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Ansley Watson, Jr.
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Tampa, Florida 33601
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July 19, 2011

VIA FEDEX

Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

RECEIVED--FPSC
11 JUL 20 PM 2:24
COMMISSION
CLERK

Re: Docket No. 110003-GU – Purchased gas adjustment (PGA) true-up

Dear Ms. Cole:

Enclosed for filing with the Commission on behalf of Peoples Gas System, as requested by the Commission Staff, please find the original and 5 copies of Peoples' responses to Staff's First Data Requests (Nos. 1-10) in the above docket.

Portions of the responses to Requests Nos. 6-10 have been redacted on the enclosures, and a request for confidential classification of (and motion for protective order with respect to) the redacted portions is being submitted simultaneously with the enclosed filing.

Please acknowledge your receipt and the date of filing of the enclosures on the enclosed duplicate copy of this letter, and return the same to me in the enclosed preaddressed envelope.

Thank you for your usual assistance.

- COM _____
- APA _____
- ECR 3 _____
- GCL _____
- RAD _____
- SSC _____
- ADM _____
- OPC _____
- CLK _____

3+ 1cc containing data requests. Sincerely,


ANSLEY WATSON, JR.

AWjr/a

DOCUMENT NUMBER-DATE

05021 JUL 20 =

FPSC-COMMISSION CLERK

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Enclosures

cc: Parties of Record
Mrs. Kandi M. Floyd

PGA Reporting Mechanism

As part of the effort for continued efficiency improvements, such as the use of electronic filings, please provide suggestions and comments regarding the reporting format and filing method under the reporting mechanism established by Order No. 24463, as subsequently modified, including the annual projection and true-up filings, monthly actual filings, and monthly notice of flex down factors. As part of the response, please identify to what extent such improvement may lead to more consistent and useful data, and how ratepayers can benefit from potential cost savings due to the efficiency improvements.

- A. Peoples and other LDCs make a monthly PGA "actual" filing that identifies actual sales and costs for the previous month, including over and under recovery positions. This filing has traditionally included not only the completed data schedules ("A" schedules) designed by the Staff, but also voluminous attachments, typically invoices from suppliers, interstate pipelines and accrual worksheets, that support the "A" schedules included in the filing. This monthly filing often consists of 200 + pages, on portions of which sensitive information must be redacted. All of the documents attached to the "A" schedules in each monthly filing are business records maintained by Peoples in accordance with the Commission's (and other) rules, and are routinely reviewed by the Commission's auditor during the annual PGA audit. Under the circumstances, Peoples suggests that the monthly actual filings include only the "A" schedules, with no requirement that invoices be attached. This would eliminate the issue of searching each invoice to determine what must be redacted, and considerably reduce the time required for Peoples' employees to prepare and check each monthly filing. Because action by the Commission is contemplated only once annually (on the true-up for the prior year, with an audit, and the projection for the upcoming year) there appears to be no justification for the detailed scrutiny on a monthly basis of invoices which are readily available in connection with the annual audit of the prior year true-up calculations .

While the improvement suggested above may not lead to more useful or consistent data, it would at least theoretically benefit the Company's ratepayers from a cost perspective because of the reduction in time for Peoples' employees to prepare, check and submit the monthly actual filings.

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1. Does your company conduct physical or financial hedging of natural gas? If so, please provide the following:

- A. percentage of natural gas hedged by financial hedging and monthly realized hedging gain or loss in 2010.
- B. percentage of natural gas hedged by physical hedging in 2010 and the price, term, and supplier of the contracts.
- C. percentage of natural gas hedged by financial hedging and monthly realized hedging gain or loss in 2011.
- D. percentage of natural gas hedged by physical hedging in 2011 and the price, term, and supplier of the contracts.

A. A.

	<u>2010</u>	
	Gain / (Loss)	Percent
	\$	Hedged
Jan-10	\$ (1,186,180)	62%
Feb-10	\$ (1,713,900)	55%
Mar-10	\$ (1,500,620)	45%
Apr-10	\$ (1,583,590)	47%
May-10	\$ (1,321,100)	63%
Jun-10	\$ (1,153,400)	72%
Jul-10	\$ (663,930)	75%
Aug-10	\$ (433,830)	74%
Sep-10	\$ (996,660)	75%
Oct-10	\$ (932,190)	69%
Nov-10	\$ (1,417,790)	79%
Dec-10	\$ (1,339,730)	81%
	<u>\$ (14,242,920)</u>	

B. Peoples does not physically hedge natural gas.

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C.

