BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Peoples Gas System.	DOCKET NO. 020384-GU ORDER NO. PSC-02-1706-PHO-GU ISSUED: December 6, 2002

Pursuant to Notice and in accordance with Rule 28-106.209, Florida Administrative Code, a Prehearing Conference was held on November 22, 2002, in Tallahassee, Florida, before Commissioner Braulio L. Baez, as Prehearing Officer.

APPEARANCES:

ANSLEY WATSON, JR., ESQUIRE, Macfarlane Ferguson & McMullen, P. O. Box 1531, Tampa, Florida 33601-1531, and MATTHEW R. COSTA, ESQUIRE, TECO Energy, Inc., P. O. Box 111, Tampa, Florida 33601-1531
On behalf of Peoples Gas System (Peoples).

VICKI GORDON KAUFMAN, ESQUIRE, McWhirter, Reeves, McGlothlin, Davidson, Decker, Kaufman & Arnold, P. A., 117 South Gadsden Street, Tallahassee, Florida 32301 and JOHN W. MCWHIRTER, ESQUIRE, McWhirter, Reeves, McGlothlin, Davidson, Decker, Kaufman & Arnold, P. A., 400 North Tampa Street, Suite 3350, Tampa, Florida 33602
On behalf of Florida Industrial Gas Users (FIGU).

ROBERT SCHEFFEL WRIGHT, ESQUIRE, Landers & Parsons, P.A., 310 West College Avenue, Tallahassee, Florida 32302
On behalf of Auburndale Power Partners (Auburndale).

H. F. RICK MANN, ASSOCIATE PUBLIC COUNSEL, Office of Public Counsel, c/o The Florida Legislature, 111 W. Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida (OPC).

ADRIENNE E. VINING, ESQUIRE, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission (Staff).

PREHEARING ORDER

I. CONDUCT OF PROCEEDINGS

Pursuant to Rule 28-106.211, Florida Administrative Code, this Order is issued to prevent delay and to promote the just, speedy, and inexpensive determination of all aspects of this case.

II. CASE BACKGROUND

This proceeding commenced on June 27, 2002, with the filing of a petition for a permanent rate increase by Peoples Gas System (Peoples). Peoples requested a permanent rate increase of $22,615,228 in additional annual revenues. The company based its request on a 13-month average rate base of $522,393,278 for a projected test year ending December 31, 2003. The requested overall rate of return is 9.29% based on an 11.75% return on equity.

III. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 366.093, Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 366.093, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

1. Any party intending to utilize confidential documents at hearing for which no ruling has been made, must be prepared to present their justifications at hearing, so that a ruling can be made at hearing.

2. In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

a) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 366.093, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.

b) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.

c) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.

d) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.

e) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Division of Commission Clerk and Administrative Service's confidential files.

IV. POST-HEARING PROCEDURES

Each party shall file a post-hearing statement of issues and positions. A summary of each position of no more than 75 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of the prehearing order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 75 words, it must be reduced to no more than 75 words. If a party fails to file a post-hearing statement, that party shall have waived all issues and may be dismissed from the proceeding.

Pursuant to Rule 28-106.215, Florida Administrative Code, a party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 40 pages, and shall be filed at the same time.

V. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties and Staff has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Summaries of testimony shall be limited to five minutes. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

VI. ORDER OF WITNESSES

Witness	Proffered By	Issues #
Direct		
Francis J. Sivard	Peoples	1, 87
Bruce Narzissenfeld	Peoples	2, 8, 9, 10, 22, 24, 33, 37, 38, 39, 40, 42, 43, 44, 45, 48, 49, 50, 51, 53, 58, 65, 67, 68
J. Paul Higgins	Peoples	2, 3, 4, 5, 6, 7, 11, 12, 13, 14, 15, 16, 17, 18, 21, 22, 23, 25, 26, 27, 28, 32, 34, 35, 36, 38, 41, 42, 43, 44, 45, 46, 47, 48, 49, 52, 54, 55, 56, 57, 59, 60, 61, 62, 63, 64, 66, 68
*Dr. Roger A. Morin	Peoples	19, 20

Witness	Proffered By	Issues #
Wraye J. Grimard	Peoples	3, 6, 8, 29, 30, 31, 52, 57, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78,79, 80, 81, 82, 83, 84, 85, 86
Donna DeRonne	OPC	2, 4, 5, 11, 12, 13, 14, 15, 17, 18, 22, 29, 31, 32, 38, 39, 40, 42, 43, 48, 49, 50, 52, 56, 57, 59, 60, 61, 62, 63, 64, 66, 67, 81
Helmuth W. Schultz, III	OPC	35, 36, 47, 48, 53, 54, 55, 59, 61
*Mark A. Cicchetti	OPC	19, 20, 21, 22, 23, 25, 26
*Roger W. Fletcher	Staff	4, 5, 9, 10, 53
*Joseph W. Rohrbacher	Staff	10, 13, 37, 39, 42, 43, 44, 45, 49, 60, 62

Rebuttal

Bruce Narzissenfeld	Peoples	9, 10, 22, 37, 38, 39, 40, 42, 43, 45, 48, 49, 50, 51, 53, 67

Witness	Proffered By	Issues #
J. Paul Higgins	Peoples	4, 5, 11, 12, 13, 14, 17, 18, 23, 35, 36, 38, 42, 43, 45, 46, 47, 48, 49, 52, 54, 55, 56, 57, 59, 60, 61, 62, 63, 64, 66
*Dr. Roger A. Morin	Peoples	19, 20, 62
Wraye J. Grimard	Peoples	6, 8, 29, 31, 52, 57, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83
*Mark A. Cicchetti	OPC	19, 20
Surrebuttal		
*Dr. Roger A. Morin	Peoples	19, 20, 62

* The parties have waived cross-examination for these witnesses, and their attendance is excused from the hearing. However, the pre-filed testimony for these witnesses will be inserted into the record as though read.

VII. BASIC POSITIONS

PEOPLES: Peoples was last granted permanent rate relief effective September 1992, and at that time was authorized a 9.75% overall return. Currently, the Company's achieved return is 7.81% and it continues to deteriorate. Without rate relief, the achieved return for the projected test year will decline further to 6.66%.

In the 10 years since Peoples' last rate case, many factors have contributed to the necessity for the

Company to now seek rate relief. The Consumer Price Index during this period has increased more than 30%, which has not only required that the Company pay more for the goods and services it purchases, but has also contributed to a steady increase in the level of the Company's direct and indirect payroll costs. Additionally, health care costs continue to escalate at a rate significantly higher than that of inflation. During this 10-year period, there have also been major changes in accounting regulations, as well as increases in various taxes, all of which have contributed to the increase in the cost to provide service to our customers.

In spite of increased costs, the Company has been able to continue to expand its pipeline distribution system in order to make natural gas available as an energy choice to more customers. Since its last rate case, the Company, through growth and acquisition, has expanded its pipeline system from approximately 5,000 miles to approximately 9,000 miles and has added more than 100,000 customers. When viewed in their totality, the adjustments to rate base and various expenses proposed by the Florida Citizens in this proceeding ignore the growth which has occurred, and is continuing to occur, in the Company's distribution system and number of customers, and for this reason should be disregarded as being inconsistent with the facts.

At the same time, the Company has strived to improve the efficiency and economy of its operations without compromising the level of service rendered to its customers. It is essential that the Company be permitted to recover its cost of providing service and have fair and reasonable rates in order to maintain its financial integrity to enable it to maintain and raise new capital as needed for public service. Such financial integrity bears directly upon Peoples ability to furnish service to its present and future customers, upon the cost of such service rendered, and upon the continuity, efficiency and extension of such service. In short, Peoples' financial integrity depends upon whether or not the rates that it is allowed to charge are adequate under efficient management to produce earnings in an amount sufficient to reasonably compensate its investors for the use of their property by the public, and to encourage them to make further investments in the business as needed.

Peoples has made a concerted effort over the past 10 years to maintain its current level of rates in the face of ever increasing costs. However, it has reached the point where the Company's rates must be increased so that it may continue to render efficient service to its customers. In essence, the service rates currently in use by Peoples Gas are totally inadequate to permit it to cover operating costs and earn a reasonable rate of return. In view of current economic conditions, and based on adjustments made or to which the Company has agreed since the filing of its petition, rates predicated on a rate of return of 9.21% should be approved so that the Company may have an opportunity to cover operating costs and earn a fair and reasonable rate of return.

FIGU: FIGU has taken no position on rate base, operating and maintenance expense, or return issues, but demands strict proof from Peoples as to its entitlement to the revenue claimed. FIGU has employed consultants to examine the cost of service study presented by Peoples in this case and has determined that it is appropriate.

AUBURNDALE: Peoples is entitled to charge fair, just, and reasonable rates for efficient and cost-effective service; the actual rates will be determined pursuant to the Commission's decisions on the various rate base, revenue requirements, and rate design issues in the case.

OPC: Peoples has overstated its rate base. The testimony and evidence of Citizens' witnesses will show that rate base in the Company's 2003 projected test year should be $490,048,000. Conversely, Peoples has understated its NOI. The Company's Net Operating Income in the 2003 test year should be $43,662,000.

