

ORIGINAL



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October 21, 2002

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COMMISSION
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Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

Re: Docket No. 020384-GU - Application for a rate increase by Tampa
Electric Company d/b/a PEOPLES GAS SYSTEM

Dear Ms. Bayo:

I enclose for filing in the above-referenced docket on behalf of the Citizens of the State of Florida, the original and fifteen (15) copies (all redacted), plus one (1) copy (not redacted), of the testimony and exhibits of Ms. Donna DeRonne and Mr. William Schultz; and the original and fifteen (15) copies of the testimony and exhibits of Mr. Mark Cicchetti, none of which is redacted.

Citizens consider this filing to be the requisite Notice to all parties of record of Citizens' intent to use information claimed by Peoples Gas System to be proprietary confidential business information as that term is defined in section 366.093, Florida Statutes (2001). The Citizens also intend to assure that the confidential nature of any information claimed by Peoples to be proprietary confidential business information is preserved as required by statute by following the procedure described by the Prehearing Officer in his Order Establishing Procedure, issued July 30, 2002.

- AUS VANDIVER
- CAF
- CMP
- COM Story transcript
- CTR
- ECR SLEMKEWICZ
- GCL Vining
- OPC
- MMS
- SEC
- OTH

Please acknowledge your receipt, and the date, of this filing on the duplicate copy of this letter and return the letter to me in the enclosed self-addressed envelope.

Thank you for your assistance,

11422-02 thru 11426-02

Sincerely,

H F. Rick Mann
Associate Public Counsel

RECEIVED & FILED


Mann

FPSC-BUREAU OF RECORDS

**DOCKET NO. 020384-GU
CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S.

Mail or hand-delivery* to the following parties on this 21th day of October, 2002.



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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in gas)
rates for Peoples Gas System)
_____)

DOCKET NO. 020384-GU
Filed: October 21, 2002

DIRECT TESTIMONY

OF

DONNA DERONNE, CPA

On Behalf of the Citizens of the State of Florida

Jack Shreve
Public Counsel

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in gas rates for Peoples Gas System)
_____)

DOCKET NO. 020384-GU
Filed: October 21, 2002

DIRECT TESTIMONY

OF

DONNA DERONNE, CPA

On Behalf of the Citizens of the State of Florida

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DIRECT TESTIMONY OF DONNA DERONNE
ON BEHALF OF THE CITIZENS OF FLORIDA
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
PEOPLES GAS SYSTEM
DOCKET NO. 020384-GU

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Donna DeRonne. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory consultant at the firm of Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC, has extensive experience in the utility regulatory field as expert witnesses in over 400 regulatory proceedings, including numerous electric, gas, water and wastewater and telephone utility cases.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?

1 A. Yes. I have testified before the Florida Public Service Commission on several prior
2 occasions. I have also testified before several other state regulatory commissions.

3

4 Q. HAVE YOU PREPARED AN APPENDIX DESCRIBING YOUR
5 QUALIFICATIONS AND EXPERIENCE?

6 A. Yes. I have attached Appendix I, which is a summary of my regulatory experience
7 and qualifications.

8

9 Q. ON WHOSE BEHALF ARE YOU APPEARING?

10 A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel
11 (OPC) to review the rate case filing submitted by Peoples Gas System (PGS or
12 Company). Accordingly, I am appearing on behalf of the Citizens of Florida
13 (Citizens).

14

15 Q. ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF THE
16 CITIZENS OF FLORIDA?

17 A. Yes. Helmuth W. Schultz, III and Mark Cicchetti are also presenting testimony in
18 this case.

19

20 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

21 A. I am providing the OPC's overall recommended revenue requirement in this case. I
22 am also recommending several adjustments to the Company's projected 2003 rate
23 base and operating income, along with an adjustment to deferred taxes included in
24 the Company's capital structure.

25

1 II. OVERALL FINANCIAL SUMMARY

2 Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR
3 RECOMMENDATIONS?

4 A. Yes, I have prepared Exhibit__(DD-1), which consists of Schedules A-1, A-2, B-1
5 through B-5, C-1 through C-8, and D. These schedules provide supporting
6 calculations and additional information for some of the adjustments I am
7 recommending in this testimony.

8

9 Q. WHAT DOES SCHEDULE A-1, ENTITLED "REVENUE REQUIREMENT"
10 SHOW?

11 A. Schedule A-1 presents the revenue requirement calculation at this time, giving effect
12 to all the adjustments I am recommending in this testimony, along with the impacts
13 of the recommendations made by Citizens' witnesses Helmuth Schultz, III and Mark
14 Cicchetti. The calculation of the OPC's recommended gross revenue conversion
15 factor is presented on Schedule A-2. The adjustments presented on Schedule A-1
16 which impact rate base can be found on Schedule B-1. Schedules B-2 through B-5
17 provide supporting calculations for the adjustments I am recommending that impact
18 rate base. The OPC adjustments to net operating income are listed on Schedule C-1.
19 Schedules C-2 through C-8 provide supporting calculations for my recommended
20 adjustments to net operating income presented on Schedule C-1. Schedule D
21 presents the overall cost of capital. The overall cost of capital is sponsored by
22 Citizens' witness Mark Cicchetti, with the exception of an adjustment to deferred
23 taxes, which I am supporting.

24

25

1 Q. WHAT IS THE REVENUE REQUIREMENT FOR PEOPLES GAS SYSTEM?

2 A. As shown on Schedule A-1, the OPC's recommended adjustments in this case result
3 in a revenue decrease for Peoples Gas System of \$6,192,631.

4

5 Q. WHY ARE YOU RECOMMENDING A REVISION TO THE GROSS REVENUE
6 CONVERSION FACTOR IN THIS CASE?

7 A. The Company's calculation of its gross revenue conversion factor, totaling 1.6435,
8 includes a bad debt rate of 0.4429%. Citizens' witness Helmuth Schultz, III is
9 recommending that bad debt expense in this case be based on a bad debt rate of
10 0.33%. On Schedule A-2, I recalculate the gross revenue conversion factor to reflect
11 the recommended 0.33% rate. As shown on the schedule, Citizens' recommended
12 gross revenue conversion factor is 1.6416.

13

14 III. RATE BASE

15 Plant In Service

16 Q. SHOULD ANY REVISIONS BE MADE TO THE COMPANY'S PROJECTED
17 PLANT IN SERVICE?

18 A. Yes. The amount of projected additions to plant in service included in the
19 Company's filing for both 2002 and 2003 need to be revised.

20

21 Q. WHY DO THE COMPANY'S PROJECTED PLANT ADDITIONS FOR 2002
22 NEED TO BE REVISED?

23 A. In its filing, the Company included \$60,764,110 of projected plant additions for
24 2002. For each month, January 2002 through August 2002, [REDACTED]

25

1 [REDACTED] On Schedule B-2, I
2 present, by month, the projected plant in service balance included in the Company's
3 MFRs compared to the actual balance on the Company's books. These balances
4 include amounts recorded in both Account 101 - Plant in Service and Account 106 -
5 Completed Construction Not Classified. As shown on Schedule B-2, the Company's
6 plant in service balance [REDACTED]

7 [REDACTED] As of August 31, 2002, the actual plant in service balance was
8 \$9,957,000 less than the balance included in the Company's filing.

9

10 Q. HAVE YOU ADJUSTED THE BEGINNING PROJECTED TEST YEAR PLANT
11 IN SERVICE BALANCE TO REFLECT THE AMOUNT THE COMPANY IS
12 UNDER BUDGET FOR 2002 TO DATE?

13 A. Yes. In its filing, the Company's projected December 31, 2002 plant in service
14 balance, which is the starting point in calculating the projected test year 13-month
15 average plant in service balance, is \$748,923,633. On Schedule B-3, I reduce the
16 beginning balance by the \$9,957,000 the Company was under budget as of August
17 31, 2002. Also on Schedule B-3, I allocate the \$9,957,000 to individual plant
18 accounts based on distribution of the Company's projected 2002 plant additions
19 included in its filing. The adjustment results in a revised starting balance in
20 calculating the average projected test year plant in service of \$738,966,632.

21

22 I wish to note that an even larger adjustment to the starting point may be warranted.
23 My adjustment to determine the December 31, 2002 plant in service balance assumes
24 that the Company will remain only \$9.957 million under budget for the remainder of

25

1 2002. As shown on Schedule B-2, for most of the months in 2002 through August,
2 the amount under-budget has steadily increased. My adjustment assumes that the
3 amount under-budget will not increase further during September through December
4 2002.

5

6 Q. WHAT AMOUNT HAS THE COMPANY INCLUDED IN THE FILING FOR
7 PROJECTED ADDITIONS TO PLANT IN SERVICE IN 2003?

8 A. The Company has included \$60,321,000 of projected plant additions in 2003. Since
9 an average test year is used, the impact on rate base is less than the full \$60.3 million.
10 In response to Staff Request for Production of Document No. 25, the Company
11 provided an electronic spreadsheet containing its calculation of the projected plant
12 additions along with the allocation of those additions to each respective plant account
13 by month.

14

15 Q. DO YOU RECOMMEND ANY REVISIONS TO THE COMPANY'S PROJECTED
16 2003 PLANT ADDITIONS?

17 A. Yes, I am recommending several revisions. For several categories of additions, the
18 Company based the projected 2003 plant additions on a five-year average, using
19 actual amounts for 1998 through 2001 and the projected 2002 amounts. The
20 resulting amounts were then grossed-up by a 2.66% inflation factor. For several of
21 the categories, the Company first removed certain extraordinary expenditures in
22 calculating the averages. I do not agree that it is appropriate to include 2002
23 budgeted amounts in calculating the average level of historic additions. These
24 projected 2002 additions are not known and measurable amounts, as are the prior

25

1 years used in the average. Additionally, as mentioned previously, the Company's
2 actual increases in plant in service for 2002 to the most recent date available have
3 been considerably lower than the amounts the Company budgeted for 2002.

4

5 Q. WHAT OTHER REVISIONS SHOULD BE MADE?

6 A. The Company applied a 2.66% inflation factor in determining the projected 2003
7 additions to plant in service. I recommend that the application of the inflation factor
8 be removed. As mentioned above, several categories of additions were based on the
9 average level of historic additions. The remaining categories are based on budgeted
10 2002 additions, with some adjustments to remove extraordinary expenditures that
11 were budgeted for 2002. The annual amounts used to calculate the average level
12 fluctuated from year to year, with the level of additions in each category both
13 increasing and decreasing from year to year. The amount of increases and decreases
14 each year do not correspond to the rate of inflation in those periods.

15

16 Additionally, for those categories that the Company did not base on a five-year
17 average level, the amount included is based on the Company's projected 2002
18 additions, which are then grossed-up for inflation. As is evident from Schedule B-2,
19 the Company is considerably under-budget for its projected 2002 plant in service
20 balance through August 31, 2002. Since the categories that were not based on an
21 average level are still based in my calculations on the Company's budgeted 2002
22 addition amount, which are likely overstated based on actual experience through
23 2002 to date, I do not recommend that these amounts be grossed-up further by an
24 inflation factor.

25

1 Q. HOW DID YOU CALCULATE THE ADJUSTMENT NECESSARY TO REFLECT
2 YOUR RECOMMENDATIONS?.

3 A. I used the spreadsheets provided by the Company in response to Staff Request for
4 Production of Document No. 25. I replaced the formulas used by the Company to
5 calculate the five-year average level of additions with formulas calculating a four-
6 year average level using the years 1998 through 2001. I then replaced the 2.66%
7 inflation factor in the Company's spreadsheet with 0%. The Company's
8 spreadsheets then allocate the revised additions to each of the respective plant
9 accounts. The result of the revisions is presented on Schedule B-4, page 2 of 3. The
10 adjusted additions to plant in service are \$57,919,995, which is \$2,311,005 less than
11 the amount included in the Company's filing for 2003.

12
13 Q. WHAT IS THE ULTIMATE REDUCTION TO PLANT IN SERVICE YOU ARE
14 RECOMMENDING?

15 A. As shown on Schedule B-4, page 1, I recommend that the Company's projected 2003
16 average plant in service be reduced by \$11,144,341. This reflects the \$9,957,000
17 reduction to the beginning of the projected test year and my recommended revisions
18 to the projected 2003 plant additions. It also reflects the projected level of plant
19 retirements included in the Company's filing.

20
21 Q. DOES YOUR RECOMMENDED REDUCTION TO PLANT IN SERVICE
22 IMPACT THE DEPRECIATION RESERVE?

23 A. Yes. The projected 2003 average depreciation reserve should be reduced by
24 \$228,628, as calculated on Schedule C-6.

1 Construction Work in Progress

2 Q. SHOULD THE COMMISSION ALLOW ANY CONSTRUCTION WORK IN
3 PROGRESS IN RATE BASE?

4 A. No, it should not. Construction Work In Progress (CWIP), as the title designates, is
5 not plant that is completed and providing service to ratepayers. It is not used nor
6 useful in delivering gas service to the Company's customers. The ratemaking
7 process is predicated on an examination of the operations of a utility to insure that
8 the assets upon which ratepayers are required to provide the utility with a rate of
9 return are, in fact, reasonably priced and are both used and useful in providing
10 services on a current basis. Facilities in the process of being built are not used or
11 useful. Their total cost and the basis on which they were constructed cannot be
12 examined in the context of providing service to ratepayers. The ratemaking process
13 therefore excludes, in most instances, all CWIP from being included in rate base until
14 such time that projects are completed and providing service to ratepayers. As a
15 general ratemaking principle, CWIP should be excluded from rate base and excluded
16 from the ratemaking process until such time that it is actually providing service to
17 ratepayers.

