

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Application for increase by )  
Tampa Electric Company d/b/a )  
Peoples Gas System )  
\_\_\_\_\_ )

Docket No. 020384-GU  
Filed: October 21, 2002

**DIRECT TESTIMONY**

**OF**

**HELMUTH W. SCHULTZ, III**

**On Behalf of the Citizens of the State of Florida**

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DIRECT TESTIMONY OF HELMUTH W. SCHULTZ, III  
ON BEHALF OF THE CITIZENS OF FLORIDA  
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
PEOPLES GAS SYSTEM  
DOCKET NO. 020384-GU

INTRODUCTION

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

A. My name is Helmuth W. Schultz, III. I am a Certified Public Accountant licensed in the State of Michigan and a Senior Regulatory Analyst in 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, attorney general, etc.). Larkin & Associates, PLLC, has extensive experience in the utility regulatory field as expert witnesses in over 400 regulatory proceedings including numerous water and sewer, gas, electric and telephone utilities.

Q. HAVE YOU PREPARED AN APPENDIX, WHICH DESCRIBES YOUR QUALIFICATIONS AND EXPERIENCE?

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

1 qualifications.

2

3 Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE OF  
4 YOUR TESTIMONY?

5 A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel  
6 (OPC) to review the rate increase requested by Peoples Gas System (Peoples or  
7 Company). Accordingly, I am appearing on behalf of the Citizens of Florida  
8 (Citizens).

9

10 O&M EXPENSE

11 Q. PLEASE EXPLAIN HOW THE COMPANY DETERMINED THE 2003  
12 PROJECTED O&M EXPENSE.

13 A. For a majority of the expenses the Company started with the 2001 historic test  
14 year expense and trended the cost using various trending rates. For certain  
15 accounts some of the costs included in the respective account were not trended.  
16 Instead a separate estimate was prepared for costs categorized as "Other Not  
17 Trended."

18

19 Trending Rates

20 Q. WHAT TREND RATES WERE UTILIZED?

21 A. Payroll was trended using either a 3% per year increase or a combined customer  
22 growth and payroll increase trend rate of 7.63% for 2002 and 8.09% for 2003.  
23 Costs included in the "Other Trended" category were increased using either a  
24 combined customer growth and inflation trend rate of 7.28% for 2002 and 7.73%  
25 for 2003 or an inflation rate of 2.66% per year. In some cases of the cost category

1 identified as “Other Not Trended” a trend rate was applied to the 2002 amount to  
2 determine the 2003 projected amount.

3

4 Q. WHAT “OTHER NOT TRENDED” COSTS WERE, IN FACT, TRENDED FOR  
5 2003?

6 A. Uncollectible Expense (Account 904) was trended in 2003 using the combined  
7 customer growth and inflation rate of 7.73%. Office Supplies and Expense  
8 (Account 921) and Outside Services Employed (Account 923) were trended in  
9 2003 using the 2.66% inflation rate.

10

11 Q. ARE THE INDIVIDUAL TREND RATES REASONABLE?

12 A. The 3% payroll trend is consistent with the historical increases as shown on  
13 Company Schedule C-33. The customer growth is consistent with the customer  
14 growth reflected in revenue projections. Using a customer growth rate that is  
15 consistent with the revenue growth in the filing suggests it is reasonable. Finally,  
16 the inflation rate of 2.66% for both 2002 and 2003 is considered high in light of  
17 current economic conditions and forecasted conditions.

18

19 Q. WHAT INDICATION IS THERE THAT THE 2.66% RATE FOR INFLATION  
20 IS HIGH?

21 A. First, the Company acknowledged in its response to Staff’s Interrogatory No. 41  
22 that the 2.66% is based on 10 years of historical data and not based on forecasts.

23

24 Next, in response to Citizens’ 1<sup>st</sup> Set of Requests for Production of Documents,  
25 numbers 49 and 50, it was noted in the Company workpapers that various

1 indicators for 2002 and 2003 are below the 2.66% inflation rate used by the  
2 Company for 2002 and again for 2003. [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9

10 Q. DID YOU FIND OTHER INFORMATION THAT WOULD INDICATE THE  
11 2.66% INFLATION RATES ARE TO HIGH?

12 A. Yes. The August 2002 Economic Indicators prepared for the Joint Economic  
13 Committee by the Counsel of Economic Advisors indicates the July 2002 CPI is  
14 up 1.46% over July of 2001. The core CPI as of July 2002 is up 2.25% over July  
15 of 2001. For the same period of time the GDP implicit price deflator was up  
16 1.03%. The August 2002 Department of Labor CPI and Core CPI compounded  
17 annual rate for the three months ended August 2002, is 2.2% and 2.1%,  
18 respectively. The September 10, 2002 Blue Chip Economic Indicators forecast a  
19 1.6% CPI for 2002 and a 2.4% CPI for 2003. Based on the various sources  
20 reviewed I believe a 2.00% rate for 2002 and 2003, is more reasonable than the  
21 Company's 2.66%.

22

23 Q. IS THE USE OF THE COMBINED TREND RATES APPROPRIATE?

24 A. The use of the combined customer growth and payroll trend rate for projecting  
25 2003 payroll expense is not appropriate. The rationale for using a combined rate

1 is as the number of customers increase a need for additional employees arises.  
2 This theory may have been applicable 10 years ago, but it is not applicable now.  
3 The Company's response to Citizens' 1<sup>st</sup> Set of Interrogatories, Number 24, shows  
4 a steady decline in employees from December 1999 through August 2002. A  
5 review of the Company's annual reports indicates a steady decline since 1994 with  
6 one exception. The only increase noted was the addition of six employees  
7 between 1998 and 1999. In 10 years the average number of customers increased  
8 from 183,490 in 1992 to 266,592 in 2001, an increase of 45.3%. During the same  
9 period of time the number of employees decreased from 1,216 to 746, a reduction  
10 of 38.7%. There is no justification for factoring in customer growth and the use  
11 of a combined trend rate for payroll.

12

13 Q. IS THE USE OF A COMBINED CUSTOMER GROWTH AND INFLATION  
14 TREND RATE APPROPRIATE?

15 A. In some cases the combined rate may be appropriate, but only if sufficient  
16 evidence is provided to justify the application. The evidence required would be  
17 historical documentation that would show that the costs within the account being  
18 trended have increased as a result of both inflation and customer growth without  
19 any offsets for continuing improvements in technology and efficiency.

20

21 Q. DID YOU ATTEMPT TO DETERMINE IF A COMBINED RATE WAS  
22 APPROPRIATE?

23 A. Yes. After a review of historical operating and maintenance expense I determined  
24 that for the accounts for which the Company did utilize a combined trending rate  
25 to project the 2003 costs there is no justification supporting the application. In my

1 effort to evaluate the trending I reviewed the changes to the respective expense  
2 accounts since the last rate proceeding. This was accomplished by preparing a  
3 summary of expenses by account for the years 1992 through 2001 and comparing  
4 it to the projected test year. A number of accounts decreased from 1992 to 2001,  
5 suggesting the combined trending would not be appropriate. Some other accounts  
6 were found to have increased; however, a number of the increases were not  
7 significant. Despite this obvious trend and the Company's cognizance of a  
8 declining cost per customer the Company applied the combined trend rate to 19 of  
9 28 accounts with costs categorized as "Other Trended."

10

11 Q. WILL YOU IDENTIFY SOME ACCOUNTS WHERE YOU DETERMINED  
12 THE USE OF THE COMBINED CUSTOMER GROWTH/PAYROLL TREND  
13 RATE IS NOT APPROPRIATE?

14 A. Yes. On Citizens' Exhibit \_\_\_ (HWS-2), I have listed six accounts that had more  
15 than \$400,000 of expenses that were trended upward and where there was no  
16 obvious relationship between the annual expense fluctuations and the customer  
17 growth rate. While customer growth occurred in each of the years, the expense  
18 levels fluctuated up and down. In each of the accounts there was a reduction in  
19 expense in at least two of the nine years for which a comparison was made to  
20 customer growth. Four of the six accounts summarized had a lower level of  
21 expense in 2001 than in 1992.

22

23 Other expense accounts with lesser dollar amounts that were also trended upward  
24 for 2003 had similar characteristics. For example, Account 870, Operation  
25 Supervision & Engineering, was trended using a combined rate. In 1992, the

1 amount expensed was \$354,836 and in 2001 it was \$330,223. Account 886,  
2 Maintenance of Structures and Improvements, had a combined trend rate utilized  
3 in projecting 2003 expense. The expense for 1992, for Account 886 was  
4 \$422,641 and in 2001 the expense was \$160,492. The same can be found with  
5 Account 892, Maintenance of Services; Account 893, Maintenance of Meters &  
6 House Regulators and Others. The Use of a combined customer growth/inflation  
7 trend rate should be very limited and the Company should be required to provided  
8 justification for its application in projecting costs in setting rates.

