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Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE:	November 20, 2019
то:	Adam J. Teitzman, Commission Clerk, Office of Commission Clerk
FROM:	Dale R. Buys, Public Utilities Supervisor, Division of Accounting & Finance
RE:	Docket No. 20190171-GU – Petition for Approval of 2018 True-up, the Projected 2019 True-up and 2020 Revenue Requirements and Surcharges Associated with Cast Iron/Bare Steel Pipe Replacement Rider, by Peoples Gas System.

Please file the attached email correspondence and the accompanying attachments (2) in the documents section in Docket No. 20190171-GU.

Dale Buys

From:	Floyd, Kandi M. <kfloyd@tecoenergy.com></kfloyd@tecoenergy.com>
Sent:	Monday, November 18, 2019 2:52 PM
То:	Dale Buys
Cc:	Mark Cicchetti; Hillary, Sean P.
Subject:	Peoples Gas System Revised Surveillance Reports
Attachments:	PGS December 2017 SR Revised.pdf; PGS December 2018 SR Revised.pdf

Dale:

Per our conversation on Friday, attached are PGS revised Surveillance Reports for 2017 and 2018. Additionally, below are points that have shaped our position with the amended CIBS amended filing.

- In Order No. PSC-12-0476-TRF-GU approving the establishment of Peoples' Cast Iron Bare Steel Rider, Peoples
 agreed to use actual overall cost of capital, including the return on equity from Peoples last rate case and to use
 the most currently available December earnings surveillance report to determine the return on Cast Iron Bare
 Steel Rider assets.
- In response to Staff's Second Data Request to Docket No. 20190171-GU, Peoples stated that its weighted average cost of capital (WACC) is compliant with Internal Revenue Code (IRC) § 167 and § 168. This was based on the premise that the Limitation Provision in Treasury Regulation Section § 1.167(1)-1(h)(6)(i) states that as long as the amount of depreciation-related ADFIT used in ratemaking is lower than the amount that would have been used under the Consistency Rule, then there is no violation of Normalization.
- After further review, Peoples has determined that in calculating its WACC it has been removing plant from rate base for recovery through the Cast Iron Bare Steel Rider recovery clause without removing the associated accumulated deferred income tax ("ADIT"), which may lead to a normalization violation. Specifically, in removing the Cast Iron Bare Steel Plant from rate base for recovery through the Cast Iron Bare Steel Rider Peoples' has been making the pro rata adjustment over only the investor sources of capital. The precedent of making the pro rata adjustment over investor sources of capital only is Order No. PSC-03-0038FOF-GU, issued January 6, 2003, in Docket No. 020384-GU, In re: Petition for rate increase by Peoples Gas System. That order stated that any pro rata adjustment should be made over investor sources which would only include common equity, preferred stock, short-term and long-term debt. In a subsequent Commission order on this issue, Order No. PSC-09-0571-FOF-EI issued August 21,2009 for Peoples' sister company, Tampa Electric, it was stated that "removing plant from rate base for recovery through cost recovery clauses without removing the associated ADITs and ITCs may lead to a normalization violation."
- The normalization rules imposed by the IRC 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 and designate the events that give rise to deferred tax reversals. In short, it is a comprehensive system of control over the reflection of the benefits of accelerated depreciation in ratemaking. 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 he consistently used with respect to the other two such items and with respect to rate base. The consequences of a depreciation normalization violation are that the taxpayer loses the ability to use accelerated tax methods of depreciation with respect to all of its jurisdictional assets, both those it owns when the violation occurs and those it acquires in the future.

- Under Revenue Procedure 2017-47, 207-38 Internal Revenue Bulletin 233 issued on September 7, 2017, the
 Internal Revenue Service (IRS) has crafted safe-harbor for taxpayers owning public utility properties so that
 accidental failure to follow practice or procedure consistent with normalization rules for ITC or depreciation
 won't be considered violation of normalization rules and won't operate to deny taxpayers benefits of ITC or
 accelerated depreciation. To qualify for this relief, taxpayer must change its inconsistent practice to consistent
 practice approved by utility regulator at next available opportunity, and retain documentation. If regulator
 considered and addressed application of normalization rules to inconsistent practice or procedure at time of
 rate-making approval, taxpayer won't qualify for safe-harbor.
- To avoid a potential normalization violation, Peoples' requests that it modify its WACC calculation such that
 plant removed from rate base for recovery through the Cast Iron Bare Steel Rider should be removed from the
 capital structure through a specific adjustment to ADIT and the remainder through a pro rata adjustment over
 investor sources of capital. Peoples believes that a specific adjustment to the ADIT is appropriate in this
 instance because the asset investments related to Rider CI/BSR qualify as "repair" under IRS rules and are
 allowed to be fully deducted in the year they are incurred. The ADIT that results from the treatment of these
 assets can be easily determined and should be specifically removed when reconciling to rate base.
- The CIBS assets are placed in service for book and depreciated. For Tax purposes, the amounts paid for repairs and maintenance for CIBS that are not required to be capitalized under Internal Revenue Code section 263(a) and may be deducted for tax when placed in service under Section 162.