	<u>2011</u>	
	Gain / (Loss) \$	Percent Hedged
Jan-11	\$ (2,060,990)	68%
Feb-11	\$ (1,455,410)	80%
Mar-11	\$ (1,551,450)	80%
Apr-11	\$ (693,750)	76%
May-11	\$ (368,630)	79%
Jun-11	\$ (364,440)	78%
	<u>\$ (6,494,670)</u>	

D. Peoples does not physically hedge natural gas.

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- 2.** Please provide the rationale that supports your company's activity (or inactivity) in physical or financial hedging, including:
- A.** whether the market conditions and financial regulation support physical or financial hedging (please explain).
 - B.** whether new developments in domestic gas-supply conditions, such as LNG and shale gas, affect physical or financial hedging (please explain).
 - C.** administrative cost or availability of the hedging instruments (please explain).
 - D.** other (please explain).
- A.**
- A.** Peoples Gas System ("Peoples" or "Peoples Gas") uses financial hedges to reduce the volatility of natural gas commodity cost in the Purchased Gas Adjustment ("PGA"). Peoples chooses to hedge natural gas because natural gas is a customer choice in a competitive market. Natural gas competes directly against propane which is often sold to retail customers at a fixed price with significant amounts of flexibility in the pricing. Peoples believes reducing retail customers' exposure to natural gas price spikes reduces the risk that customers will switch to propane or other energy sources. Retaining PGA customers lowers rates for all customers because it spreads fixed cost of pipe investment across a greater number of customers and a greater volume of throughput.
 - B.** Peoples does not believe new developments in LNG or shale gas materially changes the need for physical or financial hedges. LNG and shale gas are merely sources on the supply side of the supply and demand balance equation. LNG supply is tied to international energy pricing so it is a volatile supply source. Shale gas has proven to be a surprisingly strong, domestic supply source. However, changes to environmental regulations of shale gas production or surges in natural gas demand from coal-fired generation reductions could quickly change the current supply/demand balance.
 - C.** Peoples chooses to use financial swaps for the hedging of its natural gas cost where a competitive market exists. Besides the benefit of a liquid market for swaps, Peoples also believes separating the physical gas supply from the financial hedging provides clarity and simplicity to both the gas supply operations and the financial hedging and contracting. The company also has some administrative costs associated with several automated systems to track and monitor its financial hedging options.

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Peoples staff uses several services of tracking systems such as NYMEX, ProphetX, and ICE to monitor futures markets and determine the current trading ranges for each commodity. There would be no reduction in Staff or system costs if financial hedging did not occur as the staff would perform other daily tasks and the same tracking systems will still be utilized by the fuels and marketing group.

- D. Congress and other Federal agencies have proposed additional regulation of derivatives. It is unclear to what extent these additional regulations will impact the cost, availability, and administrative burden of financial hedges for utility business. Peoples anticipates receiving an end user exemption which would not require the company to clear its transactions through a central exchange. Due to the uncertainty associated with the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act by the Commodity Futures Trading Commission, Peoples is unsure of the impact the reform will have on its current or future potential counterparties.

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- 3.** Please explain the federal income tax effect of hedging, if any.
 - A.** There is limited federal income tax effects associated with hedges. A deferred tax is recorded until the hedge settles. At settlement, the deferred tax is reversed and a current tax is recorded.

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- 4.** Please explain your company's use of the PGA annual price cap and monthly flex down mechanism to stabilize gas prices and customer bills.
 - A.** The price cap and monthly flex down mechanism provide benefits to customers and the company. Natural gas pricing typically has a natural seasonality; higher cost in the high demand winter and lower cost in the summer. The cap and flex down mechanism allows the company to send this price signal to customers. Similarly, the cap and flex down mechanism allows the company to adjust the PGA factor to reflect material changes in actual costs versus projected costs. This responsiveness further reduces the cost burden of unnecessarily large over- and under-recoveries.