18
19 Furthermore, some of the facilities that are being constructed and are included in
20 CWIP will be used in a future period, once completed, to serve additional new
21 customers. It would not be appropriate to include the investment that will serve
22 those new customers without also including the revenues that would be received
23 from those future customers. In other words, allowance of CWIP in rate base would
24 result in a mismatch in the ratemaking process. Additionally, some of the plant being

1 added, such as main replacements, could result in a reduction in maintenance
2 expenditures which would not be reflected in the test period.

3

4 Q. HAS THE FLORIDA PUBLIC SERVICE COMMISSION INCLUDED CWIP IN
5 RATE BASE IN SOME INSTANCES?

6 A. Yes, it has. However, it is my understanding that inclusion has been for exceptional
7 circumstances as opposed to being the norm. For example, in a previous Florida
8 Power & Light Company rate case, Docket No. 830465-EI, at page 14, the Florida
9 Public Service Commission stated the following:

10 As announced repeatedly in our more recent electric rate cases, our decision
11 to include CWIP in rate base has been founded on our overriding concern of
12 providing the particular utility with an opportunity to achieve and maintain
13 adequate financial integrity. In this case, we have determined that even
14 without the inclusion of any CWIP in rate base, FPL should be able to
maintain its financial integrity in 1984 and 1985. Accordingly, we find that it
is not necessary to include any CWIP or Nuclear Fuel in Progress (NFIP) in
rate base in either 1984 or 1985 in order to maintain FPL's financial integrity.

15 This past decision would indicate that inclusion of CWIP in rate base is more the
16 exception than the norm.

17

18 Q. IN PEOPLE'S LAST FULL RATE CASE PROCEEDING, DOCKET NO. 911150-
19 GU, WAS CWIP INCLUDED IN THE RATE BASE CALCULATION?

20 A. Based on a review of the decision in that case, Order No. PSC-92-0924-FOF-GU,
21 CWIP of \$5,686,000 was included in rate base. In this case, the Company is
22 proposing to include \$21,277,545 in rate base for CWIP. The final decision in the
23 previous full rate case for PGS does not specifically identify why CWIP was allowed
24 in rate base. While the prior full rate case decision for PGS apparently included

25

1 CWIP, I nonetheless recommend that it be excluded in this case. The regulatory
2 principles for exclusion of CWIP remain the same, even if it was granted in a prior
3 case.

4
5 Q. DO OTHER JURISDICTIONS WITH WHICH YOU ARE FAMILIAR, ALLOW
6 INCLUSION OF CONSTRUCTION WORK IN PROGRESS IN RATE BASE?

7 A. No. In the other jurisdictions in which I have testified and participated in the
8 analysis of rate case filings, CWIP is excluded from rate base when calculating a
9 utility's revenue requirement.

10

11 Q. COMMISSION RULE 25-7.0141 STATES THAT A UTILITY SHALL NOT
12 ACCRUE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION
13 WITHOUT PRIOR COMMISSION APPROVAL. DOES THIS IMPACT YOUR
14 RECOMMENDATION THAT CWIP BE EXCLUDED FROM RATE BASE?

15 A. No, it does not. First, the rule does not state that a Company cannot request
16 permission to accrue an allowance for funds used during construction. If the
17 Company undergoes a long-term project of a large magnitude, it would have the
18 ability to request permission to accrue an allowance for funds used during
19 construction. For projects which are completed over a shorter time frame (i.e., less
20 than one year), as appears to be the case for the types of additions PGS is undergoing,
21 the Company would receive a return by either increasing sales or decreasing
22 operating costs resulting from the projects. It is not appropriate to include the CWIP
23 in rate base, particularly as the projects may result in additional revenues or cost
24 savings which have not been reflected in the projected test year.

25

1 Materials & Supplies

2 Q. ARE YOU RECOMMENDING ANY REVISIONS TO THE COMPANY'S
3 WORKING CAPITAL REQUEST?

4 A. Yes. The Company's historic test year 13-month average balance for materials and
5 supplies was \$933,267. In the filing, the Company increased the materials and
6 supplies balance included in working capital to \$1 million. This projected increase
7 does not reflect the recent decline in the materials and supplies balance or other cost
8 saving measures which should reduce the balance. I recommend that the amount be
9 reduced to reflect the most recent actual 13-month average balance.

10

11 Q. WHAT IS THE MOST RECENT ACTUAL 13-MONTH AVERAGE BALANCE
12 FOR MATERIALS AND SUPPLIES?

13 A. As shown on Schedule B-5, the 13-month average balance using the period August
14 31, 2001 through August 31, 2002 is \$848,262. On Schedule B-5, I provide the
15 actual monthly balance of materials and supplies for the period January 2000 through
16 August 2002. As shown on the schedule, the balance has been steadily declining. I
17 recommend that the most recent actual 13-month average balance be used for
18 projecting the 2003 test year amount.

19

20 Q. HAS ANY INFORMATION BEEN PROVIDED BY THE COMPANY WHICH
21 WOULD EXPLAIN WHY THE BALANCE HAS BEEN DECLINING?

22 A. Yes. In response to Citizens' Interrogatory No. 4, the Company identified several
23 different cost savings measures that have been implemented that would result in
24 reductions to inventory levels, such as standardization and strategic alliances. For

25

1 example, a strategic alliance with Forms Management has eliminated the need to
2 inventory large quantities of special forms in house. The response also indicates that:
3 “Pipes, valves and fittings standardization has proven to reduce inventories by 50%”
4 and that “PGS formed a Strategic Alliance with a Supplier who houses all of our
5 code-approved items and ships to us on an as needed basis...” The response indicates
6 that the strategic alliance has allowed the Company to have a just-in-time inventory.
7

8 IV. NET OPERATING INCOME

9 Off-System Sales

10 Q. PGS REDUCED THE 2001 HISTORIC TEST YEAR REVENUES BY \$2,796,913
11 TO REMOVE OFF-SYSTEM SALES. SHOULD OFF-SYSTEM SALES BE
12 EXCLUDED FROM REVENUES IN THE PROJECTED TEST YEAR?

13 A. No, they should not. The Company’s off-system sales have actually been increasing
14 substantially in recent years. On Schedule C-2, I provide the off-system sales
15 volumes in therms and the non-fuel revenue amount for off-system sales, by month,
16 for the period January 2000 through August 2002. I also provide a column showing
17 the rolling twelve-month total amount of non-fuel revenues for off-system sales. As
18 shown on that schedule, even during a period of high gas costs in 2001, the rolling
19 twelve-month total of off-system sales have steadily increased. The portion of non-
20 fuel off-system sales included in base rates should be reflected in calculating the
21 Company’s revenue requirement in this case.

22
23 Under the Company’s off-system sales rate schedule, 50% of certain gains are
24 booked as revenues above the line to help meet revenue requirements, with the

1 remaining 50% flowing back to ratepayers as a credit in the Purchased Gas
2 Adjustment Clause. The amount included in regulated revenues should be included
3 in the revenue requirement calculation.

4

5 Q. DID THE COMPANY EXPLAIN IN ITS FILING WHY OFF-SYSTEM SALES
6 WERE BEING REMOVED?

7 A. Yes. Company Witness Bruce Narzissenfeld states that: "Off-system sales have been
8 removed from the calculation of NOI as they are sporadic, opportunistic transactions
9 for the Company that are highly dependent on market conditions and are not
10 reflective of on-going utility operations."

11

12 Q. DO YOU AGREE THAT THE OFF-SYSTEM SALES ARE NOT A PART OF
13 THE COMPANY'S ON-GOING UTILITY OPERATIONS?

14 A. No. As shown on Schedule C-2, the level of off-system sales has steadily increased
15 on a rolling twelve-month total basis. In fact, for the most recent twelve months
16 available, the annual non-fuel off-system sales revenue has increased to \$3,711,488.
17 No evidence or testimony has been submitted by the Company showing that it plans
18 to discontinue making off-system sales. Profitable off-system sales of extra capacity
19 should be pursued by the Company. No information has been provided showing that
20 the Company intends to change its practice.

21

22 Q. WAS THIS ISSUE ADDRESSED IN THE INTERIM DECISION IN THIS CASE?

23 A. Yes. In the interim period in its MFRs, the Company removed \$3.606 million from
24 operating revenues for off-system sales. This amount was added back to revenues

25

1 for purposes of calculating revenue requirement in the interim decision, Order No.
2 PSC-02-1227-FOF-GU, dated September 9, 2002.

3

4 Q. WHAT ADJUSTMENT DO YOU RECOMMEND TO REFLECT THE NON-FUEL
5 REVENUES FOR OFF-SYSTEM SALES IN THE REVENUE REQUIREMENT
6 CALCULATION?

7 A. I recommend that the most recent twelve-months of actual non-fuel off-system sales
8 (i.e., the portion that does not flow through the Purchased Gas Clause) be included.
9 As shown on Schedule C-2, this results in a \$3,711,488 increase in revenues for off-
10 system sales.

11

12 TECO Partners - Marketing & Sales Charges

13 Q. PGS WITNESS FRANCIS SIVARD ADDRESSES PEOPLES OUTSOURCING OF
14 ITS SALES AND MARKETING FUNCTION AT PAGES 10 TO 11 OF HIS
15 DIRECT TESTIMONY. DO YOU WISH TO COMMENT ON THE SALES AND
16 MARKETING OUTSOURCING?

17 A. Yes. In his testimony, Mr. Sivard indicates that in 2002 Peoples outsourced its sales
18 and marketing function. At pages 10 and 11 of his direct testimony, Mr. Sivard
19 provides the following reasons for outsourcing the sales function:

20 First, the outsource provider is dedicated to offering natural gas and other
21 energy related products and services, which provides People's customers with
22 'one-stop' shopping and increases customer satisfaction. Second, the contract
23 with the sales and marketing provider is a performance-based contract. If the
24 provider doesn't achieve targeted sales levels, fees paid are proportionately
25 reduced. Third, the Company feels that a dedicated sales and marketing
company will be able to take advantage of synergies that will result in lower
costs to Peoples.

25

1 He then continues to state that the Company has forecasted a 3% reduction in the
2 contract amount for sales and marketing services in 2002 and 2003. MFR Schedule
3 G-2, at page 16, shows that base year charges in Account 912 - Sales Expense, were
4 \$8,149,404. These amounts are decreased to \$7,962,460 for projected 2002 and
5 \$7,723,586 for projected 2003. However, several important facts related to the sales
6 and marketing expense are not mentioned in Mr. Sivard's testimony.

7

8 Q. WHAT IMPORTANT FACTS ARE NOT INCLUDED IN MR. SIVARD'S
9 TESTIMONY?

10 A. Mr. Sivard's testimony indicates that the Company has outsourced its sales and
11 marketing function and references the "outsource provider." He testimony does not
12 mention the fact that the "outsource provider" is TECO Partners, Inc., an affiliated
13 company that consists of previous Peoples Gas System employees. I was informed
14 by Company personnel during my on-site visit at People's Tampa offices that in 2000
15 Phil Holbrooks (who was at the time a People's gas marketing employee and now in
16 charge of TECO Partners, Inc.) went to upper management with a proposal that he
17 could split off the marketing function from People Gas Systems and bring cost
18 reductions to Peoples Gas System as a result. I was told that the cost reductions
19 proposed would be 10% in the first year, with additional 3% decreases thereafter.
20 Through 2000, the sales and marketing services were provided by Peoples Gas
21 System employees. Beginning in 2001, TECO Partners, Inc. was formed from
22 Peoples Gas System employees and Peoples Gas System and TECO Partners, Inc.
23 entered into a marketing services agreement. Under this agreement, the previous
24 Peoples Gas System employees would provide the marketing and sales services

25

1 under this separate non-regulated entity.

2

3 Q. MR. SIVARD INDICATES IN HIS TESTIMONY THAT THE OUTSOURCING
4 RESULTS IN FORECASTED 3% REDUCTIONS IN THE CONTRACT
5 AMOUNTS FOR 2002 AND 2003. WOULD YOU PLEASE COMMENT ON
6 THESE REDUCTIONS?

7 A. It is correct that the MFRs include reductions for both 2002 and 2003 from the sales
8 and marketing expense recorded on the Company's books in 2001. The amount of
9 non-payroll costs included in Account 912 - Sales Expense reflects a decline from
10 the actual 2001 amount of \$8,149,404 to a projected 2003 amount of \$7,723,586.
11 The total expense in Account 912 in 2001, including payroll costs, is \$8,424,782.
12 The total expense recorded in this same account in 2000, prior to the split-off of
13 TECO Partners, Inc., was \$3,022,421. In other words, sales expense in Account 912
14 increased from \$3,022,421 in 2000 to \$8,424,782 in 2001, an increase of \$5,126,983.

15

16 Q. WAS THE COMPANY QUESTIONED FURTHER REGARDING THE
17 SIGNIFICANT INCREASE IN SALES AND MARKETING EXPENSE BETWEEN
18 2000 AND 2001?

19 A. Yes. The Company provided further information in response to Florida Public
20 Service Commission Audit Document/Record Request No. 18, dated August 21,
21 2001 and responded to on September 5, 2002. In the response, the Company
22 indicated that prior to 2001 costs related to the selling function were recorded in
23 several accounts. For example, costs related to the selling function would have
24 included administrative payroll related to marketing, materials, supplies, outside

25

1 services, telecommunications, depreciation and other costs that supported the
2 marketing function. Consequently, a comparison of only Account 912 to determine
3 the impact of the cost reductions would not reflect an accurate comparison of sales
4 and marketing costs before and after the separation of TECO Partners, Inc.