Please let me know if you have any questions. Thanks, k.

Kandi Floyd Director, Regulatory Affairs Peoples Gas System 702 N. Franklin St. Tampa, FL 33602 Work - 813.228.4668 Cell - 813.781.8848 kfloyd@tecoenergy.com

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PSC/AFA13

PEOPLES GAS SYSTEM REVISED EARNINGS SURVEILLANCE REPORT SUMMARY DECEMBER 2017

I. AVERAGE RATE OF RETURN (JURISDICTIONAL)	(1) Actual <u>Per Books</u>	(2) FPSC <u>Adjustments</u>	(3) FPSC <u>Adjusted</u>	(4) Pro Forma <u>Adjustments</u>	(5) Pro Forma <u>Adjusted</u>
NET OPERATING INCOME	\$ <u>55,101</u>	\$ (3,266) \$	<u> </u>	0\$	51,835
AVERAGE RATE BASE	\$ <u> 880,136 </u> \$	\$ (66,975) \$	813,161_\$	0\$	813,161
AVERAGE RATE OF RETURN	6.26	%	6.37_%	6	6.37 %

II. REQUIRED RATES OF RETURN AVERAGE CAPITAL STRUCTURE	5		III. EARNED RET	URN ON EQUIT	Y
(FPSC ADJUSTED BASIS)	LOW	5.73 %		FPSC ADJUSTED	PRO FORMA ADJUSTED
	MIDPOINT	6.38 %	A. INCLUDING FLEX RATE REVENUES	<u> 10.75 </u> %	10.75_%
	HIGH	6.80 %	B. EXCLUDING FLEX RATE REVENUES	<u> 10.34 </u> %	10.34%

I am aware that S	ection 837.06, Florid	a Statutes, provides:	
	the intent to mis official duty sha	owingly makes a false statement in writing with slead a public servant in the performance of his or her all be guilty of a misdemeanor of the second degree provided in s. 775.082 or s. 775.083.	
Jeffrey S. Chronister, Controller			
(Name and Title)		(Signature)	(Date)

PEOPLES GAS SYSTEM AVERAGE RATE BASE DECEMBER 2017

	(1) Plant in Service	(2) Plant Acquisition Adjustment	(3) Accumulated Depreciation & Amortization	(4) Customer Advances for Construction	(5) Net Plant in Service	(7) Property Held for Future Use	(8) Construction Work in Progress	(9) Net Utility Plant	(10) Working Capital	(11) Total Rate Base
PER BOOKS	1,556,535	5,032	704,525	11,109	845,933	1,940	22,838	870,711	9,425	880,136
FPSC ADJUSTMENTS: Property for Future Use Temporary Cash Investment Notes Receivable						(1, 94 0)	•	(1,940)	(3)	(1,940) (3) -
Accounts Rec./Pay Assoc Companies Merchandise Inventory Other Accounts Receivable Non-Utility Allocation	(466)		(128)		(338)			(338)	(5,493)	(5,493) (338)
Remove Unbundling Transition Charges Remove Non-Utility Accrued Liability Remove Non-Utility Martin Cty expansion Remove Unamort. Debt Expense Remove Unamort. Debt Expense							(115)	(115)	(1,095)	(115) (1,095)
Remove Dividends Declared Remove Unrec. Conservation Costs Remove Unrec. CIBSR Costs Remove Competitve Rate Adjustment Remove Unamortized Rate Case Expense									(75) (2,742)	(75) - (2,742)
Gain on Sale of Property Remove Acquis. Adjustment (WFNG) Remove MSEA Adjustment		(2,94 7)	(2,622)		(325)			(325)	-	(325)
Cast Iron/Bare Steel Rider (CIBSR) Other Comp. Income (Unsettied hedges) Remove Investment in Subsidiaries	(52,821)		(2,460)		(50,361)		(3,213)	(53,574)	- (1,276)	(53,574) - (1,276)
TOTAL FPSC ADJUSTMENTS	(53,287)	(2,947)	(5,210)	<u> </u>	(51,024)	(1,940)	(3,328)	(56,291)	(10,684)	(66,975)
FPSC ADJUSTED	1,503,248	2,085	699,315	11,109	794,909		19,510	814,420	(1,259)	813,161
FLEX RATE REVENUES ADJUSTED FOR										
FLEX RATE REVENUES	1,503,248	2,085	699,315	11,109	794,909	-	19,510	814,420	(1,259)	813,161
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:										
TOTAL PRO FORMA ADJUSTMENTS			<u> </u>	<u> </u>	<u> </u>					
PRO FORMA ADJUSTED	1,503,248	2,085	699,315	11,109	794,909	-	19,510	814,420	(1,259)	813,161

