

MEMORANDUM

June 4, 1997

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: UNDOCKETED - PEOPLES GAS SYSTEM, INC.  
AUDIT REPORT - EARNINGS REVIEW  
AUDIT CONTROL NO. 97-050-2-1

-----

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

Peoples Gas System, Inc.  
Jack E. Uhl  
P. O. Box 2562  
Tampa, FL 33601-2562

DNV/sp

Attachment

cc: Chairman Johnson  
Commissioner Clark  
Commissioner Deason  
Commissioner Garcia  
Commissioner Kiesling  
Mary Andrews Bane, Deputy Executive Director/Technical  
Legal Services  
Division of Auditing and Financial Analysis (Devlin/Causseaux/  
L. Romig/File Folder)  
Tampa District Office (McPherson)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE  
05561 JUN-45  
FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 1996

FIELD WORK COMPLETED

MAY 16, 1997

PEOPLES GAS SYSTEM, INC.

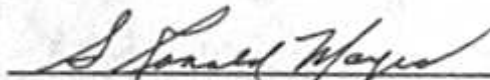
TAMPA, FLORIDA

HILLSBOROUGH COUNTY

EARNINGS REVIEW AUDIT

AUDIT CONTROL NUMBER

97-050-2-1



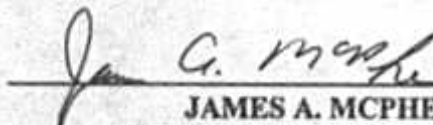
S. RONALD MAYES  
AUDIT MANAGER

AUDIT STAFF

C. Panagiotopoulos  
R. Dodrill

MINORITY OPINION

Yes \_\_\_\_\_ No CP/ry/cm  
Yes \_\_\_\_\_ No RD/ry/cm



JAMES A. MCPHERSON  
REGULATORY ANALYST SUPERVISOR  
TAMPA DISTRICT OFFICE

DOCUMENT NUMBER-DATE

05561 JUN-46

FPSC-RECORDS/REPORTING

## INDEX

	<u>PAGE</u>
<b>I. EXECUTIVE SUMMARY</b>	
Audit Purpose	1
Disclaim Public Use	1
Opinion	1
Summary Findings	1
<b>II. AUDIT SCOPE</b>	
Scope of Work Performed	2
<b>III. AUDIT DISCLOSURES</b>	
1. Taxes - Other than income	3
2. Restatement of FPSC Adjustments	4
3. Out of period expense	6
4. Consultant services	7
5. Director's Fees	8
6. Advertising/Working Fund Analysis	9
<b>IV. EXHIBIT</b>	
Earnings Surveillance Report	10

## **I. EXECUTIVE SUMMARY**

**AUDIT PURPOSE:** We have applied the procedures described in Section II of this report to audit selected items of Exhibit I, the Earnings Surveillance report of Peoples Gas System, Inc. for the year ended December 31, 1996.

**DISCLAIM PUBLIC USE:** This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied on for any purpose except to assist the Commission staff in the performance of their duties and responsibilities. Substantial additional work would have to be performed to satisfy generally accepted audit standards and produce audited financial statements for public use.

**OPINION:** Subject to the Audit Disclosures contained in this report, the Earnings Surveillance report represents utility books and records which are maintained in substantial compliance with Commission Directives. The expressed opinions extend only to the scope of work described in Section II of this report.

### **SUMMARY FINDINGS:**

Taxes - other than income, were understated in the amount of \$11,784.

Outside services employed expense was overstated in the amount of \$61,399.

Outside services employed contains payment for services that are applicable to other than the year ended December 31, 1996. Amounts should be amortized and current year expenses reduced by \$425,723.

## **II. AUDIT SCOPE**

The opinions contained in this report are based on the audit work described below.

**COMPILED:** The audit staff reconciled exhibit amounts with the general ledger, visually scanned accounts for error or inconsistency, disclosed any unresolved error, irregularity, or inconsistency and, except as noted, performed no other audit work.

**RATE BASE:** Compiled rate base for the year ended 12/31/96. Compiled plant additions and retirements from 10/1/89 to 12/31/96. Tested plant additions and retirements for correct account classification, correct cost and correct property units. Reviewed computations of average rate base and working capital.