9

10 Q. ARE YOU RECOMMENDING THE APPLICATION OF THE COMBINED  
11 CUSTOMER GROWTH/INFLATION TREND RATE TO ANY OF THE  
12 COSTS CATEGORIZED AS "OTHER TRENDED?"

13 A. No. As I indicated earlier, in order to utilize the combined rate it would require  
14 sufficient evidence to show that the expense in any respective account will  
15 increase by a combination of the two rates. That evidence does not exist in the  
16 filing and it was not provided during the discovery process. With the exception of  
17 Account 921, I am recommending that the costs categorized as "Other Trended"  
18 be increased for inflation only.

19

20 Q. DID YOU REQUEST INFORMATION TO ANALYZE ANY OF THE  
21 ACCOUNTS IN AN ATTEMPT TO JUSTIFY THE TREND RATE APPLIED  
22 BY THE COMPANY?

23 A. Yes. Citizens' 2<sup>nd</sup> Set of Interrogatories requested the identity and rationale for  
24 increases in the projected 2003 costs when compared to the three-year and five-  
25 year average expense for selected accounts. Interrogatory No. 50 requested



1 information regarding the increase in Account 874, Maintenance & Service  
2 Expense. The response simply stated that “The Company employed the trending  
3 methodology prescribed by the Commission Staff in building its 2003 projected  
4 O&M expense.” The response continued by pointing out that overall O&M  
5 expense on a per customer basis has either been flat or declining over the last five-  
6 year period. No specific explanation was provided for Account 874. A similar  
7 request was made in Interrogatories 51 and 52 for Account 878, Meter & House  
8 Regulator Expense and Account 891, Maintenance of Measuring & Regulating  
9 Station Equipment, respectively. The responses both referenced the response to  
10 number 50.

11

12 Subsequently, the Company provided supplemental responses to Interrogatories  
13 50, 51 and 52. The supplemental responses discussed historical 2000 and 2001  
14 events instead of explaining the 2003 comparison to the three-year average (1999-  
15 2001) and five-year average (1997-2001). The increase for 2003 was then  
16 attributed to trending. Applying a trending increase to accounts that do not have  
17 the characteristics attributable to inflation and customer growth is not appropriate  
18 and has not been justified by the Company.

19

20 Q. ARE THERE OTHER ACCOUNTS THAT YOU INQUIRED ABOUT?

21 A. Yes. Interrogatory No. 53 requested the identity and rationale for the increase in  
22 the 2003 projected year costs for Account 902, Meter Reading, when compared to  
23 the three-year and five-year average expense for this account. The response  
24 suggested the increase could be attributed to a 25% increase in customers between  
25 1997 and 2003. A supplemental response also attributed the increase to customer

1 growth. The responses both lack support. In 1992, Account 902 expense was  
2 \$1,405,633 and the customer count was 183,400. In 2001, Account 902 expense  
3 was \$1,677,980 and the customer count was 266,592. The 19.4% increase in  
4 expense between 1992 and 2001 is nowhere near the 45.4% increase in customers  
5 in the same period of time. In fact, the \$1,677,980 of expense in 2001 for serving  
6 266,592 customers was only \$10,618 more than the expense in 1993 when  
7 187,631 customers were served. While I am recommending an inflation increase  
8 to Account 902, I would like to point out that the 19.4% increase between 1992  
9 and 2001 is significantly less than the rate of inflation for the same period of time.  
10 I believe the application of an inflation increase to determine the 2003 projected  
11 expense should be considered generous.

12

13 Q. WHY DID YOU MAKE EXCEPTION FOR ACCOUNT 921 TRENDING?

14 A. Account 921 is office supplies and expense and has averaged \$15,337,826 over  
15 the last four years, 1998-2001.

16

17 The 2001 base year expense in Account 921 is \$15,059,037. As part of my  
18 recommended payroll trending there is an increase to base year payroll expense of  
19 \$13,632. The \$13,632 added to the Company's requested increase of \$325,300  
20 for "other not trended" costs results in a total expense of \$15,397,969 for 2003.

21 The \$15,397,969 is slightly more than the historical four-year average of  
22 \$15,337,826 and it is 2.25% higher than the base test year expense of  
23 \$15,059,037. Comparatively, the amount appears reasonable without applying a  
24 trending rate to the base year "Other Trended" cost category in Account 921.

25

1 Q. WHY DID YOU USE A FOUR YEAR AVERAGE FOR EVALUATING THE  
2 COSTS IN ACCOUNT 921?

3 A. To avoid skewing the average I used the last four years because of the significant  
4 29% increase in costs between 1997 and 1998. The Company, in response to  
5 Citizens' Interrogatory No. 60, attributed the 1998 increase to TECO energy  
6 charges and Tampa Electric charges for costs previously booked to other accounts.  
7 The amount of charges by the account previously charged were not identified so it  
8 was not possible to verify the reasonableness of the affiliate charges and the shift  
9 between accounts.

10

11 Payroll Trending Adjustment

12 Q. WHAT ADJUSTMENTS ARE YOU RECOMMENDING FOR TRENDED  
13 PAYROLL?

14 A. As discussed earlier, the use of the combined customer growth and payroll  
15 trending rate is not appropriate. There is no evidence justifying the use of a  
16 combined trending rate. On Citizens' Exhibit \_\_\_(HWS-1), Schedule A , I  
17 increased the 2001 base year payroll expense by applying a 3% payroll trend rate  
18 in determining the 2002 and 2003 payroll expense. My recommended payroll  
19 expense of \$21,843,324 reduces the Company's projected payroll expense of  
20 \$23,041,981 by \$1,198,657.

21

22 Other Trended Cost Adjustment

23 Q. WHAT ADJUSTMENTS ARE YOU RECOMMENDING FOR THE  
24 EXPENSES CATEGORIZED AS "OTHER TRENDED?"

25 A. On Citizens' Exhibit \_\_\_ (HWS-1), Schedule B, I have recalculated the 2003

1 projected expense for other trended costs using a 2.00% inflation rate for 2002  
2 and 2003 with the exception of Account 921, which was not trended. The  
3 projected 2003 "other trended" expenses of \$16,092,152 are \$1,868,945 less than  
4 the Company's projection of \$17,961,097. The \$1,868,945 reduction to expense  
5 is appropriate because there is not sufficient evidence and/or justification for the  
6 Company's use of a combined trend rate.

7

8 Bad Debt Expense

9 Q. ARE THERE ANY ADJUSTMENTS TO THE OTHER NOT TRENDED  
10 COSTS?

11 A. Yes. The Company determined its uncollectible expense based on its 2002 budget  
12 amount, which was escalated for 2003 by applying the combined trending factor  
13 for customer growth and inflation. The Company's projected 2003 expense of  
14 \$1,718,294 is overstated by \$878,774.

15

16 Q. WHAT IS THE CAUSE OF THIS OVERSTATEMENT?

17 A. The overstatement is due to the Company's use of an overstated 2002 budgeted  
18 expense and the inappropriate application of the combined trending rate.

19

20 Q. WHY IS THE 2002 BUDGETED UNCOLLECTIBLE EXPENSE  
21 OVERSTATED?

22 A. First of all, the 2002 budgeted operating revenues are [REDACTED] while the  
23 filing reflected operating revenues of \$241,705,048 for 2002. The 20.7% higher  
24 revenue forecast is bound to impact the uncollectible expense budgeted. It is  
25 inconceivable to assume that a Company could prepare two projections for the

1 same year with significantly different revenues, yet reflect the same amount of bad  
2 expense. It is not reasonable to assume for ratemaking purposes an uncollectible  
3 expense that is from a budget that has revenues estimated at 20.7% higher than the  
4 revenues included in the filing.

5  
6 Second, the 2002 \$1,595,000 budgeted amount is approximately [REDACTED] % of the total  
7 2002 budgeted revenues of \$ [REDACTED]. The actual 2001 net uncollectibles of  
8 \$1,797,754 was .51% of the 2001 operating revenues of \$352,883,593. With the  
9 filing reflecting a 2002 uncollectible expense of \$1,595,000 and 2002 revenues of  
10 only \$241,705,048 there is a projected write-off of .66%. The Company stated in  
11 response to Citizens' Interrogatory No. 55 that bad debt expense "in 2001 was  
12 high primarily due to the well-publicized spike in natural gas product costs." It is  
13 not appropriate to assume in the filing a net write-off to revenue percentage of  
14 .66% that is higher than the historic base year that itself had an unusually high  
15 write-off of .51%. It is especially true when taking into consideration the fact that  
16 the historic base year was significantly different from the historic trend due to the  
17 "spike" in gas costs.

