

**Ruth Nettles**

---

**From:** Ansley Watson, JR. [AW@macfar.com]  
**Sent:** Wednesday, June 24, 2009 3:58 PM  
**To:** Filings@psc.state.fl.us  
**Cc:** Kandi Floyd; jmcwhirter@mac-law.com; Caroline Klancke; Katherine Fleming; Binswanger, Lewis M.; AFollmer@usg.com; Charles Rehwinkel  
**Subject:** Docket No. 080318-GU  
**Attachments:** 080318 - PGS Motion for Reconsideration.pdf

- a. Ansley Watson, Jr.  
Macfarlane Ferguson & McMullen  
P. O. Box 1531  
Tampa, Florida 33601  
Phone: (813) 273-4321  
Fax: (813) 273-4396  
E-mail: aw@macfar.com
- b. Docket No. 080318-GU – Petition for rate increase by Peoples Gas System
- c. Peoples Gas System
- d. Fifteen (15) pages
- e. The attached document is Peoples Gas System's Motion for Reconsideration of Order No. PSC-09-0411-FOF-GU.

Ansley Watson, Jr.  
Macfarlane Ferguson & McMullen  
P. O. Box 1531  
Tampa, Florida 33601  
Phone: (813) 273-4321  
Fax: (813) 273-4396  
E-mail: [aw@macfar.com](mailto:aw@macfar.com)

DOCUMENT NUMBER - DATE

06340 JUN 24 8

FPSC - COMMISSION CLERK

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition for rate increase by )  
Peoples Gas System. )  
\_\_\_\_\_ )

DOCKET NO. 080318-GU  
Filed: 6-24-09

**PEOPLES GAS SYSTEM'S  
MOTION FOR RECONSIDERATION**

Peoples Gas System ("Peoples" or the "Company"), pursuant to Rule 25-22.060, *Florida Administrative Code*, moves the Commission to reconsider its Order No. PSC-09-0411-FOF-GU (the "Order") issued June 9, 2009 in this proceeding and, as grounds therefor, says:

**Preface**

1. Peoples urges the Commission to reconsider its decision in the Order with respect to the calculation of the Company's weighted average cost of capital and revenue requirements. The Order approves certain adjustments to rate base. Some of these adjustments were made by the Commission on Schedule 1 (page 56) of the Order, and some were made by Peoples on MFR Schedule G-1, page 4 (in accordance with prior Commission decisions). In order to reconcile the rate base to the capital structure to reflect these adjustments, the Commission made capital structure pro rata adjustments as reflected on Schedule 2 (page 57) of the Order. Additionally, other pro rata and specific adjustments shown on MFR Schedule G-3, page 2, reflected prior Commission decisions and were once again confirmed in the Order by the Commission. Peoples' concern with these adjustments relates to whether the plant-related adjustments necessary to reconcile rate base and capital structure should be made over only investor sources of capital (or 100 percent out of equity in the case of adjustments removing non-utility assets) as the Commission decided in the Order, versus first reducing the accumulated deferred income tax ("ADIT") component of the capital structure for the amount of ADIT related to the items removed from rate base, and spreading the remaining amount pro rata over investor sources of

DOCUMENT NUMBER-DATE

06340 JUN 24 8

FPSC-COMMISSION CLERK

capital (or 100 percent equity depending on the nature of the adjustment).

Peoples made the investor sources only pro rata adjustments (and the 100 percent equity adjustment for the non-utility assets) on MFR Schedule G-3, page 2, in its initial filing since (as noted by the Commission on page 20 of the Order) this was the manner in which the adjustments were made in Peoples' last base rate case. The pro rata adjustments made by the Commission on Schedule 2 of the Order were also made over only investor sources of capital. Peoples has since learned that these methods of making the adjustments could have severe income tax-related consequences for the Company and its customers because the ADIT included in the capital structure was not reduced by the ADIT associated with the items excluded from rate base.

