

PEOPLES GAS

January 16, 2008

Mr. John Slemkewicz
Florida Public Service Commission
Division of Economic Regulation
2540 Shumard Oaks Blvd.
Tallahassee, Florida 32399-0850

RECEIVED
FLORIDA PUBLIC SERVICE
COMMISSION
DIVISION OF
ECONOMIC REGULATION

08 JAN 28 AM 9:57

Dear Mr. Slemkewicz:

Attached is the Rate of Return calculation of Peoples Gas System for the period ending December 31, 2007. If you have any questions, please call me at (813) 228-4978.

Sincerely,



Susan C. Richards
Manager, Budget & Finance

Attachments

cc: W. N. Cantrell
B. Narzissenfeld
L. Binswanger
P. Higgins
K. Floyd
D. Brown
D. Bacon
P. Barringer
H. Bruen
P. Brown

PEOPLES GAS
702 NORTH FRANKLIN STREET
R. O. BOX 2562
TAMPA, FL 33601-2562
AN EQUAL OPPORTUNITY COMPANY

WWW.PEOPLES GAS.COM

**PEOPLES GAS SYSTEM
EARNINGS SURVEILLANCE REPORT SUMMARY
December 2007**

SCHEDULE 1

	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments	(5) Pro Forma Adjusted
I. AVERAGE RATE OF RETURN (JURISDICTIONAL)					
<u>NET OPERATING INCOME</u>	\$ 40,922	\$ 771	\$ 41,693	\$ 0	\$ 41,693
<u>AVERAGE RATE BASE</u>	\$ 536,592	\$ (23,557)	\$ 513,035	\$ 0	\$ 513,035
<u>AVERAGE RATE OF RETURN</u>	7.63 %		8.13 %		8.13 %

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

LOW	<u>8.27 %</u>
MIDPOINT	<u>8.77 %</u>
HIGH	<u>9.26 %</u>

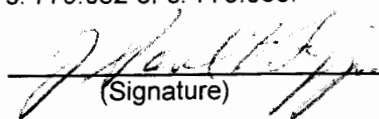
III. EARNED RETURN ON EQUITY

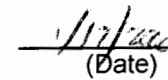
	FPSC ADJUSTED	PRO FORMA ADJUSTED
A. INCLUDING FLEX RATE REVENUES	<u>9.96 %</u>	<u>9.96 %</u>
B. EXCLUDING FLEX RATE REVENUES	<u>8.86 %</u>	<u>8.86 %</u>

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 or her official duty shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082 or s. 775.083.

J. Paul Higgins - Assistant Controller
(Name and Title)


(Signature)


(Date)

PSC/AFA13

**PEOPLES GAS SYSTEM
AVERAGE RATE BASE
December 2007**

SCHEDULE 2

	(1)	(2)	(3)	(4)	(5)	(7)	(8)	(9)	(10)	(11)
	Plant in Service	Plant Acquisition Adjustment	Accumulated Depreciation & Amortization	Customer 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	889,841	5,249	365,040	5,954	524,096	229	20,636	544,961	(8,369)	536,592
FPSC ADJUSTMENTS:										
Property for Future Use						(229)		(229)		(229)
Temporary Cash Investment									(6,047)	(6,047)
Notes Receivable									-	-
Accounts Rec./Pay. - Assoc Companies									(650)	(650)
Merchandise Inventory									-	-
Other Accounts Receivable									(3,752)	(3,752)
Non-Utility Allocation	(1,660)		(671)		(989)			(989)		(989)
Remove Unbundling Transition Charges									-	-
Remove Non-Utility Accrued Liability									-	-
Remove Unamort. Debt Expense									(3,774)	(3,774)
Remove Unrecovered Gas Cost									-	-
Remove Dividends Declared									372	372
Remove Unrec. Conservation Costs									-	-
Remove Competitive Rate Adjustment									(5,229)	(5,229)
Remove Unamortized Rate Case Expense									(13)	(13)
Gain on Sale of Property									(777)	(777)
Remove Acquis. Adjustment (WFNG)		(2,947)	(1,825)		(1,122)			(1,122)		(1,122)
Remove MSEA Adjustment							(97)	(97)		(97)
Remove Investment in Subsidiaries									(1,250)	(1,250)
TOTAL FPSC ADJUSTMENTS	<u>(1,660)</u>	<u>(2,947)</u>	<u>(2,497)</u>	<u>-</u>	<u>(2,111)</u>	<u>(229)</u>	<u>(97)</u>	<u>(2,437)</u>	<u>(21,120)</u>	<u>(23,557)</u>
FPSC ADJUSTED	<u>888,181</u>	<u>2,302</u>	<u>362,543</u>	<u>5,954</u>	<u>521,985</u>	<u>-</u>	<u>20,539</u>	<u>542,524</u>	<u>(29,489)</u>	<u>513,035</u>
FLEX RATE REVENUES										
ADJUSTED FOR										
FLEX RATE REVENUES	<u>888,181</u>	<u>2,302</u>	<u>362,543</u>	<u>5,954</u>	<u>521,985</u>	<u>-</u>	<u>20,539</u>	<u>542,524</u>	<u>(29,489)</u>	<u>513,035</u>
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:										
									-	-
TOTAL PRO FORMA ADJUSTMENTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
PRO FORMA ADJUSTED	<u>888,181</u>	<u>2,302</u>	<u>362,543</u>	<u>5,954</u>	<u>521,985</u>	<u>-</u>	<u>20,539</u>	<u>542,524</u>	<u>(29,489)</u>	<u>513,035</u>