5
6 As part of the response to FPSC Staff Audit/Document Record Request No. 18, the
7 Company provided a comparison of certain accounts that changed from 2000 to
8 2001, showing a \$5,151,153 reduction between 2000 and 2001 to those accounts.
9 These are the accounts that would have also included sales and marketing costs that
10 were not recorded in Account 912.

11
12 Q. AFTER CONSIDERATION OF THE COST REDUCTIONS IN OTHER
13 ACCOUNTS OCCURRING AFTER THE MARKETING AGREEMENT WAS
14 ENTERED INTO, DO YOU STILL HAVE ANY CONCERNS REGARDING THE
15 SALES EXPENSE INCLUDED IN THE PROJECTED TEST YEAR?

16 A. Yes. On Schedule C-3, I combined the sales expense in Account 912 for 2000 of
17 \$3,022,421 with the \$5,151,153 of cost reductions in other accounts that occurred
18 between 2000 and 2001 which the Company claims are related to the sales and
19 marketing function. Combined, these would result in 2000 expenses related to the
20 sales and marketing function, which is now conducted by TECO Partners, Inc., of
21 \$8,173,574. As previously mentioned, PGS personnel had indicated to me that the
22 premise for the PGS marketing employees separating into a separate Company was
23 that the result would be first year savings of 10%. The non-payroll costs included in
24 Account 912 - Sales Expense for 2001, based on MFR Schedule G-2, page 16, was

25

1 \$8,149,404. This is not 10% less than the sales and marketing costs incurred in 2000
2 of \$8,173,153.

3
4 Q. DID YOU REQUEST COPIES OF ANY COST/BENEFIT ANALYSIS
5 ASSOCIATED WITH THE OUTSOURCING OF THE SALES AND
6 MARKETING FUNCTION?

7 A. Yes. Citizens Request for Production of Document No. 52 specifically asked the
8 Company to "...provide a copy of any cost/benefit analysis and or studies conducted
9 by or for the Company in determining to outsource its sales and marketing function."
10 The response was that "Peoples has no documents which are responsive to this
11 category of request." During my on-site visit at the Company's offices, I questioned
12 further regarding whether or not a cost/benefit analysis or study existed. The
13 Company's Controller (Bruce Narzissenfeld) indicated that he had inquired further,
14 but that nothing was available.

15
16 The Company incurred \$8,149,404 in expenses for the outsourcing with its affiliate
17 in 2001 and included \$7,723,586 in its filing for projected 2003 for this outsourcing
18 of marketing and sales. Considering the high level of expense, some sort of cost
19 benefit analysis or study should have been conducted by Peoples Gas System prior to
20 agreeing with its employee to separate the sales and marketing function into a
21 separate, non-regulated company. Based on the response and on discussions with
22 Company personnel, apparently no such study or analysis was done.

23
24 Q. IF NO COST BENEFIT ANALYSIS OR STUDY WAS CONDUCTED BY

1 PEOPLES GAS SYSTEM, HOW WERE THE AMOUNTS IN THE MARKETING
2 AGREEMENT BETWEEN PEOPLES GAS SYSTEM AND TECO PARTNERS,
3 INC. DETERMINED?

4 A. I asked this question to Bruce Narsizzenfeld and PGS's current Marketing Director,
5 Lance Horton. The response was that they were not sure how the specific amounts
6 within the contract were determined. I was told that their understanding was that the
7 amounts were worked out by Phil Holdbrooks, who was previously PGS's head of
8 marketing and subsequently the Vice President of Sales and Marketing of TECO
9 Partners, Inc. and Bruce Christmas, who was the Vice President of Operations of
10 PGS at the time.

11
12 Q. HAS ANY INFORMATION BEEN PROVIDED SUBSEQUENT TO YOUR
13 CONVERSATIONS WITH COMPANY PERSONNEL REGARDING THE
14 CONTRACT AMOUNT?

15 A. Yes. I was faxed two pages providing further information regarding how the first
16 year marketing agreement amount was derived. One page provides the Peoples Gas
17 marketing department expenses for January 1 through September 2000. The other
18 page is titled "TECO Partners Re-Calculation of Marketing Costs - 2000." This page
19 has a date of October 10, 2002 and appears to be a reproduction of the calculation of
20 the projected 2000 marketing costs that were used in determining the contract
21 amount. On the "re-calculation," the amount started with the actual PGS marketing
22 department costs through September 2000. Certain adjustments were made to this,
23 and the resulting amount was then annualized to reflect a 12-month level. Costs
24 were then added and subtracted from this amount. Examples of items added include

25

1 executive cost and bonus allocations, plane expenses, depreciation,
2 telecommunications and legal expenses. Examples of items subtracted include
3 economic development, certain employees, and training costs. Overall, the document
4 shows total PGS estimated revised marketing costs for 2000 of \$8,751,680. This
5 amount is further broken down in the exhibit as: (1) Sales Expense of \$3,830,688; (2)
6 ECCR of \$691,337; (3) General and Administrative Expense of \$3,012,801; and (4)
7 Capital Costs of \$1,218,863. It is important to note here that several of the
8 components of the \$8.75 million would not have been included in the expense
9 accounts factored into calculating base rates. For example, the page identified
10 \$691,337 as ECCR and \$1.2 million as capital items. Once these two items are
11 removed, the remaining balance would have been approximately \$6.8 million.

12
13 Q. HOW DOES THIS REVISED 2000 PGS MARKETING COST COMPARE TO
14 THE FIRST YEAR MARKETING AGREEMENT AMOUNT?

15 A. In response to Citizens Request for Production of Documents No. 63, the Company
16 provided copies of the marketing agreements between Peoples Gas Systems and
17 TECO Partners, Inc for 2001 and 2002. The 2001 Marketing Agreement indicates

18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

23
24 Q. DOES THIS CAUSE FURTHER CONCERN?

1 A. Yes. As previously mentioned, I was told that part of the premise for setting up
2 TECO Partners, Inc. was that PGS would realize an initial cost savings of 10%. That
3 projected cost savings [REDACTED]

4

5 Q. DID THE MARKETING AGREEMENT CHANGE BETWEEN 2001 AND 2002?

6 A. [REDACTED]
7 [REDACTED]

8

9 Q. DO YOU HAVE ANY CONCERNS WITH THE AGREEMENTS?

10 A. Yes, I do. First and foremost, the agreements involved the shifting of Peoples Gas
11 System employees to a non-regulated affiliate company. The agreements are
12 substantial in amount. No cost/benefit analysis was conducted or provided to support
13 the amounts. Additionally, the actual expenses incurred and projected to be incurred
14 by Peoples Gas System for sales and marketing does not appear to reflect the level of
15 cost savings that has been purported. Additionally, very little information has been
16 provided to justify the contract amounts and the level of expense included in the
17 projected 2003 test year for the agreements. Furthermore, the terms of the
18 agreements themselves cause concern.

19

20 Q. PLEASE EXPLAIN.

21 A. [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]

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[REDACTED]

Q. WHAT IS YOUR RECOMMENDATION WITH REGARDS TO THE \$7,723,586 INCLUDED IN THE PROJECTED TEST YEAR FOR SALES AND MARKETING CHARGES FROM TECO PARTNERS, INC.?

A. My recommended adjustment is presented on Schedule C-3 and reduces projected 2003 sales expense by \$802,122.

Q. HOW WAS YOUR ADJUSTMENT DETERMINED?

A. I began with the costs incurred in 2000 associated with the sales and marketing function for Peoples Gas System of \$8,173,574. The calculation of this amount was discussed previously. I then reduced this amount by 10% to reflect the cost reduction that was the purported driver behind separating PGS's sales and marketing employees into TECO Partners, Inc. The resulting amount is then reduced further by 3% for each year, 2002 and 2003, resulting in a revised projected test year sales and marketing expense of \$6,921,464. This is \$802,122 less than the amount included in the Company's MFRs for charges from TECO Partners, Inc.

While I have reflected an adjustment to reduce sales and marketing expenses by

1 \$802,122, an even larger adjustment may be appropriate. The Commission should
2 consider requiring a more in-depth investigation of the relationship between TECO
3 Partners, Inc. and Peoples Gas System, the Marketing Agreement between the two
4 related parties, and the decision to shift the employees from Peoples Gas System into
5 an unregulated affiliate.

6
7 Promotional Program

8 Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENT ON SCHEDULE C-1
9 TITLED "REMOVE NEW PROMOTIONAL PROGRAM?"

10 A. In its filing, the Company included a \$250,000 increase in Account 916 for a new
11 customer retention program. The program's goal is to increase gas appliance
12 penetration to those customers that currently only have one gas appliance. The
13 Company indicates that the program was developed to reduce the customer loss it has
14 been experiencing for single appliance customers. I recommend that this projected
15 expense increase be removed, reducing projected expenses by \$250,000.

16
17 Q. WHY DO YOU RECOMMEND THIS EXPENSE BE REMOVED?

18 A. The goal of this program is to increase the number of gas appliances owned by single
19 appliance customers. Obviously, if the number of gas appliances a customer owns
20 increases, it is logical that the usage for those customers will also increase. In
21 projecting 2003 residential sales, the Company indicates that the terms per customer
22 for the residential class are based on five-year average terms per customer.
23 Consequently, the increased sales to the customers who would add additional gas
24 appliances under this program, have not been factored into the projected revenues. It

1 is not appropriate to increase costs by \$250,000 for this proposed new program
2 without also reflecting the projected increase in revenues resulting from the program.

3
4 Additionally, in response to Staff Interrogatory No. 57, the Company indicates that
5 the program will result in savings of approximately \$300 per each customer retained
6 associated with the cost of removal. I am not aware of any adjustments in the MFRs
7 reflecting a reduction for these associated cost savings.

8
9 Credit Card Fees

10 Q. PGS WITNESS WRAYE GRIMMARD IS PROPOSING A CREDIT CARD FEE
11 OF 3.5% FOR CUSTOMERS WHO CHOOSE TO PAY BY CREDIT CARD.
12 DOES THIS RECOMMENDATION IMPACT THE REVENUE REQUIREMENT
13 CALCULATION IN THIS CASE?

14 A. It should. The Company had not previously, and does not currently, collect such fees
15 from customers paying by credit card. According to the Company's response to Staff
16 Request for Production of Document No. 21, the total fees paid by the Company
17 during 2001 for customer payments by credit card was \$230,683.93. If the
18 Commission adopts the Company's recommendation that a 3.5% fee be charged to
19 those customers who choose to pay by credit card, then the impact of such charges
20 should be reflected in the revenue requirement calculation.

21
22 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?

23 A. Since the Company is proposing to now collect the fees from the customers paying
24 by credit card, the credit card fee expense paid by the Company needs to be removed

1 from the test year. On Schedule C-1, I remove \$240,004 from the projected 2003 test
2 year. This is the \$230,684 paid by the Company during the historic 2001 test year
3 grossed-up by Citizens recommended inflation rate of 2.0% to determine the amount
4 included in Citizens' adjusted 2003 test year for the fees.

5
6 Advertising Expense

7 Q. WHAT IS THE PURPOSE OF YOUR ADJUSTMENT TO ADVERTISING
8 EXPENSE PRESENTED ON SCHEDULE C-4?

9 A. In response to OPC Request for Production of Document No. 64, the Company
10 provided copies of invoices for each of the advertising expense amounts remaining in
11 the base test year. Upon review of the invoices, I am recommending that many of the
12 costs included in advertising expense in the Company's adjusted test year be
13 removed. The specific items I am recommending for removal are listed on pages 1
14 through 3 of Schedule C-4. The listing provides the vendor name, a brief description
15 of the charges, and the amount. The total amount removed on Schedule C-4 is
16 \$122,796. This results in a \$127,757 reduction to the projected test year expenses
17 after application of the trending factor recommended by Citizens' witness Helmuth
18 Schultz, III.

19
20 Q. WHY SHOULD THESE ITEMS BE REMOVED FROM THE TEST YEAR?

21 A. These are items that should not be funded by the Company's ratepayers. The
22 majority of the charges are either promotional in nature or are
23 contributions/donations made by the Company. The captive ratepayers should not be
24 required to fund these expenditures.

1 Q. WOULD YOU GIVE EXAMPLES OF SOME OF THE ITEMS YOU ARE
2 REMOVING?

3 A. Yes. Examples of the items removed on Schedule C-4 include a payment to the
4 American Gas Foundation for a \$25,000 charitable contribution, sponsorships for
5 items such as arts festivals and fishing and golf tournaments, a parade float, FSU
6 football sponsorship, and promotional golf balls. Ratepayers should not be forced to
7 fund such sponsorships, events and contributions in their gas rates.

8

9 Rate Case Expense

10 Q. WHAT IS THE COMPANY REQUESTING WITH REGARDS TO RATE CASE
11 EXPENSE FOR THIS CASE?

12 A. Peoples Gas System has projected an estimated rate case expense of \$240,000, which
13 it is proposing to amortize over a two-year period, resulting in an annual amortization
14 expense of \$120,000 to be recovered from ratepayers. Included in the estimated cost
15 is \$50,000 for outside consulting costs for cost of capital, \$140,000 for legal services
16 and \$50,000 of other expenses.

17

18 Q. SHOULD THE TWO-YEAR AMORTIZATION PERIOD REQUESTED BY
19 PEOPLES GAS BE REVISED?

20 A. Yes, it should. The final order in PGS's last full rate case proceeding was issued in
21 1992, which was over 10 years ago. A final order was issued in an earnings
22 investigation for Peoples Gas System in early 1998, over 4 years ago. A two-year
23 amortization period is unreasonable and not likely to be reflective of the period rates
24 from this case that will be in effect. I recommend, at a minimum, a four-year

25

1 amortization period be used in this case. Revising the amortization period from two
2 years to four years results in a \$60,000 reduction to projected 2003 test year expense.
3 This adjustment is provided on Schedule C-5.