### **Nature of the Order**

2. The Order is a final order of the Commission adjusting Peoples' base rates effective June 18, 2009. Peoples urges the Commission to reconsider only that portion of the Order that reconciles the rate base to the capital structure to determine the weighted average cost of capital used in determining the Company's revenue requirements solely to prevent a likely violation of the Internal Revenue Code's ("Code's") normalization requirements.

### **Standard of Review on Reconsideration**

3. The purpose of a petition for rehearing or reconsideration is to bring to the attention of the trier of fact some factual or legal point it overlooked or failed to consider when it rendered its order in the first instance. *Diamond Cab Company of Miami v. King*, 146 So.2d 889 (Fla. 1962). This motion identifies factual and legal considerations overlooked by the Commission. Peoples' basis for reconsideration of the Order is failure by the Commission to properly reconcile rate base to capital structure in calculating the weighted average cost of capital.

4. The Order's calculation of the weighted average cost of capital is incorrect because it likely violates the normalization rules under former Section 167(1) and Section 168(i)(9)(B) of the Code and Sections 1.167(1)-1(a) and 1.167(a)-11(b)(6) of the Income Tax Regulations.

#### **Normalization Violation**

5. The normalization rules imposed by the Code employ an accounting and ratemaking concept, normalization, to ensure that the capital subsidies of accelerated depreciation and investment tax credits provide an investment incentive for regulated utilities. They accomplish this by premising the availability of these benefits upon compliance with a set of accounting and ratemaking rules, which prescribe the way in which these tax benefits must be reflected. With regard to depreciation, the rules require the establishment of deferred taxes and establish limits on the amount of ADIT that can offset rate base (or be treated as no-cost capital in calculating the allowed rate of return) and designate the events that give rise to deferred tax reversals. In short, they are a comprehensive system of control over the reflection of the benefits of accelerated depreciation for ratemaking purposes. As part of these rules, any ratemaking procedure or adjustment with respect to a utility's tax expense, depreciation expense, or reserve for deferred taxes must also be consistently used with respect to the other two such items and with respect to rate base. Code Section 168(i)(9)(B). The consequences of a depreciation normalization violation are that the taxpayer (*i.e.*, Peoples) loses the ability to use accelerated tax methods of depreciation with respect to all of its "public utility property" assets, both those it owns when the violation occurs and those it acquires in the future.

6. The failure by the Commission to reduce the ADIT included in the capital structure for the plant-related items excluded from rate base results in an inconsistency (between

these items removed from rate base and the ADIT associated with the removed items) that the Internal Revenue Service (the "IRS") has ruled is a normalization violation. While Private Letter Rulings ("PLRs") are only binding on the taxpayer to which they are issued, their reasoning and conclusions provide guidance for the manner in which the IRS is likely to rule.

PLR 200418001 (copy attached to this motion as Exhibit A) states, in part, as follows:

In the present situation, Taxpayer's rate base, tax expense, and depreciation expense for ratemaking purposes will be determined without the cost of the Excluded Property. If the [ADIT] reserve associated with the Excluded Property is not removed from Taxpayer's regulated books of account and is used to reduce the Taxpayer's rate base, the consistency requirement of section 168(i)(9)(B) will be violated because Taxpayer will not include the cost of the Excluded Property in its rate base or include the amount of related depreciation in its computation of tax expense and depreciation expense for ratemaking purposes.

7. In light of the conclusion reached by the IRS in this PLR, the adjustments made by the Commission reflected in the Order, because made without reducing the ADIT related to the plant-related items excluded from rate base, appear to be highly problematic and a likely violation of the Code's normalization rules.

8. On page 19 of the Order, the Commission accurately describes normalization and the penalty for violating the normalization requirements, which is the loss of the utility's ability to claim accelerated depreciation for income tax purposes on all assets as of the violation date and on subsequent additions. A violation of the Code's normalization requirements would have serious negative impacts on the Company and its customers.

