



PEOPLES GAS

February 12, 2009

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

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DIVISION OF
ECONOMIC REGULATION

Dear Mr. Slemkewicz:

Attached is the Rate of Return calculation of Peoples Gas System for the period ending December 31, 2008. 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
- A. Watson

**PEOPLES GAS SYSTEM
EARNINGS SURVEILLANCE REPORT SUMMARY
December 2008**

SCHEDULE 1

	(1) <u>Actual</u> <u>Per Books</u>	(2) <u>FPSC</u> <u>Adjustments</u>	(3) <u>FPSC</u> <u>Adjusted</u>	(4) <u>Pro Forma</u> <u>Adjustments</u>	(5) <u>Pro Forma</u> <u>Adjusted</u>
I. AVERAGE RATE OF RETURN (JURISDICTIONAL)					
<u>NET OPERATING INCOME</u>	\$ <u>42,503</u>	\$ <u>517</u>	\$ <u>43,020</u>	\$ <u>0</u>	\$ <u>43,020</u>
<u>AVERAGE RATE BASE</u>	\$ <u>553,420</u>	\$ <u>(24,247)</u>	\$ <u>529,173</u>	\$ <u>0</u>	\$ <u>529,173</u>
<u>AVERAGE RATE OF RETURN</u>	<u>7.68</u> %		<u>8.13</u> %		<u>8.13</u> %

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

LOW	<u>8.17</u> %
MIDPOINT	<u>8.65</u> %
HIGH	<u>9.12</u> %

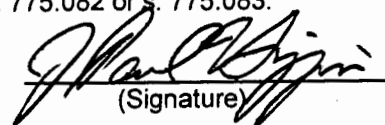
III. EARNED RETURN ON EQUITY

	<u>FPSC</u> <u>ADJUSTED</u>	<u>PRO FORMA</u> <u>ADJUSTED</u>
A. INCLUDING FLEX RATE REVENUES	<u>10.17</u> %	<u>10.17</u> %
B. EXCLUDING FLEX RATE REVENUES	<u>9.20</u> %	<u>9.20</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)

2/13/2009
(Date)

PSC/AFA13

**PEOPLES GAS SYSTEM
AVERAGE RATE BASE
December 2008**

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	930,120	5,249	392,529	7,573	535,267	229	26,814	562,110	(8,690)	553,420
FPSC ADJUSTMENTS:										
Property for Future Use						(229)		(229)		(229)
Temporary Cash Investment									(8,788)	(8,788)
Notes Receivable									-	-
Accounts Rec./Pay. - Assoc Companies									(2,718)	(2,718)
Merchandise Inventory									-	-
Other Accounts Receivable									-	-
Non-Utility Allocation	(2,581)		(1,128)		(1,453)			(1,453)	(3,928)	(3,928)
Remove Regulatory Tax Asset									-	-
Remove Unbundling Transition Charges									-	-
Remove Non-Utility Accrued Liability									-	-
Remove Unamort. Debt Expense									(3,449)	(3,449)
Remove Unrecovered Gas Cost									-	-
Remove Dividends Declared									1,890	1,890
Remove Unrec. Conservation Costs									-	-
Remove Competitive Rate Adjustment									(4,852)	(4,852)
Remove Unamortized Rate Case Expense									(288)	(288)
Gain on Sale of Property									-	-
Remove Acquis. Adjustment (WFNG)		(2,947)	(1,905)		(1,042)			(1,042)		(1,042)
Remove MSEA Adjustment							(373)	(373)		(373)
Other Comp. Income (Unsettled hedges)									-	-
Remove Investment in Subsidiaries									(1,016)	(1,016)
TOTAL FPSC ADJUSTMENTS	(2,581)	(2,947)	(3,033)	-	(2,495)	(229)	(373)	(3,098)	(21,149)	(24,247)
FPSC ADJUSTED	927,539	2,302	389,496	7,573	532,772	-	28,241	559,012	(29,839)	529,173
FLEX RATE REVENUES										
ADJUSTED FOR										
FLEX RATE REVENUES	927,539	2,302	389,496	7,573	532,772	-	26,241	559,012	(29,839)	529,173
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:										
TOTAL PRO FORMA ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-
PRO FORMA ADJUSTED	927,539	2,302	389,496	7,573	532,772	-	26,241	559,012	(29,839)	529,173