4

5 Q. WHY DID THE COMPANY USE A TWO-YEAR AMORTIZATION PERIOD?

6 A. According to the Company's response to Citizens' Interrogatory No. 10, the
7 Company felt the two-year period was appropriate because of the relatively small
8 dollar amount of rate case expense and that it would have no material impact on
9 customer rates. No further justification for the short amortization period was
10 provided.

11

12 Employee Benefits - Executive Stock Grants

13 Q. WHAT AMOUNT HAS THE COMPANY INCLUDED IN THE PROJECTED 2003
14 TEST YEAR FOR PEOPLES GAS SYSTEM EXECUTIVE STOCK GRANTS
15 AND HOW DOES THAT COMPARE TO THE HISTORIC TEST YEAR COST
16 LEVEL?

17 A. According to the Company's MFR workpapers provided in response to Citizens'
18 Request for Production of Documents Nos. 49 and 50, projected 2003 test year
19 expenses [REDACTED]

20 [REDACTED]

21 [REDACTED]

22

23 Q. ARE YOU RECOMMENDING AN ADJUSTMENT FOR THIS ITEM?

24 A. Yes. As shown on Schedule C-1, page 2, [REDACTED]

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[REDACTED]

[REDACTED]. First, the amount of these stock grants are not known and measurable. The value would be based, in part, on TECO Energy's stock price during 2003. Additionally, these amounts represent additional compensation that are above and beyond the other compensation amounts for these select few employees already included in the Company's filing. The payroll and bonuses for these select executives are already included in the base rate compensation.

Depreciation Expense

Q. WHAT IMPACT DOES YOUR RECOMMENDED ADJUSTMENT TO PLANT IN SERVICE HAVE ON DEPRECIATION EXPENSE?

A. On Schedule C-6, I calculate the projected depreciation expense based on my recommended 13-month average plant in service balances, by account. As shown on the schedule, depreciation expense should be reduced by \$457,256. My calculation applies the depreciation rates used by the Company in determining its projected 2003 depreciation expense, which are based on the Company's proposed new depreciation rates. Consequently, they should be replaced by the rates ultimately adopted by the Commission in the depreciation case if those rates differ from the amount requested by PGS.

[REDACTED]

Interest Synchronization Adjustment

Q. HAVE YOU CALCULATED AN INTEREST SYNCHRONIZATION ADJUSTMENT?

A. Yes, I have. The OPC's recommended adjustments to rate base and the capital

1 structure impact the amount of interest deduction for tax purposes. The amount of
2 the adjustment to income taxes for interest synchronization is shown on Schedule C-
3 7.

4
5 Income Taxes

6 Q. HAVE YOU REFLECTED THE IMPACT OF THE OPC'S RECOMMENDED
7 ADJUSTMENTS TO OPERATING INCOME ON INCOME TAX EXPENSE?

8 A. Yes. The impact of the OPC's recommended adjustments to operating income on
9 income tax expense is presented on Schedule C-8. The calculation uses the
10 composite state and federal income tax rate 38.575%.

11

12 V. CAPITAL STRUCTURE - ACCUMULATED DEFERRED INCOME TAXES

13 Q. SHOULD ANY REVISIONS BE MADE TO THE COMPANY'S PROJECTED
14 ACCUMULATED DEFERRED INCOME TAXES INCLUDED IN ITS CAPITAL
15 STRUCTURE AT ZERO COST?

16 A. Yes. On March 9, 2002, the Economic Stimulus Package was signed into law. The
17 new law provides for an additional first-year depreciation deduction equal to 30% of
18 the adjusted basis of qualified property placed into service after September 10, 2001
19 and before September 11, 2004. This deduction is allowed for both regular tax and
20 alternative minimum tax purposes in the year the property is first placed into service.
21 In addition to the 30% bonus depreciation allowed in the first year, the otherwise
22 allowable tax depreciation rate is then also applied in the first year on the remaining
23 balance (i.e., original amount less the 30% deduction taken). Thus, in the first year,
24 the Company would be allowed the 30% bonus deduction and an additional

25

1 deduction based on the application of the regular depreciation schedules to the
2 remaining balance.

3
4 Q. WHAT PROPERTY QUALIFIES FOR THE BONUS DEPRECIATION
5 DEDUCTION?

6 A. Under the law, qualified property includes: 1) properties with a tax recovery period
7 of 20 years or less; 2) computer software; 3) water utility property; or 4) qualified
8 leasehold improvement property. The property must be acquired after September 10,
9 2001 and before September 11, 2004, but only if no written contract for the
10 acquisition was in effect prior to September 11, 2001. Under the provisions, for self-
11 constructed property, the requirements are met if the taxpayer begins constructing or
12 producing the property after September 10, 2001 and before September 11, 2004.
13 For passenger automobiles that are qualified property, the limitation for the first year
14 tax deduction is increased to \$4,600.

15
16 Q. DID THE COMPANY REFLECT THE IMPACT ON ITS PROJECTED
17 ACCUMULATED DEFERRED INCOME TAX BALANCE FROM THIS NEW
18 LAW?

19 A. No, it did not. Citizens' Interrogatory No. 8 specifically asked the Company why it
20 did not include an adjustment in this filing for the new tax law. The interrogatory
21 also asked the company to: "...please provide the impact on the accumulated deferred
22 income taxes included in the filing for 2002 and 2003 projected years for the new
23 plant added and projected to be added in the filing from September 10, 2001 through
24 the end of the 2003 projected test year." The Company responded to the request as

1 follows:

2 Peoples Gas System ("PGS") elected out of bonus depreciation for 2001. No
3 adjustment to ADIT was included in the rate base adjustment for 30% bonus
4 depreciation because contracts for a majority of PGS' property placed in
5 service after September 10, 2001 were entered into prior to September 10,
6 2001 and therefore would not qualify for bonus depreciation. The remaining
7 property placed into service after September 10, 2001 that might have
8 qualified for bonus depreciation in 2001 would have had a minimal effect on
9 the tax liability calculated.

10 The impact on accumulated deferred income taxes for 2002 and 2003 from
11 bonus depreciation has not been calculated.

12 Q. HAVE YOU ESTIMATED THE AMOUNT OF ADJUSTMENT TO
13 ACCUMULATED DEFERRED INCOME TAXES NECESSARY TO REFLECT
14 THE IMPACT OF THIS NEW LAW?

15 A. Yes. On Schedule D, page 2, I calculate the estimated additional accumulated
16 deferred income taxes that will result from the plant additions for 2002 and 2003.
17 The Company indicated that it elected out of the bonus tax depreciation for 2001 as
18 the majority of plant added during 2001 after September 10, 2001 would not have
19 qualified.

20 In calculating the adjustment, I reflected the impact of my recommended reductions
21 to the Company's projected 2002 and 2003 plant additions, and used the average
22 2003 adjusted plant additions. Additionally, on lines 7 and 8, along with lines A.3
23 and A.4, I estimated the reduction in the normal annual tax depreciation resulting
24 from the bonus depreciation allowance. As shown on Schedule D, page 2, the
25 accumulated deferred income taxes included in the capital structure calculations
should be increased by \$7,992,760 to reflect the impact of this new law.

1 Q. WILL ALL OF THE COMPANY'S PROJECTED ADDITIONS QUALIFY FOR
2 THIS 30% BONUS TAX DEPRECIATION?

3 A. I believe the majority of them will. However, the Company's tax department would
4 be more qualified to make an exact determination. The Company was asked in
5 Citizens' Interrogatory No. 8 to provide the projected impact on the accumulated
6 deferred income taxes included in the filing for the 2002 and 2003 projected plant
7 additions resulting from the 30% bonus depreciation deduction. The Company
8 responded that: "The impact on accumulated deferred income taxes for 2002 and
9 2003 from bonus depreciation has not been calculated." Consequently, absent better
10 information being provided by the Company, I estimated the impact on Schedule D,
11 page 2. This new law will have a substantial impact on the Company's 2002 and
12 2003 taxable income for income tax purposes, the results of which should not be
13 ignored in the regulatory process in determining the Company's revenue requirement
14 for the projected 2003 test year.

15

16 Q. DOES THIS COMPLETE YOUR TESTIMONY?

17 A. Yes, it does.

18

19

20

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Exhibit__(DD-1)

PEOPLES GAS SYSTEM

Docket No. 020384-GU

Exhibit__(DD-1)

Schedules of Donna DeRonne

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Revenue Requirement

Line No.	Description	Per Company Amount (A)	Per OPC Amount (B)	Col. (B) Reference:
1	Adjusted Rate Base	522,393,278	490,048,282	Schedule B-1
2	Required Rate of Return	9.29%	8.14%	Schedule D
3	Income Required	48,535,260	39,889,930	Line 1 x Line 2
4	Adjusted Net Operating Income	34,774,838	43,662,244	Schedule C-1
5	Income Deficiency (Sufficiency)	13,760,422	(3,772,314)	Line 3 - Line 4
6	Earned Rate of Return	6.657%	8.910%	Line 4 / Line 1
7	Gross Revenue Conversion Factor	1.6435	1.6416	Schedule A-2
8	Revenue Deficiency (Sufficiency)	22,615,228	(6,192,631)	Line 5 x Line 7

Gross Revenue Conversion Factor

Line No.	Description	Company Amount	OPC Amount
1	Revenue Requirement	100.0000%	100.0000%
2	Regulatory Assessment Rate	0.5000%	0.5000%
3	Bad Debt Rate (1)	0.4429%	0.3300%
4	Net Income Before Taxes	99.0571%	99.1700%
5	State Income Tax Rate	5.5000%	5.5000%
6	State Income Tax	5.4481%	5.4544%
7	Net Before Federal Income Tax	93.6090%	93.7157%
8	Federal Income Tax Rate	35.0000%	35.0000%
9	Federal Income Tax Rate	32.7631%	32.8005%
10	Revenue Expansion Factor	60.8458%	60.9152%
11	Gross Revenue Conversion Factor	1.6435	1.6416

Source/Notes:

Per Company amounts from MFR Sch. G-4.

(1) OPC recommended bad debt rate. See testimony of Helmuth Schultz, III.

Adjusted Rate Base

Line No.	Rate Base Components	Adjusted Total Amount per Company (A)	OPC Adjustments (B)	Adjusted Total Amount per OPC (C)
<u>Utility Plant</u>				
1	Plant In Service	776,739,053	(11,144,341)	765,594,712
2	Construction Work in Progress	21,277,545	(21,277,545)	-
3	Acquisition Adjustment	2,301,671		2,301,671
4	Common Plant Allocated	(1,179,126)		(1,179,126)
5	Plant Held for Future Use	-		-
6	Total	799,139,143		766,717,257
<u>Deductions</u>				
7	Accum. Provision - Depreciation & Amort.	(272,180,479)	228,628	(271,951,851)
8	Customer Advances for Construction	(1,852,080)		(1,852,080)
10	Net Utility Plant	(274,032,559)		(273,803,931)
8	Working Capital Allowance	(2,713,306)	(151,738)	(2,865,044)
10	Other Rate Base Adjustments	-		-
11	Total Rate Base	<u>522,393,278</u>		<u>490,048,282</u>

Source/Notes:

Col. (A): Company MFR Schedule G-1, page 1
 Col. (B): See Schedule B-1, page 2

Adjusted Rate Base - Summary of Adjustments

<u>Line No.</u>	<u>Adjustment Title</u>	<u>Reference</u>	<u>Amount</u>
	Plant in Service Adjustments:		
1	Reduction to Projected Plant in Service	Schedule B-4	(11,144,341)
2	<i>Total Plant in Service</i>		<u>(11,144,341)</u>
	Construction Work in Progress:		
3	Remove Construction Work in Progress from Rate Bas	Testimony	<u>(21,277,545)</u>
	Accumulated Depreciation Adjustments:		
4	Reduction to Projected PIS - Deprec. Impact	Schedule C-6	228,628
5	<i>Total Accumulated Depreciation</i>		<u>228,628</u>
	Working Capital Adjustments:		
6	Materials & Supplies	Schedule B-5	(151,738)
7	<i>Total Working Capital</i>		<u>(151,738)</u>

Plant In Service
 Comparison of Projected 2002 Balances to Actual Balances

Line No.	Description	Projected PIS Balance in MFRs (A)	Actual PIS Balance (B)	Difference (C)
1	December-01	694,159,521	[REDACTED]	[REDACTED]
2	January-02	698,380,653	[REDACTED]	[REDACTED]
3	February-02	702,882,386	[REDACTED]	[REDACTED]
4	March-02	707,642,579	[REDACTED]	[REDACTED]
5	April-02	711,740,438	[REDACTED]	[REDACTED]
6	May-02	715,851,674	[REDACTED]	[REDACTED]
7	June-02	720,096,262	[REDACTED]	[REDACTED]
8	July-02	724,519,207	[REDACTED]	[REDACTED]
9	August-02	729,053,438	719,096,068	9,957,000
10	Amount Actual Plant in Service Under Budget at 8/31/02			<u>9,957,000</u>

Source:

Column (A): MFR Sch. G-1, page 9 of 28.

Column (B): December 2001 through July 2002 actual amounts from response to Citizens' Request for Production of Documents No. 9 - Peoples Gas System 2002 Balance Sheet - Forecast. August 2002 amount from Peoples Gas System's August 31, 2002 Trial Balance.