**NET OPERATING INCOME:** Compiled net operating income for the year ended 12/31/96. Recalculated depreciation expense for the year ended 12/31/96. Reviewed selected expense accounts that had fluctuations of 10 per cent or greater during the year. Verified unbilled and flex revenues. Reconciled gross receipts taxes, property taxes and the regulatory assessment fee.

**CAPITAL STRUCTURE:** Compiled capital structure for the year ended 12/31/96. Reviewed computations of average capital structure

**OTHER:** Reconciled rate base to capital structure. Reviewed allocations of plant and expense for consistency with the last rate case. Reviewed company's updated FPSC adjustments. Reviewed outside CPA work papers of the annual audit. Reviewed work papers of selected internal audits. Reviewed accounts for public image advertising, contributions and dues that should be excluded for surveillance reporting.

### **III. AUDIT DISCLOSURES**

#### **AUDIT DISCLOSURE NUMBER 1**

**SUBJECT:** Taxes Other Than Income

#### **STATEMENT OF FACTS:**

The "Per Books" amount of Taxes Other Than Income reported in the company's 12/31/96 Surveillance Report was \$21,730,000. This amount is comprised of many different taxes including Ad Valorem taxes of \$4,155,987 and Regulatory Assessment Fees of \$889,778. Property tax paid in 1996, less tenant reimbursements, was \$4,164,880.

#### **STATEMENT OF OPINION:**

We reviewed tax returns and property tax assessments paid by the company and determined that Taxes Other Than Income is understated by \$11,784. This amount is the sum of two adjustments. First, Ad Valorem taxes should be increased \$8,893 in order to equal the amount of taxes paid in 1996 less reimbursements from tenants. The company paid all property taxes timely, taking the maximum discount available. Second, Regulatory Assessment Fees should be increased \$2,891 due to an adjustment relating to 1995 taxes not being booked until January 1996.

**SUBJECT:** Restatement of FPSC Adjustments

**STATEMENT OF FACTS:**

In the surveillance report for the period ended 12/31/96, the company used the same amounts prescribed in Commission order 911150-GU for a number of the FPSC adjustments that are required for the report. It was requested that the above items be updated to reflect the correct amounts for the year ended 12/31/96.

For the adjustments pertaining to employee activities, miscellaneous general expense and civic/social club dues the company reviewed 1996 activity and provided amounts per books. For the other adjustments, as shown below, the adjustment was determined by using the amount of the adjustment used in order 911150-GU, divided by the account balance in the test year to determine the per cent the adjustment was of the total account. This per cent was then applied to the 1996 balances to determine the applicable adjustment for the current period. The amounts as used on the surveillance report and as revised are as follows:

Item	Test Year Amount	(000 Omitted)		1996 Amount	Revised Adjustment
		Test Year Adjustment	Percent		
Plant	\$323,407	\$4,409	1.36	\$390,976	\$5,317
Acc. Depr.	119,016	1,456	1.22	152,063	1,855
M&S Inv.	1,763	152	8.62	1,780	153
Depreciation	14,088	296	2.10	17,089	359
Maint. Of					
Struc. Impr.	563	87	15.45	632	98
Moving Exp.	65	15	23.08	96	22
AGA Dues	188	49	26.06	220	57
Employee Act.	NA	180			151
Misc. Gen. Exp.	NA	11			0
Civic/Soc. Dues	NA	48			17

**STATEMENT OF OPINION:**

The methodology used by the company to update the required adjustments, using the percentage method is reasonable for surveillance report purposes. It, in effect, keeps the adjustments at the same ratio for current activity as it was in their last rate order. Based on verbal discussions with utility personnel, the updating of the various studies required to come up with actual current adjustments would be extremely time consuming. In the event of a rate case, the company should be required to update the various studies and review all items on their books and records for any adjustments needed to present factual rate base and expense statements for the filing period.

However, the amounts that the company has furnished per their review of accounts is understated. The review included only account 930.2 - Miscellaneous general expenses and expense statements of selected employees. Subsequent audit work revealed errors in account coding that resulted in additional amounts not being included in the 930.2 account. If they had been coded properly, the amount of the company's adjustment would have been greater.

NOTE: Please see Audit Disclosure Number 6.