PEOPLES GAS SYSTEM NET OPERATING INCOME DECEMBER 2017

	(1)	(2) O&M	(3) O & M	(4) Decensionium (4)	(5) Taxes Other	(6 <u>)</u>	(7) Deferred	(8) Investment	(9)	(10) Totai	(1.1) Net
	Operating Revenues	Gas Expense	Other	Depreciation & Amortization	Than Income	Income Taxes Current	Income Taxes (Net)	Tax Credit (Net)	Gain/Loss on Disposition	Operating Expenses	Operating Income
PER BOOKS	424,980	156,528	103,699	50,702	35,888	2,599	22,604	-	(2,141)	369,879	55,101
FPSC ADJUSTMENTS:	(40.000)		(48.000)								_
Remove Conservation Charges Non-Utility Allocation	(16,693)		(18,693)	(17)		- 7				(16,693)	0
Interest Synchronization				(17)	•	349				(10) 349	10 (349)
Parent Debt Adjustment						345				349	(349)
Remove Fuel Revenues	(156,969)	(156,528)			(441)	-				(156,969)	•
Economic Development Adjustment	(,)	(100,020)	(9)		(11)	3		•		(130,305) (6)	6
Employee Activities			(83)			32				(51)	51
Intercompany Adjustment			(8)			3				(5)	5
Maintenance of General Plant			(34)			13				(21)	21
Maint. of Structures and Improvements			(11)			4				(7)	7
Lobbying included in Dues (AGA, FNGA)			(33)			13				(20)	20
Civic/Social Club Dues			-			-				-	-
Remove Acquisition Adj. Amortiz. (WFNG)				(80)		31				(49)	49
Gain on Sale of Property						-			-	-	-
Lease of PHFFU	(60)					(23)				(23)	(37)
Remove ITC Amortization						-		-		·-	-
Cast Iron/Bare Steel Rider (CIBSR)	689		2,569	(1,210)	(770)					689	0
Cast Iron/Bare Steel Rider (CIBSR) - ROI	(4,962)					(1,914)				(1,914)	(3,048)
		(450 500)							·	<u> </u>	
TOTAL FPSC ADJUSTMENTS	(177,995)	(156,528)	(14,201)	(1,307)	(1,211)	(1,482)			<u> </u>	(174,730)	(3,266)
FPSC ADJUSTED	246,985	-	89,498	49,395	34,677	1,117	22,604	-	(2,141)	195,150	51,835
									(4, 1417)		
FLEX RATE REVENUES	(2,310)					(891)				(891)	(1,419)
ADJUSTED FOR										(001)	
FLEX RATE REVENUES	244,674	-	89,498	49,395	34,677	226	22,604	-	(2,141)	194,259	50,416
PRO FORMA REVENUE INCREASE AND _ANNUALIZATION ADJUSTMENTS:											
Deferred Tax True-up						-				-	•
TOTAL PRO FORMA ADJUSTMENTS	•••••••••••••••••••••••••••••••••••••••		<u> </u>						<u> </u>		<u>.</u>
I GIAL FRO FORMA ADJUSIMENTS		·	<u> </u>						-		
PRO FORMA ADJUSTED	246,985	-	89,498	49,395	34,677	1,117	22,604	-	(2,141)	195,150	51,835
						<u></u>					
PER BOOKS											
CURRENT MONTH AMOUNT	42,142	17,225	8,922	3,217	3,521	5,725	(2,420)	-	-	36,190	5,952
							<u> </u>				

