



PEOPLES GAS

February 15, 2010

Mr. John Slemkewicz, Supervisor
Bureau of Rate Filings and Surveillance
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Mr. Slemkewicz:

Attached is the Rate of Return calculation of Peoples Gas System for the period ending **December 2009.**

Please let me know if you have any questions.

Respectfully,

Jeffrey S. Chronister
Utility Accounting Controller

JSC/av

Enclosures

cc: G. Gillette
S. Richards
D. Brown
P. Brown

S.Callahan
P. Edwards
D. Bacon
A. Watson

L. Binswanger
K. Floyd
H. Bruen

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OFFICE OF
ECONOMIC REGULATION
FLORIDA PUBLIC SERVICE
COMMISSION

**PEOPLES GAS SYSTEM
EARNINGS SURVEILLANCE REPORT SUMMARY
December 2009**

SCHEDULE 1

I. AVERAGE RATE OF RETURN (JURISDICTIONAL)	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments	(5) Pro Forma Adjusted
NET OPERATING INCOME	\$ 47,239	\$ 1,535	\$ 48,774	\$ (3,985)	\$ 44,789
AVERAGE RATE BASE	\$ 564,574	\$ (15,896)	\$ 548,678	\$ 0	\$ 548,678
AVERAGE RATE OF RETURN	8.37 %		8.89 %		8.16 %

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

LOW	8.00 %
MIDPOINT	8.48 %
HIGH	8.96 %

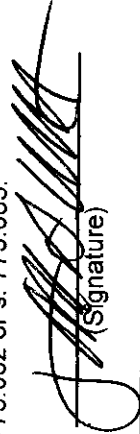
III. EARNED RETURN ON EQUITY

A. INCLUDING	FPSC	PRO FORMA
FLEX RATE REVENUES	ADJUSTED	ADJUSTED
	11.61 %	10.09 %
B. EXCLUDING		
FLEX RATE REVENUES	10.80 %	9.28 %

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.

Jeffrey S. Chronister, Utility Accounting Controller
(Name and Title)


(Signature)

2/12/10
(Date)

PSC/IFA13

**PEOPLES GAS SYSTEM
AVERAGE RATE BASE
December 2009**

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	988,904	5,249	426,319	8,736	559,088	229	21,319	580,646	(16,072)	564,574
FPSC ADJUSTMENTS:										
Property for Future Use						(229)		(229)		(229)
Temporary Cash Investment										
Notes Receivable										
Accounts Rec./Pay. - Assoc Companies										
Merchandise Inventory										
Other Accounts Receivable										
Non-Utility Allocation	(326)				(199)			(199)		(199)
Remove Regulatory Tax Asset			(128)							
Remove Unbundling Transition Charges										
Remove Non-Utility Accrued Liability										
Remove Non-Utility Martin Cty expansion							(115)	(115)		(115)
Remove Unamort. Debt Expense										
Remove Unrecovered Gas Cost										
Remove Dividends Declared										
Remove Unrec. Conservation Costs										
Remove Competitive Rate Adjustment										
Remove Unamortized Rate Case Expense										
Gain on Sale of Property										
Remove Acquis. Adjustment (WFNG)		(2,947)	(1,984)		(963)			(963)		(963)
Remove MSEA Adjustment							(469)	(469)		(469)
Other Comp. Income (Unsettled hedges)										
Remove Investment in Subsidiaries										
TOTAL FPSC ADJUSTMENTS	(326)	(2,947)	(2,112)		(1,161)	(229)	(584)	(1,974)	(13,922)	(15,896)
FPSC ADJUSTED	988,578	2,302	424,207	8,736	557,937	-	20,735	578,672	(29,994)	548,678
FLEX RATE REVENUES										
ADJUSTED FOR										
FLEX RATE REVENUES	988,578	2,302	424,207	8,736	557,937	-	20,735	578,672	(29,994)	548,678
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:										
TOTAL PRO FORMA ADJUSTMENTS										
PRO FORMA ADJUSTED	988,578	2,302	424,207	8,736	557,937	-	20,735	578,672	(29,994)	548,678

