



PEOPLES GAS

March 31, 1997

Ms. Blanca S. Bayo, Director  
Division of Records & Reporting  
Florida Public Service Commission  
2540 Shumard Oaks Blvd.  
Tallahassee, Florida 32399-0872

RE: Peoples Gas System, Inc.  
Earnings Review Audit  
Audit Control #97-050-2-1

Dear Ms. Bayo:

The following are the responses of Peoples Gas to the audit disclosures in the above referenced earnings review audit:

Audit Disclosure #1

Peoples Gas agrees with this disclosure.

Audit Disclosure #2

Peoples Gas accepts this disclosure for purposes of this audit review.

Audit Disclosure #3

Peoples Gas agrees with this disclosure.

Audit Disclosure #4

Company Response: Outside Consultant Service Expense

While Peoples Gas does not disagree with the auditor's Statement of Facts regarding expenditures on outside consultants in 1996, we strongly disagree with the auditor's Statement of Opinion that the company should amortize the expense of these consulting projects over some period greater than one year.

The auditor is correct that Peoples Gas and its customers should benefit from these projects over some period greater than the current year. That, however, is the case with many utility expenditures. Repairs to facilities, new tires for vehicles, even employee pay raises carry benefits for both today and the future. Those expenses, however are properly reported as expenses in the

- ACK \_\_\_\_\_
- AFA   |
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
- EAG   |
- LEG   |
- LIN \_\_\_\_\_
- OPC \_\_\_\_\_
- RCH \_\_\_\_\_
- SEC   |   PEOPLES GAS
- WAS \_\_\_\_\_ RO. BOX 2562
- OTH \_\_\_\_\_ TAMPA, FL 33601-2562

813-273-0074

AN EQUAL OPPORTUNITY COMPANY

DOCUMENT NUMBER-DATE

06605 JUL-15

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Ms. Blanca S. Bayo, Director  
March 31, 1997  
Page 2

Audit Disclosure #4 (Cont'd.)

Company Response: Outside Consultant Service Expense

current period. Peoples Gas considers the expense of retaining outside consultants to be another expense that is simply a part of prudent management in today's business climate.

Today, perhaps even more than in the past, a prudently managed company must continually review its organizational structure, its practices and procedures, and its fundamental understanding of the businesses in which it is engaged. The gas industry and Peoples Gas face changes in complexity of doing business and changes in intensity of competition. We anticipate that change in the industry and the company will continue into the foreseeable future. In future years, Peoples Gas may not have outside consultant expenses dealing with the same three matters as in 1996, but there will be other similar needs for consultants with expertise outside Peoples Gas.

Audit Disclosure #5

Company Response: Director Fees Paid to Employees


This audit disclosure is presented without comment. Peoples Gas believes the disclosure is inappropriate and that no adjustment should be made based on the disclosure. The Company has two reasons for this position.

First, these expenses are paid to employees in recognition of services they performed as Directors of the Company aside from and in addition to their regular duties as employees. Second, these expenses are accepted without adjustment in the Company's last rate case. Adjustments made on surveillance reports are to be the same as those made in the Company's last rate case.

Audit Disclosure #6

Peoples Gas accepts this disclosure for purposes of this review.

Sincerely,



Francis J. Sward  
Vice President - Accounting

FJS:vea

PEOPLES GAS SYSTEM, INC.  
Statement of Income and Retained Earnings  
(\$ Thousands)

