



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: May 12, 2003
TO: Kay Flynn, Division of the Commission Clerk & Administrative Services
FROM: John Slemkewicz, Division of Economic Regulation JS
RE: Docket No. 020384-GU - Peoples Gas System Rate Case - Document for Docket File

Attached is an original four page document (and a copy) that was filed by Peoples Gas System in the above referenced docket subsequent to its closing. This document was filed pursuant to an ordering paragraph in Order No. PSC-03-0038-FOF-GU, issued January 6, 2003.

Please include this document in the docket file and have it scanned.

RECEIVED FPSC
MAY 13 AM 9:14
COMMISSION
CLERK

cc: Dale Mailhot (w/o attachment)
Ruth Nettles (w/o attachment)

- AUS _____
- CAF _____
- CMP _____
- COM _____
- CTR _____
- ECR _____
- GCL _____
- OPC _____
- MMS _____
- SEC I
- OTH _____

DOCUMENT NUMBER DATE

04259 MAY 13 03

FPSC-COMMISSION CLERK



03 MAR 31 AM 10:17
ECONOMIC REGULATION
PUBLIC SERVICE

March 24, 2003

Mr. Timothy J. Devlin, Director
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oaks Boulevard
Tallahassee, Florida 32399-0865

Re: Docket No. 020384-GU – Petition for rate increase by Peoples Gas System
Order No. PSC-03-0038-FOF-GU

Dear Mr. Devlin:

On January 6, 2003, the Florida Public Service Commission issued the above-noted Final Order in the recently concluded rate case for Peoples Gas System. Page 19 of this FPSC Order states:

ORDERED that Peoples Gas System shall submit, within 90 days of the issuance date of this Order, a description of all entries or adjustments to its future annual reports, rate of return reports, published financial statements, and books and records that are required as a result of this Order.

The following is a written description of all such changes. This document will discuss first items for which changes to the books and records of the Company have been or will be made. It will then discuss items that will require adjustments to the rate of return reports filed monthly with the Commission (“surveillance reports”). In both cases, specific items mentioned in the Order are grouped into the broad categories used in the Order.

I. Changes to Books and Records

The following represent changes that have been or will be made to the books and records of the Company. The term “books and records” is meant to encompass annual reports, financial statements, and accounting information systems of the Company.

Rate Base

1. New depreciation rates – although technically the result of a separate docket, the Company will adjust its depreciation rates pursuant to Order No. PSC-02-1492-PAA-GU, effective for 2003.
2. Miscellaneous current liabilities – this adjustment to working capital in the rate case related to two specific liability accounts. In both cases, these non-utility accounts have been closed out or written off the Company’s books. Accordingly, no adjustment is necessary in future surveillance reports.

Cost of Capital – no adjustments to books or records required

Net Operating Income

1. **Off-system sales** – effective January 16, 2003, the sharing mechanism for off-system sales will be changed from 50/50 to 25/75 (Company/Purchased Gas Adjustment).
2. **Non-utility operations, charitable contributions, and image-building advertising** – during the course of the rate case audit, certain expenses were discovered that were considered to be inappropriate to include in “above the line” expenses and NOI. These expenses primarily involved accounts 912 and 913. Subsequent to the rate case, the Company changed its policy regarding the recording of these types of expenses. These expenses will now be charged to account 426, a “below the line” account not considered for rate-making purposes. As a result, no surveillance report adjustments will be required for these types of expenses.
3. **Rate case expense amortization** – rate case expenses will be amortized over a 4-year period as specified in the Order, beginning in 2003.
4. **Employee activities** – in Audit Disclosure No. 6 in the Staff Audit Report, a finding was made regarding tuition reimbursement for non-Peoples Gas System employees. The Company has since changed its accounting for these expenditures to directly charge the applicable affiliated company for tuition reimbursement related to its employees. Accordingly, no surveillance report adjustment is necessary.
5. **Natural gas research** – natural gas research expenses in the amount of \$500,000 annually were approved in the Rate Order. However, in any years that an amount less than \$500,000 is contributed, the amount that is not contributed will be recorded in account 254, Other Regulatory Liabilities. The Company will change its accounting for such expenditures to record such a liability in the event that expenses are lower than the specified amount. Any overpayments, however, will not result in the recording of a regulatory asset.

