Ruth Nettles

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Sent: Friday, February 13, 2009 4:29 PM
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Subject: Docket No. 080318-GU
Attachments: 080318-PGS Prehearing Statement.doc

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b. Docket No. 080318-GU – Petition for rate increase by Peoples Gas System

c. Peoples Gas System

d. 26 pages

e. The attached document is Peoples' Prehearing Statement in the above docket.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Peoples Gas System.	)))	DOCKET NO. 080318-GU Filed: 2-13-09

PEOPLES GAS SYSTEM'S
PREHEARING STATEMENT

Pursuant to Order No. PSC-08-0555-PCO-GU, establishing the prehearing procedure in this docket, Peoples Gas System ("PGS"), by its undersigned attorneys, submits the following Prehearing Statement for the hearing scheduled to be held in the above docket March 4-6, 2009.

A. APPEARANCES

ANSLEY WATSON, JR., Macfarlane Ferguson & McMullen, P. O. Box 1531, Tampa, Florida 33601, and JAMES D. BEASLEY, Ausley & McMullen, P. O. Box 391, Tallahassee, Florida 32302
On behalf of Peoples Gas System (PGS)

B. WITNESSES

Witness	Subject Matter	Issues #
Direct		
William N. Cantrell	Overview	3
Gordon L. Gillette	Capital structure, financial integrity and parent debt adjustment	15, 20, 39
Donald A. Murry, Ph.D.	Cost of capital and return on equity	14, 20
Donna W. Hobkirk	Utility plant, non-utility allocations and depreciation expense	5, 7-10, 42
Bruce Narzissenfeld	Capital expenditures	4, 5
Alan D. Felsenthal	Income taxes	18, 19, 40
Richard F. Wall	Miscellaneous Service Charges	51
Susan C. Richards	Customer, consumption and revenue forecasts	2, 21, 22, 24, 47

J. Paul Higgins	O&M benchmark calculation, O&M budget and MFRs, recovery of bad debt expense, storm damage reserve, off-system sales and revenue requirements calculation	1, 8, 11-13, 15-20, 22, 23, 25-38, 41, 43-46, 57, 58
Daniel P. Yardley	Cost of service study and rate design	48, 49-50, 52, 53
Lewis M. Binswanger	Gas System Reliability Rider and Carbon Reduction Rider	6, 23, 54-56
Kandi M. Floyd	New tariff sheets and non-rate tariff changes	
<u>Rebuttal</u>		
Bruce Narzissenfeld	Capital expenditures, Plant In Service	4, 5
Donald A. Murry, Ph.D.	Cost of capital and return on equity	14, 20
J. Paul Higgins	Recovery of bad debt expense, incentive compensation, directors and officers insurance expense, TECO Energy allocated expenses, sales and marketing expense, rate case expense, payroll expense, storm damage reserve, employee benefits expense and short-term debt rate	17, 28-31, 32, 34-37
Lewis M. Binswanger	Gas System Reliability Rider, Carbon Reduction Rider and Off-System Sales	23, 33, 54, 55

C. EXHIBITS

Exhibit	Witness	Description
		Composite Notice Exhibit
		Tariff Sheets

______ (PGS-1)	Various	MFR Schedules
______ (WNC-1)	Cantrell	Map of PGS Service Areas
______ (WNC-2)	Cantrell	Map of Interstate Pipelines in Florida
______ (WNC-3)	Cantrell	Executive Summary of Black & Veatch Study on Direct Use of Natural Gas
______ (DAM-1)	Murry	Real GDP Consensus Forecast
______ (DAM-2)	Murry	Comparison of Selected Bond Yields
______ (DAM-3)	Murry	Blue Chip Treasury Forecasts
______ (DAM-4)	Murry	Value Line Interest Rates and Forecasts (2003-2013)
______ (DAM-5)	Murry	PGS Proposed Capital Structure as of December 31, 2009
______ (DAM-6)	Murry	Comparable Gas Companies - Comparison of Common Equity Ratios
______ (DAM-7)	Murry	Comparable Gas Companies - Comparison of Financial Strength and Bond Ratings
______ (DAM-8)	Murry	Comparable Gas Companies - Comparison of Value Line's Safety and Timeliness Rank
______ (DAM-9)	Murry	Comparable Gas Companies - Comparison of Returns on Common Equity
______ (DAM-10)	Murry	Comparable Gas Companies - Comparison of Declared Dividends

_______ (DAM-11)	Murry	Comparable Gas Companies - Comparison of Dividend Payout Ratios
_______ (DAM-12)	Murry	Comparable Gas Companies - Comparison of Average Annual Price-Earnings Ratios
_______ (DAM-13)	Murry	Comparable Gas Companies - Discounted Cash Flow Growth Rate Summary
_______ (DAM-14)	Murry	Comparable Gas Companies - Dividend Growth Rate DCF Using Current Share Prices
_______ (DAM-15)	Murry	Comparable Gas Companies - Dividend Growth Rate DCF Using 52-Week Share Prices
_______ (DAM-16)	Murry	Comparable Gas Companies - Earnings Growth Rate DCF Using Current Share Prices
_______ (DAM-17)	Murry	Comparable Gas Companies - Earnings Growth Rate DCF Using 52-Week Share Prices
_______ (DAM-18)	Murry	Comparable Gas Companies - Projected Growth Rate DCF Using Current Share Prices
_______ (DAM-19)	Murry	Comparable Gas Companies - Projected Growth Rate DCF Using 52-Week Share Prices
_______ (DAM-20)	Murry	Ibbotson Example Size Premium Calculation
_______ (DAM-21)	Murry	Comparable Gas Companies - Size Adjusted Capital Asset Pricing Model
_______ (DAM-22)	Murry	Comparable Gas Companies - Historical Capital Asset Pricing Model
_______ (DAM-23)	Murry	Comparable Gas Companies - Summary of Financial Analysis

