



**November 15, 2018**

Bart Fletcher, Public Utilities Supervisor  
Division of Accounting and Finance  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Dear Mr. Fletcher:

Attached is the Rate of Return calculation of Peoples Gas System for the period ending **September 2018**.

Please let me know if you have any questions.

Respectfully,

Sean P. Hillary  
Controller

Enclosures

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

**PEOPLES GAS SYSTEM  
EARNINGS SURVEILLANCE REPORT SUMMARY  
SEPTEMBER 2018  
(In \$ Thousands)**

SCHEDULE 1

	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments	(5) Pro Forma Adjusted
<b>I. AVERAGE RATE OF RETURN (JURISDICTIONAL)</b>					
NET OPERATING INCOME	\$ 58,584	\$ (4,313)	\$ 54,271	\$ 0	\$ 54,271
AVERAGE RATE BASE	\$ 934,683	\$ (84,620)	\$ 850,063	\$ 0	\$ 850,063
AVERAGE RATE OF RETURN	6.27 %		6.38 %		6.38 %

<b>III. EARNED RETURN ON EQUITY</b>			
		FPSC ADJUSTED	PRO FORMA ADJUSTED
<b>II. REQUIRED RATES OF RETURN AVERAGE CAPITAL STRUCTURE (FPSC ADJUSTED BASIS)</b>			
LOW	5.51 %		
MIDPOINT	6.14 %	11.32 %	11.32 %
HIGH	6.56 %	10.87 %	10.87 %

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.

Sean P. Hillary, Controller  
(Name and Title)

  
(Signature)

11/12/18  
(Date)

PSC/AFA13

**PEOPLES GAS SYSTEM  
AVERAGE RATE BASE  
SEPTEMBER 2018  
(In \$ Thousands)**

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
<b>PER BOOKS</b>	1,644,201	5,032	729,183	9,937	910,113	1,940	24,552	936,605	(1,922)	934,683
<b>FPSC ADJUSTMENTS:</b>										
Property for Future Use						(1,940)		(1,940)		(1,940)
Temporary Cash Investment									(3)	(3)
Notes Receivable										
Accounts Rec./Pay. - Assoc Companies										
Merchandise Inventory										
Other Accounts Receivable	(476)		(141)		(335)			(335)		(3,855)
Non-Utility Allocation										(335)
Remove Unbundling Transition Charges										
Remove Non-Utility Accrued Liability										
Remove Non-Utility Martin Cty expansion							(115)	(115)		(115)
Remove Unamort. Debt Expense										(1,279)
Remove Unrecovered Gas Cost										
Remove Dividends Declared										
Remove Unrec. Conservation Costs										
Remove Unrec. CIBSR Costs										
Remove Competitive Rate Adjustment										
Remove Unamortized Rate Case Expense										
Gain on Sale of Property										
Remove Acquis. Adjustment (WFNG)		(2,947)	(2,681)		(266)			(266)		(266)
Remove MSEA Adjustment										
Cast Iron/Bare Steel Rider (CIBSR)	(67,730)		(3,499)		(64,232)		(7,399)	(71,631)		(71,631)
Other Comp. Income (Unsettled hedges)										
Remove Investment in Subsidiaries										
<b>TOTAL FPSC ADJUSTMENTS</b>	<u>(68,206)</u>	<u>(2,947)</u>	<u>(6,321)</u>		<u>(64,832)</u>	<u>(1,940)</u>	<u>(7,514)</u>	<u>(74,286)</u>	<u>(1,289)</u>	<u>(1,283)</u>
<b>FPSC ADJUSTED</b>	<u>1,575,995</u>	<u>2,085</u>	<u>722,862</u>	<u>9,937</u>	<u>845,281</u>		<u>17,038</u>	<u>862,319</u>	<u>(12,255)</u>	<u>850,063</u>
<b>FLEX RATE REVENUES</b>										
<b>ADJUSTED FOR</b>										
<b>FLEX RATE REVENUES</b>	<u>1,575,995</u>	<u>2,085</u>	<u>722,862</u>	<u>9,937</u>	<u>845,281</u>		<u>17,038</u>	<u>862,319</u>	<u>(12,255)</u>	<u>850,063</u>
<b>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</b>										
<b>TOTAL PRO FORMA ADJUSTMENTS</b>										
<b>PRO FORMA ADJUSTED</b>	<u>1,575,995</u>	<u>2,085</u>	<u>722,862</u>	<u>9,937</u>	<u>845,281</u>		<u>17,038</u>	<u>862,319</u>	<u>(12,255)</u>	<u>850,063</u>