#### **Rate Base Adjustments**

9. In the Order, Schedule 1 on page 56, the Commission reduced the Company's jurisdictional rate base of \$563,599,436 by \$2,754,679. On MFR Schedule G-1, page 4, Peoples made other reductions to rate base which were in accordance with prior Commission

decisions. As a result of prorating rate base disallowances across only investor sources of capital or as specific adjustments to equity as depicted on Schedule 2 to the Order and on MFR Schedule G-3, page 2, without first reducing the ADIT related to the excluded items, the Commission excluded plant-related items from rate base but failed to adjust the ADIT associated with the excluded items. In other words, the ADIT included in the capital structure contains amounts related to excluded rate base components. Fairness and consistency require that any ADIT balances related to net plant removed from rate base, such as those items referenced above, should also be removed from ADIT balances.

10. A spreadsheet showing the appropriate amounts of ADIT associated with the rate base reductions approved by the Commission is attached as Exhibit B to this motion. The ADIT adjustments identified on Exhibit B should be made in order to avoid a likely violation of the Code's normalization requirements. Attached as Exhibit C is a recalculation of the Company's weighted average cost of capital, and Exhibit D is a recalculation of the resulting revenue requirements. As shown on Exhibit D, the impact on revenue requirements is an increase of \$169,912.

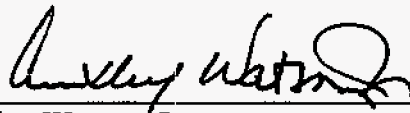
11. In order to avoid a potential normalization violation, Peoples requests that the Commission reconsider the reconciliation of rate base with the capital structure, specifically, the investor only pro rata adjustments and the 100 percent equity adjustment for the plant-related items shown on Exhibit B. Peoples believes that the IRS would conclude that the consistency provisions set forth in Code Section 168 have not been employed appropriately in the Order. Should the Commission agree with the Company's position and recommended changes, Peoples' weighted average cost of capital and revenue requirements should be adjusted and the ongoing surveillance report calculations should reflect the pro rata adjustments over investor

sources of capital and the 100 percent equity adjustment only after reducing the ADIT included in the capital structure by the amount of the ADIT related to the plant-related items excluded from rate base.

WHEREFORE, Peoples respectfully urges the Commission to reconsider its Order No. PSC-09-0411-FOF-GU and recognize that the foregoing calls for a recalculation of Peoples' weighted average cost of capital and the resulting revenue requirements calculated by such order.

Dated this 24th day of June, 2009.

Respectfully submitted,



---

Ansley Watson, Jr.  
Macfarlane Ferguson & McMullen  
P. O. Box 1531  
Tampa, Florida 33601-1531  
Phone: (813) 273-4321  
Fax: (813) 273-4396  
E-mail: [aw@macfar.com](mailto:aw@macfar.com)

Attorneys for Peoples Gas System

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and copy of the foregoing Motion for Reconsideration has been furnished electronically and by U. S. Mail this 24th day of June, 2009, to the following:

Caroline M. Klancke, Esquire  
Office of General Counsel  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Katherine E. Fleming, Esquire  
Office of General Counsel  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Charles J. Rehwinkel, Esquire  
Office of Public Counsel  
c/o The Florida Legislature  
111 West Madison Street, Room 812  
Tallahassee, Florida 32399-1400

John W. McWhirter, Jr., Esquire  
McWhirter Law Firm  
P. O. Box 3350  
Tampa, Florida 33601-3350

Ms. Annette Follmer  
U. S. Gypsum Company  
P. O. Box 806278  
125 S. Franklin Street  
Chicago, Illinois 60680-4124



Ansley Watson, Jr.



Westlaw

PLR 200418001, 2004 WL 933116 (IRS PLR)

Page 1

C

PLR 200418001, 2004 WL 933116 (IRS PLR)

Internal Revenue Service (I.R.S.)  
IRS PLR

Private Letter Ruling

Issue: April 30, 2004  
January 13, 2004

Section 167 -- Depreciation 167.00-00 Depreciation

167.22-00 Public Utility Property

167.22-01 Normalization Rules

Section 168 -- (Repealed-1976 Act) Amortization of Emergency Facilities 168.00-00 Modified Accelerated Cost Recovery System

168.24-00 Public Utility Property

168.24-01 Normalization Rules

CC: PSI: B06 - PLR-101933-03

In Re:

Private Letter Ruling Request on Normalization

Taxpayer =

Commission =

Department =

State X =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

\$B =

\$C =

Dear \*\*\* :

This letter is in response to your letter dated December 2, 2002, requesting a ruling under the normalization requirements of former section 167(f) and section 168(f)(9) of the Internal Revenue Code with respect to the accumulated deferred federal income tax ("ADFIT") reserve attributable to property that is removed from Taxpayer's regulated books of account.