_______ (DAM-24)	Murry	Proposed Cost of Capital as of December 31, 2009
_______ (DAM-25)	Murry	Comparable Gas Distribution Companies - Comparison of After-Tax Times Interest Earned Ratios
_______ (DAM-26)	Murry	Historical Interest Rate Trends
_______ (DAM-27)	Murry	Baa-rated Corporate Bonds – January 2004 December 2008
_______ (DAM-28)	Murry	Size Effect within Industries
_______ (DWH-1)	Hobkirk	MFRs Sponsored
_______ (BN-1) - Revised	Narzissenfeld	Projected and Actual Capital Expenditures (3 categories)
_______ (ADF-1)	Felsenthal	MFRs Sponsored
_______ (ADF-2)	Felsenthal	Calculation of IRC Required Deferred Income Tax Adjustment
_______ (RFW-1)	Wall	MFRs Sponsored
_______ (SCR-1)	Richards	MFRs Sponsored
_______ (SCR-2)	Richards	Residential Average Use Projections
_______ (SCR-3)	Richards	Summary of Regression Statistics
_______ (SCR-4)	Richards	Actual Therm / Bill vs. Regression Forecast

______ (SCR-5)	Richards	Weighted 60-Day Billing Period Average Heating and Cooling Degree Days
______ (SCR-6)	Richards	Executive Summary from "An Economic Analysis of Consumer Response to Natural Gas Prices"
______ (JPH-1)	Higgins	MFRs Sponsored
______ (JPH-2)	Higgins	2009 Operating Budget - Operations & Maintenance Expense Summary
______ (JPH-3)	Higgins	Storm Reserve Analysis
______ (JPH-4)	Higgins	Pipeline Integrity / System Reliability Costs - Projected O&M Expenses
______ (JPH-5)	Higgins	Reconciliation of Capital Structure to Rate Base
______ (JPH-6)	Higgins	Calculated Average Return on Capital - December 31, 2009
______ (DPY-1)	Yardley	MFRs Sponsored
______ (DPY-2)	Yardley	Summary of Reclassification of Residential and General Service Customers
______ (DPY-3)	Yardley	Rate of Return and Required Increase by Class to Yield Uniform Rate of Return
______ (DPY-4)	Yardley	Comparison of Existing and Proposed Base Revenues
______ (DPY-5)	Yardley	Comparison of Class-by-Class Rate of Return at Current and Proposed Rates
______ (DPY-6)	Yardley	Comparison of Monthly Customer Charges / Customer-Related Costs
______ (LMB-1)	Binswanger	Residential Appliance Energy Comparison

______ (LMB-2)	Binswanger	Example Calculations of GSR and CR Surcharges
______ (LMB-3)	Binswanger	Infrastructure Cost Recovery Mechanisms (American Gas Association, December 2007)
______ (KMF-1)	Floyd	Gas Quality Comparisons

D. STATEMENT OF BASIC POSITION

PGS:

Rate Relief Requested

After making significant efforts to control expenditures, and careful analysis, Peoples Gas System ("PGS" or the "Company") is seeking the Commission's approval for an increase in its base rates and services charges which will produce additional annual revenues of approximately $26.5 million based on a 2009 projected test year. This increase is designed to recover the Company's cost of service and afford it an opportunity to earn a compensatory return on its investment, including a fair and reasonable return on equity of 11.50% within a range of 10.50% to 12.50%. This is a fair and appropriate return to attract capital. PGS is also seeking approval for several other changes that will result in an increased ability to recover the costs associated with of providing clean-burning natural gas to more Floridians in a safe and reliable manner.

PGS's base rates were last increased in January 2003, the first increase since early 1993. Over the past six years since that increase, a number of factors have contributed to the necessity for the Company to seek the adjustment sought in this case. From 2002 through 2007 the Consumer Price Index increased more than 17%, requiring not only that PGS pay more for the goods and services it needs to provide safe and reliable natural gas service, but also contributing to an increase in the level of the Company's direct and indirect payroll costs. Among the largest increases experienced were the costs of steel and plastic pipe, the core of the Company's infrastructure investment, and insurance and health care. Increases in the costs of these items have been significantly higher than the general inflation that has occurred during this period. The Company has also experienced, and will continue to experience, costs to comply with new government regulations, such as the pipeline integrity management requirements imposed by the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration. Another cost that has substantially increased is PGS's depreciation expense as a result of new depreciation rates ordered by the Commission as a result of the Company's last depreciation study in 2006.

