

PEOPLES GAS

February 15, 2011

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

PEOPLES GAS  
PUBLIC SERVICE  
COMMISSION  
REGULATION  
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Dear Mr. Slemkewicz :

Attached is the Rate of Return calculation of Peoples Gas System for the period ending **December 2010**.

The ROE reported in this filing reflects provisions for the elements as contemplated in the Stipulation and Settlement Agreement between Peoples Gas and the Office of Public Counsel approved by the Commission in Order No. PSC-11-0111-PAA-GU, issued February 10, 2011 in Docket No. 100462-GU. As a result of recording the provisions described in the aforementioned Order Peoples Gas achieved ROE is within the range authorized in Docket No. 080318-GU<sup>1</sup>.

Please let me know if you have any questions.

Respectfully,

  
Jeffrey S. Chronister

Controller

Enclosures

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

PEOPLES GAS  
PUBLIC SERVICE  
COMMISSION  
REGULATION  
11 FEB 15 PM 3:20

<sup>1</sup> Order No. PSC-09-0411-FOF-GU, issued June 9, 2009, in Docket No. 080318-GU, In re: Petition for Rate Increase by Peoples Gas System.

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

|   | (1)<br>Actual<br>Per Books | (2)<br>FPSC<br>Adjustments | (3)<br>FPSC<br>Adjusted | (4)<br>Pro Forma<br>Adjustments | (5)<br>Pro Forma<br>Adjusted |
|---|----------------------------|----------------------------|-------------------------|---------------------------------|------------------------------|
| <b>I. AVERAGE RATE OF RETURN<br/>(JURISDICTIONAL)</b> |                            |                            |                         |                                 |                              |
| NET OPERATING INCOME                                  | \$ 49,708                  | \$ (543)                   | \$ 49,165               | \$ 0                            | \$ 49,165                    |
| AVERAGE RATE BASE                                     | \$ 580,618                 | \$ (23,262)                | \$ 557,356              | \$ 0                            | \$ 557,356                   |
| AVERAGE RATE OF RETURN                                | 8.56 %                     |                            | 8.82 %                  |                                 | 8.82 %                       |

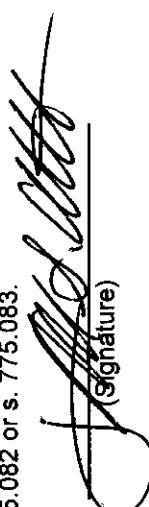
**III. EARNED RETURN ON EQUITY**

|   | LOW    | MIDPOINT | HIGH   | A. INCLUDING<br>FLEX RATE REVENUES | B. EXCLUDING<br>FLEX RATE REVENUES |
|---|--------|----------|--------|------------------------------------|------------------------------------|
| <b>II. REQUIRED RATES OF RETURN<br/>AVERAGE CAPITAL STRUCTURE<br/>(FPSC ADJUSTED BASIS)</b> | 7.87 % | 8.35 %   | 8.83 % | 11.73 %                            | 10.90 %                            |
|   |        |          |        | PRO FORMA<br>ADJUSTED              | 11.73 %                            |
|   |        |          |        |                                    | 10.90 %                            |

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, Controller  
(Name and Title)

 (Signature)

2/14/11 (Date)

PEOPLES GAS SYSTEM  
AVERAGE RATE BASE  
December 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   | 1,028,431        | 5,249                        | 458,990                                 | 9,182                              | 565,508              | 229                          | 13,956                        | 579,693           | 925             | 580,618         |
| <u>FPSC ADJUSTMENTS:</u>                                  |                  |                              |   |                                    |                      |                              |                               |                   |                 |                 |
| Property for Future Use                                   |                  |                              |   |                                    |                      | (229)                        |                               | (229)             |                 | (229)           |
| Temporary Cash Investment                                 |                  |                              |   |                                    |                      |                              |                               |                   |                 |                 |
| Notes Receivable  |                  |                              |   |                                    |                      |                              |                               |                   |                 |                 |
| Accounts Rec./Pay. - Assoc Companies                      |                  |                              |   |                                    |                      |                              |                               |                   |                 |                 |
| Merchandise Inventory                                     |                  |                              |   |                                    |                      |                              |                               |                   |                 |                 |
| Other Accounts Receivable                                 | (365)            |                              |   |                                    |                      |                              |                               |                   |                 | (365)           |
| Non-Utility Allocation                                    |                  |                              | (152)                                   |                                    | (212)                |                              |                               | (212)             |                 | (212)           |
| 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                              |                  |                              |   |                                    |                      |                              |                               |                   | (2,100)         | (2,100)         |
| 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)                      | (2,064)                                 |                                    | (883)                |                              |                               | (883)             |                 | (883)           |
| Remove MSEA Adjustment                                    |                  |                              |   |                                    |                      |                              | (1,190)                       | (1,190)           |                 | (1,190)         |
| Other Comp. Income (Unsettled hedges)                     |                  |                              |   |                                    |                      |                              |                               |                   |                 |                 |
| Remove Investment in Subsidiaries                         |                  |                              |   |                                    |                      |                              |                               |                   |                 |                 |
| TOTAL FPSC ADJUSTMENTS                                    | (365)            | (2,947)                      | (2,216)                                 |                                    | (1,095)              | (229)                        | (1,305)                       | (2,630)           | (1,434)         | (23,262)        |
| FPSC ADJUSTED   | 1,028,066        | 2,302                        | 456,774                                 | 9,182                              | 564,413              | -                            | 12,651                        | 577,063           | (19,707)        | 557,356         |
| <u>FLEX RATE REVENUES</u>                                 |                  |                              |   |                                    |                      |                              |                               |                   |                 |                 |
| ADJUSTED FOR  |                  |                              |   |                                    |                      |                              |                               |                   |                 |                 |
| FLEX RATE REVENUES  | 1,028,066        | 2,302                        | 456,774                                 | 9,182                              | 564,413              | -                            | 12,651                        | 577,063           | (19,707)        | 557,356         |
| PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS: |                  |                              |   |                                    |                      |                              |                               |                   |                 |                 |
| TOTAL PRO FORMA ADJUSTMENTS                               | -                | -                            | -                                       | -                                  | -                    | -                            | -                             | -                 | -               | -               |
| PRO FORMA ADJUSTED  | 1,028,066        | 2,302                        | 456,774                                 | 9,182                              | 564,413              | -                            | 12,651                        | 577,063           | (19,707)        | 557,356         |