PEOPLES GAS SYSTEM CAPITAL STRUCTURE FPSC ADJUSTED BASIS DECEMBER 2017

				LOW POINT MIDPO		LOW POINT		POINT	HIGH	POINT	
						COST	WEIGHTED	COST	WEIGHTED	COST	WEIGHTED
		ADJUST	MENTS		RATIO	RATE	COST	RATE	COST	RATE	COST
AVERAGE	PER BOOKS	SPECIFIC	PRO RATA	ADJUSTED	(%)	(%)	(%)	(%)	(%)	(%)	(%)
LONG TERM DEBT	261,368	(2,220)	(15,120)	244,028	30.01%	5.32	1.60	5.32	1.60	5.32	1.60
SHORT TERM DEBT	41,070		(2,396)	38,674	4.76%	1.62	0.08	1.62	0.08	1.62	0.08
RESIDENTIAL DEPOSITS	7,241		(336)	6,905	0.85%	2.00	0.02	2.00	0.02	2.00	0.02
COMMERCIAL DEPOSITS	20,006		(929)	19,077	2.35%	3.00	0.07	3.00	0.07	3.00	0.07
INACTIVE DEPOSITS	454		(21)	433	0.05%						
COMMON EQUITY	372,738	(2,777)	(21,586)	348,375	42.84%	9.25	3.96	10.75	4.61	11.75	5.03
DEFERRED INCOME TAX	177,259	(14,007)	(7,582)	155,670	19.14%					1	
TAX CREDITS - ZERO COST TOTAL	880,136	(19,004)	(47,971)	813,161	0.00%		5.73		6.38		6.80

PEOPLES GAS SYSTEM EARNED RETURN ON COMMON EQUITY FPSC ADJUSTED BASIS DECEMBER 2017

A. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY INCLUDING FLEX RATE REVENUES

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:	6.37 % (Schedule 1)
LONG TERM DEBT	(1.60) %
SHORT TERM DEBT	(0.08) %
PREFERRED STOCK	0.00 %
CUSTOMER DEPOSITS	(0.09) %
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %
SUBTOTAL	(1.77) %
TOTAL	4.60 %
DIVIDED BY RECONCILED COMMON EQUITY RATIO	42.84 %
JURISDICTIONAL RETURN ON COMMON EQUITY	<u> 10.75 </u> %

B. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY EXCLUDING FLEX RATE REVENUES

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$	50,416	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$_	813,161	(Schedule 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:	· -	6.20 %	, D
LONG TERM DEBT		(1.60) %	, D
SHORT TERM DEBT		(0.08) %	, D
PREFERRED STOCK		0.00 %	b
CUSTOMER DEPOSITS		(0.09) %	b
TAX CREDITS-WEIGHTED COST(MIDPOINT)		0.00 %	, D
SUBTOTAL	_	(1.77) %	,
TOTAL		4.43 %	, D
DIVIDED BY RECONCILED COMMON EQUITY RATIO	-	42.84_%	6
JURISDICTIONAL RETURN ON COMMON EQUITY	=	<u>10.34</u> %	, D

PSC/AFA13

PEOPLES GAS SYSTEM REVISED EARNINGS SURVEILLANCE REPORT SUMMARY DECEMBER 2018 (In \$ Thousands)

I. AVERAGE RATE OF RETURN (JURISDICTIONAL)	(1) Actual <u>Per Books</u>	(2) FPSC <u>Adjustments</u>	(3) FPSC <u>Adjusted</u>	(4) Pro Forma <u>Adjustments</u>	(5) Pro Forma <u>Adjusted</u>
NET OPERATING INCOME	\$\$	5 <u>(4,762)</u> \$	54,549	§\$	54,549
AVERAGE RATE BASE	\$ <u>957,122</u> \$	§ <u>(94,992)</u> \$	862,130	§\$	862,130
AVERAGE RATE OF RETURN	6.20 %	6	6.33_9	%	6.33 %

II. REQUIRED RATES OF RETURN AVERAGE CAPITAL STRUCTURE	= ·		III. EARNED RET	URN ON EQUIT	<u>(</u>
(FPSC ADJUSTED BASIS)		- E 76 0/		FPSC	PRO FORMA
	LOW	5.76 %	A. INCLUDING	ADJUSTED	ADJUSTED
	MIDPOINT	<u> 6.43 </u> %	FLEX RATE REVENUES	10.53_%	<u> 10.53 </u> %
	HIGH	6.87_%	B. EXCLUDING FLEX RATE REVENUES	10.08 %	10.08 %
				7	10.00 %

Sean P. Hillary, Controller (Name and Title)		(Signature)	(Date)
	the intent to mislea official duty shall b	ngly makes a false statement in writing with ad a public servant in the performance of his or her be guilty of a misdemeanor of the second degree vided in s. 775.082 or s. 775.083.	
I am aware tha	t Section 837.06, Florida S	tatutes, provides:	

PEOPLES GAS SYSTEM AVERAGE RATE BASE DECEMBER 2018 (In \$ Thousands)