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- 5.** Please provide the actual PGA commodity and transportation costs, revenues, therm sales to customers, and PGA factors for each month in 2008, 2009 and 2010. As part of this response, please provide a spreadsheet (hard copy and electronic version) showing the calculations, including the commodity, transportation, and total costs.
 - A.** These values are all derived from the A-schedules, filed monthly. Please see attached copies of the A-schedules regarding the formulas.

PGA Information from A-schedules

	<u>Jan-10</u>	<u>Feb-10</u>	<u>Mar-10</u>	<u>Apr-10</u>	<u>May-10</u>	<u>Jun-10</u>	<u>Jul-10</u>	<u>Aug-10</u>	<u>Sep-10</u>	<u>Oct-10</u>	<u>Nov-10</u>	<u>Dec-10</u>
Commodity Cost (A2-line 1)	\$36,664,249	\$28,045,101	\$23,743,117	\$10,554,260	\$12,566,261	\$19,421,257	\$21,330,515	\$17,844,198	\$15,091,819	\$11,993,513	\$13,646,085	\$23,312,421
Transportation Cost (A2-line 2)	\$4,154,017	\$4,023,062	\$4,351,556	\$5,003,902	\$3,446,593	\$2,877,424	\$2,979,948	\$3,086,205	\$4,036,504	\$5,398,425	\$5,850,120	4,953,862
Revenues (A2-line 6)	45,987,952	34,110,915	34,537,840	18,733,406	16,525,855	22,635,125	20,775,791	22,431,016	17,560,390	10,812,637	12,516,827	23,980,733
Therm Sales (A1-line 27)	46,789,157	45,492,498	49,919,250	30,211,571	33,259,296	40,687,663	38,249,718	39,571,759	37,427,012	23,310,051	28,521,786	36,718,997
PGA Factor (A2-line 45)	86.049	69.235	54.937	50.135	46.801	53.439	62.258	51.557	49.746	73.37	67.131	75.734

	<u>Jan-09</u>	<u>Feb-09</u>	<u>Mar-09</u>	<u>Apr-09</u>	<u>May-09</u>	<u>Jun-09</u>	<u>Jul-09</u>	<u>Aug-09</u>	<u>Sep-09</u>	<u>Oct-09</u>	<u>Nov-09</u>	<u>Dec-09</u>
Commodity Cost	\$27,448,815	\$21,680,750	\$18,963,228	\$12,878,744	\$13,947,484	\$13,711,914	\$12,411,669	\$14,556,901	\$13,551,117	\$19,749,809	\$13,908,028	\$18,909,757
Transportation Cost	\$4,426,563	\$3,997,553	\$4,399,830	\$3,954,083	\$2,906,887	\$2,786,759	\$3,018,209	\$3,145,812	\$3,188,802	\$3,948,149	\$4,496,197	4,746,411
Revenues	32,001,537	31,638,969	23,231,241	16,441,276	16,977,707	15,998,920	14,869,957	17,495,324	15,326,076	20,537,095	14,350,689	20,783,892
Therm Sales	34,776,532	34,347,950	32,716,123	29,451,967	32,709,257	30,398,321	28,895,244	38,307,176	37,523,952	45,275,120	25,513,531	29,875,000
PGA Factor	91.836	74.811	71.485	57.154	51.537	54.293	53.355	46.207	44.527	52.285	72.204	79.292

	<u>Jan-08</u>	<u>Feb-08</u>	<u>Mar-08</u>	<u>Apr-08</u>	<u>May-08</u>	<u>Jun-08</u>	<u>Jul-08</u>	<u>Aug-08</u>	<u>Sep-08</u>	<u>Oct-08</u>	<u>Nov-08</u>	<u>Dec-08</u>
Commodity Cost	\$36,389,506	\$32,432,535	\$38,833,990	\$34,364,194	\$36,118,472	\$45,089,164	\$42,733,286	\$46,730,376	\$35,278,014	\$25,076,831	\$25,092,492	\$26,629,395
Transportation Cost	\$4,791,886	\$4,443,503	\$4,533,067	\$4,097,784	\$2,974,186	\$2,863,252	\$3,130,416	\$3,309,388	\$3,078,060	\$4,389,775	\$4,520,453	4,022,245
Revenues	35,259,645	36,931,100	44,184,580	41,787,368	41,776,336	47,431,276	50,297,215	44,987,287	37,861,454	27,356,675	24,974,296	34,979,409
Therm Sales	38,976,385	40,358,285	43,651,228	39,573,931	35,940,276	38,116,412	39,088,156	45,185,288	38,646,800	32,685,273	28,817,958	35,131,733
PGA Factor	102.289	87.805	95.849	93.654	105.325	122.431	113.918	107.321	95.726	86.727	99.339	83.640

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If your company conducts financial hedging, please answer the following five questions.