Calculation of Beginning Plant In Service Balance

Line No.	Acct No.	Description	Per PGS Projected 02 Adds. (A)	% Distribution (B)	Allocation of Amount Under Budget (C)	Dec '02 Balance per PGS (D)	Dec '02 Balance per Citizens (E) = (C) + (D)
1	301	ORGANIZATION				12,620	12,620
2	302	FRANCHISES & CONCENTS				427,466	427,466
3	303	MISC INTANGIBLE PLANT				815,325	815,325
4	303.01	CUSTOMIZED SOFTWARE				2,055,932	2,055,932
5	374	LAND & LAND RIGHTS				2,252,873	2,252,873
6	374.02	LAND RIGHTS / EASEMENTS				1,088,763	1,088,763
7	375	LAND/BUILDING STRUC & IMP	1,578,300	2.60%	(258,625)	16,487,058	16,228,433
8	376	MAINS (STEEL)	9,962,992	16.40%	(1,632,568)	254,304,002	252,671,434
9	376.02	MAINS - PLASTIC	25,586,985	42.11%	(4,192,765)	178,382,691	174,189,926
10	378	MEAS. REG. STA. EQUIPMENT - GEN	1,419,318	2.34%	(232,574)	6,148,550	5,915,976
11	378.01	MEAS. REG. STA. EQUIPMENT - GEN				117,248	117,248
12	379	MEAS. REG. STA. EQUIPMENT - GATE				5,436,598	5,436,598
13	379.01	MEAS. REG. STA. EQUIPMENT - GATE				30,126	30,126
14	380	SERVICES OTHER THAN PLASTIC	1,100,590	1.81%	(180,346)	36,132,620	35,952,274
15	380.02	SERVICES - PLASTIC	8,141,213	13.40%	(1,334,045)	112,498,826	111,164,781
16	381	METERS	2,719,211	4.48%	(445,579)	25,332,414	24,886,835
17	381.01	METERS				3,190	3,190
18	382	METER INSTALLATIONS	1,887,484	3.11%	(309,289)	25,106,560	24,797,271
19	383	REGULATORS	636,185	1.05%	(104,247)	9,115,435	9,011,188
20	384	REGULATOR INSTALLATIONS	629,161	1.04%	(103,096)	8,770,542	8,667,446
21	385	MEAS. REG. STA. EQP. - INDUSTRIAL	304,950	0.50%	(49,970)	8,808,184	8,758,214
22	386	ALTERNATIVE FUELING STATIONS	10,000	0.02%	(1,639)	331,556	329,917
23	387	TESTING/MEASURING EQUIPMENT	791,400	1.30%	(129,681)	2,129,928	2,000,247
24	390	STRUCTURES & IMPROVEMENTS				922,204	922,204
25	390.02	STRUCT & IMPROVE - LEASEHOLD				28,216	28,216
26	391.00	OFFICE EQUIPMENT	676,612	1.11%	(110,872)	3,008,675	2,897,803
27	391.01	COMPUTER EQUIPMENT	1,794,500	2.95%	(294,052)	19,917,445	19,623,393
28	391.02	OFFICE MACHINES				464,362	464,362
29	391.03	OFFICE FURNITURE/EQUIP				347,725	347,725
30	392.01	AUTO & TRUCK LESS THAN 1/2 TON	2,388,009	3.93%	(391,307)	9,269,040	8,877,733
31	392.02	AUTO & TRUCK 3/4 - 1 TON				1,915,721	1,915,721
32	392.03	AIRPLANES				6,029,716	6,029,716
33	392.04	TRAILERS, OTHER				253,190	253,190
34	392.05	TRUCKS OVER 1 TON				1,040,135	1,040,135
35	393	STORES EQUIPMENT				56,803	56,803
36	394	TOOLS, SHOP, & GARAGE EQUIP	487,100	0.80%	(79,818)	3,617,653	3,537,835
37	394.01	TOOLS, SHOP, & GARAGE EQUIP				168,986	168,986
38	395	LABORATORY EQUIPMENT				129,578	129,578
39	396	POWER OPERATED EQUIPMENT	362,600	0.60%	(59,417)	2,132,619	2,073,202
40	397	COMMUNICATIONS EQUIPMENT	287,500	0.47%	(47,111)	3,520,219	3,473,108
41	398	MISC EQUIPMENT - GAS				312,839	312,839
Totals			<u>60,764,110</u>	<u>100.00%</u>	<u>(9,957,000)</u>	<u>748,923,633</u>	<u>738,966,632</u>

Source:

Col. (A): MFR Sch. G-1, page 24 of 28

Col. (C): Col. (B) x \$9,957,000 calculated on Schedule B-2, page 1.

Col. (D): MFR Sch. G-1, pages 9 and 10 of 28.

PEOPLES GAS SYSTEM
 Projected Test Year Ended December 31, 2003

Docket No 020384-GU
 Exhibit (DD-1)
 Schedule B-4
 Page 1 of 3

Adjusted 13-Month Average Plant in Service

Line No	Acct No.	Description	Adjusted Dec '02												Adjusted 13-Month Average		
			Balance	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03		Dec-03	
1	301	Organization	12,620	12,620	12,620	12,620	12,620	12,620	12,620	12,620	12,620	12,620	12,620	12,620	12,620	12,620	12,620
2	302	Franchises & Consents	427,466	427,466	427,466	427,466	427,466	427,466	427,466	427,466	427,466	427,466	427,466	427,466	427,466	427,466	427,466
3	303	Misc Intangible Plant	815,325	815,325	815,325	815,325	815,325	815,325	815,325	815,325	815,325	815,325	815,325	815,325	815,325	815,325	815,325
4	303.01	Customized Software	2,055,932	2,055,932	2,055,932	2,055,932	2,055,932	2,055,932	2,055,932	2,055,932	2,055,932	2,055,932	2,055,932	2,055,932	2,055,932	2,055,932	2,055,932
5	374	Land & Land rights	2,252,873	2,252,873	2,252,873	2,252,873	2,252,873	2,252,873	2,252,873	2,252,873	2,252,873	2,252,873	2,252,873	2,252,873	2,252,873	2,252,873	2,252,873
6	374.02	Land Rights / Easements	1,088,763	1,088,763	1,088,763	1,088,763	1,088,763	1,088,763	1,088,763	1,088,763	1,088,763	1,088,763	1,088,763	1,088,763	1,088,763	1,088,763	1,088,763
7	375	Land/Building Struct & Improv	16,228,433	16,292,433	16,356,433	16,420,433	16,484,433	16,548,433	16,612,433	16,676,433	16,740,433	16,804,433	16,868,433	16,932,433	16,996,433	17,060,433	17,124,433
8	376	MAINS (STEEL)	252,671,434	253,440,910	254,192,186	254,943,462	255,694,738	256,446,014	257,197,290	257,948,566	258,699,842	259,451,118	260,202,394	260,953,670	261,704,946	262,456,222	263,207,498
9	376.02	MAINS - PLASTIC	174,189,926	176,186,414	178,201,102	180,215,790	182,230,478	184,245,166	186,259,854	188,274,542	190,289,230	192,303,918	194,318,606	196,333,294	198,347,982	200,362,670	202,377,358
10	378	Meas Reg Sta Equip - Gen	5,915,976	5,989,553	6,063,130	6,136,707	6,210,284	6,283,861	6,357,438	6,431,015	6,504,592	6,578,169	6,651,746	6,725,323	6,798,900	6,872,477	6,946,054
11	378.01	Meas Reg Sta Equip - Gen	117,248	117,248	117,248	117,248	117,248	117,248	117,248	117,248	117,248	117,248	117,248	117,248	117,248	117,248	117,248
12	379	Meas Reg Sta Equip - Gate	5,436,598	5,431,892	5,427,186	5,422,480	5,417,774	5,413,068	5,408,362	5,403,656	5,398,950	5,394,244	5,389,538	5,384,832	5,380,126	5,375,420	5,370,714
13	379.01	Meas Reg Sta Equip - Gate	30,126	30,126	30,126	30,126	30,126	30,126	30,126	30,126	30,126	30,126	30,126	30,126	30,126	30,126	30,126
14	380	Services Other Than Plastic	35,952,274	36,015,464	36,078,654	36,141,844	36,205,034	36,268,224	36,331,414	36,394,604	36,457,794	36,520,984	36,584,174	36,647,364	36,710,554	36,773,744	36,836,934
15	380.02	Services - Plastic	111,164,781	111,807,829	112,450,877	113,093,925	113,736,973	114,380,021	115,023,069	115,666,117	116,309,165	116,952,213	117,595,261	118,238,309	118,881,357	119,524,405	120,167,453
16	381	METERS	24,886,835	24,933,889	24,980,943	25,027,997	25,075,051	25,122,105	25,169,159	25,216,213	25,263,267	25,310,321	25,357,375	25,404,429	25,451,483	25,498,537	25,545,591
17	381.01	METERS	3,190	3,190	3,190	3,190	3,190	3,190	3,190	3,190	3,190	3,190	3,190	3,190	3,190	3,190	3,190
18	382	Meter Installations	24,797,271	24,925,041	25,052,811	25,180,581	25,308,351	25,436,121	25,563,891	25,691,661	25,819,431	25,947,201	26,074,971	26,202,741	26,330,511	26,458,281	26,586,051
19	383	REGULATORS	9,011,188	9,064,188	9,117,188	9,170,188	9,223,188	9,276,188	9,329,188	9,382,188	9,435,188	9,488,188	9,541,188	9,594,188	9,647,188	9,700,188	9,753,188
20	384	Regulator Installations	8,667,446	8,712,977	8,758,508	8,804,039	8,849,570	8,895,101	8,940,632	8,986,163	9,031,694	9,077,225	9,122,756	9,168,287	9,213,818	9,259,349	9,304,880
21	385	Meas Reg Sta Equip - Indust	8,758,214	8,783,429	8,808,644	8,833,859	8,859,074	8,884,289	8,909,504	8,934,719	8,959,934	8,985,149	9,010,364	9,035,579	9,060,794	9,086,009	9,111,224
22	386	Alternative Fueling Stations	329,917	330,750	331,583	332,416	333,249	334,082	334,915	335,748	336,581	337,414	338,247	339,080	339,913	340,746	341,579
23	387	Testing/Measuring Equip	2,000,247	2,016,181	2,032,115	2,048,049	2,063,983	2,079,917	2,095,851	2,111,785	2,127,719	2,143,653	2,159,587	2,175,521	2,191,455	2,207,389	2,223,323
24	390	Struct & Improvements	922,204	918,691	915,178	911,665	908,152	904,639	901,126	897,613	894,100	890,587	887,074	883,561	880,048	876,535	873,022
25	390.02	Struct & Improv - Leasehold	28,216	28,216	28,216	28,216	28,216	28,216	28,216	28,216	28,216	28,216	28,216	28,216	28,216	28,216	28,216
26	391.00	OFFICE EQUIPMENT	2,897,803	2,968,224	3,038,645	3,109,066	3,179,487	3,249,908	3,320,329	3,390,750	3,461,171	3,531,592	3,602,013	3,672,434	3,742,855	3,813,276	3,883,697
27	391.01	COMPUTER EQUIPMENT	19,623,393	19,818,064	20,012,735	20,207,406	20,402,077	20,596,748	20,791,419	20,986,090	21,180,761	21,375,432	21,570,103	21,764,774	21,959,445	22,154,116	22,348,787
28	391.02	OFFICE MACHINES	464,362	463,752	463,142	462,532	461,922	461,312	460,702	460,092	459,482	458,872	458,262	457,652	457,042	456,432	455,822
29	391.03	Office Furniture/Equipment	347,725	347,725	347,725	347,725	347,725	347,725	347,725	347,725	347,725	347,725	347,725	347,725	347,725	347,725	347,725
30	392.01	Auto & Truck - Less Than 1/2 Ton	8,877,733	9,441,884	10,006,035	10,570,186	10,994,337	10,411,822	10,332,640	10,253,458	10,174,276	10,095,094	10,015,912	9,936,730	9,857,548	9,778,366	9,699,184
31	392.02	AUTO & TRUCK 3/4 - 1 TON	1,915,721	1,915,721	1,915,721	1,915,721	1,915,721	1,915,721	1,915,721	1,915,721	1,915,721	1,915,721	1,915,721	1,915,721	1,915,721	1,915,721	1,915,721
32	392.03	AIRPLANES	6,029,716	6,029,716	6,029,716	6,029,716	6,029,716	6,029,716	6,029,716	6,029,716	6,029,716	6,029,716	6,029,716	6,029,716	6,029,716	6,029,716	6,029,716
33	392.04	TRAILERS, OTHER	253,190	252,398	251,606	250,814	250,022	249,230	248,438	247,646	246,854	246,062	245,270	244,478	243,686	242,894	242,102
34	392.05	TRUCKS OVER 1 TON	1,040,135	1,031,829	1,023,523	1,015,217	1,006,911	998,605	990,299	981,993	973,687	965,381	957,075	948,769	940,463	932,157	923,851
35	393	STORES EQUIPMENT	56,803	56,268	55,733	55,198	54,663	54,128	53,593	53,058	52,523	51,988	51,453	50,918	50,383	49,848	49,313
36	394	Tools, Shop & Garage Equip	3,537,835	3,549,732	3,561,629	3,573,526	3,585,423	3,597,320	3,609,217	3,621,114	3,633,011	3,644,908	3,656,805	3,668,702	3,680,599	3,692,496	3,704,393
37	394.01	Tools, Shop & Garage Equip	168,986	168,986	168,986	168,986	168,986	168,986	168,986	168,986	168,986	168,986	168,986	168,986	168,986	168,986	168,986
38	395	LABORATORY EQUIPMENT	129,578	129,578	129,578	129,578	129,578	129,578	129,578	129,578	129,578	129,578	129,578	129,578	129,578	129,578	129,578
39	396	Power Operated Equip	2,073,202	2,077,336	2,081,470	2,085,604	2,089,738	2,093,872	2,098,006	2,102,140	2,106,274	2,110,408	2,114,542	2,118,676	2,122,810	2,126,944	2,131,078
40	397	Communications Equip	3,473,108	3,530,359	3,587,610	3,644,861	3,702,112	3,759,363	3,816,614	3,873,865	3,931,116	3,988,367	4,045,618	4,102,869	4,160,120	4,217,371	4,274,622
41	398	MISC EQUIPMENT - GAS	312,839	312,827	312,815	312,803	312,791	312,779	312,767	312,755	312,743	312,731	312,719	312,707	312,695	312,683	312,671
42	Total		738,966,632	743,775,799	748,584,966	753,394,133	757,559,967	761,725,801	765,891,635	770,057,469	774,223,303	778,389,137	782,554,971	786,720,805	790,886,639	795,052,473	799,218,307
43	Average Plant in Service, per Company																776,739,053
44	Reduction to Plant In Service, per Citizens																(11,144,341)