----- C U R R E N T M O N T H -----					----- Y E A R T O D A T E -----					12 MONTHS ENDED --CURRENT MONTH--	
ACTUAL	BUDGET	ACTUAL B/(W)THAN BUDGET	LAST YEAR	ACTUAL B/(W)THAN LAST YEAR	DESCRIPTION	ACTUAL	BUDGET	ACTUAL B/(W)THAN BUDGET	LAST YEAR	CURRENT YEAR	LAST YEAR
24,085	22,084	2,001	22,300	1,785	OPERATING REVENUES	60,937	56,385	4,552	54,366	258,671	209,138
11,766	10,386	(1,380)	10,966	(800)	COST OF PRODUCT	29,605	26,051	(3,554)	25,947	130,139	98,514
12,319	11,698	621	11,334	985	NET REVENUES	31,332	30,334	998	28,419	128,532	110,624
OTHER OPER. REV. DED											
4,592	4,669	77	4,711	119	O & M EXPENSE	13,784	13,397	(387)	13,993	57,533	56,720
1,467	1,537	70	1,377	(90)	DEPRECIATION EXP.	4,399	4,590	191	4,126	17,089	16,064
5	8	3	7	2	AMORT-LEASE IMPROV	15	23	8	22	74	82
6	6		6		-ACQ. ADJ.	19	18	(1)	19	77	77
1,942	1,998	56	664	(1,278)	TAXES-OTH. THAN INC	5,109	5,151	42	1,833	21,730	7,183
1,056	815	(241)	1,130	74	INC. TAXES-FEDERAL	1,536	1,363	(173)	1,646	5,751	5,674
175	136	(39)	188	13	-STATE	255	227	(28)	274	935	938
105	69	(36)	116	11	DEF. TAXES-FEDERAL	314	207	(107)	347	1,606	1,293
17	11	(6)	19	2	-STATE	52	33	(19)	58	237	216
					INVEST. TAX CR-NET					(7)	(7)
9,365	9,249	(116)	8,218	(1,147)	TOTAL OP. REV. DED	25,483	25,009	(474)	22,318	105,025	88,240
2,954	2,449	505	3,116	(162)	NET UTIL. OPER. INC.	5,849	5,325	524	6,101	23,507	22,384

PEOPLES GAS SYSTEM, INC.  
Statement of Income and Retained Earnings

(\$ Thousands)

C U R R E N T M O N T H				Y E A R T O D A T E				12 MONTHS ENDED --CURRENT MONTH--			
ACTUAL	BUDGET	B/(W)THAN BUDGET	LAST YEAR	ACTUAL	BUDGET	B/(W)THAN BUDGET	LAST YEAR	CURRENT YEAR	CURRENT YEAR	LAST YEAR	LAST YEAR
5	25	2	66	17	75	17	199	511	511	505	51
OTHER INC. ADDED:											
OTHER INCOME:											
INT. ADIV. INCOME											
MISC. NON-OPER. INC											
				1		1					
OTHER INCOME DED:											
MISC. INC. DED.											
CURRENT & DEFER:											
INC. TAXES-FEDERAL											
-STATE											
				50		25	130	310	310	435	
(6)	(8)	(2)	45	(11)	(24)	(13)	23	66	66	39	
(1)	(1)		7	(2)	(3)	(1)	4	11	11	7	
(11)	(16)	5	13	(19)	(48)	29	42	125	125	75	
OTHER INCADED-NET											
2,903	2,833	510	3,129	5,830	5,277	553	6,103	23,632	22,459		
INTEREST CHANGES:											
-L.T. NOTES											
-CR. LINES											
AMORT-DEBT DISC/EX											
INTERCO INT-INC/EXP											
INTEREST-OTHER											
547	547	(2)	555	1,640	1,640	(2)	1,666	6,613	6,774	6,774	
51	49		54	149	147		160	509	516	516	
7	7		8	21	21		23	87	92	92	
43	37	14	48	139	154	15	121	466	421	421	
151	190	(11)	136	463	450	(13)	429	2,008	1,865	1,865	
799	810	11	801	2,412	2,412		2,399	9,763	9,468		
TOTAL INT. CHGS											
2,144	1,623	521	2,328	3,418	2,865	553	3,744	13,869	12,991		
NET INCOME											
RETAINED EARNINGS:											
BEGINNING											
NET INCOME											
DIV. DECL ARLD											
ENDING											
				90,689	90,689	553	86,492	90,236	87,245		
				3,418	2,865	553	3,744	13,069	12,991		
							(10,000)	(10,000)	(10,000)		
				94,107	93,554	553	90,236	94,105	90,236		

\* Interest used for surveillance # 9210  
Interest reconciliation # 9210