6. Please provide the 2010 monthly actual and unrealized hedging effects based on the NYMEX natural gas price as of May 1, 2010. As part of this response, please provide a spreadsheet (hard copy and electronic version) showing the calculations, including the number of hedging contracts, the settlement or Mark-to-Market prices, and the net realized and unrealized gains or losses.
- A. The Gain/ (Loss) \$ column is calculated by subtracting the hedge MMBtus multiplied by the settled price from the hedge MMBtus multiplied by the hedge price.
(Hedge MMBtus * Settled Price) – (Hedge MMBtus * Hedge Price) = (Gain/(Loss) \$)

This calculation is performed on a transaction level basis all transaction gains and losses are added together to determine the net gain or loss for the month.

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		May-10	
Settlement Average Hedge			
	Price		Gain / (Loss) \$
R	May-10	\$ 4.2710	\$ (1,321,100)
U	Jun-10	\$ 3.9200	\$ (1,265,300)
U	Jul-10	\$ 4.0500	\$ (997,800)
U	Aug-10	\$ 4.1530	\$ (716,330)
U	Sep-10	\$ 4.2150	\$ (704,300)
U	Oct-10	\$ 4.3300	\$ (650,750)
U	Nov-10	\$ 4.7310	\$ (619,080)
U	Dec-10	\$ 5.1640	\$ (872,020)
U	Jan-11	\$ 5.3850	\$ (926,650)
U	Feb-11	\$ 5.3480	\$ (674,750)
U	Mar-11	\$ 5.2600	\$ (440,150)
U	Apr-11	\$ 5.0920	\$ (336,800)
U	May-11	\$ 5.1120	\$ (194,200)
U	Jun-11	\$ 5.1660	\$ (199,100)
U	Jul-11	\$ 5.2360	\$ (140,120)
U	Aug-11	\$ 5.2880	\$ (131,160)
U	Sep-11	\$ 5.3200	\$ (118,500)
U	Oct-11	\$ 5.4200	\$ (117,800)
U	Nov-11	\$ 5.6800	\$ (89,250)
U	Dec-11	\$ 5.9830	\$ (83,200)
U	Jan-12	\$ 6.1900	\$ (89,800)
U	Feb-12	\$ 6.1350	\$ (56,900)
U	Mar-12	\$ 5.9670	\$ (18,590)
U	Apr-12	\$ 5.5320	\$ (15,180)

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7. Please provide the 2010 monthly actual and unrealized hedging effects based on the NYMEX natural gas price as of December 31, 2010. As part of this response, please provide a spreadsheet (hard copy and electronic version) showing the calculations, including the number of hedging contracts, the settlement or Mark-to-Market prices, and the net realized and unrealized gains or losses.

A. The Gain/ (Loss) \$ column is calculated by subtracting the hedge MMBtus multiplied by the settled price from the hedge MMBtus multiplied by the hedge price.

$$\text{(Hedge MMBtus * Settled Price)} - \text{(Hedge MMBtus * Hedge Price)} = \text{(Gain/(Loss) \$)}$$

This calculation is performed on a transaction level basis all transaction gains and losses are added together to determine the net gain or loss for the month.