Source/Notes:

For calculation of December 2002 balance see Schedule B-3. Subsequent months calculated by adding Citizens' adjusted additions on Schedule B-4, page 2 and subtracting the Company's projected monthly retirements shown on Schedule B-4, page 3

PEOPLES GAS SYSTEM
 Projected Test Year Ended December 31, 2003

Docket No. 020384-GU
 Exhibit (DD-1)
 Schedule B-4
 Page 2 of 3

2003 Plant Additions, As Adjusted

Line No	Acct No	Description	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Total
1	301	Organization													-
2	302	Franchises & Consents													-
3	303	Misc Intangible Plant													-
4	303 01	Customized Software													-
5	374	Land & Land rights													-
6	374 02	Land Rights / Easements													-
7	375	Land/Building Struct. & Improv.	64,000	64,000	64,000	64,000	64,000	64,000	64,000	64,000	64,000	64,000	64,000	64,000	768,000
8	376	MAINS (STEEL)	804,440	786,240	786,240	786,240	786,240	786,240	786,240	786,240	786,240	786,240	786,240	786,240	9,453,080
9	376.02	MAINS - PLASTIC	1,999,393	2,017,593	2,017,593	2,017,593	2,017,593	2,017,593	2,017,593	2,017,593	2,017,593	2,017,593	2,017,593	2,017,593	24,192,916
10	378	Meas Reg. Sta. Equip - Gen	76,833	76,833	76,833	76,833	76,833	76,833	76,833	76,833	76,833	76,833	76,833	76,833	921,996
11	378 01	Meas Reg. Sta. Equip - Gen													-
12	379	Meas Reg. Sta. Equip - Gate													-
13	379 01	Meas Reg. Sta. Equip - Gate													-
14	380	Services Other Than Plastic	91,716	91,716	91,716	91,716	91,716	91,716	91,716	91,716	91,716	91,716	91,716	91,716	1,100,592
15	380 02	Services - Plastic	678,450	678,450	678,450	678,450	678,450	678,450	678,450	678,450	678,450	678,450	678,450	678,450	8,141,400
16	381	METERS	226,583	226,583	226,583	226,583	226,583	226,583	226,583	226,583	226,583	226,583	226,583	226,583	2,718,996
17	381 01	METERS													-
18	382	Meter Installations	157,313	157,313	157,313	157,313	157,313	157,313	157,313	157,313	157,313	157,313	157,313	157,313	1,887,756
19	383	REGULATORS	53,000	53,000	53,000	53,000	53,000	53,000	53,000	53,000	53,000	53,000	53,000	53,000	636,000
20	384	Regulator Installations	52,438	52,438	52,438	52,438	52,438	52,438	52,438	52,438	52,438	52,438	52,438	52,438	629,256
21	385	Meas Reg. Sta. Equip - Indust	25,417	25,417	25,417	25,417	25,417	25,417	25,417	25,417	25,417	25,417	25,417	25,417	305,004
22	386	Alternative Fueling Stations	833	833	833	833	833	833	833	833	833	833	833	833	9,996
23	387	Testing/Measuring Equip	18,833	18,833	18,833	18,833	18,833	18,833	18,833	18,833	18,833	18,833	18,833	18,833	225,996
24	390	Struct & Improvements													-
25	390 02	Struct & Improv. - Leasehold													-
26	391.00	OFFICE EQUIPMENT	84,493	84,493	84,493	84,493	84,493	84,493	84,493	84,493	84,493	84,493	84,493	84,493	1,013,916
27	391.01	COMPUTER EQUIPMENT	224,091	224,091	224,091	224,091	224,091	224,091	224,091	224,091	224,091	224,091	224,091	224,091	2,689,092
28	391 02	OFFICE MACHINES													-
29	391 03	Office Furniture/Equipment													-
30	392 01	Auto & Truck - Less Than 1/2 Ton	643,333	643,333	643,333										1,929,999
31	392 02	AUTO & TRUCK 3/4 - 1 TON													-
32	392 03	AIRPLANES													-
33	392 04	TRAILERS, OTHER													-
34	392 05	TRUCKS OVER 1 TON													-
35	393	STORES EQUIPMENT													-
36	394	Tools, Shop & Garage Equip	18,250	18,250	18,250	18,250	18,250	18,250	18,250	18,250	18,250	18,250	18,250	18,250	219,000
37	394 01	Tools, Shop & Garage Equip													-
38	395	LABORATORY EQUIPMENT													-
39	396	Power Operated Equip	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	144,000
40	397	Communications Equip	77,750	77,750	77,750	77,750	77,750	77,750	77,750	77,750	77,750	77,750	77,750	77,750	933,000
41	398	MISC EQUIPMENT - GAS													-
42		Total	5,309,166	5,309,166	5,309,166	4,665,833	4,665,833	4,665,833	4,665,833	4,665,833	4,665,833	4,665,833	4,665,833	4,665,833	57,919,995
43		Cumulative Amount	5,309,166	10,618,332	15,927,498	20,593,331	25,259,164	29,924,997	34,590,830	39,256,663	43,922,496	48,588,329	53,254,162	57,919,995	
44		Average Increase in PIS													32,097,080

Source/Notes

- The above amounts were calculated using the spreadsheet provided by PGS in response to Staff POD 25. The changes made to the spreadsheet include
1. PGS' plant additions projected using 5-year average additions consisting of 1998 - 2001 adjusted actuals and 2002 adjusted budget were replaced by a 4-year average using the Company's 1998 - 2001 adjusted actuals. The Company's adjustments removed extraordinary expenditures in calculating the average.
 2. The Company's application of a 2.66% inflation factor to go from adjusted 2002 to projected 2003 was removed.

PEOPLES GAS SYSTEM
 Projected Test Year Ended December 31, 2003

Docket No. 020384-GU
 Exhibit_(DD-1)
 Schedule B-4
 Page 3 of 3

2003 Plant Retirements

Line No.	Acct No.	Description	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Total
1	301	Organization													-
2	302	Franchises & Consents													-
3	303	Misc. Intangible Plant													-
4	303.01	Customized Software													-
5	374	Land & Land rights													-
6	374.02	Land Rights / Easements													-
7	375	Land/Building Struct. & Improv.													-
8	376	MAINS (STEEL)	34,964	34,964	34,964	34,964	34,964	34,964	34,964	34,964	34,964	34,964	34,964	34,964	419,568
9	376.02	MAINS - PLASTIC	2,905	2,905	2,905	2,905	2,905	2,905	2,905	2,905	2,905	2,905	2,905	2,905	34,860
10	378	Meas Reg. Sta Equip - Gen	3,256	3,256	3,256	3,256	3,256	3,256	3,256	3,256	3,256	3,256	3,256	3,256	39,072
11	378.01	Meas. Reg. Sta. Equip. - Gen													-
12	379	Meas. Reg. Sta Equip. - Gate	4,706	4,706	4,706	4,706	4,706	4,706	4,706	4,706	4,706	4,706	4,706	4,706	56,472
13	379.01	Meas. Reg. Sta. Equip. - Gate													-
14	380	Services Other Than Plastic	28,526	28,526	28,526	28,526	28,526	28,526	28,526	28,526	28,526	28,526	28,526	28,526	342,312
15	380.02	Services - Plastic	35,402	35,402	35,402	35,402	35,402	35,402	35,402	35,402	35,402	35,402	35,402	35,402	424,824
16	381	METERS	179,529	179,529	179,529	179,529	179,529	179,529	179,529	179,529	179,529	179,529	179,529	179,529	2,154,348
17	381.01	METERS													-
18	382	Meter Installations	29,543	29,543	29,543	29,543	29,543	29,543	29,543	29,543	29,543	29,543	29,543	29,543	354,516
19	383	REGULATORS													-
20	384	Regulator Installations	6,907	6,907	6,907	6,907	6,907	6,907	6,907	6,907	6,907	6,907	6,907	6,907	82,884
21	385	Meas. Reg. Sta. Equip - Indust.	202	202	202	202	202	202	202	202	202	202	202	202	2,424
22	386	Alternative Fueling Stations													-
23	387	Testing/Measuring Equip	2,899	2,899	2,899	2,899	2,899	2,899	2,899	2,899	2,899	2,899	2,899	2,899	34,788
24	390	Struct. & Improvements	3,513	3,513	3,513	3,513	3,513	3,513	3,513	3,513	3,513	3,513	3,513	3,513	42,156
25	390.02	Struct & Improv. - Leasehold													-
26	391.00	OFFICE EQUIPMENT	14,072	14,072	14,072	14,072	14,072	14,072	14,072	14,072	14,072	14,072	14,072	14,072	168,864
27	391.01	COMPUTER EQUIPMENT	29,420	29,420	29,420	29,420	29,420	29,420	29,420	29,420	29,420	29,420	29,420	29,420	353,040
28	391.02	OFFICE MACHINES	610	610	610	610	610	610	610	610	610	610	610	610	7,320
29	391.03	Office Furniture/Equipment													-
30	392.01	Auto & Truck - Less Than 1/2 Ton	79,182	79,182	79,182	79,182	79,182	79,182	79,182	79,182	79,182	79,182	79,182	79,182	950,184
31	392.02	AUTO & TRUCK 3/4 - 1 TON													-
32	392.03	AIRPLANES													-
33	392.04	TRAILERS, OTHER	792	792	792	792	792	792	792	792	792	792	792	792	9,504
34	392.05	TRUCKS OVER 1 TON	8,306	8,306	8,306	8,306	8,306	8,306	8,306	8,306	8,306	8,306	8,306	8,306	99,672
35	393	STORES EQUIPMENT	535	535	535	535	535	535	535	535	535	535	535	535	6,420
36	394	Tools, Shop & Garage Equip	6,353	6,353	6,353	6,353	6,353	6,353	6,353	6,353	6,353	6,353	6,353	6,353	76,236
37	394.01	Tools, Shop & Garage Equip													-
38	395	LABORATORY EQUIPMENT													-
39	396	Power Operated Equip	7,866	7,866	7,866	7,866	7,866	7,866	7,866	7,866	7,866	7,866	7,866	7,866	94,392
40	397	Communications Equip	20,499	20,499	20,499	20,499	20,499	20,499	20,499	20,499	20,499	20,499	20,499	20,499	245,988
41	398	MISC EQUIPMENT - GAS	12	12	12	12	12	12	12	12	12	12	12	12	144
42		Total	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	6,000,000

Source:
 MFR Schedule G-1, Page 28 of 28.

Working Capital - Materials & Supplies

Schedule B-5

Line No.	Description	2000 Amounts	2001 Amounts	2002 Amounts
1	January	1,005,209	895,958	883,044
2	February	1,169,965	980,610	829,676
3	March	1,271,422	974,527	843,394
4	April	1,094,771	985,613	837,306
5	May	1,067,743	985,656	829,345
6	June	1,212,200	957,524	787,849
7	July	1,105,705	921,647	747,116
8	August	1,014,458	874,541	776,936 (1)
9	September	1,003,399	917,483	
10	October	960,024	887,258	
11	November	1,596,907	971,012	
12	December	938,190	842,447	
13	Sum of Most Recent 13-Months (August 2001 - August 2002)			11,027,407
14	Most Recent 13-Month Average Balance - Materials & Supplie			848,262
15	Materials & Supplies Balance Included in Filing			<u>1,000,000</u> (2)
16	Reduction to Working Capital for Materials & Supplies			<u><u>(151,738)</u></u>

Source:

Amounts from response to Citizens' Interrogatory No. 29.

(1) Amount from Company's August 31, 2002 Trial Balance.

(2) MFR Schedule G-2, page 2 of 28, line 13.

