reallocation assigns a greater share of costs to customer classes with the largest number of customers (column (f) vs. column (d)).

Table 3 – Peoples and FIPUG Base Revenue Deficiencies Compare

Line No.	Customer Class	Current Base Revenues	PGS Revenue Deficiency	PGS % Change to Cost of Serve	FIPUG Revenue Deficiency	FIPUG % Change to Cost of Serve
	Column (a)	(b)	(c)	(d)	(e)	(f)
1	Residential	$ 178,313,259	$ 72,034,647	40.4%	$ 119,632,061	67.1%
2	Residential Standby Generators	545,010	185,194	34.0%	336,160	61.7%
3	Residential Heat Pump	1,807	1,992	110.2%	1,672	92.5%
4	Commercial Heat Pump	15,780	(1,060)	-6.7%	(3,128)	-19.8%
5	Commercial Street Lighting	213,590	(60,521)	-28.3%	(94,865)	-44.4%
6	Small General Service	11,910,743	2,793,944	23.5%	3,493,223	29.3%
7	General Service - 1	63,364,339	(1,502,793)	-2.4%	(7,506,602)	-11.8%
8	General Service - 2	68,446,676	4,938,985	7.2%	(5,939,836)	-8.7%
9	General Service - 3	33,311,483	3,451,798	10.4%	(3,270,367)	-9.8%
10	General Service - 4	15,562,427	4,565,519	29.3%	529,206	3.4%
11	General Service - 5	38,569,567	13,069,281	33.9%	(2,076,910)	-5.4%
12	Commercial Standby Generators	900,848	755,955	83.9%	839,988	93.2%
13	Small Interruptible Service	5,595,151	1,411,597	25.2%	(613,211)	-11.0%
14	Interruptible Service	8,277,617	2,036,092	24.6%	(370,695)	-4.5%
15	Wholesale	612,724	579,616	94.6%	358,460	58.5%
16	Special Contract	33,424,540	(1,667,591)	-5.0%	(2,722,501)	-8.1%
17	**Total**	**$ 459,055,558**	**$ 102,592,655**	**22.3%**	**$ 102,592,655**	**22.3%**

Q. Mr. Pollock criticizes Peoples' use of January throughput instead of Peak Design Day ("PDD") demand for the P&A method. How do you justify using January throughput?

A. The company recognizes that, in theory, design day demand represents an accurate measure of the system's maximum capacity requirements and can serve as an appropriate factor for allocating demand-related costs. However, whether design day is the most suitable measure depends on how the company actually plans and operates its system to meet customer needs. In practice, Peoples operates in a region with relatively stable weather patterns and mild winters, resulting in moderate daily demand fluctuations compared to utilities in colder climates. Historical load data presented in Minimum Filing Requirement ("MFR") Schedule E-4 shows that January throughput consistently reflects the highest usage levels each year and effectively approximates the load characteristics that a design day study would produce.

It is also important to emphasize that the Florida Public Service Commission's ("Commission") MFR Schedules do not mandate the use of design day as a demand allocator. Instead, MFR Schedule E-4 defines "Contribution to the System Peak Month Sales by Rate Class" as the annual peak month sales, not design day demand. By using January throughput, Peoples fully complies with this requirement and ensures that its cost allocation method remains consistent with the Commission's guidelines.

IV. REVENUE APPORTIONMENT

Q. What alternative revenue apportionment does Mr. Pollock propose, and how does it compare to the company's proposal?

A. Consistent with the company's overall objective to limit revenue increases and apply a systematic approach to revenue allocation, Mr. Pollock proposes the following alternative method on page 16, lines 3-15:

Step 1: Set the base rate increase at 0 percent for any customer class that would otherwise receive a revenue decrease of up to 33.5 percent. This threshold is equal to 1.5 times the system-average base rate increase of 22.3 percent.

Step 2: The resulting revenue shortfall is then redistributed to customer classes that would otherwise receive either a rate decrease or a smaller-than-threshold increase. This additional revenue is allocated in proportion to each class's rate base.