SCHEDULE 4

PEOPLES GAS SYSTEM  
CAPITAL STRUCTURE  
FPSC ADJUSTED BASIS  
December 2010

| 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          | 228,339   | (5,200)     | (7,777)  | 215,362  | 38.64%    | 7.04          | 2.72              | 7.04          | 2.72              | 7.04          | 2.72              |
| SHORT TERM DEBT         | 2,721     | -           | (95)     | 2,626    | 0.47%     | 0.71          | 0.00              | 0.71          | 0.00              | 0.71          | 0.00              |
| RESIDENTIAL DEPOSITS    | 10,328    | -           | -        | 10,328   | 1.85%     | 6.00          | 0.11              | 6.00          | 0.11              | 6.00          | 0.11              |
| COMMERCIAL DEPOSITS     | 27,457    | -           | -        | 27,457   | 4.93%     | 7.00          | 0.35              | 7.00          | 0.35              | 7.00          | 0.35              |
| INACTIVE DEPOSITS       | 224       | -           | -        | 224      | 0.04%     | -             | -                 | -             | -                 | -             | -                 |
| COMMON EQUITY           | 277,578   | 94          | (9,677)  | 267,995  | 48.08%    | 9.75          | 4.69              | 10.75         | 5.17              | 11.75         | 5.65              |
| DEFERRED INCOME TAX     | 33,971    | (609)       | -        | 33,362   | 5.99%     | -             | -                 | -             | -                 | -             | -                 |
| TAX CREDITS - ZERO COST |           | 1           | -        | 1        | 0.00%     | -             | -                 | -             | -                 | -             | -                 |
| TOTAL                   | 580,618   | (5,713)     | (17,548) | 557,356  | 100.00%   |               |                   |               |                   |               |                   |
|                         |           |             |          |          |           |               | 7.87              |               | 8.35              |               | 8.83              |

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

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

|  |               |   |              |
|--|---------------|---|--------------|
| FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN                      | 8.82          | % | (Schedule 1) |
| LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR: |               |   |              |
| LONG TERM DEBT   | (2.72)        | % |              |
| SHORT TERM DEBT  | 0.00          | % |              |
| PREFERRED STOCK  | 0.00          | % |              |
| CUSTOMER DEPOSITS  | (0.46)        | % |              |
| TAX CREDITS-WEIGHTED COST (MIDPOINT)                             | 0.00          | % |              |
| SUBTOTAL   | <u>(3.18)</u> | % |              |
| TOTAL  | 5.64          | % |              |
| DIVIDED BY RECONCILED COMMON EQUITY RATIO                        | <u>48.08</u>  | % |              |
| JURISDICTIONAL RETURN ON COMMON EQUITY                           | <u>11.73</u>  | % |              |

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

|  |    |                |              |
|--|----|----------------|--------------|
| NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES               | \$ | 46,940         | (Schedule 3) |
| RATE BASE EXCLUDING FLEX RATE REVENUES                           | \$ | <u>557,356</u> | (Schedule 2) |
| FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN                      |    | <u>8.42</u>    | %            |
| LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR: |    |                |              |
| LONG TERM DEBT   |    | (2.72)         | %            |
| SHORT TERM DEBT  |    | 0.00           | %            |
| PREFERRED STOCK  |    | 0.00           | %            |
| CUSTOMER DEPOSITS  |    | (0.46)         | %            |
| TAX CREDITS-WEIGHTED COST (MIDPOINT)                             |    | 0.00           | %            |
| SUBTOTAL   |    | <u>(3.18)</u>  | %            |
| TOTAL  |    | 5.24           | %            |
| DIVIDED BY RECONCILED COMMON EQUITY RATIO                        |    | <u>48.08</u>   | %            |
| JURISDICTIONAL RETURN ON COMMON EQUITY                           |    | <u>10.90</u>   | %            |