



PEOPLES GAS

DISTRIBUTION CENTER

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April 26, 2002

The Honorable Lila A. Jaber, Chairman  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

020384-GU

Re: Test Year Notification Pursuant to Rule 26-7.140 F.A.C.

Dear Madam Chairman Jaber:

Peoples Gas System ("Peoples" or the "Company") hereby notifies the Commission that it intends to seek general rate relief pursuant to the provisions of Section 366.06 (3), Florida Statutes, as soon as the new rate schedules, the petition relating thereto, and the minimum filing requirements specified in Rule 25-7.039, F.A.C. can be completed and placed in proper form. The Company contemplates a filing date on or before June 30, 2002. In such proceeding, the Company contemplates using a projected test year ending December 31, 2003, based upon the historic base year ended December 31, 2001. A projected test year of December 31, 2003 is appropriate since it will match projected revenues with projected costs and investments required to provide service to customers during the period immediately following the anticipated final order in the case.

Peoples' last rate case (Docket No.911150-GU) was filed on January 31, 1992 with a final order being issued on September 3, 1992. In that docket, the Commission authorized the Company to revise its rates and charges so as to produce an overall return on equity within the range of 11% to 13%, with a midpoint of 12%. Subsequent to this order, the Company and the Commission reached an agreement to reduce the authorized return on equity to a range of 10.25% to 12.25%, with a midpoint of 11.25%, to be "...more reflective of current market conditions" (Docket No. 931101-GU, Order No. PSC-93-1773-FOF-GU, issued December 10, 1993). The Company's achieved return on equity as of December 31, 2001 was 10.03%, with further erosion of earnings expected. Thus, the Company finds it necessary to seek rate relief from this Commission.

In the 10 years since Peoples' last rate case, many factors have contributed to the necessity for the Company to now seek rate relief. The Consumer Price Index during this period has increased more than 30% which has not only required that the Company pay more for the goods and services it purchases, but has also contributed to a steady increase in the level of the Company's direct and indirect payroll costs. Additionally, health care costs continue to escalate at a rate significantly higher than that of inflation. During this 10-year period, there have also been major changes in accounting regulations as well as

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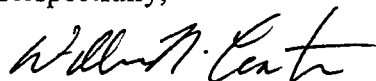
increases in various taxes, all of which have contributed to the increase in the cost to provide service to our customers.

In spite of increased costs, the Company has been able to continue to expand its pipeline distribution system in order to make natural gas available as an energy choice to more customers. Since its last rate case, the Company, through growth and acquisition, has expanded its pipeline system from approximately 5,000 miles to approximately 9,000 miles and has added more than 80,000 residential customers and approximately 7,000 commercial and industrial customers.

During the last 10 years, Peoples has made substantial efforts to control expense levels and avoid the need for additional rate relief. A restructuring of the Company's field operations combined 16 divisional operating units into 4 regional operating units. This resulted in consolidation of both customer service operations and management oversight. Through the restructuring, Peoples was able to reduce its work force by over 200 people, a reduction of more than 15%. Throughout the restructuring, Peoples has maintained its traditionally high levels of customer service (as measured by customer satisfaction surveys and PSC complaint activity), as well as outstanding safety record. Through this and other measures, Peoples has been able to reduce its annual operating and maintenance expense from \$253 per customer at the time of the Company's last rate case to \$197 per customer currently. While these efforts have been extremely successful in allowing Peoples to avoid any rate increases for the past 10 years, the combination of continued growth and inflation now cause us to seek rate relief.

Peoples operates in an extremely competitive energy environment, and the decision to petition for rate relief is not something that we take lightly. We strongly believe, however, that an increase in rates is necessary in order for the Company to continue to maintain both its high quality of service and its financial integrity.

Respectfully,



William N. Cantrell  
President, Peoples Gas System

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cc: Honorable J. Terry Deason, Commissioner  
Honorable Braulio L. Baez, Commissioner  
Honorable Michael A. Palecki, Commissioner  
Honorable Rudy Bradley, Commissioner  
Dr. Mary A. Bane, Executive Director  
Mr. Harold McLean, General Counsel  
Mr. Timothy J. Devlin, Director of Economic Regulation  
Ms. Blanca S. Bayo, Director of Commission Clerk and Administrative Services