18  
19 Q. HOW DOES THE APPLICATION OF THE COMBINED TRENDING RATE  
20 IMPACT THE PROJECTED 2003 EXPENSE?

21 A. The application of the combined customer growth/inflation trending rate  
22 overstates the write-off to revenue percentage even more. The Company's  
23 projected test year expense of \$1,718,294 is .70% of the \$244,218,918 of  
24 projected revenues.

25

1 Q. HOW DOES THE 2001 NET WRITE-OFF TO REVENUE PERCENTAGE  
2 COMPARE TO THE HISTORIC TREND?

3 A. Based on the information provided in the Company's response to Staff's  
4 Interrogatory No. 9, the 2001 rate of write-off is more than 52% higher than the  
5 previous three years. The revenues, net write-offs and the rate of write off are as  
6 follows:

	<u>Revenue</u>	<u>Net Write-Off</u>	<u>% Write-Off</u>
7			
8	2001	\$352,883,593	\$1,797,754 .51%
9	2000	314,458,831	1,052,177 .33%
10	1999	251,717,409	840,410 .33%
11	1998	252,807,337	635,541 .25%

12

13 The Company's use of the 2002 budgeted expense of \$1,595,000 that reflects a  
14 write-off of .66% of the projected 2002 revenues is not realistic and is not  
15 supported based on the historical trend for write offs.

16

17 Q. IS THERE ANY OTHER REASON WHY YOU BELIEVE THE 2002 BUDGET  
18 AMOUNT IS NOT REALISTIC?

19 A. Yes. The Company's response to Staff's Interrogatory No. 9 also included actual  
20 year-to-date information through July 2002. The net write-off for 2002 year-to-  
21 date is \$412,279 or .22% of the year-to-date revenues of \$184,163,539. If I were  
22 to annualize the July year-to-date the expense for the year would be \$717,049.  
23 That expense is less than half of the \$1,595,000 budgeted.

24

25 Q. WHAT EXPENSE ARE YOU RECOMMENDING FOR 2002?

1 A. A reasonable expense for 2002 is \$800,000. The average rate of write-off for the  
2 four full years and the July 2002 year-to-date is .33%. This is the same rate as  
3 1999 and 2000. Using a write-off rate of .33% for the 2002 revenues of  
4 \$241,705,048 results in a bad debt expense of \$797,627.

5

6 Q. WILL YOU TREND THAT 2002 EXPENSE OF \$800,000 UPWARD BASED  
7 ON THE COMBINED CUSTOMER GROWTH/INFLATION TREND RATE  
8 USED BY THE COMPANY?

9 A. No. The use of the inflation rate is not appropriate. The 2002 revenue was not  
10 increased for inflation, the customer rates remained the same from 2002 to 2003  
11 and the cost of gas reflected in the filing for 2003 was actually less than 2002.  
12 There is no rationale for including inflation in the trending. The 2002 projection  
13 of \$800,000 trended upward for customer growth of 4.94% results in a projected  
14 test year expense of \$839,520. The Company's projected expense of \$1,718,294  
15 is overstated and should be reduced by \$878,774.

16

17 Account 922

18 Q. HAVE YOU ADJUSTED ACCOUNT 922?

19 A. Yes. Account 922 is where the amount for cost allocations to other affiliates is  
20 recorded. The Company's response to Citizens' Production of Documents Nos.  
21 49 and 50 identifies specific accounts that have a portion of those accounts' costs  
22 billed to affiliates. To the extent I have proposed adjustments to those specific  
23 accounts, I have to reduce the amount of billing back to affiliates. On Citizens'  
24 Exhibit \_\_\_ (HWS-1), Schedule C, I have calculated an adjustment of \$435,658.  
25 The adjustment reduces the affiliate billing which increases the operating expense.

1           SPECIFIC O&M EXPENSE ADJUSTMENTS

2                   Peoples Gas Incentive Compensation

3 Q.    WHY ARE YOU RECOMMENDING AN ADJUSTMENT TO INCENTIVE  
4           COMPENSATION?

5 A.    A primary goal for payment of incentive compensation is to attain a specific level  
6           of net operating income and/or earnings per share. If the goal is achieved and an  
7           incentive payment is made, the shareholders will derive the benefit from the  
8           higher earnings. Therefore, shareholders, not ratepayers, should pay for the cost  
9           associated with obtaining that benefit.

10

11 Q.    WHAT IF THE GOALS ARE NOT ACHIEVED?

12 A.    In theory, a payment should not be made. I am not aware of a proceeding where  
13           payment was not made. In fact, even though the plan is typically discretionary,  
14           utilities will claim that incentive compensation is necessary to attract, retain and  
15           motivate key employees.

16

17 Q.    IS INCENTIVE COMPENSATION NECESSARY TO ATTRACT AND  
18           RETAIN KEY EMPLOYEES?

19 A.    Over the years incentive compensation has evolved from a top heavy plan to a  
20           company plan where it became so common among utilities that the original  
21           argument of necessity has essentially become a reality. One common question  
22           though that has been asked is what benefit do ratepayers derive from the payment  
23           of this added compensation. This is especially a concern because while not all  
24           ratepayers receive this extra form of compensation in their own places of  
25           employment, they may be required to pay for all, or part of, this extra



1 compensation in their utility rates. What adds to the inequity of including the full  
2 cost of incentive compensation in rates is that the cost itself is part of the reason  
3 the utility will seek a rate increase. This discretionary cost increases the revenue  
4 requirement.

5

6 Q. DO RATEPAYERS BENEFIT FROM THE PAYMENT OF INCENTIVE  
7 COMPENSATION?

8 A. That is subjective from a ratepayers perspective. If a goal is established to  
9 improve the quality of service one could argue, and utilities often do, that an  
10 increase in quality of service indicates that the customers are receiving a benefit.  
11 There are two concerns with this rationale as justification for payment of incentive  
12 compensation. The first concern is whether the measurement is subjective or is  
13 quantifiable. A subjective assessment is easily tainted by the desire to receive a  
14 payment. A second concern is whether ratepayers should be required to pay all, or  
15 part of, the cost of incentive compensation to Peoples' employees for a level of  
16 performance that is expected, if not required, as part of that employee's job. The  
17 employee's base pay is presumably at a reasonable level of compensation that  
18 commits that employee to provide a high level quality of service to the customers  
19 of the Company. The payment of incentive compensation could be construed as a  
20 second payment for the same service.

21

22 Q. DO SHAREHOLDERS BENEFIT FROM THE PAYMENT OF INCENTIVE  
23 COMPENSATION?

24 A. If the net operating income and/or earnings per share increase shareholders are  
25 benefitting. If there truly is an improvement in quality of service the ultimate

1 benefactor is shareholders. If incentive compensation does generate a benefit that  
2 benefit flows to shareholders.

3

4 Q. SHOULD RATEPAYERS BE REQUIRED TO PAY ALL THE COSTS  
5 ASSOCIATED WITH INCENTIVE COMPENSATION?

6 A. No. As I indicated earlier, the benefit, if it exists, is subjective. It is not  
7 appropriate to require ratepayers to pay the added cost for incentive compensation  
8 when ratepayers are already paying for an expected level of service as part of the  
9 base pay of Peoples Gas System employees. This is especially true since the  
10 ratepayers of Peoples Gas System cannot simply switch to another gas company.  
11 At a minimum shareholders should share in the cost of incentive compensation to  
12 the extent it is determined based on quantifiable financial goals that reflect the  
13 benefit that is accruing to shareholders.

14

15 Q. WERE YOU ABLE TO DISTINGUISH BETWEEN FINANCIAL GOALS AND  
16 OTHER GOALS?

17 A. Not entirely. The percent that was specific to Company [REDACTED]  
18 [REDACTED] [REDACTED]  
19 [REDACTED] in the response to Citizens' Production of Documents  
20 Request Nos. 36 and 37. During the on-site visit at Peoples' office I made two  
21 verbal requests for information [REDACTED]  
22 [REDACTED]. That information was not provided to me.

23

24 Q. WHAT ADJUSTMENT HAVE YOU RECOMMENDED?

25 A. The incentive compensation of Peoples Gas System should, at a minimum, be

1 reduced by the percentage of incentive payments attributable to [REDACTED]  
2 [REDACTED]. On Citizens' Exhibit \_\_\_ (HWS-1), Schedule D I have calculated a  
3 reduction to incentive compensation of \$856,343. Based on the portion of goals  
4 that were [REDACTED].