Peoples imprudently filed with this Commission a request for revenue increase of $22,615,000, based on a projected 2003 test year. Peoples' request assumes plant additions of $60,764,110 in 2002 and $60,321,000 in 2003. The Company's request also assumes that specific costs will increase based upon selected presumptions and that remaining costs will increase based upon trend percentages.

Citizens believe that Peoples' overly-optimistic budgeted plant additions, unsupported specific cost projections, use of an excessive inflation rate, and inappropriate applications of trend rates, have resulted in the Company's overstatement of its revenue requirement. In fact, the Citizens' witnesses will show that Peoples' current revenues should be reduced by approximately $6 million.

Peoples' plant additions in 2002, are below the Company's projected level of $60,764,110 and in the Company's rebuttal testimony, it has acknowledged that in 2003, its plant additions will be $11,900,000 less than projected. Considering added adjustments to rate base and numerous additions to operating and maintenance expense to correct for Peoples' unsupported costs, inappropriate costs, excessive inflation rate and the inappropriate applications of trend rates, Peoples' current rates, at a minimum, should be reduced by approximately $6 million. Given the information provided in the Company's rebuttal testimony and any new issues raised by other parties, the rates may require a reduction greater than $6 million.

STAFF: Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions.

VIII. ISSUES AND POSITIONS

ISSUE 1: **Is Peoples quality of service adequate?**

POSITIONS

PEOPLES: Yes. Peoples quality of service is excellent. Neither any party to this proceeding, nor the Commission Staff, has suggested otherwise. At service hearings held in this docket in Hollywood, Tampa, Orlando, Jacksonville and Panama City, a total of only four members of the public appeared to testify. Of those four, none testified regarding any complaint about Peoples' quality of service. The appearance of only four customers alone suggests that the level of service provided by the Company is excellent. The Company's excellent service is confirmed by the Commission's Consumer Assistance Protection Report for its fiscal year 1999-2000, which reflects 0.004 apparent Company infractions per 1,000 customers. The same Commission publication for its fiscal year 2000-2001 reflects 0.011 apparent infractions per 1,000 customers. (Sivard, Grimard)

FIGU: Yes.

AUBURNDALE: No position.

OPC: No position.

STAFF: Yes. Peoples Gas quality of service is adequate.

ISSUE 2: **Stipulated - Category 3, Number 2.**

ISSUE 3: **Stipulated - Category 1, Number 1.**

RATE BASE

ISSUE 4: **Should an adjustment be made to Plant, Accumulated Depreciation, and Depreciation Expense for canceled or delayed projects, and to reflect the fact that the Company is under-budget for plant additions through mid-2002?**

POSITIONS:

PEOPLES: Agrees with Staff. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: Yes. As of August 31, 2002, the Company's actual plant in service balance on its books and records, including both Account 101 - Plant in Service and Account 106 - Completed Construction not Classified, was $9,957,000 less than the balance for the same month included in the Company's MFRs. For each month of 2002, through August, the actual plant in service balance has been considerably lower than the projected amounts included in the MFRs. This is shown on Exhibit__(DD-1), Schedule B-2. The beginning balance in calculating the projected test year plant in service balance should be reduced by a minimum of $9,957,000, as shown on Exhibit DD-1, Schedule B-3. This results in the December 31, 2002 plant in service balance included in the MFRs of $748,923,633 being reduced by $9,957,000 to $738,966,632. As the amount under-budget for plant in service has steadily increased for most of 2002, an even larger reduction may be appropriate. This adjustment also impacts accumulated depreciation and depreciation expense. (DeRonne) (OPC POD 9; PGS 8/31/02 Trial Balance)

STAFF: Yes. The test year plant in service, Accumulated Depreciation, and Depreciation Expense should be reduced $14,512,000, $394,000, and $612,000, respectively, to reflect cancelled, delayed, and under-budget additions.

ISSUE 5: **Subsumed in Issue 4**

ISSUE 6: **Should an adjustment to increase revenues or to decrease plant in service, accumulated depreciation and depreciation expense be made associated with the Company's $3 million addition to plant in service - revenue mains for projects related to the Gulfstream pipeline?**

POSITIONS:

PEOPLES: Agrees with Staff. (Higgins, Grimard)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: No position at this time, pending further development of the record.

STAFF: No adjustments should be made.

ISSUE 7: **Dropped.**

ISSUE 8: **Stipulated - Category 3, Number 3.**

ISSUE 9: **Stipulated - Category 4, Number 4.**

ISSUE 10: **Stipulated - Category 3, Number 9.**

<u>ISSUE 11</u>: **What is the appropriate amount of Construction Work in Progress (CWIP) for the projected test year?**

<u>POSITIONS</u>:

PEOPLES: Peoples agrees with Staff. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: No Construction Work in Progress (CWIP) should be included in rate base in the projected test year. This plant will not be used or useful in delivering gas service to People's customers during the projected test year. Some of the facilities included in CWIP will serve new customers, and the revenues from those new, future customers is not included in the projected test period. Additionally, some of the facilities included in CWIP could result in a reduction in expenditures that are not reflected in the projected test period. Rate base should be reduced by $21,277,545 to remove CWIP. (DeRonne)

STAFF: The appropriate amount of CWIP to be included in the projected test year is $21,277,545.

<u>ISSUE 12</u>: **What is the appropriate projected test year Total Plant?**

<u>POSITIONS</u>:

PEOPLES: $783,908,104. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decisions of other issues.

OPC: The appropriate projected test year total plant, including plant in service and acquisition adjustment less common plant allocated, is a maximum of $766,717,257. This is shown on Exhibit__(DD-1), Schedule B-1, page 1. This reflects the total removal of CWIP and an $11,144,341 reduction to plant in service. The $11,144,341 reduction to plant in service combines the impact of the $9,957,000 reduction to the beginning plant in service balance addressed in Issue 4, and several revisions to Peoples' projected 2003 additions to plant in service. For the additions to plant in service that were based by the Company on five-year average addition levels using actual amounts for the period 1998 through 2001 and projected amounts for 2002 grossed-up by a 2.66% inflation factor, the additions should be revised to reflect a four-year average using actual amounts for the period 1998 through 2001 with no gross-up for inflation. It is not appropriate to use one year of budgeted information and four years of actual information in calculating the average level. The average level should be based on actual, known and measurable information. For the projected additions that were based by the Company on budgeted 2002 additions, with some adjustments by Peoples for extraordinary items, inflated by 2.66%, the inflation factor should be removed. The 2002 projected additions are overstated based on actual experience through August. The application of an inflation factor to these already overstated amounts for determining the 2003 addition level is not appropriate. The calculation of the overall reduction to projected test year plant in service of $11,144,341 is presented on Exhibit__(DD-1), Schedule B-4. (DeRonne) (OPC POD 9, Staff POD 25).

This recommended adjustment is considered conservative because the Company's rebuttal witness, J. Paul Higgins, has indicated that the projected 2003 plant additions are expected "to be approximately $48.3 million rather than the $60.2 million included in the files MFRs." This reduction has not been reflected in Citizens' recommendation, at this time.

STAFF: This is a fallout issue and will be based upon the calculations and decisions of other issues.

ISSUE 13: **What is the appropriate projected test year Depreciation Reserve?**

POSITIONS:

PEOPLES: $273,600,791. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decisions of other issues.

OPC: The projected test year depreciation reserve should be reduced by $228,628 based on Citizens' recommended reduction to projected test year plant in service and the Company's requested depreciation rates. The calculation was presented on Exhibit__(DD-1), Schedule C-6. The depreciation rates used in the calculation should be replaced with the rates ultimately adopted by the Commission in the Company's on-going depreciation case, Docket No. 010383-GU. (DeRonne)

STAFF: This is a fallout issue and will be based upon the calculations and decisions of other issues, and the results of the implementation of the new depreciation rates pursuant to Order No. PSC-02-1492-PAA-GU.

ISSUE 14: **Stipulated - Category 4, Number 3.**

ISSUE 15: **Stipulated - Category 5, Number 1.**

<u>ISSUE 16</u>: **Stipulated - Category 3, Number 10.**

<u>ISSUE 17</u>: **What is the appropriate projected test year Working Capital Allowance?**

<u>POSITIONS</u>:

PEOPLES: Peoples agrees with Staff. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decisions of other issues.

OPC: This is a fallout issue and will be based upon the calculations and decisions of other issues.

STAFF: Based on Issues 14, 15, 16 and 33, the appropriate projected test year working capital allowance is ($3,535,032).

<u>ISSUE 18</u>: **What is the appropriate projected test year Rate Base?**

<u>POSITIONS</u>:

PEOPLES: $506,772,281. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decisions of other issues.

OPC: Citizens' recommended projected test year rate base, at this time, is $490,048,282, as shown on Exhibit__(DD-1), Schedule B-1. This is a fallout issue. (DeRonne)

STAFF: This is a fallout issue and will be based upon the calculations and decisions of other issues.

COST OF CAPITAL

ISSUE 19: What is the appropriate return on common equity for the projected test year?

POSITIONS:

PEOPLES: A range of 10.75% to 12.75%, with a midpoint of 11.75%. (Morin)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: The appropriate return on common equity for the projected test year is 10.10%. (Cicchetti)

STAFF: Staff takes no position at this time pending further development of the record.

ISSUE 20: What is the appropriate equity ratio?