Taxpayer represents that the facts are as follows:

Taxpayer is the parent company of an affiliated group of corporations that files a consolidated federal income tax return on a calendar year basis using the accrual method of accounting. Taxpayer is a regulated public utility engaged in, among other things, the generation, transmission, distribution, and sale of electrical energy.

In State X, Taxpayer provides electric distribution and transmission services and is regulated by the Commission. Taxpayer's rates in State X are established and approved by the Commission on a "rate of return" basis.

On Date 1, the Commission ordered audits of both the electric transmission and electric distribution plant accounts of Taxpayer in State X. The purposes of the audit were (1) to support and establish proper depreciation rates for future ratemaking, and (2) to identify and remove from regulated plant accounts any assets not in service, not properly identified, not verifiable, or not properly includible as transmission and distribution assets.

The final audit reports (one for transmission plant and one for distribution plant) issued on Date 2 and Date 3, respectively, recommended adjustments in Taxpayer's regulated plant accounts based on the physical inventory and independent valuation conducted by the auditors. The adjustments to these plant account balances resulted from Taxpayer not properly maintaining its plant accounts. Following the issuance of the audit report, Taxpayer and the Department, among others, entered into a settlement agreement.

Pursuant to the settlement which is pending before the Commission, property in the amount of \$B ("Excluded Property") will be removed from Taxpayer's regulated books of account. However, the accumulated depreciation associated with the Excluded Property will not be removed from Taxpayer's regulated books of account.

In Date 4, Taxpayer initiated a rate case in State X with respect to its State X electric division. In its initial rate case filing, Taxpayer excluded from its computation of regulated rate base the Excluded Property in accordance with the settlement referred to above. As noted above, the accumulated depreciation reserve in rate base was not adjusted for the accumulated depreciation reserve on the Excluded Property. Taxpayer did not reflect regulatory depreciation associated with the Excluded Property in either its regulated depreciation expense or in its computation of regulated tax expense. Additionally, Taxpayer removed the ADFIT reserve associated with the Excluded Property (in the amount of \$C) from its computation of regulated rate base.

The Department took the opposite position on the ADFIT reserve associated with the Excluded Property and sought to have this ADFIT reserve maintained on Taxpayer's regulated books of account to serve as a reduction to rate base. However, in its final order dated Date 5, the Commission adopted Taxpayer's position and agreed to the removal of the ADFIT reserve associated with the Excluded Property, but ordered Taxpayer to submit a letter ruling request to the Internal Revenue Service for the purpose of determining whether adoption of the De-

partment's proposed treatment of the ADFIT reserve associated with the Excluded Property violates the normalization requirements.

Ruling Requested

Accordingly, Taxpayer seeks the following ruling:

Would the maintenance of the ADFIT reserve associated with the Excluded Property on Taxpayer's regulated books of account and its reflection in the computation of regulated rate base constitute a violation of the normalization rules under former section 167(f) and section 168(f)(9) of the Code, and section 1.167(f)-1(b) and 1.167(a)-11(b)(6) of the Income Tax Regulations?

Law and Analysis

Section 168(f)(10) of the Code provides, in part, that the term "public utility property" means property used predominantly in the trade or business of the furnishing or sale of electrical energy if the rates for such furnishing or sale, as the case may be, have been established or approved by a State of political subdivision thereof, by any agency or instrumentality of the United States, or by a public service or public utility commission or other similar body of any State or political subdivision thereof.