**PEOPLES GAS SYSTEM
NET OPERATING INCOME
December 2007**

SCHEDULE 3

	(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 Disposition	Total Operating Expenses	Net Operating Income
PER BOOKS	593,030	389,921	73,324	39,953	34,256	15,538	(841)	(43)	-	552,108	40,922
<u>FPSC ADJUSTMENTS:</u>											
Remove Conservation Charges	(7,367)		(7,367)			-				(7,367)	-
Non-Utility Allocation				(65)	(29)	36				(58)	58
Interest Synchronization						290				290	(290)
Parent Debt Adjustment **						(622)	**			(622)	622
Remove Fuel Revenues	(391,871)	(389,921)			(1,950)	-				(391,871)	-
Economic Development Adjustment			(9)			3				(6)	6
Employee Activities			(114)			44				(70)	70
Intercompany Adjustment			(52)			20				(32)	32
Maintenance of General Plant			(32)			12				(20)	20
Maint. of Structures and Improvements			(11)			4				(7)	7
Lobbying included in Dues (AGA, FNGA)			(7)			3				(4)	4
Civic/Social Club Dues			(4)			2				(2)	2
Remove Acquisition Adj. Amortiz. (WFNG)				(80)		31				(49)	49
Gain on Sale of Property									(234)	(234)	234
Remove ITC Amortization								43		43	(43)
TOTAL FPSC ADJUSTMENTS	(399,238)	(389,921)	(7,595)	(145)	(1,979)	(177)	-	43	(234)	(400,009)	771
FPSC ADJUSTED	193,792	-	65,729	39,808	32,277	15,361	(841)	-	(234)	152,099	41,693
<u>FLEX RATE REVENUES</u>	<u>(4,559)</u>					<u>(1,759)</u>				<u>(1,759)</u>	<u>(2,800)</u>
ADJUSTED FOR											
FLEX RATE REVENUES	189,233	-	65,729	39,808	32,277	13,602	(841)	-	(234)	150,340	38,893
<u>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</u>											
TOTAL PRO FORMA ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-	-
PRO FORMA ADJUSTED	193,792	-	65,729	39,808	32,277	15,361	(841)	-	(234)	152,099	41,693
PER BOOKS											
CURRENT MONTH AMOUNT	51,283	32,466	6,242	3,376	2,874	469	1,425	(4)	-	46,848	4,435

** The Company does not agree with the appropriateness of this adjustment. The adjustment is included, however, to be consistent with the treatment in the Company's last rate case.