POSITIONS:

PEOPLES: The appropriate equity ratio, expressed as a percentage of the Company's total equity plus debt, is 57.4%. (Morin)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: The appropriate equity ratio for the projected test year is 50% of investor capital. Peoples' equity ratio for the projected test year should be adjusted to 50% of investor capital to ensure that only the reasonable and prudent costs associated with the provision of utility service are incorporated into rates. (Cicchetti)

STAFF: Staff takes no position at this time pending further development of the record.

<u>ISSUE 21</u>: What is the appropriate cost of long-term and short-term debt?

<u>**POSITIONS**</u>:

PEOPLES: Peoples will accept the Staff's position. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: Pending analysis of recently received discovery, the costs of long-term and short-term debt are 7.81%, and 4.00%, respectively. (Cicchetti)

STAFF: The appropriate cost rate of long-term debt should be 7.70%. The appropriate cost rate of short-term debt should be 4.0%.

<u>ISSUE 22</u>: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

<u>**POSITIONS**</u>:

PEOPLES: As adjusted in accordance with Revised Exhibit BNN-2, the appropriate amount of accumulated deferred taxes to include in the capital structure is $22,030,268, which amount includes the impact of bonus depreciation in the amount of $4,715,215. (Narzissenfeld, Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: The projected accumulated deferred taxes included by Peoples in its proposed capital structure should be increased by $7,992,760 to reflect the estimated additional deferred income taxes that will result from the bonus depreciation deduction allowed for in the Economic Stimulus Package that was signed into law on March 9, 2002. The calculation of this estimated adjustment is presented in Exhibit__(DD-1), Schedule D, page 2. The Economic Stimulus Package allows for an additional first-year depreciation deduction equal to 30% of the adjusted basis of qualified property placed into service after September 10, 2001 and before September 11, 2004. In addition to the 30% bonus depreciation in the first year, the otherwise allowable tax depreciation rate is then also applied in the first year to the remaining balance. The Company's filing did not include the impacts of this new bonus tax depreciation. The Company was asked to provide the projected impact on accumulated deferred income taxes included in the filing for 2002 and 2003 for the projected plant additions. Since the Company did not provide the requested impact on accumulated deferred income taxes for 2002 and 2003 from the bonus depreciation, OPC has estimated the impact at $7,992,760 based on the information available. This results in a total amount of accumulated deferred taxes to include in the reconciled capital structure of $23,571,457. (DeRonne, Cicchetti) (Citizens' Interrogatory 8)

STAFF: An adjustment will be necessary to reflect the Economic Stimulus Package signed into law on March 9, 2002. However, due to pending further development of the record, staff is unable to determine the appropriate adjustment at this time. In addition, further adjustments to deferred taxes may be necessary to reflect any adjustments made to plant in service.

ISSUE 23: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

POSITIONS:

PEOPLES: Peoples agrees with Staff. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: The appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure is $686,068, at zero cost. (Cicchetti)

STAFF: The appropriate amount is $743,000 and the cost rate is 0.00%.

__ISSUE 24__: **Stipulated - Category 3, Number 4.**

__ISSUE 25__: **Have rate base and capital structure been reconciled appropriately?**

__POSITIONS__:

PEOPLES: Peoples will accept Staff's position. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: The rate base and capital structure should be reconciled as shown on Exhibit MAC-10 (Cicchetti)

STAFF: No. Any pro rata adjustment should be made over investor sources which would only include common equity, preferred stock, short-term and long-term debt.

__ISSUE 26__: **What is the appropriate weighted average cost of capital for the projected test year?**

__POSITIONS__:

PEOPLES: 9.21%. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: Pending review of recently received discovery, the appropriate weighted average cost of capital for the projected test year is 8.14%. (Cicchetti)

STAFF: Staff takes no position at this time pending further development of the record.

REVENUES

ISSUE 27: Stipulated - Category 1, Number 2.

ISSUE 28: Stipulated - Category 1, Number 3.

ISSUE 29: Should an adjustment be made to revenues to recognize the new credit card usage charge?

POSITIONS:

PEOPLES: Peoples agrees with Staff. (Grimard)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: For calculating revenue requirement in this case, Citizens recommend that the amount of expense included in the test year for customer payments by credit card be removed if the Company's proposed credit card fee is adopted. The historical test year expense for customer payments by credit card were $230,684. If Citizens' recommended inflation rate of 2.0% is adopted, the adjusted projected test year expenses should be reduced by $240,004 to remove these fees. The Company has proposed a credit card fee of 3.5% for customers paying by credit card, based on the average percentage fee per amount paid by credit card. In order to remove the impacts of the credit card payments from the test year, the Citizens' recommended approach is to remove the actual fees included by in the projected test year, instead of adding projected revenues. This approach would zero-out the impact on revenue requirement. (DeRonne) (Staff POD 21)

STAFF: No adjustment is required if revenues derived from the proposed credit card usage charge, included in the Company's rate design as Other Operating Revenues, are increased from $207,839 to $240,004 to match the expenses included in the 2003 projected test year.

ISSUE 30: **Stipulated - Category 5, Number 2.**

ISSUE 31: **Should Off-System Sales be excluded from Jurisdictional Operating Revenues?**

POSITIONS:

PEOPLES: Peoples agrees with Staff. (Grimard)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: No. Under the Company's off-system sales rate schedule, 50% of certain gains are booked as revenues above the line to help meet revenue requirements, with the remaining 50% flowing back to ratepayers as a credit in the Purchased Gas Adjustment Clause. The amount included in regulated revenues should be included in the revenue requirement calculation. These off-system sales have been increasing in recent years, and nothing shows that the Company intends to discontinue making off-system sales. Profitable off-system sales of extra capacity should be pursued, and no information has been provided to show that the Company intends to change its practice. Revenues should be increased by $3,711,488 to reflect the most recent twelve-month actual non-fuel off-systems sales as of August 2002. (DeRonne) (Citizens' Interrogatory 1)

STAFF: Off-System Sales revenues should be shared on a 75%/25% basis between the customers and Company. The 75% customer share would flow back to the customers as a credit to the cost of gas in the purchased gas adjustment clause. The Company would retain the remaining 25% as operating revenues above the line. For purposes of setting rates in this docket, operating revenues should be increased $500,000 in the projected 2003 test year. The effective date for the above sharing shall be with the implementation of any tariff changes in this docket.

ISSUE 32: **What is the appropriate amount of projected test year total Operating Revenues?**

POSITIONS:

PEOPLES: Under present rates and charges, the appropriate amount of projected test year total Operating Revenues is $148,757,215. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decisions of other issues.

OPC: Total operating revenues should be $151,893,217. This is based on the projected test year amount included in the Company's filing of $148,181,729 plus off-system sales of $3,711,488. (DeRonne)

STAFF: This is a fallout issue and will be based upon the calculations and decisions of other issues.

EXPENSES

ISSUE 33: **Stipulated - Category 1, Number 4.**

ISSUE 34: **Stipulated - Category 3, Number 1.**

ISSUE 35: **Has Peoples used the appropriate trend basis for each O&M account?**

POSITIONS:

PEOPLES: Peoples will accept the Staff's position. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: No. Citizens' recommended trending adjustments are presented in Exhibit__(HWS-1), Schedules A and B. The Company's use of combined customer growth and payroll trend rate for projecting 2003 payroll expense is not appropriate. Only the payroll trend rate of 3% should be applied to 2001 payroll costs for 2002 and 2003 to project payroll costs. The Company has had a steady decline in employees while also experiencing customer growth. From 1992 to 2001, the average number of customers has increased 45.3%. During the same time period, the number of Peoples employees has decreased 38.7%. Clearly, application of a customer growth rate on payroll costs is not appropriate, nor is it reflective of actual circumstances for Peoples.

For some of the non-payroll portions of O&M accounts, the Company has applied a combined customer growth and inflation trend rate. This also is not appropriate. For the accounts in which Peoples utilized this combined trending rate to project 2003 costs, there is no justification for the application of the combined rate. Actual experience for the last ten years for Peoples shows no correlation whatever between combined customer growth and inflation with changes in expense levels. In fact, several O&M expense accounts have decreased from 1992 to 2001, not increased. Other accounts have increased slightly, but not to the level that would result from a combination of customer growth and inflation.

With the exception of Account 921, Peoples' "Other Trended" costs should be trended by Citizens' recommended 2.00% inflation factor for 2002 and 2003. For Account 921, the combination of the increase in that account for payroll trending and the increase for the Company's "Other Not Trended" adjustment to that account results in a 2.25% increase in this account from the historical test year to the projected test year. The amount is also higher than the historical four-year average amount for this account. For Account 921, it is not appropriate to apply a general inflation factor. Costs included in Account 921 from an affiliated company are further addressed in Citizens' Position in Issue 54. (Schultz) (Citizens' Interrogatories 24, 50, 51, 52, 53 and 60)

STAFF: No. The payroll trend factors should be adjusted to appropriately reflect the average number of employees for the projected test year.