Revenue Requirements - no adjustments to books or records required

Rate Design and Cost of Service

1. **Rates and charges** – effective January 16, 2003, the Company’s billing system was changed to reflect the changes to rates and charges as specified in the Rate Order.

II. Changes to Surveillance Reports

The following represents changes that will be made in future earnings surveillance reports. Although these are changes from the previous surveillance report filings, these changes will not necessarily be updated on a monthly basis in all cases. Judgment and availability of resources and information will prevail in terms of how often certain surveillance report adjustments are changed, recalculated, etc.

Rate Base

1. Non-utility operations – surveillance reports will be updated with more current information reflecting non-utility adjustments to Plant in Service made in the rate case. In addition, depreciation expense will be adjusted accordingly.
2. Conservation over-recoveries – working capital calculation will be changed to include over-recoveries (credits). Under-recoveries (debits) will continue to be excluded from working capital.
3. Unamortized rate case expense – an adjustment will be made to remove the unamortized portion of rate case expense from working capital.

Cost of Capital

1. Pro rata adjustments – in all future surveillance reports, pro rata adjustments will be made over Staff-defined “investor sources” which currently include only common equity, preferred stock, short-term debt, and long-term debt.

Net Operating Income

1. Gain on sale of property – beginning in 2003, an adjustment will be made to the surveillance report to reflect amortization of the gain on sale over a 4-year period. In addition, working capital will be reduced for the 13-month average remaining unamortized gain on sale until such time as the gain is fully amortized. Finally, all future gains or losses on the disposition of utility plant will be amortized over 4 years.
2. Non-utility operations – surveillance report adjustments will be made for accounts 886 (Maintenance of Structures and Improvements) and 932 (Maintenance of General Plant) to reflect non-utility operations. See “changes to books and records” section above regarding accounts 912 and 913, which will not require surveillance report adjustments.
3. Intercompany adjustment – an adjustment will be made for certain expenses that are allocated from the parent company as determined during the rate case.
4. Lobbying expenses – the Company’s surveillance report adjustment for lobbying expenses, previously made only to include a portion of AGA dues, will be increased to also reflect a portion of FNGA dues determined during the rate case to be related to lobbying activities.
5. Employee activities – in addition to the adjustment identified by the Company in its MFRs, a surveillance report adjustment will be made to reflect the findings identified in Audit Disclosure No. 6 in the Staff Audit Report related to employee dinners.
6. Economic development expenses – the Company will include an adjustment to reflect the non-allowable portion of economic development expenses in future surveillance reports. To facilitate this adjustment, the Company has set up a new general ledger account to track such expenses.
7. Non-utility taxes other than income – the Company will include an adjustment to taxes other than income to reflect a portion of such taxes that are related to non-utility plant.
8. Parent debt adjustment – the Company does not agree with the appropriateness of this adjustment. The Company will, however, include an adjustment to reflect the impact on income tax expense of any parent company debt that may have been invested in equity of the utility to be consistent with the treatment in the rate case.

Mr. Timothy J. Devlin
March 24, 2003
Page 4

Revenue Requirements - no adjustments to surveillance reports required

Rate Design and Cost of Service - no adjustments to surveillance reports required

If you have any questions, please don't hesitate to call.

Sincerely,

A handwritten signature in cursive script that reads "Francis J. Sivad". The signature is written in black ink and is positioned above the printed name and title.

Francis J. Sivad
Vice President – Accounting & Regulatory

cc: Ansley Watson, Jr.
Paul Higgins
Bruce Narzissenfeld