



PEOPLES GAS

September 15, 2009

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COMMISSION
CLERK

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

Re: Docket No. 080318-GU – Petition for rate increase by Peoples Gas System
Order No. PSC-09-0411-FOF-GU

Dear Mr. Devlin:

On June 9, 2009, the Florida Public Service Commission (“the Commission”) issued Order No. PSC-09-0411-FOF-GU (the “Order”) in the Peoples Gas System (“Peoples” or the “Company”) rate case. Page 50 of the 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 annual report, rate of return reports, and books and records which will be required as a result of the Commission’s findings in this rate case.

Subsequent to issuance of the Order, in light of a Motion for Reconsideration filed by Peoples, you granted the Company an extension until September 15, 2009 to make the submittal required by the Order. The following is a description of all changes resulting from the Order. This document discusses first the items for which changes to the books and records of the Company have been or will be made. It then discusses items that require adjustments to the Company’s quarterly rate of return reports filed with the Commission (“Earnings 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.

Expenses

1. **Rate case expense** – Rate case expense of \$684,500 will be amortized to O&M over a four-year period beginning in June 2009. The monthly amortization is \$14,260.
2. **Storm damage reserve** – The Company will initiate a monthly accrual to establish a storm damage reserve as allowed in the Order. This will be accrued at an annual rate of \$57,500 with a target level of \$1,000,000, recognizing that this represents a target and not necessarily a cap on the reserve. *Depending on how the Commission disposes of the Company’s pending Motion for Reconsideration, the amount of the annual accrual could change.*

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Rates

1. **Rates and charges** – Effective for meter readings on and after June 18, 2009, the Company's billing system was changed to reflect the changes to rates and charges specified in the Order.

Category 2 Stipulations

1. **Miscellaneous service charges** – Effective for meter readings on and after June 18, 2009, the Company's billing system was changed to reflect the changes to rates and charges specified in the Order.
2. **Stratification into three residential rate classes** – Effective for meter readings on and after June 18, 2009, the Company's billing system was changed to reflect the stratification of residential customers into three classes as specified in the Order.
3. **Reclassification of commercial customers** – effective for meter readings on or after June 18, 2009 the Company's billing system was changed to reflect the reclassification of certain commercial customers into the rate classes as specified in the Order.

II. Changes to Earnings Surveillance Reports

The following represents changes that have been made in the Company's Earnings Surveillance Reports beginning with the report for June 2009. Although these are changes from the previous surveillance report filings, these changes will not necessarily be updated on a quarterly basis in all cases. Judgment and availability of resources and information will govern how often certain surveillance report adjustments are changed, recalculated, etc.

Rate Base

1. **Martin County extension** – In the Order, the Commission removed \$114,816 of rate base related to this main extension as a result of a pending territorial dispute. Peoples will remove this amount from rate base in its surveillance reports until such time as it is used and useful in the provision of utility service. If applicable, any depreciation expense related to this main extension will also be removed from the calculation of Net Operating Income.

Cost of Capital

1. **Rate base to capital structure reconciliation adjustments** – As contained in the Company's filing and included in the Order, certain adjustments in this reconciliation will be changed to conform to the methods used in the filing. *Depending on how the Commission disposes of the Company's pending Motion for Reconsideration, further changes in this area may be required.*
2. **Return on equity** – The Order's allowed return on equity of 10.75% will replace the former rate on Schedule 4 of the reports.

Expenses

1. **Parent debt adjustment** – An adjustment will be made to income tax expense to reflect the impact of any parent company debt.

Category 2 Stipulations

1. Net operating income adjustments – Related to the approved stipulation on Issue 27, the Commission's auditors recommended the use of actual financial data rather than budgeted amounts for purposes of calculating these various adjustments to NOI. For the Earnings Surveillance Report at each year-end, the Company will update these adjustments to reflect actual financial results for the year. For interim quarterly reports, the Company will continue to use projected amounts for these adjustments as the amounts involved are not material to the calculated rate of return.

Sincerely,



Sandra W. Callahan
VP Finance & Accounting & CFO

cc. Ansley Watson
 Dee Brown
 Lewis Binswanger
 Denise Jordan
 Sue Richards
 Paula Brown
 Kandi Floyd
 Ann Cole, FPSC Director, Division of Commission Clerk and All Parties of Record