<u>**ISSUE 36**</u>: **Should the projected test year O&M expense be adjusted for the effect of any changes to the trend factors?**

<u>**POSITIONS**</u>:

PEOPLES: Peoples will accept the Staff's position. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: Yes. O&M expense should be reduced by $1,198,657 for Citizens' recommended revisions to the payroll trending, as provided on Exhibit__(HWS-1), Schedule A. O&M expense should be reduced by $1,868,945 for Other Trended Expense items, as calculated on Exhibit__(HWS-1), Schedule B. Additionally, Account 922 is where the Company reflects the amount for cost allocations to other affiliates.

Several of Citizens' recommended adjustments to O&M expense accounts impacts the amount of billing back to affiliates. Consequently, expenses in O&M Account 922 should be increased by $435,658 to reflect the impact of a number of Citizens' expense adjustments, including the trending adjustments, on the level of billings to affiliates by Peoples. The calculation of the necessary adjustment is presented on Exhibit__(HWS-1), Schedule C. (Schultz) (Citizens POD 49 and 50)

STAFF: Yes. The projected test year O&M expenses should be reduced $263,667 based on the appropriate trend factors identified in Issue 34. In addition, the projected test year should be reduced $393,469 based on the average number of employees for the projected test year.

ISSUE 37: **Stipulated - Category 4, Number 7.**

ISSUE 38: **Should an adjustment be made to the allocation of inter-company costs?**

POSITIONS:

PEOPLES: Peoples agrees with Staff. (Narzissenfeld, Higgins)

FIGU: No position.

AUBURNDALE: No position.

OPC: Yes. Citizens have recommended several adjustments impacting projected test year O&M expense for charges to Peoples from TECO Partners, Inc., Tampa Electric and TECO Energy. See Issues 54 and 49 for Citizens position on costs allocated to Peoples from affiliates.

STAFF: Yes. For the historical base year 2001, Account 921 - Office Supplies and Expenses reflects $21,300 for stadium costs/centennial celebration allocated to Peoples from TECO Energy. After trending, the projected test year 2003 should be reduced $24,302.

<u>ISSUE 39</u>: **Stipulated - Category 5, Number 5.**

<u>ISSUE 40</u>: **What is the appropriate amount of rate case expense and what is the appropriate amortization period for that expense?**

<u>**POSITIONS**</u>:

PEOPLES: Peoples will accept the Staff's position. (Narzissenfeld)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: The appropriate amount of rate case expense is Zero (0). Citizens believe that Peoples is over earning by approximately $6 Million. As such, Peoples' filing before this Commission for a revenue increase was imprudent. Peoples should not be rewarded for its imprudence at the expense of Peoples' ratepayers. The Public Service Commission should thus grant No rate case expense to the Company. If the Commission chooses to grant some rate case expense to Peoples, any amount so granted should be amortized over a period greater than (4) years, given that it has been ten (10) years between rate cases for Peoples. (DeRonne)

STAFF: The appropriate amount of rate case expense is $350,000 and the appropriate amortization period is four years. Therefore, rate case expense included in Account 928, for the 2003 projected test year, should be reduced by $32,500.

<u>ISSUE 41</u>: **Stipulated - Category 5, Number 3.**

<u>ISSUE 42</u>: **Stipulated - Category 4, Number 5.**

<u>ISSUE 43</u>: **Stipulated - Category 4, Number 6.**

<u>ISSUE 44</u>: **Stipulated - Category 5, Number 4.**

<u>ISSUE 45</u>: **Stipulated - Category 4, Number 2.**

<u>ISSUE 46</u>: **Stipulated - Category 3, Number 5.**

<u>ISSUE 47</u>: **Should payroll expense and related costs such as payroll taxes be reduced to reflect the decline in the number of employees?**

<u>POSITIONS</u>:

PEOPLES: Peoples agrees with Staff. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: Yes. By including customer growth in the payroll trending factor, the Company has increased historical test year payroll expense by $1.2 million for new employees. Peoples' employee level has declined since the historical test year, and has been declining for some time. Peoples' employee count declined from 686 at December 31, 2000 to 655 at December 31, 2001 and 646 at the end of August 2002. The yearly average employee level has dropped 20 employees from the historical test year through August 2002. This decline since the historical test year should be reflected in setting rates. First, the customer growth factor included in the payroll trending should be removed, resulting in a $1,198,657 decrease in projected test year payroll expense, as calculated on Exhibit__(HWS-1), Schedule A. Second, payroll expense should be reduced by $625,543 based on the average historical test year payroll expense of $31,277 per employee times the 20-employee reduction.

Projected test year payroll tax expense should be reduced by $211,954 to reflect the impact on payroll taxes resulting from Citizens' recommended adjustments to remove the customer growth from payroll trending, reduce payroll expense for 20 positions, and reduce incentive compensation expense. The appropriate adjustment is calculated on Exhibit__(HWS-1), Schedule F. (Schultz) (Citizens Interrogatory 24)

STAFF: No. Since there has not been a decrease in the number of employees no adjustment is appropriate.

ISSUE 48: **Should cost associated with incentive compensation be reduced?**

POSITIONS:

PEOPLES: Peoples agrees with Staff. (Higgins, Narzissenfeld)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: Yes. Incentive compensation expense should be reduced by $856,343 for the portion of goals that primarily benefit shareholders. Additional information is provided in the confidential testimony of Citizens' Witness Helmuth W. Schultz, III. The calculation of the recommended reduction is presented on Exhibit__(HWS-1), Schedule D.

Additionally, the executive stock grants included in the projected test year, in Account 926, should be removed. The amounts of grants are not known and measurable. The value will be based, in part, on TECO Energy's stock price during 2003, which is not known at this time. The executive stock grants are additional compensation for a select few executive employees that is above and beyond the other compensation amounts already included in the filing. The amount of necessary adjustment to remove the executive stock grants is provided in the confidential testimony of Citizens' witness Donna DeRonne. Also, the amount of executive stock grants allocated to Peoples from TECO Energy of $289,975 in the historical test year should be removed, as shown on Exhibit__(HWS-1), Schedule H. (Schultz, DeRonne) (Citizens PODs 36, 37, 49 and 50; Citizens Interrogatories #13 and #31 - supplemental information)

STAFF: No adjustments should be made.

<u>ISSUE 49</u>: **Is the Company's "Other Not Trended" adjustment for Outsourcing Cost in its sales and marketing function reasonable?**

<u>POSITIONS</u>:

PEOPLES: Peoples will accept the Staff's position. (Narzissenfeld, Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: No. Projected expenses in Account 912 - Sales Expense should be reduced by a bare minimum amount of $802,122. A significantly larger reduction may be appropriate. The "Other Not Trended" adjustment for outsourcing costs in the sales and marketing function pertain entirely to projected charges to Peoples from its affiliated company, TECO Partners, Inc. Prior to the historical base year, Peoples' employees performed the marketing and sales function in-house. During 2000, a Peoples' employee went to upper management with a proposal to split off the marketing function from Peoples, purportedly bringing cost reductions to Peoples as a result. According to Peoples, it was indicated at the time of the split-off that the reductions in sales and marketing costs to Peoples in the first year would be 10%, with additional cost reductions thereafter. As a result, beginning in 2001, TECO Partners, Inc. was formed from Peoples employees and Peoples and TECO Partners, Inc. entered a marketing agreement. Under the agreement, the previous Peoples employees provide marketing and sales services under this separate non-regulated entity. Actual expenses in the historical test year in Account 912 - Sales Expense, for charges from TECO Partners, Inc., were $8,149,404. The Company's filing reflects a 3% annual decline in these charges, resulting in the projected test year level of $7,723,586 for charges from TECO Partners, Inc. in Account 912. Total expenses in Account 912 - Sales Expense, in the year 2000 - - the year prior to the split-off of TECO Partners, Inc. - - was only $3,022,421. The Company indicated that sales and marketing expenses were recorded in several other accounts prior to 2001.

No requests for bids were sent out to other outside companies for the provision of the marketing and sales function prior to the entering of the marketing agreement with the affiliate company, nor were any requests for bids sent out thereafter. Neither were any cost/benefit analyses or studies conducted by or for the Company to help determine whether to outsource its sales and marketing function. This would mean that no cost/benefit analyses were conducted by or for the Company prior to deciding to separate its Peoples employees, who were regulated-company employees, to create a nonregulated affiliate and then bill Peoples for receiving the services of its previous employees. According to Peoples, no analysis was even performed to determine how the specific billing amounts and rates contained in the marketing agreement between Peoples and the new, affiliated company would be established.

Even after the reductions to other expense accounts subsequent to the split-off are taken into consideration, the marketing and sales costs to

Peoples have not declined by the 10% purported at the time of the initial split-off. Based on information provided by the Company, 2000 expenses associated with the sales and marketing functions now conducted by TECO Partners, Inc. would have been $8,173,574. The 2001 sales expenses recorded in Account 912 for charges from TECO Partners, Inc. were $8,149,404, which is clearly not a 10% decline in sales and marketing costs. Additional concerns regarding the actual terms of the marketing agreement, along with the overall estimated amount in the marketing agreement, is provided in the Confidential Testimony of Citizens' Witness Donna DeRonne.