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		December-10	
Settlement Average Hedge			
		<u>Price</u>	<u>Gain / (Loss) \$</u>
R	Dec-10	\$ 4.2670	\$ (1,339,730)
U	Jan-11	\$ 4.1800	\$ (2,113,550)
U	Feb-11	\$ 4.1990	\$ (1,612,190)
U	Mar-11	\$ 4.1690	\$ (1,164,410)
U	Apr-11	\$ 4.1420	\$ (787,390)
U	May-11	\$ 4.1740	\$ (508,990)
U	Jun-11	\$ 4.2270	\$ (467,190)
U	Jul-11	\$ 4.2900	\$ (342,000)
U	Aug-11	\$ 4.3340	\$ (282,280)
U	Sep-11	\$ 4.3580	\$ (251,640)
U	Oct-11	\$ 4.4420	\$ (220,090)
U	Nov-11	\$ 4.6710	\$ (241,800)
U	Dec-11	\$ 4.9870	\$ (264,520)
U	Jan-12	\$ 5.1770	\$ (302,250)
U	Feb-12	\$ 5.1390	\$ (212,340)
U	Mar-12	\$ 5.0270	\$ (148,700)
U	Apr-12	\$ 4.8120	\$ (91,260)
U	May-12	\$ 4.8170	\$ (54,340)
U	Jun-12	\$ 4.8510	\$ (48,930)
U	Jul-12	\$ 4.8950	\$ (34,000)
U	Aug-12	\$ 4.9300	\$ (47,500)
U	Sep-12	\$ 4.9460	\$ 60
U	Oct-12	\$ 5.0220	\$ 2,520
U	Nov-12	\$ 5.2040	\$ (1,560)

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8. Please provide the 2011 monthly actual and unrealized hedging effects based on the NYMEX natural gas price as of February 1, 2011. As part of this response, please provide a spreadsheet (hard copy and electronic version) showing the calculations, including the number of hedging contracts, the settlement or Mark-to-Market prices, and the net realized and unrealized gains or losses.

A. The Gain/ (Loss) \$ column is calculated by subtracting the hedge MMBtus multiplied by the settled price from the hedge MMBtus multiplied by the hedge price.

$$\text{(Hedge MMBtus * Settled Price)} - \text{(Hedge MMBtus * Hedge Price)} = \text{(Gain/(Loss) \$)}$$

This calculation is performed on a transaction level basis all transaction gains and losses are added together to determine the net gain or loss for the month.

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February-11

Settlement Average Hedge

	Price		Gain / (Loss) \$
R Feb-11	\$ 4.3160		\$ (1,455,410)
U Mar-11	\$ 4.4200		\$ (976,290)
U Apr-11	\$ 4.4310		\$ (590,870)
U May-11	\$ 4.4700		\$ (378,750)
U Jun-11	\$ 4.5130		\$ (358,510)
U Jul-11	\$ 4.5620		\$ (241,360)
U Aug-11	\$ 4.5880		\$ (223,860)
U Sep-11	\$ 4.5900		\$ (200,600)
U Oct-11	\$ 4.6310		\$ (176,620)
U Nov-11	\$ 4.7680		\$ (222,400)
U Dec-11	\$ 4.9850		\$ (279,750)
U Jan-12	\$ 5.0990		\$ (334,650)
U Feb-12	\$ 5.0740		\$ (227,940)
U Mar-12	\$ 4.9960		\$ (147,060)
U Apr-12	\$ 4.8130		\$ (91,090)
U May-12	\$ 4.8160		\$ (54,470)
U Jun-12	\$ 4.8410		\$ (51,190)
U Jul-12	\$ 4.8780		\$ (35,360)
U Aug-12	\$ 4.9030		\$ (54,250)
U Sep-12	\$ 4.9110		\$ (2,040)
U Oct-12	\$ 4.9710		\$ (540)
U Nov-12	\$ 5.1060		\$ (7,440)
U Dec-12	\$ 5.3110		\$ (8,720)
U Jan-13	\$ 5.4310		\$ (360)

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9. Please provide the 2011 monthly actual and unrealized hedging effects based on the NYMEX natural gas price as of April 1, 2011. As part of this response, please provide a spreadsheet (hard copy and electronic version) showing the calculations, including the number of hedging contracts, the settlement or Mark-to-Market prices, and the net realized and unrealized gains or losses.

A. The Gain/ (Loss) \$ column is calculated by subtracting the hedge MMBtus multiplied by the settled price from the hedge MMBtus multiplied by the hedge price.

$$\text{(Hedge MMBtus * Settled Price) - (Hedge MMBtus * Hedge Price) = (Gain/(Loss) \$)}$$

This calculation is performed on a transaction level basis all transaction gains and losses are added together to determine the net gain or loss for the month.