PER BOOKS	(1) Plent In Service 1,677,396	(2) Plant Acquisition Adjustment 5,032	(3) Accumulated Depreciation & Amortization 738,675	(4) Customer Advances for <u>Construction</u> 10,055	(5) Net Plant in Service 933,698	(7) Property Held for Future Use 1,940	(8) Construction Work in Progress 29,446	(9) Net Utility Plant 965,084	(10) Working Capital (7,962)	(11) Total <u>Rate Base</u> 957,122
FPSC ADJUSTMENTS: Property for Future Use Temporary Cash Investment Notes Receivable Accounts Rec./Pey Assoc Companies Merchandise Inventory						(1, 94 0)		(1,940)	(3) - -	(1,940) (3) - -
Other Accounts Receivable Non-Utility Allocation Remove Unbundling Transition Charges	(480)	· · · ·	(145)		(335)			(335)	- (3,437) -	(3,437) (335) -
Remove Non-Utility Accrued Liability Remove Non-Utility Martin Cty expansion Remove Unamort. Debt Expense Remove Unrecovered Gas Cost							(115)	(115)	- (1,502) -	(115) (1,502)
Remove Dividends Declared Remove Unrec, Conservation Costs Remove Unrec, CIBSR Costs Remove Competitve Rate Adjustment									1,189 (2,935) - (2,790)	1,189 (2,935) -
Remove Unamortized Rate Case Expense Gain on Sale of Property Remove Acquis. Adjustment (WFNG)		(2,947)	(2,701)		(246)			(246)	(2,780) - -	(2,780) - - (246)
Remove MSEA Adjustment Cast Iron/Bare Steel Rider (CIBSR) Other Comp. Income (Unsettled hedges) Remove Investment in Subsidiaries	(75,103)		(3,911)		(71,193)		- (10,410)	(81,603)	- (1,285)	- (81,603) - (1,285)
TOTAL FPSC ADJUSTMENTS	(75,584)	(2,947)	(6,757)		(71,774)	(1,940)	(10,525)	(84,239)	(10,753)	(94,992)
FPSC ADJUSTED	1,601,812	2,085	731,918	10.055	861,924		18,921	880,845	(18,715)	862,130
FLEX RATE REVENUES ADJUSTED FOR						<u> </u>				
FLEX RATE REVENUES PRO FORMA REVENUE INCREASE AND <u>ANNUALIZATION ADJUSTMENTS:</u>	1,601,812_	2,085	731,918	10,055	861,924		18,921	880,845	(18,715)	862,130
TOTAL PRO FORMA ADJUSTMENTS			•				<u></u>			-
PRO FORMA ADJUSTED	1,801,812	2,085	731,918	10,055	861,924		18,921	880,845	(18,715)	862,130

SCHEDULE 2

PEOPLES GAS SYSTEM NET OPERATING INCOME DECEMBER 2018 (In \$ Thousands)