Over this same time period, PGS has expanded its distribution system to bring the benefits of clean-burning natural gas to more than 100,000 new customers and, as of the end of 2008, provided service to approximately 334,000 customers. It has added more than 1,500 miles of pipe to its system to bring service to these additional customers. However, during the same time period, PGS experienced a decline in the average per-customer consumption of natural gas on which its 2003 rates were based, due at least in part to the Company's aggressive energy conservation programs and greater appliance efficiencies. PGS's residential customers now use about 11% less gas than they used in 2002 – equivalent to more than a month's average usage. Because the Company's rate design is largely based on customer's consumption of gas, PGS has in essence been penalized for its conservation efforts, and there has been an adverse impact on the Company's ability to recover its costs of providing service and earn a reasonable rate of return on the property it has devoted to public service.

PGS has made substantial efforts to control its expense levels and avoid the need for rate relief while continuing to provide safe, reliable natural gas service, and further enhance the services available to its customers. The Company must constantly make these efforts because its customers have energy choices available to them. While electricity is a necessity for every customer, natural gas service is not. The natural gas business in Florida is highly competitive, evidenced by the fact that only one in every 10 electric customers is a natural gas customer. PGS must control its costs to remain competitive with the other energy options available to its customers and potential customers. Every natural gas customer in Florida uses gas as a matter of choice. PGS's expense-controlling efforts have resulted in its operation and maintenance expenses being more than $11 million, or 14.4%, less than the Commission's benchmark for 2007, the historic base year in this proceeding.

PGS has made a concerted effort since it was last granted base rate relief to maintain its current level of rates in the face of ever increasing costs and declining average use per customer. However, it has reached the point where the Company's rates must be increased so that it may continue to render safe and reliable service to its customers. In essence, the base rates currently in use by PGS are inadequate to permit it to cover operating costs and earn a reasonable rate of return. In view of current economic conditions, rates predicated on an rate of return of 8.88% should be approved so that the Company may have an opportunity to cover its operating costs and earn a fair and reasonable rate of return on its investment.

In this filing the Company is seeking approval for other changes that better reflect the costs of providing safe and reliable service to customers. They include the following:

<u>Change in Accounting Treatment for Bad Debt Expense</u>

PGS is seeking approval for a change to permit recovery of the gas cost portion of its uncollectible accounts through the purchased gas adjustment clause ("PGA"), rather than through base rates. The Company believes this manner of recovery is consistent with the Commission's intent in establishing the PGA, which is designed to permit natural gas utilities to recover, on a timely basis, all prudently incurred gas and gas-related costs.

Establishment of a Storm Damage Reserve

The Company is also seeking approval to establish an unfunded storm damage reserve so that any large, unusual and unpredictable costs resulting from storms that may be incurred in any given year can be normalized, or more evenly spread over a longer period of time. Such reserves have been authorized for all Florida electric utilities, and for one Florida natural gas utility, and would help provide rate stability from a customer perspective. PGS is proposing a modest $100,000 annual accrual for its reserve.

Proposed Rate Design

PGS's proposed rates and service charges are designed to produce the Company's requested additional annual revenues of approximately $26.5 million. PGS is proposing some changes to its rate schedules to more accurately reflect the cost of providing service to various customer classes. The cost of serving each customer class is the major consideration in the proposed rate design, which achieves the Company's goals of fairness, energy efficiency, revenue stability, rate moderation and simplicity.

Although the Company's current rate structure employs both fixed "customer" charges and variable per-therm "distribution" charges, the vast majority (over 70% in 2007) of firm base rate revenues are recovered through the variable per-therm charges. Sales customers pay a separate PGA charge (not the subject of this proceeding), for the gas delivered to them. Transportation customers pay only the customer and distribution charges and pay a gas supplier other than PGS for the gas delivered to them through the Company's distribution system.

Among the changes proposed are a reclassification of some General Service ("GS") customers (all commercial and industrial customers receiving firm natural gas service). GS customers vary in size from those with load characteristics similar to those of residential customers all the way up to very large processing loads. The size of the GS-1 rate class (presently 1,000 – 17,499 therms) would be reduced by reclassifying the smallest GS-1 customers to the Small General Service ("SGS") class and reclassifying the largest GS-1 customers to the GS-2 class. Under the proposed changes, the SGS rate class would include all GS customers with annual use between 0 and 1,999 therms, the GS-1 rate class would include all GS customers with annual use between 2,000 and 9,999 therms, and the GS-2 rate class would include all GS customers with annual use between 10,000 and 49,999 annual therms. The resulting distribution of customers in the GS classes achieves greater homogeneity of customers under the GS rate classes, and thereby enhances the design of corresponding rates.

In addition, rates for the residential class have been redesigned to recover an increased proportion of fixed costs through the customer charge consistent with the results of the allocated cost of service study and the Company's rate design goals. The potential bill impacts for individual customers associated with this change have been appropriately mitigated by three distinct levels of customer charges ($12, $15 and $20) for different sizes of residential customers. All residential customers would pay the same distribution charge of $0.32034 per therm.

The Company proposes to modify the Residential rate schedule in a manner that limits the eligibility to customers that annually use 1,999 therms or less. Residential customers consuming 2,000 or more therms per year (such as the common areas of condominiums), while remaining "residential" for deposit and certain other purposes, would be reclassified to the corresponding GS rate schedule based on annual use and be eligible for transportation service.