**PEOPLES GAS SYSTEM
NET OPERATING INCOME
December 2008**

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	680,920	476,590	69,781	41,762	34,697	13,353	2,246	(12)	-	638,417	42,503
FPSC ADJUSTMENTS:											
Remove Conservation Charges	(5,736)		(5,736)							(5,736)	-
Non-Utility Allocation				(144)	(54)	76				(122)	122
Interest Synchronization						317				317	(317)
Parent Debt Adjustment **						(202)	**			(202)	202
Remove Fuel Revenues	(477,408)	(476,590)			(818)					(477,408)	-
Economic Development Adjustment			(9)			3				(6)	6
Employee Activities			(117)			45				(72)	72
Intercompany Adjustment			(34)			13				(21)	21
Maintenance of General Plant			(24)			9				(15)	15
Maint. of Structures and Improvements			(10)			4				(6)	6
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									(348)	(348)	348
Remove ITC Amortization								12		12	(12)
TOTAL FPSC ADJUSTMENTS	(483,144)	(476,590)	(5,940)	(224)	(872)	301	-	12	(348)	(483,661)	517
FPSC ADJUSTED	197,776	-	63,841	41,538	33,825	13,654	2,246	-	(348)	154,756	43,020
FLEX RATE REVENUES ADJUSTED FOR	(3,994)					(1,541)				(1,541)	(2,453)
FLEX RATE REVENUES	193,782	-	63,841	41,538	33,825	12,113	2,246	-	(348)	153,215	40,567
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:											
TOTAL PRO FORMA ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-	-
PRO FORMA ADJUSTED	197,776	-	63,841	41,538	33,825	13,654	2,246	-	(348)	154,756	43,020
PER BOOKS CURRENT MONTH AMOUNT	58,216	35,606	6,161	3,643	3,454	2,266	737	-	-	51,867	6,349

** 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 2008**

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	219,219	(6,611)	(6,633)	205,975	38.92%	7.16	2.79	7.16	2.79	7.16	2.79
SHORT TERM DEBT	7,848	-	(245)	7,603	1.44%	2.98	0.04	2.98	0.04	2.98	0.04
RESIDENTIAL DEPOSITS	9,034	-	-	9,034	1.71%	6.00	0.10	6.00	0.10	6.00	0.10
COMMERCIAL DEPOSITS	26,057	-	-	26,057	4.92%	7.00	0.34	7.00	0.34	7.00	0.34
INACTIVE DEPOSITS	277	-	-	277	0.05%						
COMMON EQUITY	264,848	(3,873)	(8,142)	252,833	47.78%	10.25	4.90	11.25	5.38	12.25	5.85
DEFERRED INCOME TAX	26,137	1,220	-	27,357	5.17%						
TAX CREDITS - ZERO COST		37	-	37	0.01%						
TOTAL	553,420	(9,227)	(15,019)	529,173	100.00%		8.17		8.65		9.12

PEOPLES GAS SYSTEM
 EARNED RETURN ON COMMON EQUITY
 FPSC ADJUSTED BASIS
 December 2008

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	(2.79) %	
SHORT TERM DEBT	(0.04) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.44) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(3.27) %</u>	
TOTAL	4.86 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>47.78 %</u>	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u><u>10.17 %</u></u>	

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 40,567	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ <u>529,173</u>	(Schedule 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	<u>7.67 %</u>	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(2.79) %	
SHORT TERM DEBT	(0.04) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.44) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(3.27) %</u>	
TOTAL	4.40 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>47.78 %</u>	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u><u>9.20 %</u></u>	