Operating PER BOOKS O & M Remains 415,275 O & M (BR) 415,275 O & M (BR) 415 O & M (BR) 415		(1)	(2)	(3)	(4) Denerativa ((5)	(6)	(7) Deferred	(8) Investment	(9)	(10) Total	(11) Net
PER BOOKS 475.275 183.182 120.420 69.672 39.300 3.775 10.722 (2,141) 415,660 99.312 PES CAUSTMENTS: Brance Crassific Drags (15,674) (15,574) (15,574) (10) 5 (16) (13) 13 Interest Synchronization 118 (15,674) (15) (16) - (16) - (16) - (13) 13 Interest Synchronization (18,162) (18,162) (16) - (16) - (16) - (16) -		• •			•	-					• •	• •
Renor Conservation Chargets (19, 574) (19, 574) (19, 574) (19, 174) (19) Non-Lilly Activation 119 119 119 119 (111) (111) Plant DEA Activation 119 (113, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (183, 709) (11) (10) (10) (10) (10) (10) (10) (10) (10) (10) (10) (10) (10) (10)	PER BOOKS	475,275	183,162	120,420	60,675					and the second se		
Non-Ulity Acculon (19) -5 (10017) (1017) Parent Del/Adjustment 116 (118) 116 (118) Parent Del/Adjustment (183,708) (183,708) (193,182) (528) (118) (118)	FPSC ADJUSTMENTS:											
Non-Ully Albeation (19) 5 (13) 13 Interest Synchronization 118 (13) 13 Parent Delt Adjuinterit 118 (110) 118 (110) Remore Park Reviews (183,162) (252) (123) (12) 12 Economic Development Adjuinterit (10) 4 (12) 12 Economic Development Adjuinterit (10) 4 (12) 12 Economic Development Adjuinterit (10) 4 (12) 12 Mentificance Concert Development Adjuinterit (10) 18 (10) 12 Lobbying Induction Adjuinterit (10) 3 (10) 12 12 Lobbying Induction Adjuinterit (10) 19 (10) 10 10 10 Lease of Property (15) (15) (15) (16) 10 10 Lease of Property (10,00) (10,00) (10,00) (1,000) 10 10 10 10 10 10 10 10 10 10 10 10 10 10 10	Remove Conservation Charges	(19,674)		(19,674)			-				(19,674)	(0)
Presc Deit Adjuttent	-				(18)	•	5				(13)	
Renove Fuel Revenues (183,709) (183,182) (183,709) (193,709)	-						118				118	(118)
Economic Development Adjustment (100)	•						-				-	-
Employee Activities (7)1 18 (12) 12 Intercompary Adjustment (6) 2 (6) 8 Minterconce of General Plant (6) 2 (6) 8 Math. of Structures and Improvements (1) 3 (6) 8 Lobbying incuded in Dase (AG, FKGA) (10) 19 (6) 8 Christoper Activities (10) 3 (6) 8 Remore Accillation Ad, Anoriz (WFNG) (80) 20 (6) 6 Remore (Class) (205) (15) (15) (15) (15) Remore (Class) (2058) (1,27) (1,070) (1,642) (1,642) Remore (Class) (2,058) 738 (1,721) (1,070) (1,642) (1,642) Remore (Class) (20,051) 738 (1,721) (1,070) (1,642) (1,642) (1,642) PSC ADJUSTED 283,298 101,287 58,856 37,728 2,316 10,722 (2,141) 208,749 54,549		(183,708)	(183,162)			(526)	-					-
Initiationspany Adjustment (b) 2 (b) 3 Methics of General Pipel (f) 9 (g) 8 Methics of Structures and Improvements (f) 3 (g) 8 Lobbying Included in Dates (ASL, FINCA) (f) 19 (f) 5 ChriedSocial (Can Dute (f) (f) 6(f) 5 Remove Acquisition Adl, Amortz, (WFNG) (f0) (f) (f) (f) Gen of Sale of Property (f0) (f) (f) (f) Remove IC Amortzation (f) (f) (f) (f) Cest ItordSare Silee Rider (CIBSR) - ROI (f,65) (f) (f) (f) Cest ItordSare Silee Rider (CIBSR) - ROI (f,642) (f,642) (f) (f) OSE Adjustment (f) (f) (f) (f) (f) Cest ItordSare Silee Rider (CIBSR) - ROI (f) (f) (f) (f) (f) OSE Adjustment (f) (f) (f) (f) (f) (f)							-					
Marine micro of Concert Plant (27) 9 (28) 28 Marti, of Structures and Improvements (11) 3 (8) 8 Lobbying Included in Dates (AGA, FNGA) (76) 19 (67) 57 Chric/Social Club Dates (80) 20 (80) 60 60 Gain on Sale of Property (80) 20 (68) 66 66 Lass of PHFU (80) (15) (16) (16) 68 Cast Inor/Bare Silen Rider (ClISR) (208) 738 (1,721) (1,076) (2006) 60 Cast Inor/Bare Silen Rider (ClISR) (2058) 738 (1,721) (1,076) (2007) (1,642) Cost Inor/Bare Silen Rider (ClISR) (20197) (18,1192) (19,183) (1,819) (1,642) (1,442) (4,435) Cost Andrules Silen Rider (ClISR) (211,977) (18,1192) (19,153) (1,1602) (1,492) (1,492) (1,492) (1,492) (1,492) (1,492) (1,492) (1,610) (1,510) (1,510)	• •											
Method Structures and Improvements (11) 3 (11) 3 Lobbying included in Daws (AG, FNGA) (17) 19 (17) 57 Chridbodi Chab Daws (18) 19 (17) 57 Remove Acquilition AG, Annotiz, (WFNG) (80) 20 (80) 80 Gain on Sile of Property (80) 20 (80) 80 Remove Acquilition AG, Annotiz, (WFNG) (15) (45) (15) (45) Remove TC Annotization (15) (16,42) (15,42) (16,45) Cast Iron/Bare Steel Rider (CIBSR) - ROI (2,058) (10) (1,542) (4,555) OSS Adjustment (1,183,182) (19,183) (1,1819) (1,642) (207,715) (4,722) FPSC ADJUSTED 233,286 101,267 58,856 37,728 2,316 107,722 (2,141) 206,774 54,649 ELEX RATE REVENUES (22,65) (57) (574) (1,891) 201,755 52,859 PRO FORMA REVENUE INCREASE AND							-					