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		April-11	
Settlement Average Hedge			
		Price	Gain / (Loss) \$
R	Apr-11	\$ 4.2400	\$ (693,750)
U	May-11	\$ 4.3890	\$ (360,710)
U	Jun-11	\$ 4.4580	\$ (293,900)
U	Jul-11	\$ 4.5330	\$ (197,130)
U	Aug-11	\$ 4.5660	\$ (170,400)
U	Sep-11	\$ 4.5710	\$ (141,500)
U	Oct-11	\$ 4.6170	\$ (162,240)
U	Nov-11	\$ 4.7700	\$ (184,500)
U	Dec-11	\$ 4.9980	\$ (104,910)
U	Jan-12	\$ 5.1180	\$ (138,050)
U	Feb-12	\$ 5.0980	\$ (28,230)
U	Mar-12	\$ 5.0380	\$ 54,180
U	Apr-12	\$ 4.8830	\$ (15,590)
U	May-12	\$ 4.9030	\$ 19,160
U	Jun-12	\$ 4.9380	\$ 10,360
U	Jul-12	\$ 4.9800	\$ 23,200
U	Aug-12	\$ 5.0070	\$ (28,250)
U	Sep-12	\$ 5.0130	\$ 2,230
U	Oct-12	\$ 5.0630	\$ 4,980
U	Nov-12	\$ 5.2050	\$ (1,500)
U	Dec-12	\$ 5.4310	\$ 880
U	Jan-13	\$ 5.5530	\$ 10,620
U	Feb-13	\$ 5.5230	\$ 18,800
U	Mar-13	\$ 5.4410	\$ 100

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10. Please provide the 2011 monthly actual and unrealized hedging effects based on the NYMEX natural gas price as of July 1, 2011. As part of this response, please provide a spreadsheet (hard copy and electronic version) showing the calculations, including the number of hedging contracts, the settlement or Mark-to-Market prices, and the net realized and unrealized gains or losses.

A. The Gain/ (Loss) \$ column is calculated by subtracting the hedge MMBtus multiplied by the settled price from the hedge MMBtus multiplied by the hedge price.

$(\text{Hedge MMBtus} * \text{Settled Price}) - (\text{Hedge MMBtus} * \text{Hedge Price}) = (\text{Gain}/(\text{Loss})$
\$)

This calculation is performed on a transaction level basis all transaction gains and losses are added together to determine the net gain or loss for the month.

PEOPLES GAS SYSTEM
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July-11

Settlement Average Hedge

		Price		Gain / (Loss) \$
R	Jul-11	\$ 4.3570		\$ (280,130)
U	Aug-11	\$ 4.3740		\$ (250,100)
U	Sep-11	\$ 4.3930		\$ (186,300)
U	Oct-11	\$ 4.4320		\$ (180,470)
U	Nov-11	\$ 4.5530		\$ (254,330)
U	Dec-11	\$ 4.7390		\$ (281,030)
U	Jan-12	\$ 4.8440		\$ (384,650)
U	Feb-12	\$ 4.8390		\$ (258,740)
U	Mar-12	\$ 4.7900		\$ (171,500)
U	Apr-12	\$ 4.6770		\$ (91,810)
U	May-12	\$ 4.7000		\$ (45,800)
U	Jun-12	\$ 4.7320		\$ (45,260)
U	Jul-12	\$ 4.7760		\$ (25,760)
U	Aug-12	\$ 4.8040		\$ (79,000)
U	Sep-12	\$ 4.8140		\$ (23,340)
U	Oct-12	\$ 4.8540		\$ (20,085)
U	Nov-12	\$ 4.9900		\$ (32,000)
U	Dec-12	\$ 5.2050		\$ (36,750)
U	Jan-13	\$ 5.3120		\$ (40,070)
U	Feb-13	\$ 5.2800		\$ (9,100)
U	Mar-13	\$ 5.2040		\$ (27,680)
U	Apr-13	\$ 4.9720		\$ (19,110)
U	May-13	\$ 4.9840		\$ (12,100)
U	Jun-13	\$ 5.0170		\$ 4,850