Inclusion of a Gas System Reliability Rider

PGS is proposing a Gas System Reliability Rider ("Rider GSR"), a tariff cost recovery mechanism which would operate similarly to other cost recovery clauses currently used by Florida investor-owned electric and natural gas utilities. Rider GSR, if approved as proposed by the Company, would permit PGS to recover the revenue requirements associated with eligible infrastructure system replacements (*e.g.*, replacements for existing facilities, relining projects to extend useful life of existing facilities, road relocation projects) and incremental O&M expenses, if any, incurred to comply with mandatory pipeline safety regulations. The rider would not permit recovery of revenue requirements associated with any assets specifically included in rate base, or to any operation and maintenance expenses included for recovery through the base rates established in this proceeding. If approved, such recovery would continue until the effective date of revised base rates established in the Company's next base rate proceeding.

The Company has proposed Rider GSR to timely recover the revenue requirements associated with what are largely government-mandated expenditures. These costs are significant, potentially volatile, and difficult to predict, and the Company has no opportunity to recover them absent the filing of a base rate case or a limited proceeding.

Inclusion of a Carbon Reduction Rider

PGS is also proposing another cost recovery mechanism – the Carbon Reduction Rider, or "Rider CR." Rider CR deals with supply (as opposed to distribution) main expansions, and would partially address the significant revenue lag associated with bringing natural gas to areas in Florida not currently served. A supply main to connect the main serving a development to an interstate pipeline or existing Company supply main must be placed in service to permit service to the first customer in a development, but produces no revenue for the Company in and of itself. Revenues will come – over time – from the main(s) serving the development. Revenue requirements associated with the supply main cannot be recovered by the Company without the filing of a base rate case or a limited proceeding. The Commission's approval of Rider CR would remove this financial barrier and position PGS to proactively capture expansion opportunities that support Florida's initiatives to improve fuel diversity and reduce the state's carbon footprint, both worthy objectives. If approved, recovery under Rider CR would continue until the earlier of the end of a five-year recovery period per project, or the effective date of revised base rates established in the Company's next base rate proceeding.

Other Non-Rate Tariff Modifications

In addition to the adjustments to its rates and charges reflected on the revised rate schedules filed by the Company, PGS seeks the Commission's approval for modifications to the rules and regulations in its natural gas tariff with respect to gas quality to address specifications for natural gas which may be delivered into the Company's system, to the tariff definition of "force majeure" to address certain judicial constructions affecting such term, and to the tariff's Rider ITS (Individual Transportation Service) to address the resolution of imbalances between receipts and deliveries of gas at the Company's interconnections with Gulfstream Natural Gas System, LLC ("Gulfstream") and the responsibility for penalties assessed by Gulfstream.

The Current Economy

PGS and each of its employees are acutely aware of the current global, national, state and local economic turmoil, not to mention the effects of the current economy on individuals and businesses, including the Company's customers. As indicated previously, PGS's customers have chosen natural gas to meet their energy needs despite having other alternatives. PGS's rate filing was assembled over an extended period of time that included almost daily declines in almost every indicator of economic health and well-being. The Company's filing initiating this proceeding was necessary to permit it to obtain the financial ability to continue safely and reliably meeting the natural gas needs of its customers, and expanding the availability of clean-burning natural gas to areas currently unserved. There were nothing but positive comments regarding PGS and the service it provides at the customer service hearings conducted in six different Florida cities. Those comments demonstrate that the Company is dedicated to customer service. Because of that dedication, and the highly competitive nature of the natural gas business in Florida, PGS would not have initiated this proceeding had it not been a necessity.

E. STATEMENT OF ISSUES AND POSITIONS

TEST PERIOD

ISSUE 1: Are the historical base year ended December 31, 2007, and the projected test year ending December 31, 2009, the appropriate test years to be utilized in this docket?

PGS: Yes. The calendar year 2009 is appropriate for setting rates because it best represents the operating conditions during the period when the new rates will be effective. (Higgins)

ISSUE 2: Are the projected bills and therms for the test year ending December 31, 2009 appropriate for use in this case?

PGS: Yes. PGS's projections of bills and therms for the projected test year are appropriate. (Richards)

QUALITY OF SERVICE

ISSUE 3: Is the quality of gas service provided by PGS adequate?

PGS: Yes. PGS's quality of service is excellent. No party to this proceeding has suggested otherwise. At service hearings held in this docket in Panama City, Jacksonville, Orlando, Tampa, Port Charlotte and Hollywood, a total of only 10 members of the public appeared to testify. Of those 10, nine were customers or customer representatives and none had any complaint regarding PGS's quality of service. Eight of them, however, described the Company as "responsive" and testified that the Company's employees were "problem solvers" who "followed through on commitments." The appearance of only nine customers (out of the more than 334,000 customers served by the Company), none with any complaint, suggests that the level of service provided by PGS is excellent. The Company's excellent service is confirmed by the Commission's Consumer Activity Reports, which reflect only 0.147 and 0.111 service complaints per 1,000 customers for 2008 and 2007, respectively. (Cantrell)

RATE BASE

ISSUE 4: What are the appropriate unit costs for projected plant additions?

PGS: Unit costs for projected plant additions vary by size, length, permitting, restoration, traffic control, engineering, installation requirements and pipe material, as well as the location at which installation must be accomplished. The unit cost for a particular addition to plant can be determined only after the cost of such addition has been estimated. This issue should be deleted because it will not provide information with which to resolve the issues in this proceeding. (Narzissenfeld)

ISSUE 5: Should any adjustments be made to Plant, Accumulated Depreciation, and Depreciation Expense?