Lobying included in Daes (AGA, FNGA) (P8) 19 (P3) 57 Chird/Social Club Dues (P8) 19 (P3) 57 Remove Acqualition Ad, Anotiz. (WFNG) (B0) (B0) 20 (B0) 60 60 Remove Acqualition Ad, Anotiz. (WFNG) (B0) (15) (15) (15) 61	-						•					
Civ/CSGcial Club Dues (k7) (k7) <t< td=""><td>· · · · · · · · · · · · · · · · · · ·</td><td></td><td></td><td></td><td></td><td></td><td>-</td><td></td><td></td><td></td><td></td><td></td></t<>	· · · · · · · · · · · · · · · · · · ·						-					
Remove Acquisition Ad, Amortiz. (WFNG) (80) 20 (60) 60 Galon OSE of Propenty (80) 20 (60) 60 Less of PH/FU (80) (15) (15) (15) (15) Remove ITC Amortization (120) (15) (16) (16) (16) Cast inorbare Steek Rider (CIBSR) (2,058) 738 (1,721) (1,076) (1,642) (2,058) (0) OSE Adjustment (1,642) (1,642) (1,642) (2,07,215) (4,762) TOTAL FPSC ADJUSTED 263,298 101,267 58,856 37,728 2,316 10,722 (2,141) 206,749 54,649 FLEX.RATE REVENUES (2,265)							-					57
Gain on Sale of Property (80) (15) (15) (15) Remove ITC Amortization (15) (15) (15) (15) Cast inor/Bare Steel Rider (CIBSR) (2,058) (738 (1,721) (1,076) (1,642) (4,635) Cast inor/Bare Steel Rider (CIBSR) (2,058) (18,122) (19,153) (1,1819) (1,602) (1,442) (4,635) TOTAL FPSC ADJUSTMENTS (211,977) (183,182) (19,153) (1,1819) (1,1602) (1,459) (207,215) (4,762) FPSC ADJUSTED 253,298 101,267 58,856 37,728 2,316 10,722 (2,141) 208,749 54,549 FLEX RATE REVENUES (2,265)	Remove Acquisition Adj. Amortiz, (WFNG)				(80)		20					
Remove ITC Amortization Ito Ito <thito< th=""> Ito <thito< th=""></thito<></thito<>	Gain on Sale of Property											
Remove ITC Amortization	Lease of PHFFU	(60)					(15)				(15)	(45)
Cast Iron/Bare Steel Rider (CIBSR) - ROI OSS Adjustment TOTAL FPSC ADJUSTENTS (6,477) (183,162) (19,153) (19,153) (1,819) (1,819) (1,602) (1,602) (1,459) (1,459) (1,622) (207,215) (4,762) FPSC ADJUSTED 263,298 101,267 58,856 37,728 2,316 10,722 (2,141) 208,749 54,549 FLEX RATE REVENUES (2,265) (2,265) (1574) (1,691) (1,691) ADJUSTED FOR FLEX RATE REVENUES 261,033 101,267 58,856 37,728 1,742 10,722 (2,141) 208,175 52,858 PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS	Remove ITC Amortization						•		· .			
Cast Iron/Bare Steel Rider (CIBSR) - ROI (6.477) (1.642) (4.835) OSS Adjustment (211,977) (183,182) (19,153) (1.819) (1.602) (1.449) . . (207,215) (4.762) TOTAL FPSC ADJUSTMENTS (211,977) (183,182) (19,153) (1.819) (1.602) (1.499) . <td>Cast Iron/Bare Steel Rider (CIBSR)</td> <td>(2,058)</td> <td></td> <td>738</td> <td>(1,721)</td> <td>(1,076)</td> <td>· -</td> <td></td> <td></td> <td></td> <td>(2,058)</td> <td>(0)</td>	Cast Iron/Bare Steel Rider (CIBSR)	(2,058)		738	(1,721)	(1,076)	· -				(2,058)	(0)
TOTAL FPSC ADJUSTMENTS (211.977) (183.162) (19.153) (1.1819) (1.802) (1.459) . . (207.215) (4.762) FPSC ADJUSTED 263.298 . 101.267 58.856 37.728 2.316 10,722 (2.141) 208.749 54.549 ELEX RATE REVENUES (2.265) . <t< td=""><td>Cast Iron/Bare Steel Rider (CIBSR) - ROI</td><td>(6,477)</td><td></td><td></td><td></td><td></td><td>(1,642)</td><td></td><td></td><td></td><td></td><td></td></t<>	Cast Iron/Bare Steel Rider (CIBSR) - ROI	(6,477)					(1,642)					
FPSC ADJUSTED 263,298		<u> </u>				·	-					-
ELEX RATE REVENUES (2,265) (574) (574) (1,691) ADJUSTED FOR 261,033 101,267 58,856 37,728 1,742 10,722 (2,141) 208,175 52,858 PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:	TOTAL FPSC ADJUSTMENTS	(211,977)	(183,182)	(19,153)	(1,619)	(1,602)	(1,459)		<u> </u>		(207,215)	(4,762)
ADJUSTED FOR 261,033 101,267 58,856 37,728 1,742 10,722 (2,141) 208,175 52,858 PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:	FPSC ADJUSTED	263,298		101,267	58,856	37,728	2,316	10,722	-	(2,141)	208,749	54,549
ADJUSTED FOR 758,856 37,728 1,742 10,722 (2,141) 208,175 52,858 PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS: -		(2,265)					(574)				(574)	(1,691)
PRO FORMA REVENUE INCREASE AND <u>ANNUALIZATION ADJUSTMENTS:</u>												
ANNUALIZATION ADJUSTMENTS: Deferred Tax True-up TOTAL PRO FORMA ADJUSTMENTS PRO FORMA ADJUSTMENTS PRO FORMA ADJUSTED 263,298 101,267 58,856 37,728 2,316 10,722 (2,141) 208,749 54,549	FLEX RATE REVENUES	261,033	-	101,267	58,656	37,728	1,742	10,722		(2,141)	208,175	52,858
Deferred Tax True-up	PRO FORMA REVENUE INCREASE AND											
TOTAL PRO FORMA ADJUSTMENTS	ANNUALIZATION ADJUSTMENTS:											
PRO FORMA ADJUSTED <u>263,298</u> <u>101,267</u> <u>58,856</u> <u>37,728</u> <u>2,316</u> <u>10,722</u> <u>(2,141)</u> <u>208,749</u> <u>54,549</u> PER BOOKS	Deferred Tax True-up						•				-	-
PER BOOKS	TOTAL PRO FORMA ADJUSTMENTS										<u> </u>	
	PRO FORMA ADJUSTED	263,298	-	101,267	56,856	37,728	2,316	10,722		(2,141)	208,749	54,549
		41,950	15,720	10,605	4,316	3,557	1,424	113		•	35,735	6,215