5

6 Peoples Gas System Employees

7 Q. ARE THERE ANY ADDITIONAL ADJUSTMENTS TO PAYROLL?

8 A. Yes. As shown on Citizens' Exhibit \_\_\_ (HWS-1), Schedule E, I am reducing  
9 operating and maintenance expense by an additional \$625,543. The reduction to  
10 payroll is based on the average reduction in employees between the year ended  
11 December 2001 and the eight months ended August 2002.

12

13 Q. DID THE COMPANY REFLECT ANY CHANGE IN THE EMPLOYEE  
14 COMPLEMENT?

15 A. No specific adjustment was made for increasing or reducing the number of  
16 employees. However, the Company did include customer growth in their trending  
17 factor for payroll. By including the customer growth factor in the trending factor  
18 the Company increased payroll by \$1.2 million for additional employees. As  
19 discussed earlier, this trending is not appropriate and not supported. Instead of  
20 increasing payroll the Company should have decreased payroll to reflect the  
21 downward trend in the employee complement.

22

23 Q. HOW DID YOU DETERMINE THE REDUCTION IN AVERAGE NUMBER  
24 OF EMPLOYEES?

25 A. The reduction was based on a simple average. For 2001, I added the December

1 2000 year-end count of 686 and the December 2001 year-end count of 655 and  
2 divided the sum by two for an average of 671. For 2002 I added the 655 from  
3 December 2001 to the August 2002 count of 646 and divided the sum by two  
4 resulting in an average of 651. The difference between the 2001 average of 671  
5 and the year-to-date 2002 average of 651 is 20 employees.

6

7 Q. HOW DID YOU DETERMINE THE ADJUSTMENT TO PAYROLL  
8 EXPENSE?

9 A. I started with the Company's 2003 projected payroll expense and reduced that  
10 amount by my recommended adjustments for customer growth trending and the  
11 financial-related goals portion of Peoples Gas System incentive compensation.  
12 The adjusted test year payroll expense of \$20,986,984 was divided by the 2001  
13 average number of employees of 671 resulting in an average payroll expense of  
14 \$31,277 per employee. The \$31,277 per employee multiplied by 20, the average  
15 reduction in employees during 2002, results in a reduction to payroll expense of  
16 \$625,543.

17

18 Other Payroll Concerns

19 Q. ARE YOU RECOMMENDING ANY OTHER ADJUSTMENTS TO  
20 PAYROLL?

21 A. Not at this time. However, three concerns exist. First the base year payroll  
22 expense amount on Company Schedule G-2, used in developing the projected test  
23 year expense, is greater than the base year payroll expense in the Company  
24 responses to Citizens' Interrogatory Nos. 46 and 47. It appears that the amount in  
25 the filing may have reclassified some of the energy conservation payroll to

1 Account 926 instead of removing it as indicated in the filing.

2

3 The second concern is that the Company's response to Citizens' Interrogatory No.  
4 31 indicates that the 2001 base year had zero expense for the RSVP+ Incentive  
5 Plan. However, the Company's response to Citizens' Production of Document  
6 Request No. 3 [REDACTED]

7 [REDACTED]

8

9 The third concern is whether there will be additional reductions in employees.  
10 The Company was asked in Citizens' Interrogatory No. 20 about current or  
11 subsequent plans for early retirement. The response stated there were "none."  
12 The June 2002 variance explanations provided in response to Citizens' Production  
13 of Documents Request No. 3 [REDACTED] [REDACTED]

14 [REDACTED]

15

16 The Company has been requested to provide an explanation to resolve the  
17 conflicting information provided.

18

19 Payroll Tax Expense

20 Q. WHY HAVE YOU RECOMMENDED AN ADJUSTMENT TO PAYROLL  
21 TAX EXPENSE?

22 A. Each of the three adjustments to payroll will result in a corresponding reduction in  
23 payroll tax expense. Using the TECO Energy combined 2001 effective tax rate  
24 for social security and medicare, I determined the effective reduction to social  
25 security tax expense. The Federal and State Unemployment tax adjustment was

1 based on the average employee complement reduction. The combined reduction  
2 in expense of \$211,954 for social security taxes and unemployment taxes is  
3 shown on Citizens' Exhibit \_\_\_\_ (HWS-1), Schedule F.

4

5 Cost-Saving Programs

6 Q. ARE YOU RECOMMENDING AN ADJUSTMENT FOR COST-SAVING  
7 PROGRAMS?

8 A. Yes. The Company was requested to identify cost-savings programs implemented  
9 and expense reduction goals included in the 2002 and 2003 budgets. The  
10 response to Citizens' Interrogatory No. 4 identified various programs undertaken  
11 and their estimated savings. The response to Citizens' Interrogatory No. 5  
12 indicated no reductions were included in the 2002 budget and that the 2003  
13 budget was just beginning. Some of the savings programs identified in Response  
14 No. 4 indicated that the program reduced costs in 2001, which would mean they  
15 were considered in the rate filing. However, a program identified as "Meter and  
16 Regulator Strategic Alliances" was entered into on August 1, 2002 and could not  
17 have been factored into the rate filing. The projected savings of \$850,000 over a  
18 three-year period should be considered. I am recommending a reduction of  
19 \$275,000 to Meter and Regulator expense for the projected test year.

20

21 Q. WHY SHOULD THE ESTIMATED COST SAVINGS BE CONSIDERED?

22 A. The Company has included estimated cost increases in its projected 2003 test  
23 year. To ignore estimated cost savings would be inequitable to ratepayers.

24

25 Tampa Electric and TECO Energy Costs

1 Q. HAVE YOU DETERMINED ANY RECOMMENDED ADJUSTMENTS FOR  
2 COSTS FROM AFFILIATES?

3 A. Some adjustments for TECO Energy costs charged to Peoples Gas System have  
4 been identified and an adjustment is being recommended. Due to limited  
5 information other TECO Energy costs are a concern. Information for Tampa  
6 Electric costs was even more limited and as a result some costs could not be  
7 identified.

8  
9 Q. WHAT TYPE OF COSTS COULD NOT BE IDENTIFIED?

10 A. Based on the Response to Citizens' Interrogatory No. 13 the description for the  
11 following costs is not sufficient to identify the costs incurred in the 2001 base  
12 year:

<u>Description</u>	<u>Account</u>	<u>Amount</u>
Operations (Direct Charge)	Capital	\$142,330
Planning & Design	Capital	767,409
(Direct Charge)		
TECO Activity	921	373,488
Cosmo Cost Allocation	921	444,000
Operations	921	204,209
Community Affairs	921	23,833

21  
22 The above example of descriptions are very general in nature and without  
23 sufficient supporting information the appropriateness and/or reasonableness of the  
24 cost cannot be determined. Under Florida Statutes a utility is required to provide  
25 sufficient information to justify the costs from its affiliates. Sufficient

1 information has not been provided to justify the costs charged by Tampa Electric  
2 to Peoples Gas System.

3

4 Q. WOULD A REVIEW OF INVOICES FROM TAMPA ELECTRIC FOR THE  
5 COSTS CITED PROVIDE SUFFICIENT INFORMATION?

6 A. No. The invoices are summarized in a similar manner and provide a broad  
7 general description of the cost charged.

8

9 Q. WHY IS IT NECESSARY TO EVALUATE THE COSTS CHARGED BY  
10 TAMPA ELECTRIC TO PEOPLES GAS SYSTEM?

11 A. Transactions between affiliates require a higher level of scrutiny to provide a level  
12 of assurance that the transaction is at arms' length. What heightens this concern is  
13 the Peoples has indicated that details behind the charges in question are not in  
14 People's possession, custody or control. If Tampa Electric does not make a  
15 sufficient level of detail available for review by Peoples, the Public Counsel, the  
16 Commission and/or its staff, the appropriateness and/or reasonableness of Tampa  
17 Electric charges to Peoples cannot be ascertained. In 2001, Tampa Electric  
18 charged Peoples Gas System \$3.1 million for capital projects and an additional  
19 \$10.6 million of operating costs. Not only is the appropriateness and/or  
20 reasonableness a concern due to the lack of specificity in the description of the  
21 significant amount of charges, but also due to the fluctuation in the charges from  
22 one year to the next year.

23

24 Q. HOW DOES THIS FLUCTUATION FACTOR INTO ASSESSING THE  
25 COSTS?



1 A. The operating charges billed by Tampa Electric in 1999, were \$12,429,287. In  
2 2000, the charges increased to \$13,067,185. The increase of \$637,898 is not  
3 attributable to a single broad cost description. Significant fluctuations upwards  
4 and downwards occurred between the two years. In the base year, 2001, the  
5 charges declined to \$10,566,311. The decrease of \$2.5 million is a significant  
6 fluctuation. Despite the decrease in 2001, the Company appears to have reflected  
7 an increase into 2002 and 2003. The Company workpapers provided in response  
8 to Citizens' Production of Documents Request Nos. 49 and 50 indicate that the  
9 not trended costs are increasing as well as the trended costs. With only a single  
10 line description there is no way to determine why a cost that is not trended is  
11 increasing.