PGS: No. Final results for 2008 reflect that the Company exceeded the capital expenditures it projected for 2008 by approximately $7 million, and there is no reason to modify the projected expenditures for the test year.

(Narzissenfeld, Hobkirk)

ISSUE 6: Should any adjustments be made to remove a portion of the cost of the main running east to west across the Florida Turnpike on SW Martin Highway from the projected test year rate base?

PGS: No. See PGS's position on Issue 5. (Binswanger)

ISSUE 7: Should any adjustments be made to reduce Plant, Accumulated Depreciation, Depreciation Expense, and other expenses to reflect non-utility operations?

PGS: No. All required adjustments to remove non-utility items have been included in the 2009 test year. (Hobkirk)

ISSUE 8: What is the appropriate amount of Construction Work in Progress (CWIP) for the 2009 projected test year?

PGS: The appropriate amount of CWIP for the 2009 projected test year is \$18,249,444 as reflected on MFR schedule, G-1 page 1. (Higgins, Hobkirk)

ISSUE 9: What is the appropriate 2009 projected test year Total Plant?

PGS: The appropriate 2009 projected test year Total Plant is \$1,009,374,293 as reflected on MFR schedule, G-1 page 1. (Hobkirk)

ISSUE 10: What is the appropriate 2009 projected test year Depreciation Reserve?

PGS: The appropriate 2009 projected test year Depreciation Reserve is \$426,364,359 as reflected on MFR schedule, G-1 page 1. (Hobkirk)

ISSUE 11: Should conservation over recoveries be included in the calculation of working capital?

PGS: Yes, and they are accurately reflected in the Company's filing. (Higgins)

ISSUE 12: What is the appropriate 2009 projected test year Working Capital Allowance?

PGS: The appropriate 2009 projected test year Working Capital Allowance is (\$11,494,371) as reflected on MFR schedule G-1, page 1. (Higgins)

ISSUE 13: What is the appropriate projected test year Rate Base?

PGS: The appropriate projected test year Rate Base is \$563,599,436 as reflected on MFR schedule G-1 page 1. (Higgins)

COST OF CAPITAL

ISSUE 14: What is the appropriate return on common equity for the projected test year?

PGS: The appropriate return on common equity for the 2009 projected test year is 11.50% with a range of 10.50% to 12.50%. (Murry)

ISSUE 15: What is the appropriate capital structure for the projected test year?

PGS: The appropriate capital structure for 2009 is Company's proposed capital structure as shown on MFR Schedule G-3, page 2. (Higgins, Gillette)

ISSUE 16: What is the appropriate cost rate of long-term debt for the projected test year?

PGS: The appropriate cost rate of long-term debt for the projected test year is 7.20%, as shown on MFR Schedule G-3, page 3. (Higgins)

ISSUE 17: What is the appropriate cost rate of short-term debt for the projected test year?

PGS: The appropriate cost rate of short-term debt for the projected test year is 4.50%, as shown on MFR Schedule G-3, page 4. (Higgins)

ISSUE 18: What is the appropriate amount of accumulated deferred taxes to include in the capital structure for the projected test year?

PGS: The appropriate amount of accumulated deferred taxes to be included in the capital structure for the projected test year is $27,670, 682, as shown on MFR Schedule G-3, page 2. (Felsenthal, Higgins)

ISSUE 19: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure for the projected test year?

PGS: The appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure for the projected test year are $7,862 and 0%, respectively, as shown on MFR Schedule G-3, page 2. (Felsenthal, Higgins)

ISSUE 20: What is the appropriate weighted average cost of capital for the projected test year?

PGS: The appropriate weighted average cost of capital for the projected test year is 8.88%, as reflected on MFR Schedule G-3, page 2. (Higgins, Gillette, Murry)

REVENUES

ISSUE 21: Has PGS made the appropriate test year adjustments to remove revenues and expenses recoverable through the Purchased Gas Adjustment Clause?

PGS: Yes. (Richards)

ISSUE 22: Has PGS made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

PGS: Yes. (Richards, Higgins)

ISSUE 23: What amount, if any, of Off-System Sales revenues should be included in the projected test year?

PGS: The amount of Off-System Sales revenues that should be included in the projected test year is $500,000. This is the amount that was included in revenue in the Company's last base rate proceeding for the purpose of establishing rates, and also represents the Company's 25% share of reasonably attainable off-system sales for the projected test year. (Higgins, Binswanger)

ISSUE 24: What is the appropriate amount of projected test year total Operating Revenues?

PGS: The appropriate amount of total operating revenues is $169,906,126, as reflected on MFR Schedule G-2, page 1. (Richards)

EXPENSES

ISSUE 25: Are the trend rates used by PGS to calculate projected O&M expenses appropriate?

PGS: Yes. (Higgins)

ISSUE 26: Should the projected test year O&M expense be adjusted for the effect of any changes to the trend factors?

PGS: No. (Higgins)

ISSUE 27: Should any adjustments be made to the 2007 O&M expenses for staff Audit Finding Nos. 1 and 2, to address out-of-period expenses, reclassifications, and non-utility expenditures?