Prior to the Revenue Reconciliation Act of 1990, the definition of public utility property was contained in section 167(f)(3)(A) of the Code and section 168(f)(10) which defined public utility property by means of a cross reference to section 167(f)(3)(A). The definition of public utility property is unchanged. Section 1.167(f)-1(b)(1) of the regulations provides that under section 167(f)(3)(A), property is public utility property during any period in which it is used predominantly in a section 167(f) public utility activity. The term "section 167(f) public utility activity" means, in part, the trade or business of the furnishing or sale of electrical energy if the rates for such furnishing or sale have been established or approved by a regulatory body described in section 167(f)(3)(A). The term "regulatory body described in section 167(f)(3)(A)" means a State (including the District of Columbia) or political subdivision thereof, any agency or instrumentality of the United States, or a public service or public utility commission or other body of any State or political subdivision thereof similar to such a commission. The term "established or approved" includes the filing of a schedule of rates with a regulatory body that has the power to approve such rates, though such body has taken no action on the filed schedule or generally leaves undisturbed rates filed by the taxpayer.

Section 168(f)(2) of the Code provides that the depreciation deduction determined under section 168 shall not apply to any public utility property (within the meaning of section 168(f)(10)) if the taxpayer does not use a normalization method of accounting.

In order to use a normalization method of accounting, section 168(f)(9)(A)(i) of the Code requires the taxpayer, in computing its tax expenses for purposes of establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, to use a method of depreciation with respect to public utility property that is the same as, and a depreciation period for such property that is no shorter than, the method and period used to compute its depreciation for such purposes. Under section 168(f)(9)(A)(ii), if the amount allowable as a deduction under section 168 with respect to public utility property differs from the amount that would be allowable as a deduction under section 167 using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under section 168(f)(9)(A)(i), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference.

Section 168(f)(9)(B)(i) of the Code provides that one way in which the requirements of section 168(f)(9)(A) are

not met is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment that is inconsistent with the requirements of section 168(i)(9)(A). Section 168(i)(9)(B)(ii) provides that the procedures and adjustments that are to be treated as inconsistent for purposes of section 168(i)(9)(B)(i) shall include any procedure or adjustment for ratemaking purposes that uses an estimate or projection of the taxpayer's tax expense, depreciation expense, or reserve for deferred taxes under section 168(i)(9)(A)(B) unless such estimate or projection is also used, for ratemaking purposes, with respect to the other two such items and with respect to the rate base.

Former section 167(l) of the Code generally provides that public utilities are entitled to use accelerated methods of depreciation if they use a "normalization method of accounting." A normalization method of accounting is defined in former section 167(l)(3)(G) in a manner consistent with that found in section 168(i)(9)(A). According to former section 167(l)(3)(G), the consistency requirements of section 168(i)(9)(B) apply to former section 167(l).

Section 1.167(l)-1(h)(1)(i) of the regulations provides that the reserve established for public utility property should reflect the total amount of the deferral of federal income tax liability resulting from the taxpayer's use of different depreciation methods for tax and ratemaking purposes.

Section 1.167(l)-1(h)(1)(iii) of the regulations provides that the amount of federal income tax liability deferred as a result of the use of different depreciation methods for tax and ratemaking purposes is the excess (computed without regard to credits) of the amount the tax liability would have been had the depreciation method for ratemaking purposes been used over the amount of the actual tax liability. This amount shall be taken into account for the taxable year in which the different methods of depreciation are used.

Section 1.167(l)-1(h)(2)(i) of the regulations provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that the aggregate amount allocable to deferred taxes may be reduced to reflect the amount for any taxable year by which federal income taxes are greater by reason of the prior use of different methods of depreciation under section 1.167(l)-1(h)(1)(i) or to reflect asset retirements or the expiration of the period for depreciation used for determining the allowance for depreciation under section 167(a).

Section 1.167(a)-11(b)(6) of the regulations provides similar rules for public utility property subject to depreciation under the Class Life Asset Depreciation Range System (CLADR).

