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[REDACTED]  
PEOPLES GAS

August 16, 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 **June 2010**.

Please let me know if you have any questions.

Respectfully,



Paul Edwards  
Director Financial Reporting & Analysis

Enclosures

cc: Office of Public Counsel-J.R. Kelly

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**PEOPLES GAS SYSTEM  
EARNINGS SURVEILLANCE REPORT SUMMARY  
June 2010**

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) NET OPERATING INCOME	\$ 54,082	\$ 3,156	\$ 57,238	\$ (3,985)	\$ 53,253
AVERAGE RATE BASE	\$ 572,130	\$ (22,885)	\$ 549,245	\$ 0	\$ 549,245
AVERAGE RATE OF RETURN	9.45 %		10.42 %		9.70 %

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

LOW	7.96 %	FPSC ADJUSTED	PRO FORMA ADJUSTED
MIDPOINT	8.44 %	14.87 %	13.36 %
HIGH	8.92 %	B. EXCLUDING FLEX RATE REVENUES	14.04 % 12.54 %

**III. EARNED RETURN ON EQUITY**

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.

Paul Edwards, Director Financial Reporting & Analysis  
(Name and Title)

*Paul Edwards*  
(Signature)

8/4/10  
(Date)

ECONOMIC REGULATION  
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PEOPLES GAS SYSTEM  
EARNINGS SURVEILLANCE REPORT SUMMARY

PEOPLES GAS SYSTEM  
AVERAGE RATE BASE  
June 2010

	(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	1,010,811	5,249	442,608	8,971	564,481	229	14,607	579,317	(7,187)	572,130
<b>FPSC ADJUSTMENTS:</b>										
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	(337)		(141)		(196)			(196)		(196)
Remove Regulatory Tax Asset										
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)	(2,024)		(923)		(1,052)	(923)		(923)
Remove MSEA Adjustment										
Other Comp. Income (Unsettled hedges)										
Remove Investment in Subsidiaries										
<b>TOTAL FPSC ADJUSTMENTS</b>	(337)	(2,947)	(2,165)	-	(1,118)	(229)	(1,166)	(2,514)	(1,466)	(22,885)
FPSC ADJUSTED	1,010,474	2,302	440,443	8,971	563,363	-	13,441	576,803	(27,558)	549,245
<b>FLEX RATE REVENUES</b>										
ADJUSTED FOR										
FLEX RATE REVENUES	1,010,474	2,302	440,443	8,971	563,363	-	13,441	576,803	(27,558)	549,245
<b>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</b>										
TOTAL PRO FORMA ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-
PRO FORMA ADJUSTED	1,010,474	2,302	440,443	8,971	563,363	-	13,441	576,803	(27,558)	549,245

**PEOPLES GAS SYSTEM  
NET OPERATING INCOME  
June 2010**

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	514,418	279,835	82,268	46,047	37,614	11,921	3,651	-	-	460,336	54,082
FPSC ADJUSTMENTS:											
Remove Conservation Charges	(5,520)		(5,520)							(5,520)	
Non-Utility Allocation				(12)	0	5				(7)	7
Interest Synchronization						179				179	(179)
Parent Debt Adjustment						(380)				(380)	380
Remove Fuel Revenues	(280,583)	(279,835)			(748)					(280,583)	
Economic Development Adjustment											
Employee Activities			(7)			3				(4)	4
Intercompany Adjustment			(146)			56				(90)	90
Maintenance of General Plant			(16)			6				(10)	10
Maint. of Structures and Improvements			(15)			6				(9)	9
Lobbying included in Dues (AGA, FNGA)			(8)			3				(5)	5
Civic/Social Club Dues			(14)			6				(8)	8
Remove Acquisition Adj. Amortiz. (WFNG)			(0)	(80)						(80)	80
Gain on Sale of Property									(315)	(48)	49
Remove ITC Amortization										(315)	315
Provision			(4,000)			1,543				(2,457)	2,457
TOTAL FPSC ADJUSTMENTS	(286,103)	(279,835)	(9,727)	(92)	(748)	1,458	-	-	(315)	(289,259)	3,156
FPSC ADJUSTED	228,315	-	72,541	44,955	36,866	13,379	3,651	-	(315)	171,077	57,238
FLEX RATE REVENUES ADJUSTED FOR	(3,552)					(1,370)				(1,370)	(2,182)
FLEX RATE REVENUES	224,763	-	72,541	44,955	36,866	12,009	3,651	-	(315)	169,707	55,056
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:											
Deferred Tax True-up						3,985				3,985	(3,985)
TOTAL PRO FORMA ADJUSTMENTS						3,985				3,985	(3,985)
PRO FORMA ADJUSTED	228,315	-	72,541	44,955	36,866	17,364	3,651	-	(315)	175,062	53,253
PER BOOKS	39,905	23,054	10,309	3,809	2,600	294	(812)	-	-	39,254	651

PEOPLES GAS SYSTEM  
 CAPITAL STRUCTURE  
 FPSC ADJUSTED BASIS  
 June 2010

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	230,429	(5,754)	(7,872)	216,803	39.47%	7.12	2.81	7.12	2.81	7.12	2.81
SHORT TERM DEBT	679	-	(24)	655	0.12%	0.70	0.00	0.70	0.00	0.70	0.00
RESIDENTIAL DEPOSITS	9,868	-	-	9,868	1.80%	6.00	0.11	6.00	0.11	6.00	0.11
COMMERCIAL DEPOSITS	27,182	-	-	27,182	4.95%	7.00	0.35	7.00	0.35	7.00	0.35
INACTIVE DEPOSITS	219	-	-	219	0.04%	-	-	-	-	-	-
COMMON EQUITY	272,828	894	(9,591)	264,131	48.09%	9.75	4.69	10.75	5.17	11.75	5.65
DEFERRED INCOME TAX	30,925	(541)	-	30,384	5.53%	-	-	-	-	-	-
TAX CREDITS - ZERO COST	-	3	-	3	0.00%	-	-	-	-	-	-
TOTAL	572,130	(5,398)	(17,486)	549,245	100.00%	-	7.96	-	8.44	-	8.92

SCHEDULE 5

PEOPLES GAS SYSTEM  
 EARNED RETURN ON COMMON EQUITY  
 FPSC ADJUSTED BASIS  
 June 2010

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

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	10.42 % (Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:	
LONG TERM DEBT	(2.81) %
SHORT TERM DEBT	0.00 %
PREFERRED STOCK	0.00 %
CUSTOMER DEPOSITS	(0.46) %
TAX CREDITS-WEIGHTED COST (MIDPOINT)	0.00 %
SUBTOTAL	<u>(3.27) %</u>
TOTAL	7.15 %
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>48.09 %</u>
JURISDICTIONAL RETURN ON COMMON EQUITY	<u>14.87 %</u>

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 55,056 (Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ <u>549,245 (Schedule 2)</u>
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	10.02 %
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:	
LONG TERM DEBT	(2.81) %
SHORT TERM DEBT	0.00 %
PREFERRED STOCK	0.00 %
CUSTOMER DEPOSITS	(0.46) %
TAX CREDITS-WEIGHTED COST (MIDPOINT)	0.00 %
SUBTOTAL	<u>(3.27) %</u>
TOTAL	6.75 %
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>48.09 %</u>
JURISDICTIONAL RETURN ON COMMON EQUITY	<u>14.04 %</u>