12

13 Q. COULD YOU PROVIDE AN EXAMPLE OF A COST THAT YOU BELIEVE  
14 IS NOT EXPLAINED?

15 A. Yes. The IT charges from Department 600 were \$5,059,612 in 1999, \$4,394,263  
16 in 2000 and \$3,829,401 in 2001. The workpapers provided indicate that the  
17 Department 600 charges in the projected test year are \$ [REDACTED]

18

19 The reason for the increase in costs charged to Peoples is only known by Tampa  
20 Electric. That reason, by statute, should be divulged to Peoples Gas System, to  
21 Public Counsel and, more importantly, to the Commission. That cost is one of  
22 forty-four broad line descriptions for a total of \$10,566,311 of costs charged to  
23 Peoples by Tampa Electric in 2001. Adequate justification for the costs has not  
24 been provided and an adjustment is appropriate.

25

1 Q. WHY HAS THE INFORMATION SOUGHT BEEN WITHHELD?

2 A. In Peoples' reply to Citizens' motion to compel, the Company stated:

3 12. Citizens' Motion (paragraph 6) alleges that Peoples is asking in this  
4 case that the Commission permit Peoples to recover through its rates more  
5 than \$24.7 million that is either directly charged or allocated to Peoples by  
6 affiliates (including TEC) or TECO Energy. That is indeed true.

7 However, the TEC documents sought by Citizens' PODs 2, 4 and 12 will  
8 provide neither Citizens nor the Commission any information bearing on  
9 the issue of the reasonableness of costs incurred by Peoples, including  
10 costs charged or allocated to Peoples by TEC (whose financial and  
11 budgetary documents Citizens seek by PODs 2, 4 and 12). The TEC  
12 documents sought relate to TEC's costs, not to Peoples' costs.

13

14 The statement is not correct. The Company is essentially telling Public Counsel  
15 and the Commission that all they have to be concerned with is the fact that Tampa  
16 Electric has billed Peoples \$3.1 million for capital projects and \$10.6 million for  
17 operations during 2001. Furthermore, the Company contends that the one-line  
18 description for various types of costs are presumed to be sufficient justification for  
19 the costs billed. The presumptions are not appropriate. The reasonableness of  
20 costs charged can only be determined after the composition of the costs is known.  
21 An allocation cannot be evaluated if the cost being allocated is not available for  
22 review. The one line descriptions do not provide any information as to the level  
23 of service provided. The information provided does not provide a sufficient level  
24 of documentation to make a determination that the costs charged by Tampa  
25 Electric provide a benefit to Peoples' customers or if the charges even pertain to

1 the operations of Peoples Gas System.

2

3 Q. THE COMPANY'S CLAIM, IN ITS REPLY TO THE MOTION TO COMPEL,  
4 THAT "TEC DOCUMENTS SOUGHT BY CITIZENS WILL PROVIDE  
5 NOTHING CITIZENS HAVE NOT ALREADY OBTAINED." DO YOU HAVE  
6 ANY CONCERNS WITH THIS CLAIM?

7 A. Yes. If that claim is accurate, I would contend that the charges from Tampa  
8 Electric are not supportable and they should be disallowed in their entirety.

9

10 Also, I question the credibility of the claim. If the information sought is not in  
11 Peoples' possession then there is no way they can make the determination that the  
12 "TEC documents sought" have the same amount of information as that already  
13 provided.

14

15

16 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING FOR TAMPA  
17 ELECTRIC CHARGES TO PEOPLES?

18 A. I am recommending two adjustments to Tampa Electric charges. The first  
19 adjustment of \$325,300 is the difference between the \$7,849,954 of projected  
20 2003 "Other Not Trended" costs in Account 921 and the \$7,524,654 of 2001 base  
21 year "Other Not Trended" costs.

22

23 The second adjustment reduces the base year Tampa Electric charges of  
24 \$10,566,311 by \$1,019,217. The reduction, as shown on Citizens' Exhibit  
25 \_\_\_\_ (HWS-1), Schedule G, is based on annualizing the \$6,364,729 of August 2002

1 year-to-date charges from Tampa Electric. The annualized charges of \$9,547,094  
2 for 2002 are \$1,019,217 less than the 2001 base year charges of \$10,566,311.

3

4 Q. WHY DID YOU MAKE TWO ADJUSTMENTS?

5 A. The majority of charges from Tampa Electric are charged to Account 921, Office  
6 Supplies and Expense. Earlier I discussed my recommended adjustment to "Other  
7 Trended" costs, which excluded any adjustment to Account 921 for inflation. In  
8 essence, that reduced the "Other Trended" costs in Account 921 back to the 2001  
9 base year amount. The \$325,300 adjustment to Account 921 "Other Not  
10 Trended" costs reduces the Company's projected test year amount back to the  
11 2001 base test level. Once the projected test year amount in the filing is adjusted  
12 back to the 2001 base year amount I made the comparison to the annualized 2002  
13 actuals and made my second adjustment of \$1,019,217 as shown on Citizens'  
14 Exhibit \_\_\_\_ (HWS-1), Schedule G.

15

16 Q. ARE THE ADJUSTMENTS TO TAMPA ELECTRIC CHARGES  
17 SUFFICIENT?

18 A. I do not know. First, the original base year charges were not properly supported  
19 by the Company. The projected test year increases reflected by the Company that  
20 were not trended were not supported by the Company. Even the annualized 2002  
21 charges are not supported. Inasmuch as Tampa Electric has refused to provide  
22 variance explanation the reduction in 2002 from 2001 charges cannot be  
23 explained. The only known and measurable is that 2002 charges are less than  
24 2001.

25

1 Q. WHAT COSTS FROM TECO ENERGY ARE BEING ADJUSTED?

2 A. As shown on Citizens' Exhibit \_\_\_(HWS-1), Schedule H, I am recommending the  
3 removal of \$730,861 of excessive and/or inappropriate costs. On line 1, I remove  
4 \$74,766 of incentive compensation costs allocated from TECO Energy. As was  
5 discussed earlier, the cost of incentive compensation provide a benefit, if any  
6 benefit is really realized, first and foremost to shareholders. To the extent the  
7 costs are attributable to a quantifiable financial goal, that portion of incentive  
8 costs should be borne by shareholders. My adjustment reflects that cost of  
9 incentive compensation attributable to shareholder goals and ultimately to  
10 shareholders. On line 2, I removed the \$159,647 of expense attributed to the  
11 nonqualified SERP plan. The costs are an excessive cost to top level employees,  
12 which are not currently deductible for tax purposes and provide no current benefit  
13 to ratepayers.

14

15 Q. IS THERE A SERP COST ALSO INCLUDED IN ACCOUNT 926 THAT IS  
16 NOT BEING ADJUSTED FOR?

17 A. Yes. I would generally oppose the inclusion of those cost in benefit expense also,  
18 except that the Peoples Gas System costs that have been deferred have been  
19 reflected as a reduction to working capital which acts as an offset to rate base  
20 which reduces the impact on ratepayers. There is no offset for the TECO Energy  
21 costs in working capital. The excessive costs should therefore be removed from  
22 expense.

23

24 Q. WHY ARE YOU REMOVING THE RESTRICTED STOCK GRANTS?

25 A. The costs are considered excessive compensation and are based on stock prices

1 that are not consistent with current stock prices. It is not appropriate for  
2 ratepayers to pay excessive benefits to top level management when the same  
3 management claims that net operating income is too low and a rate increase is  
4 required.

5

6 Q. PLEASE EXPLAIN THE REMAINING RECOMMENDED ADJUSTMENT.

7 A. On line 4 are costs identified as "Allocate Stadium Costs/Cent. Celeb." There is  
8 no readily identifiable benefit to ratepayers from the allocation of stadium costs  
9 for a centennial celebration. Clearly, the \$21,300 should be excluded from rates.

10

11 Line 5 removes \$10,173 of executive food costs. Here also there is no logical  
12 justification for requiring ratepayers to pay for extra executive benefits.

13

14 Finally, on line 6 I am removing \$175,000 of costs identified as "TECO Arena."  
15 Without sufficient justification, costs associated with an arena could not possibly  
16 provide any type of benefit to ratepayers. Unless the Company can provide  
17 sufficient support establishing a benefit to ratepayers, the cost should be removed.