In the present situation, Taxpayer's rate base, tax expense, and depreciation expense for ratemaking purposes will be determined without the cost of the Excluded Property. If the ADFIT reserve associated with the Excluded Property is not removed from Taxpayer's regulated books of account and is used to reduce Taxpayer's rate base, the consistency requirement of section 168(i)(9)(B) will be violated because Taxpayer will not include the cost of the Excluded Property in its rate base or include the amount of related depreciation in its computation of tax expense and depreciation expense for ratemaking purposes.

#### Ruling

Based solely on Taxpayer's representations and the law and analysis as set forth above, we conclude that the maintenance of the ADFIT reserve associated with the Excluded Property on Taxpayer's regulated books of account and its reflection in the computation of regulated rate base would constitute a violation of the normalization rules under former section 167(l) and section 168(i)(9) of the Code, and sections 1.167(l)-1(b) and 1.167(a)-11(b)(6) of the regulations.

PLR 200418001, 2004 WL 933116 (IRS PLR)

Page 5

Except as specifically set forth above, no opinion is expressed concerning the federal income tax consequences of the above-described facts under any other provision of the Code or regulations. This letter ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) of the Code provides that this ruling may not be used or cited as precedent.

In accordance with the power of attorney on file, a copy of this letter is being sent to Taxpayer's authorized legal representative.

Sincerely yours,  
Kathleen Reed  
Senior Technician Reviser  
Office of the Associate Chief Counsel (Passthroughs and Special Industries)

Enclosures (2):

Copy of this letter

Copy for section 6110 purposes

This document may not be used or cited as precedent. Section 6110(j)(3) of the Internal Revenue Code.

PLR 200418001, 2004 WL 933116 (IRS PLR)  
END OF DOCUMENT

**Peoples Gas System  
Capital Structure / Rate Base Adjustments**

	Total Adjustments	Potential Violation of Normalization?	Associated ADIT*	
			Specific	Pro Rata
<b>Previous Commission Ordered Adjustments:</b>				
WFNG Acquisition Adjustment	\$ (963,000)	Yes	\$ -	\$ (371,477)
Non-Utility	(202,184)	Yes	(9,927)	-
MEP (MSEA)	(200,000)	Yes	-	(9,820)
Property Held for Future Use	(228,955)	No	-	-
Working Capital	(11,978,123)	No	-	-
<b>Subtotal (Per MFR G-1, page 4)</b>	<b>(13,572,262)</b>		<b>(9,927)</b>	<b>(381,297)</b>
<b>Current Commission Ordered Adjustments:</b>				
Plant in Service Reduction	(1,959,308)	Yes	-	(6,424)
Cost of Removal Overstatement	(795,371)	Yes	-	(317,773)
<b>Subtotal (Per Schedule 1 of Final Order)</b>	<b>(2,754,679)</b>		<b>-</b>	<b>(324,198)</b>
<b>Grand Total</b>	<b>\$ (16,326,941)</b>		<b>\$ (9,927)</b>	<b>\$ (705,495)</b>

\* Offset to the reduction in ADIT would be a pro rata adjustment over investor sources of capital or 100% equity for the non-utility adjustment.

Peoples Gas System  
13-Month Average Capital Structure  
December 2009 Projected Test Year

**Company As Filed**

	(\$) Company Adjusted	Ratio	Cost Rate	Weighted Cost
Common Equity	\$273,561,565	48.54%	11.50%	5.58%
Long-term Debt	222,773,987	39.53%	7.20%	2.85%
Short-term Debt	3,456,397	0.61%	4.50%	0.03%
Preferred Stock	0	0.00%	0.00%	0.00%
Customer Deposits	36,128,943	6.41%	6.65%	0.43%
Deferred Income Taxes	27,670,682	4.91%	0.00%	0.00%
Tax Credits - Zero Cost	7,862	0.00%	0.00%	0.00%
Tax Credits - Weighted Cost	0	0.00%	0.00%	0.00%
<b>Total</b>	<b>\$563,599,436</b>	<b>100.00%</b>		<b>6.88%</b>