**AUDIT DISCLOSURE NUMBER 3**

**SUBJECT:** Out of Period Expense

**STATEMENT OF FACTS:**

In May 1996, the company accrued an amount of \$250,000 to account 923, Outside consultants services expense relative to anticipated costs for a study being performed by IBM. The company stated that actual costs expended were \$188,600. In March 1997, the company credited account 923 in the amount of \$61,400 to reflect actual costs paid of \$188,600.

**STATEMENT OF OPINION:**

The company's cost for account 923 is overstated for the year ended 12/31/96 in the amount of \$61,400. This amount should be deducted from the company's expenses as reported on the surveillance report.

## **AUDIT DISCLOSURE NUMBER 4**

**SUBJECT:** Outside Consultant Services Expense.

### **STATEMENT OF FACTS:**

During the year ended 12/31/96, the company used outside consultants to perform three studies for them. These studies were for:

1. IBM to develop an Information Technology (IT) strategy for Peoples Gas' future business direction in the areas of new business opportunities and new or expanded services in the current (regulated) business.

2. IBM to assist in the transformation of the Management Information Services (MIS) organization into a more nimble, adaptive organization.

3. Stuart Murray and Associates to assist Peoples Gas in transforming the organization and its culture from utility mind set to a more competitive market based entity.

For items 1 and 2 a total amount of \$188,600 was expended to complete the studies. (See Audit Disclosure number 3.) For item 3, the company has expended \$396,883 thus far and says " This contract is still in progress but I can not estimate the remaining costs. However, the letter of agreement states the project was anticipated to last 6 to 7 months and we have been billed for approximately 5 months and Phase 3 of 3 has just begun." The company accrued a total of \$450,000, to account 923 outside consultant services during 1996.

### **STATEMENT OF OPINION:**

All three of the above studies should benefit more than the current year ended 12/31/96. All are looking at future operations of the company. These costs should be amortized over both current and future periods for surveillance report purposes. A minimum of three years should be used. Based on costs of \$638,600, (\$188,600 plus \$450,000) an amount of \$212,867, ( $\$638,600/3$ ) should be expensed in the current period. Taking into consideration Audit Disclosure Number 3, the total expensed in 1996 would be \$638,600. ( $\$250,000$  plus  $\$450,000$  minus  $\$61,400$ ) Current year expenses should be reduced in the amount of \$425,733, thus reducing the amount used for surveillance report purposes to \$212,867.

**AUDIT DISCLOSURE NUMBER 5**

**SUBJECT:** Director Fees paid to Employees

**STATEMENT OF FACTS:**

The company provided a list of the members of the Board of Directors including company affiliation and fees paid. Two of the directors, John A. Brabson, Jr. and Jack E. Uhl are employees of Peoples Gas System, Inc. Each of these individuals were paid an amount of \$2,000 for directors fees during calendar year 1996. The total amount of \$4,000 was charged to account 930, Miscellaneous General Expenses.

## **AUDIT DISCLOSURE NUMBER 6**

**SUBJECT:** Advertising/Working Fund Review

### **STATEMENT OF FACTS:**

A judgmental sample of the transactions recorded via the managers working funds was reviewed for proper accounting treatment and to determine if there were items relating to employee activities or civic/social club dues that were not recorded. (Audit disclosure number 2.)

A judgmental sample of the invoices processed in account 913 - Advertising expenses were reviewed to determine if there were any that were image enhancing in nature.

### **STATEMENT OF OPINION:**

The working fund sample amounted to \$79,567. Of this amount, \$4,621 or 5.8 per cent, in the auditors opinion, were charged to the incorrect account. They should have been charged to account 930.2 Miscellaneous general expense. Therefore, these and other amounts not sampled, were not reviewed by the company in their response to document request number 15. Included in the \$4,621 that was not charged to account 930.2 were the following amounts that should be disallowed for surveillance reporting : \$1,706 for charitable contributions, \$230 for public image advertising and \$61 for a luncheon for a propane task force. If the working fund disbursements were properly accounted for, additional amounts would be excluded from the surveillance report.

Although the advertising sample did not contain any image enhancing charges, it did reveal that items related to charitable contributions and chamber of commerce dues were being charged, in error to the account. As is the case in the working fund review, these items were not included in the response to document request number 15. They should have been and additional amounts should have been excluded from the surveillance report. Specific amounts in the advertising sample that should be disallowed for surveillance reporting are; \$18,767 for contributions and \$6,040 for chamber of commerce dues.