18

19 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

20 A. Yes, it does.

21

22

23

24

25

PEOPLES GAS SYSTEM  
 Projected Test Year Ended December 31, 2003  
 Payroll Trending Expense Adjustment

Docket No. 020384-GU  
 Exhibit\_\_\_\_(HWS-1)  
 Schedule A

Line No.	Account	(A) PGS Base Year	(B) 2002 Base Yr + 1	(C) Projected Test Year	(D) Projected Test Year Per Company	(E) Trend Adjustment
<u>Distribution Expense</u>						
1	870	279,032	287,403	296,025	296,025	0
2	871	46,963	48,372	49,823	54,635	(4,812)
3	872	26	27	28	30	(2)
4	874	2,999,920	3,089,918	3,182,615	3,490,025	(307,410)
5	875	108,129	111,373	114,714	114,714	0
6	876	82,588	85,066	87,618	87,618	(0)
7	877	60,289	62,098	63,961	63,961	(0)
8	878	1,528,199	1,574,045	1,621,266	1,777,865	(156,599)
9	879	1,483,808	1,528,322	1,574,172	1,726,222	(152,050)
10	880	464,074	477,996	492,336	492,336	0
11	881	317	327	336	336	0
<u>Maintenance Expense</u>						
12	886	50,166	51,671	53,221	58,362	(5,141)
13	887	627,060	645,872	665,248	729,504	(64,256)
14	889	131,256	135,194	139,249	152,700	(13,451)
15	890	162,071	166,933	171,941	188,549	(16,608)
16	891	244,248	251,575	259,123	284,151	(25,028)
17	892	347,562	357,989	368,729	404,344	(35,615)
18	893	149,128	153,602	158,210	173,491	(15,281)
19	894	158,058	162,800	167,684	183,880	(16,196)
<u>Customer Acct. &amp; Collection</u>						
20	901	594	612	630	691	(61)
21	902	866,132	892,116	918,879	1,007,634	(88,755)
22	903	2,041,352	2,102,593	2,165,670	2,374,853	(209,183)
<u>Sales Promotion</u>						
23	912	275,378	283,639	292,149	320,367	(28,218)
24	913	393	405	417	457	(40)
<u>Administrative &amp; General Expense</u>						
25	920	7,673,734	7,903,946	8,141,064	8,141,064	0
26	921	223,843	230,558	237,475	260,413	(22,938)
27	925	196,062	201,944	208,002	228,093	(20,091)
28	926	27,200	28,016	28,856	28,856	0
29	926	349,419	359,902	370,699	387,621	(16,922)
30	930	4,365	4,496	4,631	4,631	(0)
31	932	8,062	8,304	8,553	8,553	(0)
32	TOTAL	<u>20,589,428</u>	<u>21,207,111</u>	<u>21,843,324</u>	<u>23,041,981</u>	<u>(1,198,657)</u>

Source: Columns A and D are from the Company's Schedule G-2.

PEOPLES GAS SYSTEM  
 Projected Test Year Ended December 31, 2003  
 Other Trended Expense Adjustment

Docket No. 020384-GU  
 Exhibit\_\_\_\_(HWS-1)  
 Schedule B

Line No.	Account	(A) PGS Base Year	(B) 2002 Base Yr + 1	(C) Projected Test Year	(D) Projected Test Year Per Company	(E) Trend Adjustment	Citizens' Trend	Company Trend
Distribution								
1	870	51,190	52,214	53,258	59,162	(5,904)	Inflation	CG/Inf
2	871	9,817	10,013	10,214	11,346	(1,132)	Inflation	CG/Inf
3	872	25,156	25,659	26,172	29,073	(2,901)	Inflation	CG/Inf
4	874	1,425,535	1,454,046	1,483,127	1,647,530	(164,403)	Inflation	CG/Inf
5	875	35,276	35,982	36,701	37,178	(477)	Inflation	Inflation
6	876	7,038	7,179	7,322	7,417	(95)	Inflation	Inflation
7	877	26,783	27,319	27,865	30,954	(3,089)	Inflation	CG/Inf
8	878	661,432	674,661	688,154	764,435	(76,281)	Inflation	CG/Inf
9	879	432,231	440,876	449,693	499,541	(49,848)	Inflation	CG/Inf
10	880	470,568	479,979	489,579	495,935	(6,356)	Inflation	Inflation
11	881	97,696	99,650	101,643	102,963	(1,320)	Inflation	Inflation
Maintenance								
12	886	110,326	112,533	114,783	127,507	(12,724)	Inflation	CG/Inf
13	887	591,974	603,813	615,890	684,161	(68,271)	Inflation	CG/Inf
14	889	27,765	28,320	28,887	32,089	(3,202)	Inflation	CG/Inf
15	890	50,829	51,846	52,882	58,744	(5,862)	Inflation	CG/Inf
16	891	178,885	182,463	186,112	206,742	(20,630)	Inflation	CG/Inf
17	892	172,680	176,134	179,656	199,571	(19,915)	Inflation	CG/Inf
18	893	439,539	448,330	457,296	507,987	(50,691)	Inflation	CG/Inf
19	894	(17,514)	(17,864)	(18,222)	(20,241)	2,019	Inflation	CG/Inf
Customer Acct. & Collection								
20	902	811,848	828,085	844,647	938,275	(93,628)	Inflation	CG/Inf
21	903	827,606	844,158	861,041	956,486	(95,445)	Inflation	CG/Inf
Sales Promotion								
22	913	280,668	286,281	292,007	295,798	(3,791)	Inflation	Inflation
23	916	2,001	2,041	2,082	2,313	(231)	Inflation	CG/Inf
Administrative & General Expense								
24	921	7,310,505	7,310,505	7,310,505	8,448,951	(1,138,446)	None	CG/Inf
25	923	181,023	184,643	188,336	190,782	(2,446)	Inflation	Inflation
26	924	316,406	322,734	329,189	333,463	(4,274)	Inflation	Inflation
27	926	226,588	231,120	235,742	261,874	(26,132)	Inflation	CG/Inf
28	930	340,212	347,016	353,957	358,552	(4,595)	Inflation	Inflation
29	931	422,789	431,245	439,870	445,581	(5,711)	Inflation	Inflation
30	932	234,298	238,984	243,764	246,928	(3,164)	Inflation	Inflation
31	TOTAL	<u>15,751,150</u>	<u>15,919,963</u>	<u>16,092,152</u>	<u>17,961,097</u>	<u>(1,868,945)</u>		

Source: Columns A and D are from the Company's Schedule G-2.  
 Columns B and C reflect an inflation rate of 2.00% except for Account 921.



PEOPLES GAS SYSTEM  
 Projected Test Year Ended December 31, 2003  
 Account 922 Adjustment

Docket No. 020384-GU  
 Exhibit\_\_\_\_(HWS-1)  
 Schedule C

Line No.	Account	(A) Projected Test Year Per Company	(B) Payroll Trend Adjustment	(C) Other Trend Adjustment	(D) Specific Test Year Adjustment	(E) Adjusted Projected Test Year	(F) Allocable Projected Test Year	Column F Reference
1	920	8,141,064			(856,343)	7,284,721	[REDACTED]	a
2	921	16,559,318	(22,938)	(1,138,446)	(730,861)	14,667,073	[REDACTED]	a
3	924	333,463		(4,274)		329,189	[REDACTED]	a
4	925	1,328,093	(20,091)			1,308,002	[REDACTED]	a
5	922						[REDACTED]	a
6	Total Allocable						18,244,643	
7	Percent Allocated Per Company						[REDACTED]	a
8	Amount Allocated						(3,648,929)	
9	Add Back						[REDACTED]	a
10	Adjusted Allocated Cost						(4,046,223)	
11	Allocated Per Company						(4,481,881)	
12	Allocated Cost Adjustment						435,658	

Source: Column A is from Company Schedule G-2, Page 17.  
 Columns B-D are from respective Citizens' adjustments as identified.  
 (a) Company response to Citizens' Production of Documents Request number 49/50 as follows:  
 Account 920 was [REDACTED] % allocable.  
 Account 921 was [REDACTED] % allocable.  
 Account 924 was [REDACTED] % allocable.  
 Account 925 was [REDACTED] % allocable.  
 Account 922 amount as shown.

PEOPLES GAS SYSTEM  
 Projected Test Year Ended December 31, 2003  
 Payroll Adjustment - Incentive Compensation

Docket No. 020384-GU  
 Exhibit (HWS-1)  
 Schedule D

Line No.	Description	(A) 2001 Expense	(B) 2002 Base Yr + 1	(C) Projected Test Year	(D) Financial Related
1	Officers Plan	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2	Key Employees Plan	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
3	RSVP Program	1,501,925	1,546,983	1,593,392	[REDACTED]
4	Total Peoples Incentive Compensation	2,159,896	2,224,693	2,291,434	856,343
5	[REDACTED] Related Goals Adjustment				(856,343)

Source: Columns A and D are based on the Company's response to Citizens' First Request For Production of Documents numbers 36 & 37.  
 Columns B and C reflect the Company's application of the trend rate as shown on Company Schedule G-2.