Equity Ratio 54.74%

**Commission Adjusted**

	(\$) Amount	(\$) Specific Adjustments	(\$) Pro Rata Adjustments	(\$) Commission Adjusted	Ratio	Cost Rate	Weighted Cost
Common Equity	\$273,561,565	\$0	(\$1,507,776)	\$272,053,789	48.51%	10.75%	5.21%
Long-term Debt	222,773,987	0	(1,227,853)	221,546,134	39.50%	7.20%	2.84%
Short-term Debt	3,456,397	0	(19,050)	3,437,347	0.61%	3.02%	0.02%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	36,128,943	0	0	36,128,943	6.44%	6.65%	0.43%
Deferred Income Taxes	27,670,682	0	0	27,670,682	4.93%	0.00%	0.00%
Tax Credits - Zero Cost	7,862	0	0	7,862	0.00%	0.00%	0.00%
Tax Credits - Weighted Cost	0	0	0	0	0.00%	0.00%	0.00%
<b>Total</b>	<b>\$563,599,436</b>	<b>\$0</b>	<b>(\$2,754,679)</b>	<b>\$560,844,757</b>	<b>100.00%</b>		<b>8.50%</b>

Equity Ratio 54.74% 54.74%

**Adjusted to Address  
Normalization Requirements**

	(\$) Amount	(\$) Specific Adjustments	(\$) Pro Rata Adjustments	(\$) Adjusted per Motion	Ratio	Cost Rate	Weighted Cost
Common Equity	\$272,053,789	\$9,927	\$386,153	\$272,449,869	48.58%	10.75%	5.22%
Long-term Debt	221,546,134	0	314,463	221,860,597	39.56%	7.20%	2.85%
Short-term Debt	3,437,347	0	4,879	3,442,226	0.61%	3.02%	0.02%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	36,128,943	0	0	36,128,943	6.44%	6.65%	0.43%
Deferred Income Taxes	27,670,682	(9,927)	(705,495)	26,955,260	4.81%	0.00%	0.00%
Tax Credits - Zero Cost	7,862	0	0	7,862	0.00%	0.00%	0.00%
Tax Credits - Weighted Cost	0	0	0	0	0.00%	0.00%	0.00%
<b>Total</b>	<b>\$560,844,757</b>	<b>\$0</b>	<b>\$0</b>	<b>\$560,844,757</b>	<b>100.00%</b>		<b>8.52%</b>

Equity Ratio 54.74% 54.74%

**Interest Synchronization**

	(\$) Adjustment Amount	(\$) Cost Rate	(\$) Effect on Interest Exp.	(\$) Tax Rate	(\$) Effect on Income Tax
Long-term Debt	\$314,463	7.20%	\$22,641	38.575%	(\$8,734)
Short-term Debt	4,879	3.02%	147	38.575%	(57)
Customer Deposits	0	6.65%	0	38.575%	0
<b>Total</b>					<b>(\$8,791)</b>

Peoples Gas System  
Revenue Requirements Calculation  
December 2009 Projected Test Year

<u>Line No</u>		<u>As Filed</u>	<u>Commission Adjusted</u>	<u>Adjusted to Address Normalization Requirements</u>
1	Rate Base	\$563,599,436	\$560,844,757	\$560,844,757
2	Overall Rate of Return	<u>8.88%</u>	<u>8.50%</u>	<u>8.52%</u>
3	Required Net Operating Income (1)x(2)	50,060,255	47,671,804	47,783,973
4	Achieved Net Operating Income	<u>33,944,697</u>	<u>36,019,112</u>	<u>36,027,903</u>
5	Net Operating Income Deficiency (3)-(4)	16,115,558	11,652,692	11,756,070
6	Net Operating Income Multiplier	<u>1.6436</u>	<u>1.6436</u>	<u>1.6436</u>
7	Operating Revenue Increase (5)x(6)	<u>\$26,488,091</u>	<u>\$19,152,365</u>	<u>\$19,322,277</u>
8	Change In Revenue Requirements			<u>\$169,912</u>

Calculation of Revised Net Operating Income:

Commission Adjusted NOI	\$36,019,112
Interest Synchronization change	<u>8,791</u>
NOI Adjusted per Motion	<u>\$36,027,903</u>