PEOPLES GAS SYSTEM, INC.  
EARNINGS SURVEILLANCE REPORT SUMMARY  
DECEMBER 1996

SCHEDULE 1

	(1) ACTUAL PER BOOKS	(2) FPSC ADJUSTMENT	(3) FPSC ADJUSTED	(4) PRO FORMA ADJUSTMENT	(5) PRO FORMA ADJUSTED
I. AVERAGE RATE OF RETURN (JURISDICTIONAL)					
<u>NET OPERATING INCOME</u>	\$ 23,507	\$ 544	\$ 24,051	\$ 0	\$ 24,051
<u>AVERAGE RATE BASE</u>	\$ 246,589	\$ 6,549	\$ 253,138	\$ 0	\$ 253,138
<u>AVERAGE RATE OF RETURN</u>	9.53 %		9.50 %		9.50 %
II. YEAR END RATE BASE (JURISDICTIONAL)					
<u></u>	\$ 251,377	\$ 6,044	\$ 257,421		

III. REQUIRED RATES OF RETURN  
AVERAGE CAPITAL STRUCTURE  
(FPSC ADJUSTED BASIS)

LOW	8.43 %
MIDPOINT	8.89 %
HIGH	9.36 %

IV. EARNED RETURN ON EQUITY  
(FPSC ADJUSTED BASIS)

A. INCLUDING FLEX RATE REVENUES	12.56 %
B. EXCLUDING FLEX RATE REVENUES	12.49 %

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with  
the intent to mislead a public servant in the performance of his  
official duty shall be guilty of a misdemeanor of the second degree  
punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

Francis J. Svard - Vice-President, Accounting  
(Name and Title of Chief  
Financial Officer)

  
(Signature)

2/7/97  
(Date)

PSC/AFA13

PEOPLES GAS SYSTEM, INC.  
AVERAGE RATE OF RETURN  
RATE BASE  
DECEMBER 1996

	(1)	(2)	(3)	(4)	(5)	(7)	(8)	(9)	(10)	(11)
	PLANT IN SERVICE	PLANT ACQUISITION ADJUSTMENT	ACCUMULATED DEPRECIATION & AMORTIZATION	CUST ADVANCES FOR CONSTRUCTION	NET PLANT IN SERVICE	PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
PER BOOKS	290,978	1,787	152,063	1,278	229,432	229	7,299	246,960		246,969
EPSC ADJUSTMENTS:										
Property for Future Use						(229)			0	(229)
Invest in Subsidiary									7,274	7,274
Accounts Rec. - Assoc. Co.									0	0
Manufactures Inventory									(285)	(285)
Other Assets, Rec.									0	0
Non-Utility Allocation									0	0
Remove Striking Fund									(829)	(829)
Remove Unamort. D.D.S.E.									800	800
Remove Unrecovered Gas Cost									0	0
Remove Unrec. Conservation Costs									1,335	1,335
Remove Competitive Rate Adjustment									(27)	(27)
Remove Unamortized Rate Case Exp.									0	0
Reduce Material & Supply Inventory									(152)	(152)
Remove Acquisition Adjustment									805	805
TOTAL PERSC ADJUSTMENTS	(4,409)	805	(1,496)	0	(7,445)	(229)	0	(2,877)	9,228	4,848
PPSC ADJUSTED	286,569	2,592	150,567	1,278	221,987	0	7,299	244,083	8,855	253,128
EPSC ADJUSTED	286,569	2,592	150,567	1,278	221,984	0	7,299	244,083	8,855	253,128
EPSC ADJUSTED FOR FLEX RATE REVENUES	286,569	2,592	150,567	1,278	221,984	0	7,299	244,083	8,855	253,128
PRO FORMA REVENUE INCREASE AND AMORTIZATION ADJUSTMENTS:										
TOTAL PRO FORMA ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0
PRO FORMA ADJUSTED	286,569	2,592	150,567	1,278	221,984	0	7,299	244,083	8,855	253,128