PEOPLES GAS SYSTEM  
 Projected Test Year Ended December 31, 2003  
 Payroll Adjustment - Employee Complement

Docket No. 020384-GU  
 Exhibit\_\_\_\_(HWS-1)  
 Schedule E

Line No.	Description	(A) Employee Count	(B) 2003 Amount	(C) Reference
1	Projected Test Year Payroll Expense		23,041,984	a
2	Payroll Trend Adjustment		(1,198,657)	b
3	Peoples Gas Incentive Compensation Adjustment		<u>(856,343)</u>	c
4	Projected Test Year Payroll Expense as Adjusted		<u>20,986,984</u>	
5	Average 2001 Employee Count (FTE's)		<u>671</u>	Line 11
6	Projected Average Employee Payroll Expense		<u>31,277</u>	L.4/L.5
7	Reduction in Average Number of Employees		<u>(20)</u>	L.14-L.11
8	Payroll Expense Adjustment for Reduction in Employees		<u>(625,543)</u>	L.6xL.7
9	December 2000 Employee Count (FTE's)	686		
10	December 2001 Employee Count (FTE's)	655		
11	Average 2001 Employee Count (FTE's)	671		
12	December 2001 Employee Count (FTE's)	655		
13	August 2002 Employee Count (FTE's)	646		
14	Average 2002 Employee Count (FTE's)	651		

Source: Employee counts are from the Company's response to Citizens' 1st Set of Interrogatories number 24.

(a) Company Schedule G-2, Page 19.

(b) Exhibit\_\_\_\_(HWS-1); Schedule A.

(c) Exhibit\_\_\_\_(HWS-1); Schedule D.

PEOPLES GAS SYSTEM  
 Projected Test Year Ended December 31, 2003  
 Payroll Tax Expense Adjustment

Docket No. 020384-GU  
 Exhibit\_\_\_\_(HWS-1)  
 Schedule F

Line No.	Description	(A) 2003 Adjustment	(B) Effective Tax Rate	(C) FICA Tax Adjustment	(D) Reference
1	Payroll Trending Adjustment	(1,198,657)	7.81%	(93,615)	a,b
2	Incentive Compensation Adjustment	(856,343)	7.81%	(66,880)	a,c
3	Employee Adjustment	(625,543)	7.81%	<u>(48,855)</u>	a,d
4	Total Social Security Tax Adjustment			(209,350)	
5	Federal Unemployment Adjustment	20 x \$7,000 @ .8%		(1,120)	a
6	State Unemployment Adjustment	20 x \$7,000 @ 1.06%		<u>(1,484)</u>	a
7	Total Payroll Tax Adjustment			<u><u>(211,954)</u></u>	

Source: (a) Rates are from payroll tax returns provided in response to Citizens' Production of Document Request number 46.  
 (b) Exhibit\_\_\_\_(HWS-1); Schedule A.  
 (c) Exhibit\_\_\_\_(HWS-1); Schedule D.  
 (d) Exhibit\_\_\_\_(HWS-1); Schedule E.

PEOPLES GAS SYSTEM  
Projected Test Year Ended December 31, 2003  
Tampa Electric Annualization Adjustment

Docket No. 020384-GU  
Exhibit\_\_\_\_(HWS-1)  
Schedule G

Line No.	Description	(A) Amount	(B) Reference
1	Actual Tampa Electric Charges - August 2002	<u>6,364,729</u>	a
2	Annualized 2002 Tampa Electric Charges	9,547,094	(L.1/8)x12
3	Base Test Year 2001 Tampa Electric Charges	<u>10,566,311</u>	a
4	Adjustment for Tampa Electric Charges	<u><u>(1,019,217)</u></u>	L.2 - L.3

Source: (a) The Company's response Citizens' Interrogatory No.13.

PEOPLES GAS SYSTEM  
 Projected Test Year Ended December 31, 2003  
 TECO Energy Cost Adjustment

Docket No. 020384-GU  
 Exhibit\_\_\_\_(HWS-1)  
 Schedule H

Line No.	Description	Account	(A) PGS Base Year	(B) Company Projected Test Year	(C) Projected Test Year Adjustment	(D) Reference
1	Incentive Compensation	921	186,914	216,022	(74,766)	a
2	Supplemental Retirement Plan	921	159,647	184,508	(159,647)	a
3	Restricted Stock Grants	921	289,975	335,132	(289,975)	a
4	Allocate Stadium Costs/Cent. Celeb.	921	21,300	24,617	(21,300)	b
5	Food(Executive)	921	10,173	11,757	(10,173)	b
6	TECO Arena	A/P	175,000		<u>(175,000)</u>	b
7	Total TECO Energy Adjustment				<u><u>(730,861)</u></u>	

Source: (a) Column A amounts are from on-site information provided to complete the response to Citizens' Interrogatory No. 31.  
 (b) Column A amounts are from the Company's response to Citizens' Interrogatory No. 13.

PEOPLES GAS SYSTEMS  
 Projected Test Year Ended December 31, 2003  
 Analysis of Customer Growth

Docket No. 020384-GU  
 Exhibit\_\_\_\_(HWS-2)

Line No.	Description	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
1	Customers	2.27%	2.40%	2.41%	2.58%	2.61%	16.05%	2.08%	2.95%	3.88%	4.03%
2	Mains & Services A/C 874	2,914,797	3,144,406	3,269,143	3,217,642	3,237,202	3,710,436	3,922,340	3,975,792	4,468,846	4,425,455
3	Percentage Change		7.88%	3.97%	-1.58%	0.61%	14.62%	5.71%	1.36%	12.40%	-0.97%
4	Meter & House Reg A/C 878	3,194,048	3,502,818	3,534,427	2,764,860	2,728,831	2,637,488	2,259,841	1,803,852	2,051,716	2,189,631
5	Percentage Change		9.67%	0.90%	-21.77%	-1.30%	-3.35%	-14.32%	-20.18%	13.74%	6.72%
6	Customer Installation A/C 879	2,465,286	2,553,232	2,890,703	3,441,759	3,445,611	3,494,197	3,233,303	2,327,761	2,235,083	1,916,039
7	Percentage Change		3.57%	13.22%	19.06%	0.11%	1.41%	-7.47%	-28.01%	-3.98%	-14.27%
8	Maint of Mains A/C 887	1,526,728	1,575,762	1,357,825	1,453,389	1,442,472	1,609,751	1,490,012	1,111,674	1,247,496	1,219,034
9	Percentage Change		3.21%	-13.83%	7.04%	-0.75%	11.60%	-7.44%	-25.39%	12.22%	-2.28%
10	Meter Reading A/C 902	1,405,633	1,667,362	1,599,262	1,543,528	1,517,684	1,614,202	1,416,269	1,595,485	1,715,104	1,677,980
11	Percentage Change		18.62%	-4.08%	-3.48%	-1.67%	6.36%	-12.26%	12.65%	7.50%	-2.16%
12	Customer Records A/C 903	6,946,879	6,969,053	7,310,652	7,089,621	6,744,117	6,426,352	3,918,606	4,839,722	5,122,152	3,817,913
13	Percentage Change		0.32%	4.90%	-3.02%	-4.87%	-4.71%	-39.02%	23.51%	5.84%	-25.46%

Source: Line 1 is from the Company's Schedule C-37; Page 1.

Amounts for the respective accounts are from the Company's Annual Report for each of the respective years.

## APPENDIX I

### QUALIFICATIONS OF HELMUTH W. SCHULTZ III, CPA

Mr. Schultz received a Bachelor of Science in Accounting from Ferris State College in 1975. He maintains extensive continuing professional education in accounting, auditing, and taxation. Mr. Schultz is a member of the Michigan Association of Certified Public Accountants

Mr. Schultz was employed with the firm of Larkin, Chapski & Co., C.P.A.s, as a Junior Accountant, in 1975. He was promoted to Senior Accountant in 1976. As such, he assisted in the supervision and performance of audits and accounting duties of various types of businesses. He has assisted in the implementation and revision of accounting systems for various businesses, including manufacturing, service and sales companies, credit unions and railroads.

In 1978, Mr. Schultz became the audit manager for Larkin, Chapski & Co. His duties included supervision of all audit work done by the firm. Mr. Schultz also represents clients before various state and IRS auditors. He has advised clients on the sale of their businesses and has analyzed the profitability of product lines and made recommendations based upon his analysis. Mr. Schultz has supervised the audit procedures performed in connection with a wide variety of inventories, including railroads, a publications distributor and warehouse for Ford and GM, and various retail establishments.