PGS: Yes. While PGS does not agree with all of the adjustments proposed under Audit Findings Nos. 1 and 2, it has agreed to accept adjustments to the Company's filing based on such audit findings for purposes of this proceeding. Only the first four items referenced in Audit Finding No. 1 have any potential effect on O&M expenses for the 2009 projected test year. No adjustment should be made with respect to the first item because this item was not "trended" to determine the expense in the projected test year. The second, third and fourth items result in reductions of 2009 O&M expense (after trending) of $10,646 (Account 921), $8,207 (Account 921), and $10,506 (Account 930). (Higgins)

ISSUE 28: Should any adjustments be made to Account 920, Administrative and General Salaries, or any other accounts related to employee compensation?

PGS: No. The Company's total level of compensation, including incentive compensation, is reasonable based on market comparisons. The Company's incentive compensation is one component of overall compensation for officers, key employees and general employees. Taken as a whole, the incentive plans are appropriately designed to motivate employees to achieve customer-focused operational and financial goals. The adjustments proposed by OPC are flawed and should be rejected. While OPC's witness complains about the "incentive" aspects of the Company's compensation system, he has presented no evidence that the total compensation of PGS employees is unreasonable or imprudently incurred. (Higgins)

ISSUE 29: What is the appropriate amount of rate case expense and what is the appropriate amortization period for that expense?

PGS: The appropriate amount of rate case expense and appropriate amortization period for that expense are $1,000,000 and three years, respectively. (Higgins)

ISSUE 30: Is PGS's proposed recovery of the gas cost portion of bad debt expense through the Purchased Gas Adjustment Clause appropriate?

PGS: Yes. Recovery of the gas cost portion of bad debt expense through the Purchased Gas Adjustment Clause is consistent with the Commission's policy of recovering gas cost-related expenses. (Higgins)

ISSUE 31: Should any adjustments be made to bad debt expense?

PGS: No. However, if PGS's proposed recovery of the gas cost portion of bad debt expense through the Purchased Gas Adjustment Clause is not approved by the Commission, bad debt expense must be increased by

$723,580. (Higgins)

ISSUE 32: Should any adjustments be made to Account 926, Employee Pensions and Benefits?

PGS: No. PGS has properly forecasted employee pensions and benefits for the 2009 projected test year and no adjustment is warranted. (Higgins)

ISSUE 33: What is the appropriate amount of pipeline integrity expense, if any, to be included in the projected test year?

PGS: The appropriate amount of pipeline integrity expense to be included in the projected test year is $751,500 as reflected on MFR Schedule G-2, page 12. (Higgins, Binswanger)

ISSUE 34: Should the Commission allow PGS to establish a storm damage reserve, and if so, what is the appropriate amount of annual storm expense accrual?

PGS: Yes. PGS's requested storm damage reserve will serve to normalize the level of storm damage expense over time. The appropriate amount of annual storm expense accrual is $100,000. (Higgins)

ISSUE 35: Should any adjustments be made to Account 912, Demonstrating and Selling expenses?

PGS: No. PGS's has properly forecasted the expenses in Account 912 for the projected test year, which are over 25% less than in 2001, the historic base year in the Company's last base rate proceeding. (Higgins)

ISSUE 36: Should the costs to fund Directors and Officers Liability Insurance be included in the projected test year?

PGS: Yes. Director's & Officer's Liability ("D&O") Insurance is an ordinary and necessary business expense for a public utility and benefits the ratepayers by covering defense costs and making it possible to recruit and retain talented directors and officers. PGS has properly forecasted D&O Insurance expense and no adjustment is warranted. (Higgins)

ISSUE 37: Should any adjustments be made to costs allocated by TECO to PGS?

PGS: No. PGS has properly forecasted the allocated costs and no adjustment is warranted. (Higgins)

ISSUE 38: What is the appropriate amount of Taxes Other Than Income Taxes?

PGS: The appropriate amount of Taxes Other Than Income Taxes is $10,823,933 as reflected on MFR Schedule G-2, page 1. (Higgins)

ISSUE 39: Is it appropriate to make a parent debt adjustment as per Rule 25-14.004, Florida Administrative Code?

PGS: No. TECO Energy, Inc. only raises debt for the operations of its unregulated affiliates. None of the proceeds of TECO Energy debt has been invested in PGS. All TECO Energy equity infusions into PGS have been made from internally generated funds or externally-generated equity. A parent debt adjustment is therefore inappropriate. (Gillette)

ISSUE 40: What is the appropriate Income Tax Expense, including current and deferred income taxes, ITC amortization, and interest synchronization?

PGS: The appropriate Income Tax Expense, including current and deferred income taxes, ITC amortization, and interest synchronization for the 2009 projected test year is $9,204,184 as reflected on MFR Schedule G-2, page 29, subject to increase to reflect the income tax effect of the adjustments made in Issue 27. (Felsenthal)

ISSUE 41: What is the appropriate amount of projected test year O&M Expense?

PGS: The appropriate amount of O&M Expense in the projected test year is $72,608,899, as reflected on MFR Schedule G-2, page 1, reduced by $29,359 to reflect the adjustments made in Issue 27. (Higgins)

ISSUE 42: What is the appropriate amount of projected test year Depreciation and Amortization Expense?

PGS: The appropriate amount of Depreciation and Amortization Expense in the projected test year is $43,804,733. (Hobkirk)

ISSUE 43: What is the appropriate level of Total Operating Expenses for the 2009 projected test year?