PEOPLES GAS SYSTEM, INC.  
AVERAGE RATE OF RETURN  
INCOME STATEMENT  
DECEMBER 1996

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	OPERATING REVENUES	O & M GAS EXPENSE	O & M OTHER	DEPRECIATION & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT TAX CREDIT (NET)	GAIN/LOSS ON DEPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
PER BOOKS	228,871	120,129	57,533	17,340	21,720	8,588	1,843	0	0	228,184	23,907
FFSC ADJUSTMENTS:											
Remove Conservation Charges	(5,011)		(5,011)	(297)		114				(5,011)	0
Non-Utility Allocation						(42)				(42)	182
Internal Synchronization						(82)				(82)	43
Tax Benefit of Donated Land					(407)	0				(407)	0
Remove Fuel Revenues	(130,827)	(130,129)				69				(130,827)	0
Employee Activities			(180)			4				(176)	111
Miscellaneous General Expenses			(11)			5				(6)	7
Moving Expense			(15)			5				(10)	8
Maintenances of General Plant			(72)			25				(47)	44
Maint. of Structures and Improvements			(15)			6				(9)	9
Age Dues			(49)			19				(30)	20
Cultural/Club Dues			(42)			19				(23)	28
TOTAL FFSC ADJUSTMENTS	(135,826)	(130,129)	(5,461)	(297)	(682)	142	0	0	0	(128,182)	544
FFSC ADJUSTED	122,053	0	52,122	16,944	21,242	8,730	1,843	0	0	98,982	24,051
ELDK RATE REVENUES	(128)					(52)				(52)	(52)
FLEX RATE REVENUES	122,899	0	52,122	16,944	21,242	8,730	1,843	0	0	98,930	23,998
PRO FORMA REVENUE INCREASE AND AMPLIFICATION ADJUSTMENTS											
TOTAL PRO FORMA ADJUSTMENTS											
PRO FORMA ADJUSTED	122,823	0	52,122	16,944	21,242	8,730	1,843	0	0	98,982	24,051
PER BOOKS	24,065	11,709	4,592	1,478	1,943	1,231	122	0	0	21,131	2,924

PEOPLES GAS SYSTEM, INC.  
YEAR END RATE BASE  
DECEMBER 1996

SCHEDULE 3

(1)	(2)	(3)	(4)	(5)	(7)	(8)	(9)	(10)	(11)
PLANT IN SERVICE	PLANT ACQUISITION ADJUSTMENT	ACCUMULATED DEPRECIATION & AMORTIZATION	CUST ADVANCES FOR CONSTRUCTION	NET PLANT IN SERVICE	PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
289,967	2,302	158,188	668	242,413	278	8,106	251,748	(271)	251,217

EPSC ADJUSTMENTS:

Property for Future Use					(228)		(228)		(228)
Invest in Subsidiary								0	0
Accounts Rec. - Assoc. Co.								7,724	7,724
Merchandise Inventory								0	0
Other Assets, Rec.								(283)	(283)
Non-Utility Allocation	(4,409)		(1,496)	(2,903)			(2,903)	0	(2,903)
Remove Striking Fund								0	0
Remove Unearned, D DATE								(828)	(828)
Remove Unearned Gas Cost								802	802
Remove Unearned Gas Cost								0	0
Remove Unearned Conservation Costs								1,935	1,935
Remove Competitive Rate Adjustment								(27)	(27)
Remove Unamortized Rate Case Exp.								0	0
Reduce Material & Supply Inventory								(152)	(152)
Remove Acquisition Adjustment		0		0			0		0

TOTAL EPSC ADJUSTMENTS	(4,409)	0	(1,496)	(2,903)	(228)	0	(2,182)	8,225	8,044
PPSC ADJUSTED	285,558	2,302	156,732	668	240,490	0	249,566	8,955	257,421