**PEOPLES GAS SYSTEM  
NET OPERATING INCOME  
SEPTEMBER 2018  
(In \$ Thousands)**

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
<b>PER BOOKS</b>	465,634	176,683	116,452	59,014	39,308	8,787	8,947	-	(2,141)	407,050	58,584
<b>FPSC ADJUSTMENTS:</b>											
Remove Conservation Charges	(19,677)		(19,677)	(18)						(19,677)	(0)
Non-Utility Allocation						5				(13)	13
Interest Synchronization						268				268	(268)
Parent Debt Adjustment											
Remove Fuel Revenues	(177,218)	(176,683)			(535)					(177,218)	-
Economic Development Adjustment											
Employee Activities			(18)							(13)	13
Intercompany Adjustment			(68)							(48)	48
Maintenance of General Plant			(8)			20				(6)	6
Maint. of Structures and Improvements			(39)			11				(28)	28
Lobbying included in Dues (AGA, FNGA)			(11)			3				(8)	8
Civic/Social Club Dues			(79)			23				(56)	56
Remove Acquisition Adj. Amortiz. (WFNG)				(80)						(57)	57
Gain on Sale of Property						23				(17)	(43)
Lease of PHFFU	(60)										
Remove ITC Amortization						(17)					
Cast Iron/Bare Steel Rider (CIBSR)	(1,315)		1,273	(1,578)	(1,011)					(1,315)	0
Cast Iron/Bare Steel Rider (CIBSR) - ROI	(5,928)									(1,698)	(4,230)
OSS Adjustment						(1,698)					
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(204,198)</b>	<b>(176,683)</b>	<b>(18,626)</b>	<b>(1,675)</b>	<b>(1,546)</b>	<b>(1,355)</b>				<b>(199,885)</b>	<b>(4,313)</b>
<b>FPSC ADJUSTED</b>	<b>261,436</b>		<b>97,826</b>	<b>57,339</b>	<b>37,762</b>	<b>7,432</b>	<b>8,947</b>		<b>(2,141)</b>	<b>207,165</b>	<b>54,271</b>
<b>FLEX RATE REVENUES ADJUSTED FOR</b>	<b>(2,292)</b>					<b>(657)</b>				<b>(657)</b>	<b>(1,635)</b>
<b>FLEX RATE REVENUES</b>	<b>259,144</b>		<b>97,826</b>	<b>57,339</b>	<b>37,762</b>	<b>6,775</b>	<b>8,947</b>		<b>(2,141)</b>	<b>206,508</b>	<b>52,636</b>
<b>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</b>											
Deferred Tax True-up											
<b>TOTAL PRO FORMA ADJUSTMENTS</b>											
<b>PRO FORMA ADJUSTED</b>	<b>261,436</b>		<b>97,826</b>	<b>57,339</b>	<b>37,762</b>	<b>7,432</b>	<b>8,947</b>		<b>(2,141)</b>	<b>207,165</b>	<b>54,271</b>
<b>PER BOOKS</b>											
<b>CURRENT MONTH AMOUNT</b>	<b>36,338</b>	<b>14,237</b>	<b>2,713</b>	<b>10,739</b>	<b>2,926</b>	<b>433</b>	<b>837</b>			<b>31,885</b>	<b>4,453</b>

SCHEDULE 4

PEOPLES GAS SYSTEM  
CAPITAL STRUCTURE  
FPSC ADJUSTED BASIS  
SEPTEMBER 2018  
(In \$ Thousands)

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	265,122	(1,928)	(29,448)	233,746	27.50%	5.13	1.41	5.13	1.41	5.13	1.41
SHORT TERM DEBT	49,384		(5,593)	44,391	5.22%	2.21	0.12	2.21	0.12	2.21	0.12
RESIDENTIAL DEPOSITS	6,601		-	6,601	0.78%	2.00	0.02	2.00	0.02	2.00	0.02
COMMERCIAL DEPOSITS	19,979		-	19,979	2.35%	3.00	0.07	3.00	0.07	3.00	0.07
INACTIVE DEPOSITS	242		-	242	0.03%						
COMMON EQUITY	404,595	(1,810)	(45,066)	357,718	42.08%	9.25	3.89	10.75	4.52	11.75	4.94
DEFERRED INCOME TAX	188,160	(775)	-	187,385	22.04%						
TAX CREDITS - ZERO COST					0.00%						
TOTAL	934,683	(4,513)	(80,107)	850,063	100.00%		5.51		6.14		6.56

PEOPLES GAS SYSTEM  
 EARNED RETURN ON COMMON EQUITY  
 FPSC ADJUSTED BASIS  
 SEPTEMBER 2018  
 (In \$ Thousands)

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

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN		
LESS: RECONCILED AVERAGE JURISDICTIONAL		
WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.41) %	
SHORT TERM DEBT	(0.12) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.09) %	
TAX CREDITS-WEIGHTED COST (MIDPOINT)	0.00 %	
SUBTOTAL	<u>(1.62) %</u>	<u>6.38 %</u> (Schedule 1)
TOTAL	4.76 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>42.08 %</u>	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u>11.32 %</u>	

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 52,636	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ 850,063	(Schedule 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN		
LESS: RECONCILED AVERAGE JURISDICTIONAL		
WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.41) %	
SHORT TERM DEBT	(0.12) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.09) %	
TAX CREDITS-WEIGHTED COST (MIDPOINT)	0.00 %	
SUBTOTAL	<u>(1.62) %</u>	<u>6.19 %</u>
TOTAL	4.57 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>42.08 %</u>	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u>10.87 %</u>	