The calculation of Citizens' minimum recommended reduction to the projected test year sales and marketing expense to be charged from TECO Partners, Inc. of $802,122 is presented on Exhibit__(DD-1), Schedule C-3. This minimum recommended adjustment is based on a 10% reduction in marketing and sales costs for the first year of the agreement with TECO Partners, Inc., and 3% decreases for each year thereafter. (DeRonne) (Citizens' POD 52 and 63, Staff Audit Document/Record Request No. 18, information faxed from PGS and provided by PGS to Staff)

STAFF: No. Account 912 should be reduced $236,464 to more appropriately reflect the sales and marketing costs for the projected test year 2003.

<u>ISSUE 50</u>: **Should the Commission order a further investigation into the relationship between Peoples and TECO Partners, an affiliated Company?**

<u>**POSITIONS**</u>:

PEOPLES: Peoples agrees with Staff. (Narzissenfeld)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: Yes. The marketing agreement between Peoples and TECO Partners, Inc. does not represent an arms-length transaction. Just prior to entering the agreement, TECO Partners, Inc. was formed with employees of Peoples, thus shifting these sales and marketing employees from Peoples' regulated operations to a newly formed non-regulated entity. These employees would have been trained in sales and marketing, and would have become highly familiar with Peoples' customers, customer base and service territory while employed by Peoples Gas System and while their salaries were effectively being paid by Peoples' ratepayers. That sales and marketing expertise now is not only being charged back essentially to Peoples Gas System, but it is also being used to serve and pursue additional customers for TECO Partners, Inc.

No cost/benefit analysis was performed by or for Peoples prior to separating these employees into a nonregulated affiliate, and no cost/benefit analysis was performed by or for Peoples prior to entering the marketing agreement. This marketing agreement resulted in $8,149,404 of expense recorded on Peoples' regulated books in Account 912 during the historical test year. While Company witness Frank Sivard mentions the outsourcing of the sales and marketing function in his prefiled testimony, he never mentions in that testimony that this sole source was with an affiliated, sister company that essentially was split off from Peoples just before the agreement was entered. Information provided by Peoples with regard to its relationship with the recently formed, affiliated entity has been very little, incomplete, and not fully explanatory. Significant concerns exist with the relationship between Peoples and TECO Partners, Inc., along with concerns regarding the initial formation of TECO Partners, Inc. with Peoples employees. If any costs are allowed in rates for charges from TECO Partners, Inc. to Peoples, Citizens recommend that the Commission order further investigation of the relationship and resulting impact on Peoples' rates and its customers, along with any potential future harm to Peoples' customers as a result of the sales and marketing function no longer being conducted in-house by Peoples with Peoples' own trained employees dedicated to only serving Peoples. (DeRonne)

STAFF: No. If the Commission should deem an investigation be performed, staff believes it would be more appropriate to address this in a separate proceeding.

ISSUE 51: **Stipulated - Category 1, Number 6.**

ISSUE 52: **Is the Company's "Other Not Trended" adjustment for the Customer Retention Program included in Miscellaneous Sales Expense appropriate?**

POSITIONS:

PEOPLES: Peoples will accept the Staff's position. (Grimard, Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: No, it is not. The Company's adjustment to increase expense in Account 916 for the new customer retention program by $250,000 should be removed. The goal of the program is to increase gas appliance penetration to customers who currently have only one gas appliance. The program was developed to reduce customer loss associated with single-appliance customers. The Company has not made an adjustment to projected customer usage for the customers it projects will add additional gas appliances as a result of this program, causing a mismatch between revenues and costs. Projected per-customer usage for the residential class is based on five-year average therms per customer, which have not been increased for the impact of the proposed customer retention program. Additionally, the program would result in savings of approximately $300 per customer retained associated with the cost of removal. These projected savings have not been reflected in the filing. Furthermore, there are significant customer retention incentives in the Marketing Agreement between Peoples and TECO Partners, Inc., whereby TECO Partners, Inc. will perform customer retention services. Thus, there has not been a showing that Peoples should pay its non-regulated affiliate to perform such services and also perform such customer retention programs independently. (DeRonne) (Staff Interrogatory 57)

STAFF: Yes. The customer retention program in Account 916, Miscellaneous Sales Expense is appropriate. However, the $250,000 should be reduced by $100,800, for revenues associated with the additional usage from the added appliances, for a balance of $149,200.

ISSUE 53: **Should an adjustment be made to periodic meter and regulator change-out expense?**

POSITIONS:

PEOPLES: Peoples will accept the Staff's position. (Narzissenfeld)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: No position at this time, pending further development of the record.

STAFF: Yes. Based on a four year average, meter testing expense, Account 893, should be reduced by $52,107.

<u>**ISSUE 54**</u>**:** **Is the Company's "Other Not Trended" adjustments to Account 921 - Office Supplies and Expenses reasonable?**

<u>**POSITIONS**</u>:

PEOPLES: Yes. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: No, it is not. Substantial charges to Peoples from its parent company and affiliated company, TECO Energy and Tampa Electric, are included in Account 921. Charges to Peoples from Tampa Electric should be reduced by a minimum of $1,344,517. Charges to Peoples from TECO Energy should be reduced $730,861. While Citizens have calculated several adjustments to charges from TECO Energy and Tampa Electric, the remaining projected costs from these related entities continues to be a concern due to the lack of supporting information provided by Peoples. For several cost areas, very little information was provided, with little other than one-line descriptions of the costs. The invoices from Tampa Electric to Peoples are summarized and provide only very broad general descriptions of the costs charged. As Tampa Electric has not provided a sufficient level of detail for review by Peoples, the Public Counsel and the Commission Staff, the appropriateness and/or reasonableness of the remaining Tampa Electric charges to Peoples cannot be fully ascertained. Consequently, even larger adjustments than those presented by Citizens to date may be appropriate.

There have been significant fluctuations in the costs charged to Peoples from Tampa Electric in recent years. Total operating charges billed by Tampa Electric to Peoples were $12,429,287 in 1999, $13,067,185 in 2000 and $10,566,311 in the 2001 historical test year. Despite the significant decrease in charges between 2000 and 2001, Peoples projected test year includes an increase in the charges from Tampa Electric. There is no way to determine from the information and work papers provided by the Company why the cost is projected to increase. At a minimum, Citizens are recommending two adjustments to projected charges to Peoples from Tampa Electric for costs in Account 921. First, the difference between the projected 2003 "Other Not Trended" costs in Account 921 and the historical 2001 "Other Not Trended" costs in this account should be removed, reducing projected expense by $325,300. The Company has not provided information justifying this projected cost increase. Second, the base year Tampa Electric charges of $10,566,311 should be reduced by $1,019,217. This adjustment is based on the annualization of the August 2002 year-to-date charges from Tampa Electric, resulting in annualized charges of $9,547,094. The majority of charges from Tampa Electric are recorded in Account 921.

As the Company has refused to this point to provide Tampa Electric variance explanations for the reduction of charges from 2001 to 2002, Citizens are unable to determine whether or not an even larger adjustment is necessary. Furthermore, very little detail has been provided for the actual costs billed to Peoples. Even further adjustments to the August 2002 year-to-date charges from Tampa Electric, which were annualized in Citizens' recommendation, may be appropriate.

Charges from TECO Energy to Peoples should be reduced by $730,861 to remove excessive and inappropriate costs. Exhibit__(HWS-1), Schedule H provides the calculation of the recommended adjustment. The necessary adjustment removes $74,766 of incentive compensation costs allocated from TECO Energy, $159,647 of costs attributed to nonqualified Supplemental Executive Retirement Plan, $289,975 for restricted stock grants, $21,300 for costs identified as "Allocate Stadium Costs/Cent. Celeb.," $10,173 for executive food, and $175,000 identified as "TECO Arena" costs. These excessive costs incurred by TECO Energy should not be funded by Peoples ratepayers and should be removed. (Schultz) (Citizens' Interrogatories 13 and 31)

STAFF: Staff takes no position at this time pending further development of the record.

<u>ISSUE 55</u>: **Is the Company's "Other Not Trended" allocation adjustments to Account 922 - A&G Transferred reasonable?**

<u>POSITIONS</u>:

PEOPLES: Yes. However, the account for the projected test year should be reduced by $3,859 as a result of the adjustment identified in the Company's position on Issue 38. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: Account 922 includes costs charged to other affiliates by Peoples. Several of Citizens' recommended adjustments to O&M expense accounts impacts the amount of billing back to affiliates. Consequently, expenses in O&M Account 922 should be increased by $435,658 to reflect the impact of various Citizens' expense adjustments, including the trending adjustments, on the level of billings to affiliates by Peoples. The calculation of the necessary adjustment is presented on Exhibit__(HWS-

1), Schedule C. This is also discussed in Citizens' Position for Issue 36. (Schultz) (Citizens POD 49 and 50)

STAFF: This is a fallout issue and will be based upon the calculations and decisions of other issues.