PEOPLES GAS SYSTEM, INC.  
CAPITAL STRUCTURE  
FPSC ADJUSTED BASIS  
DECEMBER 1996

SCHEDULE 4

AVERAGE	PER BOOKS	ADJUSTMENTS		ADJUSTED	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
		SPECIFIC	PRO RATA			COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
LONG TERM DEBT	82,338	(929)	3,502	84,911	33.54%	8.97	3.01	8.97	3.01	8.97	3.01
SHORT TERM DEBT	0		0	0	0.00%	8.29	0.00	8.29	0.00	8.29	0.00
RESIDENTIAL DEPOSITS	4,010		172	4,182	1.85%	6.00	0.10	6.00	0.10	6.00	0.10
COMMERCIAL DEPOSITS	19,912		857	20,769	8.20%	7.00	0.57	7.00	0.57	7.00	0.57
INACTIVE DEPOSITS	35		2	37	0.01%						
COMMON EQUITY	118,336	(5,849)	4,839	117,326	46.30%	10.25	4.75	11.25	5.21	12.25	5.88
DEFERRED INCOME TAX	21,958		945	22,903	9.05%						
TAX CREDITS - ZERO COST		2,887	124	3,011	1.19%						
<b>TOTAL</b>	<b>246,589</b>	<b>(3,891)</b>	<b>10,440</b>	<b>253,138</b>	<b>100.00%</b>		<b>8.43</b>		<b>8.99</b>		<b>9.36</b>

YEAR-END	PER BOOKS	ADJUSTMENTS		ADJUSTED	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
		SPECIFIC	PRO RATA			COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
LONG TERM DEBT	81,800	(898)	4,087	85,001	33.02%	8.97	2.98	8.97	2.98	8.97	2.98
SHORT TERM DEBT	0		0	0	0.00%	8.29	0.00	8.29	0.00	8.29	0.00
RESIDENTIAL DEPOSITS	4,106		210	4,376	1.70%	6.00	0.10	6.00	0.10	6.00	0.10
COMMERCIAL DEPOSITS	20,046		1,013	21,059	8.19%	7.00	0.57	7.00	0.57	7.00	0.57
INACTIVE DEPOSITS	37		2	39	0.02%						
COMMON EQUITY	120,262	(6,009)	5,771	120,024	48.63%	10.25	4.78	11.25	5.25	12.25	5.71
DEFERRED INCOME TAX	22,911		1,157	24,068	9.35%						
TAX CREDITS - ZERO COST		2,717	137	2,854	1.11%						
<b>TOTAL</b>	<b>249,222</b>	<b>(4,178)</b>	<b>12,377</b>	<b>257,421</b>	<b>100.00%</b>		<b>8.41</b>		<b>8.88</b>		<b>9.34</b>

## SCHEDULE 5

**EARNED RETURN ON COMMON EQUITY  
FPSC ADJUSTED BASIS  
DECEMBER 1996**

**A. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY  
INCLUDING FLEX RATE REVENUES**

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	<u>9.50</u>	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(3.01)%	
SHORT TERM DEBT	0.00 %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.67)%	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	<u>0.00 %</u>	
SUBTOTAL	<u>(3.68)%</u>	
 TOTAL	 5.82 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>46.35 %</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u>12.56 %</u>	

**B. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY  
EXCLUDING FLEX RATE REVENUES**

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 23,968	(Schedule 2, p. 2 of 2)
RATE BASE EXCLUDING FLEX RATE REVENUES	<u>\$ 253,138</u>	(Schedule 2, p. 1 of 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	<u>9.47 %</u>	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(3.01)%	
SHORT TERM DEBT	0.00 %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.67)%	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	<u>0.00 %</u>	
SUBTOTAL	<u>(3.68)%</u>	
 TOTAL	 5.79 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>46.35 %</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u>12.49 %</u>	

State of Florida

Commissioners:  
SUSAN F. CLARK, CHAIRMAN  
J. TERRY DEASON  
JULIA L. JOHNSON  
DIANE K. KIESLING  
JOE GARCIA



DIVISION OF RECORDS &  
REPORTING  
BLANCA S. BAYO  
DIRECTOR  
(904) 413-6770

## Public Service Commission

June 5, 1997

Mr. Jack Uhl  
Peoples Gas Company  
Post Office Box 2562  
Tampa, Florida 33601-2562

Dear Mr. Uhl:

Undocketed - Peoples Gas Company  
Audit Report - Earnings Review  
Audit Control # 97-050-2-1

The enclosed audit report is forwarded for your review. Any company response filed with this office within fifteen (15) work days of the above date will be forwarded for consideration by the staff analyst evaluating this report. Please refer to the Audit Control Number referenced above in any correspondence regarding this audit.

Thank you for your cooperation. If you have any questions, please call me at (904) 413-6487.

Sincerely,

*Blanca S. Bayo*  
Blanca S. Bayo  
Records and Reporting

BSB/clb  
Enclosure  
cc: Public Counsel  
MacFarlane Ferguson Law Firm