**Peoples Gas System
2008 Balance Sheet
Dollars in Thousands**

	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	13 Month Averages
Assets														
Utility Plant														
Gas Plant in Service	\$912,158	\$914,943	\$916,424	\$920,180	\$923,081	\$925,033	\$929,788	\$932,214	\$935,512	\$935,603	\$941,680	\$945,811	\$959,137	\$930,120
Plant Held for Future Use	229	229	229	229	229	229	229	229	229	229	229	229	229	229
CWIP	17,044	22,007	23,497	21,451	23,528	26,237	26,514	29,719	31,944	32,602	32,724	31,855	26,864	26,814
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	934,679	942,427	945,398	947,108	952,087	956,747	961,780	967,410	972,934	973,683	979,882	983,144	991,479	962,212
Accumulated Provision for Depr.	(378,579)	(381,627)	(384,629)	(384,188)	(386,175)	(388,477)	(390,613)	(393,730)	(399,079)	(399,604)	(402,578)	(405,452)	(408,149)	(392,529)
Net Plant	556,101	560,801	560,769	562,920	565,912	568,270	571,166	573,680	573,855	574,079	577,304	577,692	583,330	569,683
Other Investments	955	665	754	1,050	868	985	1,280	880	1,009	1,275	1,040	1,216	1,234	1,016
Sinking Funds	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non Utility Property	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Property & Investments	955	665	754	1,050	868	985	1,280	880	1,009	1,275	1,040	1,216	1,234	1,016
Current and Accrued Assets														
Cash	1,393	369	198	(1,265)	(1,352)	(1,258)	(1,084)	(1,743)	2,522	1,407	8,908	(9,256)	(2,809)	(305)
Special Deposits	25	25	25	25	25	25	25	25	25	25	25	25	25	25
Working Funds	6	6	6	6	6	6	6	6	8	8	8	8	8	7
Temp. Cash Investments	623	733	779	778	966	30,383	30,613	20,155	3,216	0	0	0	0	6,788
Notes Receivable	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Customer Accounts Receivable	38,677	41,904	46,746	54,814	45,906	52,091	55,489	54,016	51,963	43,394	33,360	30,030	34,603	44,846
Other Accounts Receivable	5,233	3,516	3,730	3,471	3,483	3,505	3,531	3,539	5,568	3,688	4,357	3,698	3,748	3,928
Accum. Provision Uncoll. Accounts	(638)	(696)	(747)	(805)	(846)	(852)	(834)	(787)	(734)	(662)	(622)	(641)	(701)	(736)
Receivable Assoc. Companies	0	0	0	0	0	0	0	0	0	10,362	0	10,244	0	1,585
Receivable Assoc. Co. Services	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(1,188)	(0)	(7,655)	(0)	(880)
Fuel Stock	391	0	0	15	0	0	0	0	524	0	0	0	0	71
Plant & Other Material and Supplies	1,345	1,390	1,421	1,429	1,542	1,509	1,699	1,552	1,760	1,828	1,974	2,850	3,629	1,841
Merchandise	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Stores Expense	(0)	7	24	22	25	51	18	30	(29)	(65)	33	10	(0)	10
Prepayments	1,063	799	717	599	510	492	406	1,203	1,171	1,120	1,034	935	951	846
Accounts Rec. - Unbilled Revenues	19,652	21,680	21,521	21,098	20,122	18,221	16,827	16,125	15,975	15,660	15,465	17,755	22,377	18,637
Derivatives	435	1,482	9,078	13,101	16,908	20,005	28,223	3,952	894	15	0	0	0	7,238
Total Current & Accrued Assets	68,203	71,213	83,497	93,287	87,295	124,178	134,718	98,075	82,863	75,592	64,542	48,001	61,830	84,100
Deferred Charges														
Unamortized DD&E	3,806	3,511	3,451	3,391	3,332	3,596	3,552	3,522	3,461	3,398	3,336	3,273	3,210	3,449
Deferred Tax Assets	7,003	4,802	1,242	11,811	13,280	13,883	52,410	41,885	44,814	46,755	48,745	48,424	54,375	29,956
Clearing Accounts	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other WIP	23,857	23,832	23,777	23,556	23,567	23,621	23,693	23,791	23,944	22,573	22,625	22,591	39,383	24,678
Non-Utility WIP/Unbundling Transition	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unamortized Rate Case	42	46	51	58	61	86	198	287	406	543	588	655	726	288
Unrecovered Gas Costs	(3,665)	2,254	2,205	1,392	(1,934)	(4,625)	(4,113)	(8,559)	(3,519)	(2,836)	(732)	3,909	(417)	(1,588)
Regulatory Derivative	5,856	151	(9,078)	(13,101)	(16,908)	(20,005)	(28,223)	1,517	9,001	14,416	19,873	21,091	23,360	612
Total Deferred Charges	36,899	34,597	21,648	27,108	21,398	16,557	47,517	62,443	78,107	84,848	94,434	99,942	120,636	57,395
Total Assets	\$662,158	\$667,276	\$666,668	\$684,365	\$675,473	\$709,990	\$754,681	\$735,078	\$735,833	\$735,794	\$737,320	\$726,851	\$767,029	\$712,194