A comparison of the resulting distribution of revenue increases under Mr. Pollock's approach and the company's original proposal is shown in *Table 4* below.

Table 4 - Comparison of Revenue Apportionment

Line No.	Customer Class	Current Base Revenues	PGS Revenue Change $	PGS Revenue Change %	FIPUG Revenue Change $	FIPUG Revenue Change %
	Column (a)	(b)	(c)	(d)	(e)	(f)
1	Residential	$ 178,313,259	$ 59,775,871	33.5%	$ 59,645,785	33.4%
2	Residential Standby Generators	545,010	182,704	33.5%	182,306	33.5%
3	Residential Heat Pump	1,807	606	33.5%	605	33.5%
4	Commercial Heat Pump	15,780	749	4.7%	1,916	12.1%
5	Commercial Street Lighting	213,590	10,143	4.7%	18,687	8.7%
6	Small General Service	11,910,743	3,359,584	28.2%	3,493,223	29.3%
7	General Service - 1	63,364,339	3,009,169	4.7%	8,351,938	13.2%
8	General Service - 2	68,446,676	8,189,514	12.0%	9,542,300	13.9%
9	General Service - 3	33,311,483	5,029,010	15.1%	4,637,286	13.9%
10	General Service - 4	15,562,427	5,216,985	33.5%	3,032,055	19.5%
11	General Service - 5	38,569,567	12,959,828	33.6%	5,840,020	15.1%
12	Commercial Standby Generators	900,848	301,991	33.5%	301,333	33.4%
13	Small Interruptible Service	5,595,151	1,875,660	33.5%	793,726	14.2%
14	Interruptible Service	8,277,617	2,429,196	29.3%	1,267,275	15.3%
15	Wholesale	612,724	205,403	33.5%	204,956	33.4%
16	Special Contract	33,424,540	46,242	0.1%	5,279,243	15.8%
17	**Total**	**$ 459,055,558**	**$ 102,592,655**	**22.3%**	**$ 102,592,654**	**22.3%**

Q. How do you respond to the FIPUG's revenue allocation?

A. First, I want to clarify that Mr. Pollock's recommendation includes allocating a portion of the revenue increase to the Special Contract customer class. However, this is not feasible due to the company's contractual obligations. The only potential increase for this class is limited to customer charges that certain Special Contract customers pay under the approved tariff. Thus, the revenue increase of $5,279,243, net of the expected revenue increase from the company's proposed customer charge of $46,242, subject to modification upon the final determination of the customer charges, needs to be reallocated to all other customers that are under the revenue increase cap of 1.5.

Peoples has thoroughly reviewed Mr. Pollock's proposed revenue apportionment. However, the company continues to support its original proposal as the most balanced and equitable approach. Peoples believes that a moderate, gradual movement of residential and commercial rates toward their cost of service is both reasonable and appropriate. This approach promotes fairness while minimizing the risk of rate shock for any particular customer class.

V. SUMMARY

Q. What outcomes should the Commission adopt in response to the points you raised in your rebuttal testimony?

A. Based on the issues addressed in the testimony, the following items are recommended for Commission approval:

- Accept Peoples' incremental approach to classifying mains: The Commission should approve the company's conservative step of applying a customer-related classification only to small diameter mains for this proceeding. This gradual refinement aligns with established cost causation principles while minimizing abrupt cost shifts between customer classes, which helps maintain rate stability and fairness.
- Approve the company's continued use of January throughput

as a demand allocator: The company's use of January throughput as the demand allocator is appropriate given Florida's mild climate and the system's consistent seasonal peak pattern. This complies with the Commission's MFR Schedules.

- Adopt Peoples' proposed revenue apportionment plan: The company's revenue allocation plan reasonably balances gradual movement toward cost of service levels with avoidance of undue rate shock.
- Support a continued, measured transition toward improved cost allocation: The Commission should endorse Peoples' commitment to continue refining its customer/demand studies and mains classification in future cases.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.