<u>ISSUE 56</u>: **Is the Company's "Other Not Trended" adjustment to Account 926 - Pensions and Benefits reasonable?**

<u>POSITIONS</u>:

PEOPLES: No. The adjustment should be increased by $1,607,219 for the projected test year. The primary reasons for the increase are: increases for the projected test year in the costs associated with health insurance (approximately $277,000 based on actual contract rates for 2003); salary savings (over $475,000); and pension (approximately $714,000) and postretirement benefits (approximately $141,000) based on changes in actuarial assumptions provided to the Company after the preparation of the MFRs. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: The Company's "Other Not Trended" adjustment to Account 926-Pensions and Benefits should be reduced to remove the costs associated with the executive stock grants included in the projected test year. The future cost of the stock grants is not known and measurable. The value will be based, in part, on TECO Energy's stock price during 2003, which is not known at this time. Additionally, the executive stock grants are additional compensations for a select few executive employees that are above and beyond the other compensation amounts already included in the filing. The amount of necessary adjustment to remove the executive stock grants is provided in the confidential testimony of Citizens' witness Donna DeRonne. This is also addressed by Citizens in Issue 48. (DeRonne) (Citizens PODs 49 and 50)

STAFF: Staff takes no position at this time pending further development of the record.

ISSUE 57: **Is the Company's "Other Not Trended" adjustment to Account 930 - Miscellaneous General Expenses for natural gas technical research appropriate?**

POSITIONS:

PEOPLES: Peoples will accept Staff's position. (Higgins, Grimard)

FIGU: FIGU takes no position.

AUBURNDALE: No position.

OPC: While the OPC had not previously taken a position on this issue in this case, Citizens are concerned that the amount included in the projected test year for this item -- $500,000 -- is overstated. The actual amounts paid to the Gas Technology Institute by Peoples have declined substantially, from $742,746 in 2000 to $371,966 in 2001. The amount paid in 2002 through mid-October was only $225,470. In 2001, the Company only paid the amount that was mandatory in that period, with no additional voluntary payments. Despite the substantial decline in the amount paid in the projected test period. It would be appropriate to include the amount in base rates for payments to the Gas Technology Institute at the historical test year level of $371,966, which is a $128,034 reduction from the amount included in the Company's filing. (Staff Interrogatory No. 60)

STAFF: Yes. The natural gas research contribution, in Account 930, of $500,000 is appropriate for developing safe and reliable gas service. However, if the contribution on a calendar year basis is not made to an outside research entity, (i.e. not an affiliated entity), the amount that is not contributed will be recorded in Account 254, Other Regulatory Liabilities. If an amount greater than $500,000 on a calendar year basis is contributed, a regulatory asset will not be recorded.

ISSUE 58: **Stipulated - Category 1, Number 7.**

ISSUE 59: **What is the appropriate amount of projected test year O&M Expense?**

POSITIONS:

PEOPLES: This is a fallout issue and will be based upon the calculations and decisions of other issues. (Higgins)

FIGU: Agree with Staff.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decisions of other issues.

OPC: Projected test year O&M expense should be no more than the $51,180,187 presented on Citizens' Exhibit__(DD-1), Schedule C-1. This is $9,266,864 less than the amount included in the Company's filing. Additional adjustments further reducing this O&M expense amount may be appropriate, as addressed in the previous issues, such as Issue 54 pertaining to charges to Peoples from Tampa Electric. (DeRonne, Schultz)

STAFF: This is a fallout issue and will be based upon the calculations and decisions of other issues.

ISSUE 60: **What is the appropriate amount of projected test year Depreciation and Amortization Expense?**

POSITIONS:

PEOPLES: $33,492,099. This amount includes adjustments identified in Peoples' positions on Issues 4 and 10. It also includes $219,125 in additional depreciation expense resulting from the new depreciation rates approved by the Commission's Order No. PSC-02-1492-PAA-GU, Docket No. 010383-GU. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decisions of other issues.

OPC: This is a fallout issue and will be based upon the calculations and decisions of other issues, and the results of the implementation of the new depreciation rates ultimately adopted by the Commission in the Company's on-going depreciation case, Docket No. 010383-GU.

STAFF: This is a fallout issue and will be based upon the calculations and decisions of other issues, and the results of the implementation of the new depreciation rates pursuant to Order No. PSC-02-1492-PAA-GU.

ISSUE 61: **What is the appropriate amount of Taxes Other Than Income Taxes?**

POSITIONS:

PEOPLES: $9,523,357. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decision of other issues.

OPC: Citizens' recommended taxes other than income taxes is $9,348,769, as presented on Exhibit__(DD-1), Schedule C-1. (Schultz, DeRonne)

STAFF: To reflect the change in the inflation rate from 2.66% to 2.00%, staff recommends a decrease of $11,004 for 2003. Also, to reflect the adjustment to non-utility plant, property taxes will decrease by $13,504 and $26,362 for 2001 and 2003, respectively. In addition, other adjustments may be necessary to reflect any adjustments to plant in service, payroll and/or revenue accounts.

<u>ISSUE 62</u>: **What is the appropriate Income Tax Expense, including current and deferred income taxes, ITC amortization, and interest synchronization?**

<u>POSITIONS</u>:

PEOPLES: This is a fallout issue. However, if any change is made in this case in the common equity component of the Company's capital structure as set forth in the MFRs as filed, the parent debt adjustment required by Commission Rule 25-14.004 must be recalculated. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decisions of other issues.

OPC: The appropriate income tax expense is a fall-out calculation from the resolution of other issues. Citizens' initial position in the prefiled testimony is that income tax expense, including current and deferred income taxes, ITC amortization and interest synchronization, should be $14,242,388. However, any additional reductions to projected expenses beyond those included in

Exhibit__(DD-1) would also impact income tax expense. Citizens' recommended interest synchronization is a reduction to income tax expense of $348,391 based on Citizens' recommended rate base and weighted cost of debt. (DeRonne)

STAFF: This is a fallout issue and will be based upon the calculations and decisions of other issues.

<u>ISSUE 63</u>: What is the appropriate level of Total Operating Expenses for the projected test year?

<u>POSITIONS</u>:

PEOPLES: This is a fallout calculation and will be based on the calculations and decisions on other issues. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decisions of other issues.

OPC: The appropriate Total Operating Expenses is a fall-out calculation from the resolution of other issues. Total Operating Expenses should be no more than the $108,230,973 included on Exhibit__(DD-1), Schedule C-1. However, any additional reductions to projected expenses beyond those included in Exhibit__(DD-1), such as additional adjustments for projected payments to the Gas Technology Institute (Issue 57) and charges from Tampa Electric (Issue 54), would further reduce this amount.

STAFF: This is a fallout issue and will be based upon the calculations and decisions of other issues.

ISSUE 64: **What is the appropriate amount of projected test year Net Operating Income?**

POSITIONS:

PEOPLES: This is a fallout issue and will be based upon the calculations and decisions of other issues. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decisions of other issues.

OPC: The appropriate projected test year Net Operating Income is a minimum of $43,662,224, as presented on Exhibit__(DD-1), Schedule C-1. Additional reductions to projected expenses may be appropriate, as discussed in the other issues such as Issues 54 and 57, causing the projected net operating income to increase further.

STAFF: This is a fallout issue and will be based upon the calculations and decisions of other issues.

ISSUE 65: **Stipulated - Category 4, Number 1.**

ISSUE 66: **What is the appropriate projected test year revenue deficiency?**

POSITIONS:

PEOPLES: This is a fallout issue and will be based upon the calculations and decisions of other issues. (Higgins)

FIGU: FIGU takes no position.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decisions of other issues.

OPC: The appropriate projected test year revenue <u>sufficiency</u> is a minimum of $6,192,631. In other words, Citizens recommend that Peoples' rates be reduced by a minimum of $6,192,631. An even larger reduction may be appropriate based on the resolution of other issues.

STAFF: This is a fallout issue and will be based upon the calculations and decisions of other issues.

<u>ISSUE 67</u>: **Should any portion of the $1,461,000 interim increase granted by Order No. PSC-02-1227-FOF-GU, issued September 9, 2002, be refunded to customers?**

<u>POSITIONS</u>:

PEOPLES: No. (Narzissenfeld)

FIGU: Yes, that portion collected from consumers from whom no rate increase is requested.

AUBURNDALE: This is a fallout issue and will be based upon the calculations and decisions of other issues.

OPC: Yes. The amount of refund should be calculated in accordance with the criteria set forth in Section 366.071, Florida Statutes (2001).

STAFF: This is a fallout issue and will be based upon the calculations and decisions of other issues.

<u>ISSUE 68</u>: **Stipulated - Category 1, Number 5.**

<u>RATE DESIGN AND COST OF SERVICE</u>

<u>ISSUE 69</u>: **Stipulated - Category 6, Number 5.**

<u>ISSUE 70</u>: **Stipulated - Category 6, Number 6.**

<u>ISSUE 71</u>: **If the Commission grants a revenue increase to Peoples, how should the increase be allocated to the rate classes?**

<u>POSITIONS</u>:

PEOPLES: The revenue increase granted should be allocated to the rate classes proposed by Peoples based on the cost to serve each rate class, giving consideration, however, to economic and competitive conditions, rate history, value of service, consumption and load profile. (Grimard)

FIGU: FIGU accepts Peoples' allocation.

AUBURNDALE: Agree with Peoples' position as stated above.

OPC: No position.

STAFF: The increase should be spread to the rate classes in a manner that moves class rate of return indices towards parity, based upon the Commission-approved cost of service study, and taking into account the resulting rate impact on all rate classes.