**Peoples Gas System
2008 Balance Sheet
Dollars in Thousands**

	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	13 Month Average
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	112,591	111,193	114,541	117,818	110,670	112,135	113,349	106,441	107,414	108,555	106,531	110,314	114,568	111,240
Other	145	0	0	(3,348)	(3,348)	(2,407)	(2,387)	(2,367)	(2,347)	(2,327)	(2,307)	(2,287)	(2,266)	(1,942)
Total Stockholders Equity	268,286	266,743	270,091	270,020	262,872	265,278	266,512	259,624	260,617	261,778	259,774	263,577	267,852	264,848
FM Bonds & Long Term Notes	191,700	191,700	191,700	191,700	191,700	241,700	241,700	236,000	236,000	236,000	236,000	236,000	236,000	219,838
Revolving Credit	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Long Term Debt	(860)	(653)	(646)	(639)	(632)	(626)	(619)	(612)	(605)	(598)	(591)	(584)	(577)	(619)
Total Long Term Debt	191,040	191,047	191,054	191,061	191,068	241,074	241,081	235,388	235,395	235,402	235,409	235,416	235,423	219,220
Total Capitalization	459,326	457,790	461,145	461,081	453,939	506,353	507,593	495,012	496,012	497,180	495,183	498,993	503,275	484,068
Current & Accrued Liabilities														
Notes Payable	24,630	20,080	24,855	16,880	17,055	0	0	0	(1,925)	0	0	0	450	7,848
Accounts Payable	37,993	40,148	36,441	46,094	44,217	44,231	53,432	50,835	51,598	46,338	33,779	33,409	38,928	42,880
Accounts Payable Assoc. Companies	(778)	(755)	(12)	(627)	(561)	(61)	(292)	(4,498)	(2,955)	0	(1,982)	0	(2,211)	(1,133)
Accts. Payable Assoc. Co. Services	1,276	9,279	12,258	10,072	586	11,966	11,799	9,074	10,398	(0)	6,377	(0)	7,122	6,939
Customer Deposits - Current	4,662	4,635	4,654	4,663	4,625	4,565	4,509	4,492	4,435	4,432	4,391	4,355	4,303	4,517
Taxes Accrued - General	2,060	3,222	3,224	3,895	4,541	5,091	5,608	5,419	6,027	6,750	7,398	1,128	2,252	4,355
Taxes Accrued - Income	446	151	2,138	5,633	2,347	1,130	(3,279)	(3,626)	(3,335)	(1,948)	(2,674)	391	536	(161)
Interest Accrued	3,961	4,258	3,259	4,489	5,718	5,232	5,323	5,818	3,037	4,498	5,963	4,022	4,099	4,591
Dividends Declared	0	4,803	0	0	9,766	0	0	7,361	0	0	2,639	0	0	1,890
Tax Collections Payable	1,698	2,668	2,639	2,539	2,008	2,306	2,057	2,191	1,849	1,524	1,813	1,885	2,038	2,093
Inactive Deposits	381	398	288	298	317	154	179	235	252	274	290	290	302	277
Conservation Cost True Up	5,911	5,597	5,396	5,180	5,001	4,767	4,584	4,199	3,982	3,676	3,381	3,143	2,763	4,429
Non-Utility Accrued Liability	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Derivative Liability	6,291	1,633	0	5,451	5,451	0	0	5,468	9,895	14,431	19,873	21,091	23,360	8,688
Misc. Current Liabilities	9,152	10,668	10,942	10,497	10,724	11,079	11,146	11,431	11,555	11,447	11,065	11,375	9,945	10,848
Total Current & Accrued Liabilities	97,684	106,786	106,082	115,062	111,796	90,460	95,067	98,394	94,796	91,401	92,297	81,089	93,888	98,062
Current & Accrued Liabilities														
Customer Deposits	29,969	30,020	30,229	30,474	30,574	30,552	30,648	30,739	30,626	30,770	30,830	31,110	30,919	30,574
Customer Advances for Constr.	6,606	6,689	6,728	6,759	6,795	7,523	8,027	8,079	8,124	8,157	8,247	8,331	8,390	7,573
Other Deferred Credits	16,589	16,526	16,535	16,551	16,565	16,575	16,585	16,585	16,553	17,080	17,070	14,616	14,325	16,320
Accumulated Deferred Income Tax	33,349	30,831	27,336	36,107	37,642	40,371	78,825	68,339	71,526	73,239	75,733	74,758	81,131	56,091
Def. Inv. Tax Credit	12	8	4	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	2
Total Deferred Credits	86,525	84,074	80,830	89,891	91,577	95,021	134,086	123,741	126,830	129,247	131,880	128,814	134,765	110,580
Pensions & Benefits Reserve	18,623	18,625	18,612	18,331	18,161	18,157	17,935	17,931	18,195	17,967	17,960	17,955	35,101	19,504
Other Reserves	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Operating Reserves	18,623	18,625	18,612	18,331	18,161	18,157	17,935	17,931	18,195	17,967	17,960	17,955	35,101	19,504
Total Capital & Liabilities	\$662,158	\$667,276	\$666,668	\$684,365	\$675,473	\$709,990	\$754,681	\$735,078	\$735,833	\$735,794	\$737,320	\$726,851	\$767,029	\$712,194