**PEOPLES GAS SYSTEM
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
December 2007**

SCHEDULE 4

	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 (%)
AVERAGE											
LONG TERM DEBT	186,719	(3,754)	(5,002)	177,963	34.69%	7.30	2.53	7.30	2.53	7.30	2.53
SHORT TERM DEBT	20,291	-	(555)	19,736	3.85%	5.23	0.20	5.23	0.20	5.23	0.20
RESIDENTIAL DEPOSITS	9,589		-	9,589	1.87%	6.00	0.11	6.00	0.11	6.00	0.11
COMMERCIAL DEPOSITS	24,964		-	24,964	4.87%	7.00	0.34	7.00	0.34	7.00	0.34
INACTIVE DEPOSITS	307		-	307	0.06%						
COMMON EQUITY	269,068	(7,165)	(7,160)	254,743	49.65%	10.25	5.09	11.25	5.59	12.25	6.08
DEFERRED INCOME TAX	25,654	(28)	-	25,626	4.99%						
TAX CREDITS - ZERO COST		106	-	106	0.02%						
TOTAL	536,592	(10,841)	(12,716)	513,035	100.00%		8.27		8.77		9.26

PEOPLES GAS SYSTEM
EARNED RETURN ON COMMON EQUITY
FPSC ADJUSTED BASIS
December 2007

SCHEDULE 5

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

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	8.13 %	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(2.53) %	
SHORT TERM DEBT	(0.20) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.45) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(3.18) %</u>	
 TOTAL	 4.95 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>49.65 %</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u><u>9.96 %</u></u>	

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 38,893	(Schedule 3)
 RATE BASE EXCLUDING FLEX RATE REVENUES	 \$ <u>513,035</u>	(Schedule 2)
 FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	 <u>7.58 %</u>	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(2.53) %	
SHORT TERM DEBT	(0.20) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.45) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(3.18) %</u>	
 TOTAL	 4.40 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>49.65 %</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u><u>8.86 %</u></u>	