**PEOPLES GAS SYSTEM
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
December 2009**

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	232,926	(6,326)	(5,247)	221,353	40.34%	7.20	2.90	7.20	7.20	7.20	2.90	7.20	7.20	2.90
SHORT TERM DEBT	644	-	(15)	629	0.11%	1.08	0.00	1.08	1.08	1.08	0.00	1.08	1.08	0.00
RESIDENTIAL DEPOSITS	8,416	-	-	8,416	1.53%	6.00	0.09	6.00	6.00	6.00	0.09	6.00	6.00	0.09
COMMERCIAL DEPOSITS	27,685	-	-	27,685	5.05%	7.00	0.35	7.00	7.00	7.00	0.35	7.00	7.00	0.35
INACTIVE DEPOSITS	246	-	-	246	0.04%	-	-	-	-	-	-	-	-	-
COMMON EQUITY	266,230	2,200	(6,216)	262,214	47.79%	9.75	4.66	9.75	10.75	10.75	5.14	11.75	11.75	5.62
DEFERRED INCOME TAX	28,427	(300)	-	28,127	5.13%	-	-	-	-	-	-	-	-	-
TAX CREDITS - ZERO COST	8	8	-	8	0.00%	-	-	-	-	-	-	-	-	-
TOTAL	564,574	(4,417)	(11,478)	548,678	100.00%	-	-	-	-	-	-	-	-	-
				8.00							8.48			8.96

PEOPLES GAS SYSTEM
 EARNED RETURN ON COMMON EQUITY
 FPSC ADJUSTED BASIS
 December 2009

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

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	8.89 %	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(2.90) %	
SHORT TERM DEBT	0.00 %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.44) %	
TAX CREDITS-WEIGHTED COST (MIDPOINT)	0.00 %	
SUBTOTAL	<u>(3.34) %</u>	
TOTAL	5.55 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>47.79 %</u>	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u>11.61 %</u>	

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 46,649	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ <u>548,678</u>	(Schedule 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	8.50 %	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(2.90) %	
SHORT TERM DEBT	0.00 %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.44) %	
TAX CREDITS-WEIGHTED COST (MIDPOINT)	0.00 %	
SUBTOTAL	<u>(3.34) %</u>	
TOTAL	5.16 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>47.79 %</u>	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u>10.80 %</u>	

PEOPLES GAS SYSTEM
 EARNED RETURN ON COMMON EQUITY
 PRO FORMA ADJUSTED BASIS
 December 2009

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

PRO FORMA ADJUSTED AVERAGE EARNED RATE OF RETURN	8.16 % (Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:	
LONG TERM DEBT	(2.90) %
SHORT TERM DEBT	0.00 %
PREFERRED STOCK	0.00 %
CUSTOMER DEPOSITS	(0.44) %
TAX CREDITS-WEIGHTED COST (MIDPOINT)	0.00 %
SUBTOTAL	<u>(3.34) %</u>
TOTAL	4.82 %
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>47.79 %</u>
JURISDICTIONAL RETURN ON COMMON EQUITY	<u>10.09 %</u>

B. PRO FORMA AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY
 EXCLUDING FLEX RATE REVENUES

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 42,664 (Schedule 2, p. 2 of 2)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ 548,678 (Schedule 2, p. 1 of 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	7.78 %
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:	
LONG TERM DEBT	(2.90) %
SHORT TERM DEBT	0.00 %
PREFERRED STOCK	0.00 %
CUSTOMER DEPOSITS	(0.44) %
TAX CREDITS-WEIGHTED COST (MIDPOINT)	0.00 %
SUBTOTAL	<u>(3.34) %</u>
TOTAL	4.44 %
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>47.79 %</u>
JURISDICTIONAL RETURN ON COMMON EQUITY	<u>9.28 %</u>