Mr. Schultz has performed work in the field of utility regulation on behalf of public service commission staffs, state attorney generals and consumer groups concerning regulatory matters before regulatory agencies in Alaska, Arizona, California, Connecticut, Delaware, Florida, Georgia, Kentucky, Kansas, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New York, Nevada, North Dakota, Ohio, Pennsylvania, Rhode Island, Texas, Utah, Vermont and Virginia. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on numerous occasions.

#### Partial list of utility cases participated in:

U-5331	Consumers Power Co. (Michigan Public Service Commission)
Docket No. 770491-TP	Winter Park Telephone Co. (Florida Public Service Commission)
Case Nos. U-5125 and U-5125(R)	Michigan Bell Telephone Co. (Michigan Public Service Commission)



Case No. 77-554-EL-AIR	Ohio Edison Company (Public Utility Commission of Ohio)
Case No. 79-231-EL-FAC	Cleveland Electric Illuminating (Public Utility Commission of Ohio)
Case No. U-6794	Michigan Consolidated Gas Refunds (Michigan Public Service Commission)
Docket No. 820294-TP	Southern Bell Telephone and Telegraph Co. (Florida Public Service Commission)
Case No. 8738	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
82-165-EL-EFC	Toledo Edison Company (Public Utility Commission of Ohio)
Case No. 82-168-EL-EFC	Cleveland Electric Illuminating Company, (Public Utility Commission of Ohio)
Case No. U-6794	Michigan Consolidated Gas Company Phase II, (Michigan Public Service Commission)
Docket No. 830012-EU	Tampa Electric Company, (Florida Public Service Commission)
Case No. ER-83-206	Arkansas Power & Light Company, (Missouri Public Service Commission)
Case No. U-4758	The Detroit Edison Company - (Refunds), (Michigan Public Service Commission)
Case No. 8836	Kentucky American Water Company, (Kentucky Public Service Commission)
Case No. 8839	Western Kentucky Gas Company, (Kentucky Public Service Commission)
Case No. U-7650	Consumers Power Company - Partial and Immediate (Michigan Public Service Commission)

Case No. U-7650	Consumers Power Company - Final (Michigan Public Service Commission)
U-4620	Mississippi Power & Light Company (Mississippi Public Service Commission)
Docket No. R-850021	Duquesne Light Company (Pennsylvania Public Utility Commission)
Docket No. R-860378	Duquesne Light Company (Pennsylvania Public Utility Commission)
Docket No. 87-01-03	Connecticut Natural Gas (Connecticut Department of Public Utility Control)
Docket No. 87-01-02	Southern New England Telephone (Connecticut Department of Public Utility Control)
Docket No. 3673-U	Georgia Power Company (Georgia Public Service Commission)
Docket No. U-8747	Anchorage Water and Wastewater Utility (Alaska Public Utilities Commission)
Docket No. 8363	El Paso Electric Company (The Public Utility Commission of Texas)
Docket No. 881167-EI	Gulf Power Company (Florida Public Service Commission)
Docket No. R-891364	Philadelphia Electric Company (Pennsylvania Office of the Consumer Advocate)
Docket No. 89-08-11	The United Illuminating Company (The Office of Consumer Counsel and the Attorney General of the State of Connecticut)
Docket No. 9165	El Paso Electric Company (The Public Utility Commission of Texas)
Case No. U-9372	Consumers Power Company (Before the Michigan Public Service Commission)

Docket No. 891345-EI ER89110912J	Gulf Power Company (Florida Public Service Commission) Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 890509-WU	Florida Cities Water Company, Golden Gate Division Florida Public Service Commission
Case No. 90-041	Union Light, Heat and Power Company (Kentucky Public Service Commission)
Docket No. R-901595	Equitable Gas Company Pennsylvania Consumer Counsel
Docket No. 5428	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 90-10	Artesian Water Company Delaware Public Service Commission
Docket No. 900329-WS	Southern States Utilities, Inc. Florida Public Service Commission
Case No. PUE900034	Commonwealth Gas Services, Inc. Virginia Public Service Commission
Docket No. 90-1037* (DEAA Phase)	Nevada Power Company - Fuel (Public Service Commission of Nevada)
Docket No. 5491**	Central Vermont Public Service Corporation Vermont Department of Public Service
Docket No. U-1551-89-102	Southwest Gas Corporation - Fuel Before the Arizona Corporation Commission  Southwest Gas Corporation - Audit of Gas Procurement Practices and Purchased Gas Costs
Docket No. U-1551-90-322	Southwest Gas Corporation Before the Arizona Corporation Commission
Docket No.	United Cities Gas Company

176-717-U	Kansas Corporation Commission
Docket No. 5532	Green Mountain Power Corporation Vermont Department of Public Service
Docket No. 910890-EI	Florida Power Corporation Florida Public Service Commission
Docket No. 920324-EI	Tampa Electric Company Florida Public Service Commission
Docket No. 92-06-05	United Illuminating Company The Office of Consumer Counsel and the Attorney General of the State of Connecticut
Docket No. C-913540	Philadelphia Electric Co. Before the Pennsylvania Public Utility Commission
Docket No. 92-47	The Diamond State Telephone Company Before the Public Service Commission of the State of Delaware
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. 93-02-04	Connecticut Natural Gas Corporation (Supplemental) State of Connecticut, Department of Public Utility Control
Docket No. 93-08-06	SNET America, Inc. State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01**	Mountain Fuel Supply Company Before the Public Service Commission of Utah
Docket No. 94-105-EL-EFC	Dayton Power & Light Company Before the Public Utilities Commission of Ohio
Case No. 399-94-297**	Montana-Dakota Utilities Before the North Dakota Public Service Commission

Docket No. G008/C-91-942	Minnegasco Minnesota Department of Public Service
Docket No. R-00932670	Pennsylvania American Water Company Before the Pennsylvania Public Utility Commission
Docket No. 12700	El Paso Electric Company Public Utility Commission of Texas
Case No. 94-E-0334	Consolidated Edison Company Before the New York Department of Public Service
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. 2216	Narragansett Bay Commission - Surrebuttal On Behalf of the Division of Public Utilities and Carriers, Before the Rhode Island Public Utilities Commission
Case No. PU-314-94-688	U.S. West Application for Transfer of Local Exchanges Before the North Dakota Public Service Commission
Docket No. 95-02-07	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 95-03-01	Southern New England Telephone Company State of Connecticut, Department of Public Utility Control
Docket No. U-1933-95-317	Tucson Electric Power Before the Arizona Corporation Commission
Docket No. 5863*	Central Vermont Public Service Corporation Before the Vermont Public Service Board
Docket No. 96-01-26**	Bridgeport Hydraulic Company State of Connecticut, Department of Public Utility Control
Docket Nos. 5841/ 5859	Citizens Utilities Company Before Vermont Public Service Board
Docket No. 5983	Green Mountain Power Corporation Before Vermont Public Service Board

Case No. PUE960296**	Virginia Electric and Power Company Before the Commonwealth of Virginia State Corporation Commission
Docket No. 97-12-21	Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control
Docket No. 97-035-01	PacifiCorp, dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. G-03493A-98-0705*	Black Mountain Gas Division of Northern States Power Company, Page Operations Before the Arizona Corporation Commission
Docket No. 98-10-07	United Illuminating Company State of Connecticut, Department of Public Utility Control
Docket No. 99-01-05	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket No. 99-04-18	Southern Connecticut Gas Company State of Connecticut, Department of Public Utility Control
Docket No. 99-09-03	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 980007-0013-003	Intercoastal Utilities, Inc. St. John County - Florida
Docket No. 99-035-10	PacifiCorp dba Utah Power & Light Company Before the Public Service Commission of Utah
Docket No. 6332 **	Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board
Docket No. G-01551A-00-0309	Southwest Gas Corporation Before the Arizona Corporation Commission
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 Before the Public Service Commission of Utah

Docket No. 01-05-19 Phase I	Yankee Gas Services Company State of Connecticut Department of Public Utility Control
Docket No. 010949-EI	Gulf Power Company Before the Florida Office of the Public Counsel
Docket No. 2001-0007-0023	Intercoastal Utilities, Inc. St. Johns County - Florida
Docket No. 6596	Citizens Utilities Company - Vermont Electric Division Before the Vermont Public Service Board
Docket Nos. R. 01-09-001 I. 01-09-002	Verizon California Incorporated Before the California Public Utilities Commission

\* Certain issues stipulated, portion of testimony withdrawn.

\*\* Case settled.