PGS: The appropriate level of Total Operating Expenses for the 2009 projected test year is $135,961,429, as reflected on MFR Schedule G-2, page 1, reduced by $18,034 to reflect the after tax impact of the adjustments made in Issue 27. (Higgins)

ISSUE 44: What is the appropriate amount of projected test year Net Operating Income?

PGS: The appropriate amount of Net Operating Income in the projected test year is $33,944,697, as reflected on MFR Schedule G-2, page 1, increased by

$18,034 to reflect the after tax impact of the adjustments made in Issue 27. (Higgins)

REVENUE REQUIREMENTS

ISSUE 45: What is the appropriate projected test year revenue expansion factor to be used in calculating the revenue deficiency?

PGS: The appropriate projected test year revenue expansion factor to be used in calculating the revenue deficiency is 1.6436 as shown on MFR Schedule G-4. (Higgins)

ISSUE 46: What is the appropriate projected test year operating revenue increase, if any?

PGS: The appropriate operating revenue increase for the projected test is $26,488,091, as reflected on MFR Schedule G-5, decreased by $29,641 to reflect the adjustment made in Issue 27 . (Higgins)

RATES

ISSUE 47: Are PGS's estimated revenues by rate class at present rates for the projected test year appropriate?

PGS: Yes. (Richards)

ISSUE 48: What is the appropriate cost of service methodology to be used in allocating costs to the rate classes?

PGS: The appropriate cost of service methodology is that prescribed by the Commission, with the allocations used by the Company as contained in the MFRs. (Yardley)

ISSUE 49: What are the appropriate customer charges?

PGS: The appropriate Customer Charges are:

Rate Class	Annual therms	Customer Charge
Residential Service 1	0-99	$ 12.00
Residential Service 2	100-249	$ 15.00
Residential Service 3	250-1,999	$ 20.00
Commercial Street Lighting Service		$ 0.00
Small General Service	0-1,999	$ 25.00
General Service 1	2,000 – 9,999	$ 35.00

General Service 2	10,000 – 49,999	$ 50.00
General Service 3	50,000 – 249,999	$150.00
General Service 4	250,000 – 499,999	$250.00
General Service 5	500,000 +	$300.00
Small Interruptible Service	1,000,000 – 3,999,999	$300.00
Interruptible Service	4,000,000 – 50,000,000	$475.00
Interruptible Service Lg Vol	50,000,000 +	$475.00
Natural Gas Vehicle Service		$ 45.00
Residential Standby Generator Service		$ 20.00
Commercial Standby Generator Service		$ 35.00
Wholesale Service		$150.00

The proposed customer charges provide customers with appropriate price signals concerning the use of natural gas, improve intra-class fairness and increase revenue stability.
(Yardley)

ISSUE 50: What are the appropriate per therm Distribution Charges?

PGS: The appropriate per therm Distribution Charges are:

Residential Service - 1	$0.32034
Residential Service - 2	$0.32034
Residential Service - 3	$0.32034
Commercial Street Lighting Service	$0.19715
Small General Service	$0.36345
General Service 1	$0.28056
General Service 2	$0.24266
General Service 3	$0.21006
General Service 4	$0.15708
General Service 5	$0.11814
Small Interruptible Service	$0.07421
Interruptible Service	$0.03334
Interruptible Service - Large Volume	$0.00848
Natural Gas Vehicle Service	$0.18834
Residential Standby Generator Service	
0-20.0 therms	$0.00000
>20.0 therms	$0.32034
Commercial Standby Generator Service	
0-40.0 therms	$0.00000
>40.0 therms	$0.28056
Wholesale Service	$0.15571

The proposed distribution charges result in an appropriate level of revenues recovered from each class, supporting the Company's rate design goals and contributing to greater inter-class fairness.

(Yardley)

ISSUE 51: What are the appropriate Miscellaneous Service Charges?

PGS: The appropriate Miscellaneous Service Charges are:

Account Change/Opening Fee	$ 28.00
Service Initiation Charge - Residential	$ 50.00 initial; $15.00 for each add'l meter
Service Initiation Charge - Other	$ 65.00 initial; $30.00 for each add'l meter
Reconnection Charge - Residential	$ 70.00 initial; $15.00 for each add'l meter
Reconnection Charge - Other	$ 90.00 initial; $20.00 for each add'l meter
Turn-off notice or Collection in lieu of disconnect	$ 20.00
Pool Manager Termination Fee	$ 30.00
Temporary Disconnect Charge	$ 20.00
Failed Trip Charge	$ 25.00
ITS Administration Charge	$144.00 per meter

(Wall)

ISSUE 52: Is PGS's proposal to stratify its current single residential service class into three individual classes appropriate?

PGS: Yes. The proposal to adopt three size-based billing classes within the residential rate schedule is necessary to achieve the Company's proposed rate design goals. Specifically, the proposal allows the Company to recover a greater proportion of fixed customer-related costs indicated by the allocated cost of service study through customer charges, while at the same time managing the potential bill impacts for individual customers to reasonable levels. While residential customers will have different monthly customer charges, the per-therm distribution charge will be the same for all residential customers. The proposal is straightforward to administer and easily understood by customers. Absent establishing the three billing classes, the bill impacts associated with increasing fixed cost recoveries through the customer charge would be too large for smaller residential customers that use natural gas for fewer appliances. (Yardley)

ISSUE 53: Is PGS's proposal to reclassify certain customers appropriate?