Adjusted Net Operating Income



Line No.	Description	Adjusted Total per Company (A)	OPC Adjustments (B)	Adjusted Total per OPC (C)
Operating Revenues:				
1	Operating Revenues	148,181,729	3,711,488	151,893,217
2	Revenue Relief	-		-
3	Total Operating Revenues	<u>148,181,729</u>		<u>151,893,217</u>
Operating Expenses:				
4	Cost of Gas	-		-
5	Operation & Maintenance	60,447,051	(9,266,864)	51,180,187
6	Depreciation & Amortization	33,276,885	(457,256)	32,819,629
7	Amortization - Other	640,000		640,000
8	Taxes Other Than Income	9,560,723	(211,954)	9,348,769
9	Interest Synchronization	156,000	(504,391)	(348,391)
10	Current/Deferred Income Taxes	9,326,232	5,264,547	14,590,779
11	Investment Tax Credits	-		-
12	Total Operating Expenses	<u>113,406,891</u>		<u>108,230,973</u>
13	Net Operating Income	<u><u>34,774,838</u></u>		<u><u>43,662,244</u></u>

Source/Notes:

Col. (A): Company MFR Schedule G-2, page 1

Col. (B): See Schedule C-1, page 2

Net Operating Income - Summary of Adjustments

Line No.	Adjustment Title	Reference	Amount
Operating Revenue Adjustments:			
1	Off System Sales	Schedule C-2	3,711,488
2			
3	<i>Total Operating Revenue</i>		<u>3,711,488</u>
Operating Expense Adjustments:			
Operation and Maintenance:			
4	Payroll Trending Adjustment	Exh_(HWS-1), Sch. A	(1,198,657)
5	Other Trended Expense Adjustment	Exh_(HWS-1), Sch. B	(1,868,945)
6	Uncollectible Expense	(1)	(878,774)
7	Account 922 Adjustment	Exh_(HWS-1),Sch. C	435,658
8	Payroll Adjustment - Incentive Compensation	Exh_(HWS-1),Sch. D	(856,343)
9	Payroll Adjustment - Employee Compliment	Exh_(HWS-1),Sch. E	(625,543)
10	Tampa Electric - Other Not Trended Costs	(1)	(325,300)
11	Tampa Electric Annualization Adjustment	Exh_(HWS-1),Sch. G	(1,019,217)
12	TECO Energy Cost Adjustment	Exh_(HWS-1),Sch. H	(730,861)
13	Cost Savings Program	(1)	(275,000)
14	TECO Partners - Marketing and Sales Charges	Schedule C-3	(802,122)
15	Remove New Promotional Program	Testimony	(250,000)
16	Remove Credit Card Fees	Testimony	(240,004)
17	Advertising Expense Adjustment	Schedule C-4	(127,757)
18	Rate Case Expense	Schedule C-5	(60,000)
19		Testimony	
20	<i>Total Operation and Maintenance</i>		<u>(9,266,864)</u>
Depreciation and Amortization:			
21	Depreciation Expense - Revisions to Plant in Service	Schedule C-6	(457,256)
22	<i>Total Depreciation and Amortization</i>		<u>(457,256)</u>
Taxes Other Than Income:			
23	Payroll Tax Expense	Exh__(HWS-1), Sch. F	(211,954)
24	<i>Total Taxes Other Than Income</i>		<u>(211,954)</u>
25	Interest Synchronization Adjustment	Schedule C-7	<u>(504,391)</u>
Income Taxes:			
26	Impact of Other Adjustments	Schedule C-8	<u>5,264,547</u>
27	<i>Total Income Tax</i>		<u>5,264,547</u>

Notes:

Adjustments referencing Exhibit__(HWS-1) are sponsored by Citizens' witness Helmuth Schultz, III
 (1) Amount identified in the direct testimony of Citizens' witness Helmuth Schultz, III

Off-System Sales

Schedule C-2

Line No.	Description	Volumes In Therms	Non-Fuel Revenue Amount	12-Month Total
1	January-00	87,350	1,128	
2	February-00	10,714,350	45,667	
3	March-00	19,433,120	166,014	
4	April-00	13,228,730	171,752	
5	May-00	8,258,990	115,151	
6	June-00	7,821,320	111,945	
7	July-00	10,442,930	158,528	
8	August-00	11,071,570	233,596	
9	September-00	8,448,940	163,577	
10	October-00	2,379,390	77,846	
11	November-00	2,186,000	34,459	
12	December-00	1,703,390	11,087	1,290,750
13	January-01	161,140	4,884	1,294,506
14	February-01	1,757,380	6,265	1,255,104
15	March-01	3,249,770	16,460	1,105,550
16	April-01	4,757,000	160,428	1,094,226
17	May-01	5,152,750	167,026	1,146,101
18	June-01	9,112,870	314,993	1,349,149
19	July-01	15,160,460	405,939	1,596,560
20	August-01	12,844,150	427,318	1,790,282
21	September-01	17,032,270	695,427	2,322,132
22	October-01	20,456,620	465,785	2,710,071
23	November-01	5,860,600	58,407	2,734,019
24	December-01	5,847,670	73,802	2,796,734
25	January-02	8,549,040	148,339	2,940,189
26	February-02	5,916,240	100,963	3,034,887
27	March-02	18,892,320	292,650	3,311,077
28	April-02	26,192,780	455,798	3,606,447
29	May-02	9,813,070	251,941	3,691,362
30	June-02	16,523,260	328,390	3,704,759
31	July-02	12,208,590	334,428	3,633,248
32	August-02	25,942,720	505,558	3,711,488
33	Off-System Sales - Most Recent 12-Month Period			<u>3,711,488</u>

Source: _____

Response to Citizens' First Set of Interrogatories, Interrogatory No. 1

TECO Partners - Marketing & Sales Charges

Schedule C-3

Line No.	Description	Amount	
1	2000 Sales Expense - Account 912	3,022,421	(1)
2	Reduction to Other PGS Expense Accounts & Increases in Rent Revenue Due to Outsourcing - 2000 to 2001	<u>5,151,153</u>	(2)
3	Effective 2000 Costs Associated with Sales & Marketing Function	<u>8,173,574</u>	
4	Marketing & Sales Function Assuming 10% Cost Reduction to 200	7,356,217	Line 3 x 90%
5	Additional 3% Reduction in Costs from 2001 to 2002	7,135,530	
6	Additional 3% Reduction in Costs from 2002 to 2003	6,921,464	
7	Projected 2003 Charges from TECO Partners in Acct. 912	<u>7,723,586</u>	(3)
8	Reduction to Projected 2003 Sales Expense	<u><u>(802,122)</u></u>	

Source/Notes:

- (1) Peoples Gas System Annual Report to the Florida Public Service Commission for the Year Ended December 31, 2000.
- (2) Florida Public Service Commission Audit Document/Record Request No. 18, dated 8/21/01 and responded to on 9/05/02.
- (3) MFR Schedule G-2, page 16.

Advertising Expense Adjustments

Line No.	Vendor	Description	Invoice Amount
1	American Gas Association	Sponsorship	1,000
2	American Gas Foundation	Charitable Contribution	25,000
3	Appleton Museum	Arts Festival Sponsorship	6,000
4	ARC Marion	Sponsorship	200
5	Athletic Ticket Office	FSU Sponsorship	727
6	Bay Co. Chamber of Commerce	Golf Tournament	845
7	Bay High Quarterback Club	Donation/Ad for Football Program	150
8	Bay Point Billfish Tournament	Sponsor Fishing Tournament	1,500
9	Belleview Rotary	Golf Tournament Sponsor	290
10	Builders Association of Greater Tampa	Sponsor Golf Tournament	350
11	Builders Association of Greater Tampa	Golf Tournament	400
12	Charter Elementary School PTA	Bar BQ Bash	200
13	Childrens Home Society	Vintage Grape Festival	200
14	City of Jacksonville - Special Events	Logo Recognition	3,333
15	City of Jacksonville - Special Events	Sponsor Sea & Sky Spectacular	3,333
16	Complete Graphix, Inc.	Promotional Calculators	602
17	Cornerstone School	Chili Cookoff	100
18	Dover Division	Balloon Fest Labor	102
19	Economic Development Council	W.C. Schwartz Awards Luncheon	280
20	Fast Signs	Screen Printing and Frame	5,694
21	Festive Floats	Parade Float	5,700
22	Florida Economic Development Council	Sponsor Golf Tournament	2,500
23	Florida Gulf West, Inc.	Ad in High School Yearbook	35
24	Florida Natural Gas Association	Banquet Sponsorship	2,000
25	Florida Orchestra	Dues	2,500
26	Fort Myers Skatrium	Zamboni Ad for 1/01-12/01	2,170
27	Foundation of Bay Medical Center	Golf Tournament	300
28	FSU Athletic Ticket Office	Tickets	150
29	Gale Force Holdings	Entertainment	1,164
30	Gale Force Holdings	Entertainment	410
31	Gasparilla Distance Classic Assoc. Inc.	Sponsorship	5,250
32	Greater Brandon Chamber of Commerce	Balloon Classic Sponsor	7,500
33	Greater Hernando Chamber of Commerce	Student Sponsorship	200
34	Greg McDonald	Football Tickets for City Councilmen	88
35	Hiland Park Razorback Booster	Donation/Ad	175
36	Home Builders Association of Manata	Golf Tournament	100
37	Home Builders Association of Mid Florida	Sponsorship	1,500
38	Subtotal, Page 1		<u>82,048</u>

Advertising Expense Adjustments

Line No.	Vendor	Description	Invoice Amount
1	International Sports Management, Inc.	TPC Sawgrass/Customer Entertainment	4,350
2	Jacksonville Jewish Center	Yearbook Ad	400
3	Junior Achievement	Bowl-a-Thon	96
4	Kettle & the Kernel	Popcorn	630
5	Knight's Legend	School Yearbook Ad	100
6	Leading Edge Aviation Services, Inc.	Aviation Kids Camp Sponsorship	100
7	Lynn Haven Raider Football	Donation/Ad for Football Program	75
8	Marion County BCC	Sponsor Golf Tournament	300
9	Marion County Builders Association	Golf Tournament	100
10	Mary Ellen School of Dance	Sponsor Dance Competition	50
11	MCRA	Bowling Tournament	125
12	MCRA	Florida Fest Sponsorship	250
13	Mosley Touchdown Club	Donation/Ad for Football Program	150
14	Mosley Volleyball	Sponsorship	100
15	Ocala Chamber of Commerce	Sponsor Legislative Day	500
16	Ocala Rotary Sportsplex	Donation	100
17	Ocala Youth Baseball Assoc.	Sponsorship	350
18	Ocala-Marion Chamber of Commerce	Sponsor Youth Program	1,000
19	Orlando Chamber of Commerce	Sponsor Leadership Conference	2,001
20	Orlando Magic Youth Foundation	Golf Tournament	2,500
21	Orlando Regional Chamber	Tallahassee Fly-In 2001	401
22	Orlando Regional Chamber	HOBNOB	184
23	Orlando Regional Chamber	Magic Tip Off Luncheon	92
24	Orlando Regional Chamber	Sponsor Kitchen Luncheon	3,001
25	Panama City Area Seminole Club	Print Ad - Booster Program	225
26	Pasco Builders Association	Sponsor Golf Tournament	325
27	Pasco Public School Foundation	Recycling Contest	200
28	Pinellan Assoc. for Retarded Children	Donation/Sponsorship	900
29	Project Graduation	Golf Tournament	100
30	Riverview High School	School Pens	980
31	Ronald McDonald House of Tampa Bay	Annual Meeting & Luncheon	30
32	Rutherford Rams	Donation/Ad for Football Program	200
33	Sarasota Babe Ruth Baseball	Team Sponsor	350
34	Seminole Boosters Inc.	FSU Football Sponsorship	5,500
35	Seminole Ticket Office	Football Game Package	608
36	Social Order of the Unsinkable Molly Brown	Wine Tasting & Art Auction	60
37	Subtotal, Page 2		<u>26,433</u>

Advertising Expense Adjustments

Line No.	Vendor	Description	Invoice Amount
1	Southeastern Pro Rodeo	Rodeo Sponsor	500
2	Streight Cycles	Donation	100
3	T & D Golf-Tampa	Builders Association Golf Tournament	614
4	Tampa Classic Cigar Products	Hostess and Cigars	1,380
5	TECO Arena	Entertainment	1,408
6	TECO Propane	Sponsor Balloon Fest	1,073
7	Time for Freedom, Inc.	Arena Sponsor	450
8	Typestyles & Design, Inc.	Promotional Letter Openers	466
9	Typestyles & Design, Inc.	Promotional Pens	571
10	Typestyles & Design, Inc.	Golf Balls with Company Logo	505
11	Typestyles & Design, Inc.	Promotional Shirts	112
12	Typestyles & Design, Inc.	Promotional Shirts	430
13	Typestyles & Design, Inc.	Promotional Hats	655
14	Typestyles & Design, Inc.	Promotional Golfballs	1,605
15	Typestyles & Design, Inc.	Promotional Golfballs	604
16	Typestyles & Design, Inc.	Promotional Pocket Can Coolers	71
17	Typestyles & Design, Inc.	Promotional Umbrellas	338
18	Typestyles & Design, Inc.	Promotional Shirts	215
19	Typestyles & Design, Inc.	Promotional Cigar Cutters	407
20	Typestyles & Design, Inc.	Promotional Shirts	243
21	UniFirst Corporation	Promotional Shirts	298
22	Unifirst Corporation	Promotional Shirts	475
23	United Way	Golf Tournament	650
24	United Way	Corporate Table	350
25	University of South Florida	Inaugural Reception	65
26	Vanguard High School	Donation/Turkeys	80
27	Villages Charter School	Christmas Tree Raffle	100
28	Villages Charter School PTA	Sponsor Golf Tournament	300
29	West Port High School	Sponsor Chorus Department	250
30	Subtotal, Page 3		14,315
31	Subtotal, Page 1		82,048
32	Subtotal, Page 2		26,433
33	Total Recommended Amount for Removal - 2001 Amounts		122,796
34	Citizens Recommended Inflation Factor		2.00%
35	Total Reduction to Advertising Expense (Two years of inflation applied)		127,757

Source:

Response to Citizens' Request for Production of Documents No. 64.