**Peoples Gas System
2007 Balance Sheet
Dollars in Thousands**

	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	13 Month Averages
Assets														
<u>Utility Plant</u>														
Gas Plant in Service	\$872,447	\$872,633	\$876,909	\$878,895	\$880,244	\$882,017	\$888,761	\$890,810	\$893,491	\$903,263	\$906,425	\$909,881	\$912,158	\$889,841
Plant Held for Future Use	229	229	229	229	229	229	229	229	229	229	229	229	229	229
CWIP	19,383	21,636	20,869	20,249	23,720	25,060	21,572	22,886	23,595	17,563	17,950	16,741	17,044	20,636
Gas Plant Acquisition Adjustment	5,249	5,249	5,249	5,249	5,249	5,249	5,249	5,249	5,249	5,249	5,249	5,249	5,249	5,249
Gross Utility Plant	897,308	899,746	903,256	904,622	909,441	912,555	915,811	919,174	922,563	926,303	929,853	932,099	934,679	915,955
Accumulated Provision for Depr.	(351,113)	(353,843)	(356,556)	(357,325)	(360,106)	(363,035)	(364,312)	(366,882)	(369,571)	(372,176)	(374,945)	(377,082)	(378,578)	(365,040)
Net Plant	546,195	545,903	546,700	547,296	549,335	549,520	551,499	552,292	552,992	554,127	554,908	555,017	556,101	560,914
Other Investments	1,114	975	1,152	1,513	1,673	1,056	1,410	1,515	1,057	1,363	1,481	980	955	1,250
Sinking Funds	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non Utility Property	10	10	10	10	10	10	10	10	10	10	10	10	(0)	9
Total Property & Investments	1,123	984	1,162	1,523	1,683	1,065	1,420	1,524	1,066	1,373	1,490	990	955	1,258
<u>Current and Accrued Assets</u>														
Cash	(683)	(1,054)	(952)	(1,085)	(697)	(1,760)	(1,643)	(1,437)	(1,298)	51	(1,723)	(10,221)	1,393	(1,624)
Special Deposits	25	25	25	25	25	25	25	25	25	25	25	25	25	25
Working Funds	8	7	7	7	7	7	7	7	7	6	6	6	6	7
Temp. Cash Investments	589	597	552	571	585	25,422	22,760	22,841	867	1,976	630	594	623	6,047
Notes Receivable	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Customer Accounts Receivable	35,912	35,109	48,587	43,803	41,973	39,126	37,201	40,874	41,735	41,079	39,638	29,845	38,677	39,504
Other Accounts Receivable	6,023	3,654	3,851	3,594	3,647	3,156	3,269	3,268	3,370	3,226	3,222	3,260	5,229	3,752
Accum. Provision Uncoll. Accounts Receivable Assoc. Companies	(432)	(539)	(689)	(817)	(896)	(876)	(861)	(805)	(714)	(670)	(632)	(608)	(638)	(706)
Receivable Assoc. Co. Services	(0)	(0)	(0)	(0)	(0)	(0)	718	742	(0)	(0)	(0)	(0)	(0)	112
Fuel Stock	103	0	0	0	0	0	0	0	84	0	0	0	391	44
Plant & Other Material and Supplies	1,117	1,085	1,068	1,094	1,171	1,287	1,202	1,380	1,400	1,299	1,332	1,454	1,345	1,249
Merchandise	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Stores Expense	0	(3)	(18)	1	(92)	(77)	(47)	(42)	(27)	(30)	(55)	(24)	0	(32)
Prepayments	1,154	753	560	497	402	308	336	320	466	1,050	944	882	1,062	672
Accounts Rec. - Unbilled Revenues	20,886	22,096	24,004	24,446	21,914	19,338	17,690	16,701	15,705	15,441	15,652	17,020	19,656	19,273
Derivatives	18	689	666	2,922	3,371	3,245	537	707	45	203	1,914	27	435	1,137
Total Current & Accrued Assets	64,719	62,418	77,662	75,059	71,409	89,199	84,849	84,944	61,666	63,658	60,952	42,261	68,203	69,769
<u>Deferred Charges</u>														
Unamortized DD&E	3,956	3,895	3,833	3,771	3,709	3,932	3,889	3,826	3,785	2,862	3,926	3,867	3,806	3,774
Deferred Tax Assets	15,227	10,087	8,799	6,455	6,155	6,214	8,857	9,534	12,272	10,613	7,656	4,177	7,003	8,696
Clearing Accounts	0	0	0	0	0	0	0	0	1	1	1	1	0	0
Other WIP	31,759	31,708	31,889	31,482	31,443	31,424	31,206	31,185	31,243	30,372	30,338	30,434	23,857	30,642
Non-Utility WIP/Unbundling Transition	(0)	0	0	0	0	0	0	0	0	0	0	0	0	(0)
Unamortized Rate Case	(0)	(0)	(0)	(0)	(0)	5	7	7	31	36	36	42	13	13
Unrecovered Gas Costs	16,712	9,274	6,858	(4,713)	(9,604)	(13,249)	(6,112)	(6,441)	1,604	(6,093)	(11,127)	6,273	2,191	(1,110)
Total Deferred Charges	67,655	54,965	51,379	36,995	31,703	28,321	37,845	38,113	48,911	37,786	30,830	44,788	36,899	42,015
Total Assets	\$679,692	\$664,271	\$676,902	\$660,873	\$654,130	\$668,105	\$675,613	\$676,874	\$664,635	\$656,944	\$648,180	\$643,055	\$662,158	\$663,956