PGS: Yes. The proposed reclassification of GS and also a limited number of residential customers is an important step to establishing a fair rate design. In particular, the reclassification of GS-1 customers (presently 1,000-17,500 annual therms) by including the smallest customers up to 1,999 therms in an expanded SGS rate class and including the largest customers above 10,000 annual therms in an expanded GS-2 rate class. The resulting grouping of GS customers below 49,999 annual therms achieves greater homogeneity and significantly reduces the potential for intra-class subsidies.

The reclassification of a limited number of large residential customers addresses a separate issue, which relates to common areas of condominiums. Such use is considered residential even though the characteristics of the load are similar to use by larger GS customers. By expanding the eligibility of the GS-1 through GS-5 rate schedules to include residential use, the largest residential customers are included with similarly-situated non-residential customers for pricing purposes. An additional benefit of this approach is that it clarifies the rights of condominium units to purchase their gas supply from a third-party pursuant to the Company's transportation service program. The deposit terms and conditions associated with residential service would continue to apply to condominium customers that are reclassified to a GS rate schedule.

The resulting rate classes promote the development of fair rates for customers by grouping similar customers together under the same rate schedule. (Yardley)

ISSUE 54: Should the Commission approve PGS's proposed "Gas System Reliability Rider," which would permit recovery of revenue requirements associated with eligible infrastructure system replacements (*e.g.*, replacements for existing facilities, relining projects to extend useful life of existing facilities, road relocation projects) and incremental O&M expenses, if any, incurred to comply with mandatory pipeline safety regulations? If approved as proposed by the Company, such recovery would continue until the effective date of revised base rates established in the Company's next base rate proceeding. The rider would also provide for the refund of O&M expenses, if any, incurred to comply with mandatory pipeline safety regulations, in excess of such expenses included in the Company's most recent base rate proceeding.

PGS: Yes. The Gas System Reliability Rider would permit the Company to recover, in a timely manner, the revenue requirements associated with municipal, county, state, or federal mandated relocations of Company facilities or safety requirements, over which it has no control. When Peoples is mandated to relocate its facilities, the Company has no choice as to whether or not it incurs costs, and – absent the Gas System Reliability Rider – would be required to file a full rate case or limited proceeding to recover the revenue requirements associated with these investments. (Binswanger)

ISSUE 55: Should the Commission approve PGS's proposed "Carbon Reduction Rider," which would permit recovery of revenue requirements associated with incremental capital expenditures, if any, for installation of supply mains (as defined in the rider) to serve primarily residential developments? If approved as proposed by the Company, such recovery would continue until the earlier of (i) the end of a five-year recovery period, or (ii) the effective date of revised base rates established in the Company's next base rate proceeding.

PGS: Yes. The Carbon Reduction Rider would permit the Company to recover, for a five year period only per project, the revenue requirements associated with the installation of supply main used to connect primarily residential developments to supply sources of natural gas. Expanding natural gas service in Florida to areas not currently served by natural gas supports various Florida initiatives associated with lowering carbon emissions, including Governor Crist's Executive Order Number 07-126 which states, in part, that Florida has committed to becoming a leader in reducing emissions of greenhouse gases. (Binswanger)

ISSUE 56: What is the appropriate effective date for PGS's revised rates and charges?

PGS: Peoples' revised rates and charges should become effective for meter readings taken on or after 30 days from the date of the final Commission vote approving the rates and charges which, under the current schedule, would mean for meter readings taken on or after June 18, 2009. (Binswanger)

ISSUE 57: Should any of the $2,380,000 interim rate increase granted by Order No. PSC-08-0696-PCO-GU be refunded to the ratepayers?

PGS: No. (Higgins)

ISSUE 58: Should PGS be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, earnings surveillance reports, and books and records which will be required as a result of the Commission's findings in this docket?

PGS: Yes. (Higgins)

ISSUE 59: Should this docket be closed?

PGS: Yes. This docket should be closed after the Commission has issued its final order and the time for filing an appeal has expired.

F. STIPULATED ISSUES

PGS: None at this time.

G. PENDING MOTIONS

PGS: None (except those listed under H. below) at this time.

H. PENDING CONFIDENTIALITY CLAIMS OR REQUESTS

PGS: PGS has pending the following requests for confidential treatment of information:

Document No.	Date	Description
DN 09114-08	9/29/2008	Request for confidential classification and motion for temporary protective order [of DN 09115-08]
DN 10949-08	11/25/2008	Request for confidential classification and motion for temporary protective order [of DN 10950-08]
DN 11228-08	12/4/2008	Request for confidential classification and motion for temporary protective order [of DN 11238-08]
DN 11407-08	12/10/2008	Request for confidential classification and motion for temporary protective order [of DN 11408-08]

I. OBJECTIONS TO A WITNESS'S QUALIFICATION AS AN EXPERT

PGS: None at this time.

J. COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE

PGS has complied with all requirements of the Order Establishing Procedure in this docket.

K. OTHER MATTERS

PGS: None at this time.

Dated this 13th day of February, 2009.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and copy of the foregoing Prehearing Statement has been furnished electronically and by U. S. Mail this 13th day of February, 2009, to the following:

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