<u>ISSUE 72</u>: **Stipulated - Category 3, Number 6.**

<u>ISSUE 73</u>: **Stipulated - Category 3, Number 7.**

<u>ISSUE 74</u>: **Stipulated - Category 2, Number 7.**

<u>ISSUE 75</u>: **Stipulated - Category 6, Number 1.**

<u>ISSUE 76</u>: **Stipulated - Category 2, Number 3.**

<u>ISSUE 77</u>: **Stipulated - Category 6, Number 2.**

<u>ISSUE 78</u>: **Stipulated - Category 6, Number 3.**

<u>ISSUE 79</u>: **Stipulated - Category 2, Number 4.**

<u>ISSUE 80</u>: **Stipulated - Category 2, Number 5.**

<u>ISSUE 81</u>: **Is Peoples' proposed new credit card use charge appropriate?**

PEOPLES: Peoples agrees with Staff. (Grimard)

FIGU: FIGU takes no position.

AUBURNDALE: Agree with Staff's proposed stipulation.

OPC: If the proposed new credit card use charge is approved, then historical test year expenses should be reduced by $230,684 to remove the impact of such costs from the revenue requirement calculation. See Citizens' Position for Issue 29. (DeRonne)

STAFF: Yes. The charge of 3.5% of the billed amount is cost-based, and appropriately recovers the additional costs of credit card transactions from those customers who opt to pay by credit card.

<u>ISSUE 82</u>: **Stipulated - Category 2, Number 6.**

<u>ISSUE 83</u>: **Stipulated - Category 3, Number 8.**

<u>ISSUE 84</u>: **Stipulated - Category 2, Number 1.**

<u>ISSUE 85</u>: **Stipulated - Category 2, Number 2.**

<u>ISSUE 86</u>: Are Peoples' proposed changes to the Correction of Imbalances provision of its Individual Transportation Rider appropriate?

<u>POSITIONS</u>:

PEOPLES: Peoples agrees with Staff. (Grimard)

FIGU: Agree with Staff.

AUBURNDALE: Agree with Staff.

OPC: No position at this time.

STAFF: Yes.

<u>ISSUE 87</u>: **Stipulated - Category 6, Number 4.**

IX. <u>EXHIBIT LIST</u>

Witness	Proffered By	I.D. No.	Description
Direct			
Francis J. Sivard	Peoples	FJS-1	Calculated Average Return on Capital (12/31/2003)
Bruce Narzissenfeld	Peoples	BNN-1	MFR Schedules Sponsored by Bruce Narzissenfeld
J. Paul Higgins	Peoples	JPH-1	MFR Schedules sponsored by J. Paul Higgins
Roger A. Morin	Peoples	RAM-1	Resume
Roger A. Morin	Peoples	RAM-2	Natural Gas Distribution Utilities Beta Risk Measures

Witness	Proffered By	I.D. No.	Description
Roger A. Morin	Peoples	RAM-3	Moody's Natural Gas Distribution Common Stocks Over Long-Term Treasury Bonds-Annual Long-Term Risk Premium Analysis
Roger A. Morin	Peoples	RAM-4	Natural Gas Distribution Utilities DCF Analysis: Analysts' Growth Forecasts and Value Line Growth Projections
Roger A. Morin	Peoples	RAM-5	Investment Grade Combination Gas & Elec. Utilities-DCF Analysis: Analysts Growth Forecasts and Value Line Growth Projections
Wraye J. Grimard	Peoples	WJG-1	MFR Schedules sponsored by Wraye J. Grimard

Witness	Proffered By	I.D. No.	Description
Wraye J. Grimard	Peoples	WJG-2	Breakdown of pipeline mains by construction material and inside diameter
Donna DeRonne	OPC	DD-1	Schedules of Donna DeRonne
Helmuth W. Schultz, III	OPC	HWS-1	Schedules A-H
Helmuth W. Schultz, III	OPC	HWS-2	Projected Test Year Ended December 31, 2003 Analysis of Customer Growth
Mark A. Cicchetti	OPC	MAC-1	Experience and Qualifications
Mark A. Cicchetti	OPC	MAC-2	Economic Statistics
Mark A. Cicchetti	OPC	MAC-3	Equity Ratio Comparisons
Mark A. Cicchetti	OPC	MAC-4	Standard & Poor's Ratio Guidelines
Mark A. Cicchetti	OPC	MAC-5	Moody's Natural Gas Index Investment Characteristics

Witness	Proffered By	I.D. No.	Description
Mark A. Cicchetti	OPC	MAC-6	Two-Stage, Annually Compounded Discounted Cash Flow Model
Mark A. Cicchetti	OPC	MAC-7	Risk Premium Analysis
Mark A. Cicchetti	OPC	MAC-8	Risk Premium Analysis Results
Mark A. Cicchetti	OPC	MAC-9	Summary of Results
Mark A. Cicchetti	OPC	MAC-10	Capital Structure
Roger W. Fletcher	Staff	RWF-1	Engineering Evaluation, Vol. 1
Roger W. Fletcher	Staff	RWF-2	Engineering Evaluation, Vol. 2
Joseph W. Rohrbacher	Staff	JWR-1	Audit Report
Rebuttal			
Bruce Narzissenfeld	Peoples	BNN-2	Additional Accumulated Deferred Income Taxes-Revised Depreciation Projections

Witness	Proffered By	I.D. No.	Description
Bruce Narzissenfeld	Peoples	BNN-3	Towers Perrin Letter Report (2002 Long-Term Incentive Strategy and Grant Guidelines)
Bruce Narzissenfeld	Peoples	BNN-4	Marketing Department Expenses
Bruce Narzissenfeld	Peoples	BNN-5	South Florida Regional Office Building Removal as Proposed by Staff Witness Fletcher
J. Paul Higgins	Peoples	JPH-2	Revised Projection of Plant Additions
J. Paul Higgins	Peoples	JPH-3	Analysis of Account 921 Projected Test Year 2003
J. Paul Higgins	Peoples	JPH-4	Calculation of Bad Debt Factor
J. Paul Higgins	Peoples	JPH-5	Surveys Used to Perform Job Evaluations for 2001

Witness	Proffered By	I.D. No.	Description
J. Paul Higgins	Peoples	JPH-6	Revised MFR Schedule G-2 Page 23 of 31 with rates proposed by PSC in Deprec. Study
Wraye J. Grimard	Peoples	WJG-3	Off System Sales

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

X. PROPOSED STIPULATIONS

Category One Stipulations

Those stipulations to which Peoples, Staff, and FIGU agree, and on which other parties take no position are set forth below:

1. The projected customer growth and therm forecasts by rate class contained in MFR Schedule G-2, pages 6a through 8d are appropriate. (Issue 3)

2. Peoples properly removed $96,037,188 in PGA revenues, $95,556,775 in gas costs and $480,413 in revenue related taxes from the projected test year. (Issue 27)

3. Since Peoples did not include conservation revenues, expenses or taxes - other in the projected test period no adjustment is necessary. (Issue 28)

4. The $346,466 gain on the sale of property located at 2951 SW 1st Terrace in Ft. Lauderdale should be amortized over 4 years beginning January 1, 2003, or a reduction in operating expenses of $86,617. In addition, working capital should be reduced $303,157. All future gains or

losses on the disposition of utility plant should be amortized over 4 years. (Issue 33)

5. Peoples should be required to submit, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its future annual reports, rate of return reports, published financial statements, and books and records that will be required as a result of the Commission's findings in this rate case. (Issue 68)

6. Account 931 Rents for 2001 should be reduced $22,636 and $23,550 in the projected 2003 test year to remove rent on facilities which have been replaced with Company owned facilities. In addition, Account 931 Rents should be increased $67,865 to reflect rent on the Company's South Florida Region Office. The net effect of these adjustments is to increase Account 931 $44,315 for the projected 2003 test year. (Issue 51)

7. Peoples should continue to accrue $640,000 annually and continue to use reserve accounting to recover the estimated clean-up costs as ordered by the Commission in Docket No. 980434-GU by Order No. PSC-98-0739-FOF-GU, issued May 28, 1998. (Issue 58)

Category Two Stipulations

Those stipulations to which Peoples, Staff, and Auburndale agree, and on which other parties take no position are set forth below:

1. Peoples' revised rates and charges should become effective for meter readings made on or after 30 days from the date of the final Commission vote approving the rates and charges. (Issue 84)

2. The proposed change to the definition of Weighted Average Cost of Capacity contained in Peoples' Individual Transportation Service Rider is appropriate, providing the underlying mathematical calculation used to derive the weighted average cost of capacity will change only

with respect to the addition, deletion, or modification of the respective interstate pipeline tariffs or firm capacity agreements between Peoples and interstate pipeline companies. (Issue 85)

3. The appropriate per therm Distribution Charges are a fallout issue and will be based upon the calculations and decisions of other issues. (Issue 76)

4. Peoples' proposal to collect the monthly Interruptible Transportation service administration fee on a per-meter basis is appropriate. (Issue 79)

5. Peoples' proposed new temporary turn-off charge is appropriate. The $25.00 charge is cost-based and recovers the additional costs caused by those customers who have their service turned off temporarily. (Issue 80)

6. Peoples' proposed new failed trip charge is appropriate. The proposed $15.00 charge is cost-based and recovers the costs caused by customers who fail to keep a scheduled appointment with the company's employee, agent or representative. (Issue 82)

7.