**Peoples Gas System
2007 Balance Sheet
Dollars in Thousands**

	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	13 Month Averages
Capitalization & Liabilities														
Common Stock	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Additional Capital	155,550	155,550	155,550	155,550	155,550	155,550	155,550	155,550	155,550	155,550	155,550	155,550	155,550	155,550
Unappropriated Retained Earnings	112,712	111,159	115,323	118,440	120,849	111,252	112,690	113,493	108,351	109,597	110,778	109,078	112,116	112,757
Other	633	495	672	1,033	1,193	576	930	1,034	577	338	1,146	645	620	761
Total Stockholders Equity	268,895	267,204	271,545	275,023	277,592	267,378	269,170	270,078	264,477	265,485	267,474	265,273	268,286	269,068
FM Bonds & Long Term Notes	162,800	162,800	162,800	162,800	162,800	222,800	222,800	216,700	191,700	191,700	191,700	191,700	191,700	187,292
Revolving Credit	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Long Term Debt	(409)	(402)	(394)	(387)	(379)	(712)	(703)	(695)	(688)	(681)	(674)	(667)	(660)	(573)
Total Long Term Debt	162,391	162,398	162,406	162,413	162,421	222,088	222,097	216,005	191,012	191,019	191,026	191,033	191,040	186,719
Total Capitalization	431,286	429,602	433,951	437,437	440,013	489,466	491,267	486,083	455,490	456,504	458,500	456,306	459,326	455,787
Current & Accrued Liabilities														
Notes Payable	43,720	45,490	48,790	37,440	36,315	0	0	0	12,575	14,825	0	0	24,630	20,291
Accounts Payable	35,657	29,993	40,759	31,746	31,335	28,270	32,844	37,694	33,871	27,057	39,161	30,300	37,993	33,591
Accounts Payable Assoc. Companies	(710)	(954)	(680)	(686)	(660)	(649)	(0)	(0)	(720)	(605)	(235)	(321)	(778)	(538)
Accts. Payable Assoc. Co. Services	3,182	5,485	5,775	3,970	1,163	2,090	(0)	(0)	3,103	5,751	2,242	9,078	1,276	3,317
Customer Deposits - Current	4,869	4,864	4,896	4,865	4,884	4,843	4,794	4,792	4,763	4,716	4,665	4,717	4,662	4,795
Taxes Accrued - General	3,182	2,432	3,403	5,461	4,856	5,502	7,275	5,856	5,972	6,687	7,467	1,216	2,060	4,721
Taxes Accrued - Income	648	(762)	1,936	7,750	3,032	3,338	(2,575)	(2,256)	(1,817)	(1,947)	(1,747)	(522)	446	425
Interest Accrued	4,240	4,095	2,272	3,352	4,430	5,567	5,580	5,689	2,142	3,389	4,641	4,096	3,961	4,112
Dividends Declared	0	4,837	0	0	0	0	0	0	0	0	0	0	0	372
Tax Collections Payable	1,909	2,489	2,855	3,372	2,291	2,462	2,151	1,585	1,677	1,681	1,345	1,453	1,698	2,074
Inactive Deposits	266	269	265	340	232	247	386	400	203	322	335	344	381	307
Conservation Cost True Up	1,059	1,808	2,409	3,209	3,736	4,151	4,354	4,562	4,803	4,774	5,017	5,431	5,911	3,940
Non-Utility Accrued Liability	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Derivative Liability	20,099	7,447	4,083	663	336	362	4,906	6,832	13,267	8,402	3,571	10,326	6,291	6,660
Misc. Current Liabilities	10,516	12,074	11,999	11,966	12,235	12,597	12,425	12,756	13,069	12,556	12,935	13,255	9,152	12,118
Total Current & Accrued Liabilities	128,637	119,567	128,760	113,449	104,183	68,779	72,139	77,911	92,910	87,609	79,398	79,373	97,684	96,185
Current & Accrued Liabilities														
Customer Deposits	29,222	29,245	29,772	29,494	29,880	29,768	29,695	29,912	30,056	29,994	29,796	30,056	29,969	29,758
Customer Advances for Constr.	5,181	5,207	5,306	5,488	5,644	6,017	6,049	6,242	6,294	6,333	6,475	6,561	6,606	5,954
Other Deferred Credits	17,631	17,650	17,426	17,716	17,732	17,745	17,732	17,748	17,764	17,156	17,172	17,188	16,589	17,481
Accumulated Deferred Income Tax	42,299	37,562	36,196	32,140	31,525	31,174	33,966	34,167	37,310	34,926	32,415	29,096	33,349	34,317
Def. Inv. Tax Credit	55	51	48	44	41	37	33	30	26	23	19	15	12	33
Total Deferred Credits	94,388	89,716	88,748	84,881	84,821	84,741	87,474	88,099	91,451	88,431	85,877	82,918	86,525	87,544
Pensions & Benefits Reserve	25,381	25,387	25,443	25,107	25,113	25,119	24,732	24,781	24,785	24,399	24,405	24,459	18,623	24,441
Other Reserves	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Operating Reserves	25,381	25,387	25,443	25,107	25,113	25,119	24,732	24,781	24,785	24,399	24,405	24,459	18,623	24,441
Total Capital & Liabilities	\$679,692	\$664,271	\$676,902	\$660,873	\$654,130	\$668,105	\$675,613	\$676,874	\$664,635	\$656,944	\$648,180	\$643,055	\$662,158	\$663,956