PEOPLES GAS SYSTEM
Projected Test Year Ended December 31, 2003

Docket No. 020384-GU
Exhibit__(DD-1)
Schedule C-5

Rate Case Expense

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Amount</u>
1	Rate Case Costs, per Company	240,000
2	Citizens' Recommended Amortization Period (Years)	<u>4</u>
3	Rate Case Amortization Expense, per Citizens	60,000
4	Rate Case Amortization Expense, per Company	<u>120,000</u>
5	Reduction to Rate Case Expense Amortization	<u>(60,000)</u>

Source/Notes:

Per Company amount from MFR Schedule G-2, page 18 of 31. Represents two year amortization of \$240,000.

Depreciation Expense - Revisions to Plant in Service

Lin No	Acct. No.	Description	13-Month Avg Plant Balance as Adjusted	Company Requested Depreciation Rate	Depreciation Expense
1	375	Land/Building Struct. & Improv.	16,612,433	2.70%	448,536
2	376	MAINS (STEEL)	257,195,890	4.10%	10,545,031
3	376.02	MAINS - PLASTIC	186,261,254	2.60%	4,842,793
4	378	Meas. Reg. Sta. Equip. - Gen	6,357,438	3.10%	197,081
5	378.01	Meas. Reg. Sta. Equip. - Gen	117,248	3.10%	3,635
6	379	Meas. Reg. Sta. Equip. - Gate	5,408,362	3.10%	167,659
7	379.01	Meas. Reg. Sta. Equip. - Gate	30,126	3.10%	934
8	380	Services Other Than Plastic	36,331,414	7.00%	2,543,199
9	380.02	Services - Plastic	115,023,069	4.20%	4,830,969
10	381	METERS	25,169,159	3.40%	855,751
11	381.01	METERS	3,190	3.40%	108
12	382	Meter Installations	25,563,891	8.00%	2,045,111
13	383	REGULATORS	9,329,188	3.50%	326,522
14	384	Regulator Installations	8,940,632	7.40%	661,607
15	385	Meas. Reg. Sta. Equip - Indust.	8,909,504	3.00%	267,285
16	387	Testing/Measuring Equip	2,095,851	6.80%	142,518
17	390	Struct. & Improvements	901,126	2.50%	22,528
18	391.00	OFFICE EQUIPMENT	3,320,329	6.70%	222,462
19	391.01	COMPUTER EQUIPMENT	20,791,419	12.00%	2,494,970
20	391.02	OFFICE MACHINES	460,702	4.50%	20,732
21	391.03	Office Furniture/Equipment	347,725	4.50%	15,648
22	392.01	Auto & Truck - Less Than 1/2 Ton	10,035,717	9.50%	953,393
23	392.02	AUTO & TRUCK 3/4 - 1 TON	1,915,721	9.50%	181,993
24	392.03	AIRPLANES	6,029,716	1.00%	60,297
25	392.04	TRAILERS, OTHER	248,438	3.30%	8,198
26	392.05	TRUCKS OVER 1 TON	990,299	4.95%	49,020
27	393	STORES EQUIPMENT	53,593	11.30%	6,056
28	394	Tools, Shop & Garage Equip	3,609,217	6.60%	238,208
29	394.01	Tools, Shop & Garage Equip	168,986	6.60%	11,153
30	395	LABORATORY EQUIPMENT	129,578	9.40%	12,180
31	396	Power Operated Equip	2,098,006	5.70%	119,586
32	397	Communications Equip	3,816,614	6.70%	255,713
33	398	MISC EQUIPMENT - GAS	312,767	4.10%	12,823
34		Depreciation Expense, per Citizens'			32,563,699
35		Depreciation Expense, per Company (MFR Sch. G-2, page 23)			33,020,955
36		Reduction to Depreciation Expense			(457,256)
37		Reduction to Depreciation Reserve (Line 36 x 50%)			228,628

Source:

Col. (A): Schedule B-4, page 1 of 3.

Col. (B): MFR Schedule G-2, page 23 of 31. These percentages are based on the Company's proposed new depreciation rates and should be replaced with the rates ultimately adopted by the Commission in the depreciation case.

PEOPLES GAS SYSTEM
Projected Test Year Ended December 31, 2003

Docket No. 020384-GU
Exhibit__(DD-1)
Schedule C-7

Interest Synchronization Adjustment

Line No.	Description	Amount	
1	Rate Base, per OPC	490,048,282	Schedule B-1
2	Weighted Cost of Debt (debt plus customer deposits)	3.62%	Schedule D
3	Interest Deduction	17,739,748	
4	Interest Deduction in Filing	16,836,595	MFR Sch. G-2, p. 30
5	Difference	903,153	
6	Consolidated Tax Rate	38.575%	
7	Increase (Decrease) in Income Tax Expense	(348,391)	
8	Interest Synchronization Adjustment in Filing	156,000	MFR Sch. G-2, p. 3
9	Increase (Reduction) to Income Tax Expense	<u>(504,391)</u>	

PEOPLES GAS SYSTEM
Projected Test Year Ended December 31, 2003

Docket No. 020384-GU
Exhibit__(DD-1)
Schedule C-8

Income Tax Expense

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	Adjustments to Operating Income (1)	13,647,562
2	Composite Income Tax Rate (2)	<u>38.575%</u>
3	Adjustment to Income Tax Expense	<u><u>5,264,547</u></u>

Source:

(1) Schedule C-1, p. 2

(2) Composite of State Tax Rate of 5.50% and Federal Tax Rate of 35%.

Overall Cost of Capital, per OPC

Line No.	Description	Amount	Ratio	Cost Rate	Weighted Cost
1	Long Term Debt	187,039,604	38.17%	7.81%	2.98%
2	Short Term Debt	32,281,436	6.59%	4.00%	0.26%
3	Common Equity	219,321,040	44.75%	10.10%	4.52%
4	Customer Deposits	27,148,675	5.54%	6.81%	0.38%
8	Deferred Taxes	23,571,457	4.81%	0.00%	0.00%
9	Tax Credit	686,068	0.14%	0.00%	0.00%
10	Total Capital Structure	490,048,280	100.00%		8.14%

Source/Reference:

Above amounts are sponsored by Citizens' witness Mark Cichetti, with the exception of a recommended adjustment to deferred taxes which flows through Mark Cichetti's calculations. The recommended adjustment to deferred taxes is presented on page 2 of this schedule.

PEOPLES GAS SYSTEM
 Projected Test Year Ended December 31, 2003

Docket No. 020384-GU
 Exhibit __ (DD-1)

Additional Accumulated Deferred Income Taxes - Bonus Depreciation

Schedule D
 Page 2 of 2

Line No.	Description	Amount	
1	Company Projected Additions to Plant in Service - 2002	60,764,109	MFR Sch. G-1, p. 24
2	Less: Citizens' Reduction to December 2002 Plant in Service	(9,957,000)	Schedule B-3
3	Subtotal	<u>50,807,109</u>	
4	Recommended 13-Month Average Additions to PIS - 2003	<u>32,097,080</u>	Sch. B-4, p. 2, line 44
5	Estimate of Additions to Which Bonus Depreciation Applies	82,904,189	Line 3 + Line 4
6	Bonus Tax Depreciation @ 30%	24,871,257	Line 5 x 30%
7	Less Estimated Impact on Normal Tax Depreciation in 2003	(1,261,624)	Line 6 x Line A.3
8	Less Estimated Impact on Normal Tax Depreciation in 2002	<u>(773,175)</u>	Line 3 x 30% x Line A.3
9	Estimated Additional Tax Depreciation	22,836,458	Line 6 + line 7 + line 8
10	Federal Income Tax Rate	<u>35%</u>	
11	Estimated Additional Deferred Income Tax	<u><u>7,992,760</u></u>	
<u>Estimate of Average Tax Depreciation Rate:</u>			
A.1	Estimated 2003 Tax Depreciation, per Company	39,401,000	MFR Sch. G-2, page 31
A.2	Projected 2003 Average PIS, per Company	<u>776,739,053</u>	
A.3	Average Tax Depreciation Rate - 2003	<u>5.07%</u>	

APPENDIX I

QUALIFICATIONS OF DONNA DERONNE, C.P.A.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and regulatory consultant in the firm of Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated with honors from Oakland University in Rochester, Michigan in 1991. I have been employed by the firm of Larkin & Associates, PLLC, since 1991. As a certified public accountant and regulatory consultant with Larkin & Associates, PLLC, my duties have included the analysis of utility rate cases and regulatory issues, researching accounting and regulatory developments, preparation of computer models and spreadsheets, the preparation of testimony and schedules and testifying in regulatory proceedings. I have also conducted four training programs on behalf of the Department of Defense - Navy Rate Intervention Office on measuring the financial capabilities of firms bidding on Naval assets. A partial listing of cases which I have participated in are included below:

Performed Analytical Work in the Following Cases:

Docket No. 92-06-05	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Docket No. R-00922428	The Pennsylvania American Water Company Pennsylvania Public Utility Commission
Cause No. 39498	PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission
Docket No. 6720-TI-102	Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board
Docket No. 90-1069 (Remand)	Commonwealth Edison, Inc. Before the Illinois Commerce Commission
Docket Nos. 920733-WS & 920734-WS	General Development Utilities, Inc. - Port Labelle and Silver Springs Shores Divisions. Before the Florida Public Service Commission
Case No. PUE910047	Virginia Electric and Power Company (State Corporation Commission)
Docket No. U-1565-91-134	Sun City Water Company Residential Utility Consumer Office
Docket No. 930405-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. UE-92-1262	Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission
Docket No. R-932667	Pennsylvania Gas & Water Company Before the Pennsylvania Public Utility Commission
Docket No. 7700	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. R-00932670	Pennsylvania American Water Company Pennsylvania Public Utility Commission

Case No. 78-T119-0013-94	Guam Power Authority vs. U.S. Navy Public Works Center, Guam - Assisting the Department of Defense in the investigation of a billing dispute.
Case No. 90-256	South Central Bell Telephone Company Before the Kentucky Public Service Commission
Case No. 94-355	Cincinnati Bell Telephone Company Before the Kentucky Public Service Commission
Docket No. 7766	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. 2216	Narragansett Bay Commission On Behalf of the Division of Public Utilities and Carriers, Before the Rhode Island Public Utilities Commission
Docket No. 94-0097	Citizens Utilities Company, Kauai Electric Division Before the Public Utilities Commission of the State of Hawaii
Docket No. 5863*	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. E-1032-95-433	Citizens Utilities Company - Arizona Electric Division Before the Arizona Corporation Commission
Docket No. R-00973947	United Water Pennsylvania Before the Pennsylvania Public Utilities Commission
Docket No. 95-0051	Hawaiian Storm Damage Reserve Case Before the Public Utilities Commission of the State of Hawaii
Application Nos. 96-08-070, 96-08-071, 96-08-072	Pacific Gas & Electric Company, Southern California Edison Company & San Diego Gas & Electric Co.; Phases I & II; Before the California Public Utilities Commission
Docket No. E-1072-97-067	Southwestern Telephone Company Before the Arizona Corporation Commission

Docket No. 920260-TL	BellSouth Telecommunications Inc. - Florida On Behalf of the Florida Office of Public Counsel
Docket No. R-00973953	PECO Energy Company Before the Pennsylvania Public Utilities Commission
Docket No. 5983	Green Mountain Power Corporation Before the Vermont Public Service Board
Case No. PUE-9602096	Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission
Docket No. 97-035-01	PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. G-34930705	Black Mountain Gas Division - Northern States Power Before the Arizona Corporation Commission
Docket No. T-01051B-99-105*	US West/Qwest Corporation Before the Arizona Corporation Commission
Docket No. 98-10-019	Verizon Audit Report on Behalf of California Office of Ratepayers Advocates
Docket No. 991437-WU*	Wedgefield Utilities, Inc. Before the Florida Public Service Commission
Docket No. 99-057-20*	Questar Gas Company Before the Utah Public Service Commission
Docket No. 6596	Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board

Submitted Testimony in the Following Cases

Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control

Docket No. 95-02-07	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Case No. 94-0035-E-42T	Monongahela Power Company Before the Public Service Commission of West Virginia
Case No. 94-0027-E-42T	Potomac Edison Company Before the Public Service Commission of West Virginia
Case No. 95-0003-G-42T*	Hope Gas, Inc. Before the West Virginia Public Service Commission
Case No. 95-0011-G-42T*	Mountaineer Gas Company Before the West Virginia Public Service Commission
Docket No. 950495-WS	Southern States Utilities Before the Florida Public Service Commission
Docket No. 960451-WS	United Water Florida Before the Florida Public Service Commission
Docket No. 5859	Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board
Docket No. 97-12-21	Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control
Docket No. 98-01-02	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket No. 98-07-006	San Diego Gas and Electric Company Public Utilities Commission of the State of California
Docket No. 99-04-18 Phase I	Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control
Docket No. 99-04-18 Phase II	Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control

Docket No. 99-09-03 Phase I	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 99-09-03 Phase II	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 99-035-10	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. 00-12-01	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket No. 6460*	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 01-035-01*	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. G-01551A-00-0309	Southwest Gas Corporation Arizona Corporation Commission
Docket No. 01-05-19	Yankee Gas Services Company State of Connecticut Department of Public Utility Control
Docket No. 01-035-23 Interim (Oral testimony)	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. 01-035-23**	PacifiCorp dba Utah Power & Light Company Public Service Commission of Utah
Docket No. 010503-WU	Aloha Utilities, Inc. - Seven Springs Water Division Before the Florida Public Service Commission
Docket No. 000824-EI*	Florida Power Corporation Before the Florida Public Service Commission
Docket No. 001148-EI**	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. 01-10-10	United Illuminating Company Connecticut Department of Public Utility Control

Docket No. 02-057-02*

Questar Gas Company
Public Service Commission of Utah

* Case Settled

** Testimony not filed due to settlement