Initial Connection - Residential	$35.00 initial, $15.00 for each addnl. meter
Initial Connection - Commercial	$75.00 initial, $15.00 for each addnl. meter
Reconnection - Residential	$60.00 initial, $15.00 for each addnl. meter
Reconnection - Commercial	$100.00 initial, $15.00 for each addnl. meter
Collection in Lieu of Disconnect	$20.00
Change of Account	$20.00
Pool Manager Termination Fee	$30.00
Returned Check Charge	the greater of 5% or $25.00

Pool Manager History Charge	$20.00
Pool Administration Charge	$142.00 + $0.91 per account
ITS Administration Charge	$44.00 per meter

Temporary Disconnect Charge-Addressed in Issue 80
Failed Trip Charge-Addressed in Issue 82
Payment by Credit Card Charge-Addressed in Issue 81
(Issue 74)

Category Three Stipulations

Those stipulations to which Peoples and Staff agree, and on which other parties take no position are set forth below:

1. The trend rates contained in MFR Schedule G-2, page 231 should be adjusted to reflect OPC's CPI Inflation trend factor of 2 percent for 2002 and 2003. Adoption of this change impacts the Inflation Only and the Customer Growth X Inflation trend factors. Note that this stipulation pertains only to the appropriateness of the trend factors themselves. The appropriateness of the application of these trend factors is addressed in Issue 35. This change results in the following trend factors: (Issue34)

Trend Rates	2002	2003
Payroll Only	3.00%	3.00%
Customer Growth X Pay Change	7.63%	8.09%
Customer Growth X Inflation	6.59%	7.04%
Inflation Only	2.00%	2.00%
Customer Growth	4.50%	4.94%

2. The purpose of the test year is to represent the financial operations of a company during the period in which the new rates will be in effect. With the inclusion of appropriate adjustments in this rate proceeding, the historical base year ended December 31, 2001, and the projected test year ending December 31, 2003, are appropriate as they will represent the period in which rates will be in effect. (Issue 2)

3. Rate base should not be reduced to remove inactive service lines that have been inactive for more than five years. Peoples' test year projected retirements recognize the on-going retirement of inactive service lines in accord with Rule 25-12.045, Florida Administrative Code. (Issue 8)

4. FAS 109 has been appropriately reflected in the capital structure, such that it is revenue neutral. (Issue 24)

5. The company inadvertently failed to increase its projected test year 2003 postage costs for customer growth. The other not trended portion of Account 903 Customer Records and Collection Expenses should be increased by $53,436 to correctly reflect the increase in postage costs due to the increase in customer growth. (Issue 46)

6. Peoples' proposal to apply uniform rates and service charges to all customers, including customers formerly served by West Florida Gas, is appropriate. (Issue 72)

7. Any increase in rates for the customers of the former West Florida Natural Gas Company should not be phased in over several years. (Issue 73)

8. Peoples' proposed change to the definition of Maximum Allowable Construction Cost is not appropriate. (Issue 83)

9. Plant, Accumulated Depreciation, and Depreciation Expense should be reduced $257,628, $24,813 and $7,100 respectively for the projected 2003 test year, to reflect non-utility operations. (Issue 10)

10. Miscellaneous Current Liabilities, Account 242, should be increased by $113,966, which reduces working capital $113,966 for the 2003 projected test year. (Issue 16)

Category Four Stipulations

Those stipulations to which Peoples, Staff, and OPC agree, and on which other parties take no position are set forth below:

1. The appropriate revenue expansion factor to be used in calculating the revenue deficiency is 1.6429 after reducing the Bad Debt component from .4429% to .4027%. (Issue 65)

2. For the historical base year 2001, the following accounts reflect the non-allowable portion of economic development expenses. After trending the following accounts, the projected test year 2003 should be reduced for the non-allowable portion of economic development expenses in accordance with Commission Rule 25-7.042, Florida Administrative Code. (Issue 45)

Account	2001	2003
912 Demo. and Selling	$4,033	$4,692
913 Advertising Exp.	$1,618	$1,683
930 Misc. General	$1,941	$2,019

3. Working capital should be reduced $151,738 to reflect materials and supplies inventory reductions resulting from strategic alliances and actual 2002 reductions. (Issue 14)

4. An adjustment to test year Plant in Service for meters and regulators to reflect cost savings related to strategic alliances are ($246,609) and ($13,112) respectively. Additionally, adjustments to Accumulated Depreciation and Depreciation Expense should be made. (Issue 9)

5. For the historical base year 2001, the following accounts reflect charitable contributions. After trending the following accounts, the projected test year 2003 should be reduced to remove charitable contributions. (Issue 42)

Account	2001	2003
912 Demo. and Selling	$14,335	$16,677

913 Adv. Expenses	$30,870	$32,117
930 Misc. General	$145	$151

6. For the historical base year 2001, the following accounts reflect image building advertising expenses. After trending the following accounts, the projected test year 2003 should be reduced to remove image building advertising. (Issue 43)

Account	2001	2003
912 Demo. and Selling	$15,168	$17,646
913 Advertising Exp.	$32,650	$33,969

7. The following adjustments should be made to the historical base year 2001 and the projected 2003 test year to reflect non-utility operations.

ACCOUNT	2001	2003
886 Maint. Of Struct. & Improv.	$ 5,938	$ 6,598
912 Demonstrating & Selling Exp.	$20,733	$24,120
913 Advertising Expense	$34,345	$36,196
932 Maint. of General Plant	$23,957	$27,081

(Issue 37)

<u>Category Five Stipulations</u>

Those stipulations to which Peoples, Staff, OPC, and FIGU agree, and on which Auburndale takes no position are set forth below:

1. Conservation overrecoveries should be included in working capital, which results in a $252,865 reduction in working capital. (Issue 15)

2. Revenues should be increased $75,485 to correct for a mathematical error in calculating revenues, which resulted in an understatement in projected 2003 test year revenues. (Issue 30)

3. Bad Debt Expense, Account 904, for the projected 2003 test year should be reduced $633,606 to reflect a 4 year

average of net write-off's as a percent of revenues, excluding off system sales. (Issue 41)

4. Based on Audit Disclosure No. 6 in the Staff Audit Report, Account 921 should be reduced $17,253 to remove employee dinners and Account 926 should be reduced $10,190 for tuition reimbursement for non-Peoples employees in 2001 expenses. Account 921 should be reduced $19,685 and Account 926 should be reduced $11,626 in the projected 2003 test year after application of the trend factors. (Issue 44)

5. For the historical base year 2001, Account 930 Miscellaneous General Expenses reflects $9,039 in lobbying expenses included in the Florida Natural Gas Association membership dues. After trending, the projected test year 2003 should be reduced $9,404 to remove lobbying expenses. (Issue 39)

Category Six Stipulations

Those stipulations to which Peoples, Staff, FIGU, and Auburndale agree, and on which OPC takes no position are set forth below:

1. The appropriate Customer Charges are: (Issue 75)

Residential Service	$ 10.00
Small General Service	$ 20.00
General Service 1	$ 30.00
General Service 2	$ 35.00
General Service 3	$ 45.00
General Service 4	$ 85.00
General Service 5	$150.00
Small Interruptible Service	$150.00
Interruptible Service	$225.00
Interruptible Service Lg. Volume	$225.00
Natural Gas Vehicle Service	$ 35.00
Wholesale Service	$100.00

2. Peoples' proposal to combine the customer classes and riders of its West Florida and non-West Florida divisions

into uniform rates for the entire company, and to restructure its rates in order to group customers based on their load profiles and usage characteristics is appropriate. (Issue 77)

3. Peoples' proposed methodology for billing interruptible customers for excess gas taken during a period of interruption is appropriate. (Issue 78)

4. This docket should be closed after the Commission has issued its final order and the time for filing an appeal has expired. (Issue 87)

5. The appropriate revenues at present rates for the projected test year are reflected in the revised MFR Schedule H-1 submitted by Peoples in response to Staff's Interrogatory No. 125. The revised H-1 Schedule includes approximately $75,485 in interruptible service revenues attributable to the West Florida Division that were inadvertently omitted in the original filing. (Issue 69)

6. The appropriate cost of service methodology is contained in Peoples' MFR Schedule H, adjusted for the following:

    a. The Commission vote affecting the total revenue requirement granted Peoples, including rate base, expenses, and net operating income.

    b. The corrections to Revenues at Present Rates for the projected test year reflected in Peoples' Response to Staff Interrogatory No. 125.

    c. The classification of Construction work in Progress into Customer and Capacity components should be made based on the same proportions with which total distribution plant is classified.

    d. The classification of Account 880 - Other Expenses should be corrected to reflect the same proportionate classification as that used for Account No. 387.

e. The classification of Account No. 894 - Maintenance of Other Equipment should be corrected to reflect the same proportionate classification as that used for Account No. 387.
(Issue 70)

XI. PENDING MOTIONS

There are no pending motions.

XII. PENDING CONFIDENTIALITY MATTERS

There are no pending confidentiality matters.

XIII. RULINGS

Opening statements, if any, shall not exceed ten minutes per party.

It is therefore,

ORDERED by Commissioner Braulio L. Baez, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Braulio L. Baez, as Prehearing Officer, this 6th day of December, 2002.

FOR BAEZ.
BRAULIO L. BAEZ
Commissioner and Prehearing Officer

(S E A L)

AEV

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.