SCHEDULE 3

PEOPLES GAS SYSTEM CAPITAL STRUCTURE FPSC ADJUSTED BASIS DECEMBER 2018 (in \$ Thousands)

						LOW POINT		MIDPOINT		HIGH POINT	
		ADJUST	MENTS		RATIO	COST RATE	WEIGHTED COST	COST	WEIGHTED COST	COST	WEIGHTED COST
AVERAGE	PER BOOKS	SPECIFIC	PRO RATA	ADJUSTED	(%)	(%)	(%)	(%)	(%)	(%)	(%)
LONG TERM DEBT	276,545	(2,050)	(21,209)	253,286	29.38%	5.00	1.47	5.00	1.47	5.00	1.47
SHORT TERM DEBT	48,240		(3,727)	44,513	5.16%	2.42	0.12	2.42	0.12	2.42	0.12
RESIDENTIAL DEPOSITS	6,509		(426)	6,083	0.71%	2.00	0.01	2.00	0.01	2.00	0.01
COMMERCIAL DEPOSITS	20,011		(1,308)	18,703	2.17%	3.00	0.07	3.00	0.07	3.00	0.07
INACTIVE DEPOSITS	134		(9)	125	0.01%						
COMMON EQUITY	415,247	(1,877)	(31,939)	381,431	44.24%	9.25	4.09	10.75	4.76	11.75	5.20
DEFERRED INCOME TAX	190,436	(21,395)	(11,052)	157,989	18.33%						
TAX CREDITS - ZERO COST TOTAL	957,122	(25,322)	(69,669)	862,130	0.00%		5.76		6.43		6.87

PEOPLES GAS SYSTEM EARNED RETURN ON COMMON EQUITY FPSC ADJUSTED BASIS DECEMBER 2018 (In \$ Thousands)

A. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY INCLUDING FLEX RATE REVENUES

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:	<u>6.33</u> % (Schedule 1)
LONG TERM DEBT	(1.47) %
SHORT TERM DEBT	(0.12) %
PREFERRED STOCK	0.00 %
CUSTOMER DEPOSITS	(0.08) %
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %
SUBTOTAL	(1.67) %
TOTAL	4.66 %
DIVIDED BY RECONCILED COMMON EQUITY RATIO	44.24 %
JURISDICTIONAL RETURN ON COMMON EQUITY	10.53 %

B. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY EXCLUDING FLEX RATE REVENUES

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 52,858	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ 862,130	(Schedule 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:	6.13	%
LONG TERM DEBT	(1.47)	%
SHORT TERM DEBT	(0.12)	%
PREFERRED STOCK	0.00	%
CUSTOMER DEPOSITS	(0.08)	%
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00	%
SUBTOTAL	(1.67)	%
TOTAL	4.46	%
DIVIDED BY RECONCILED COMMON EQUITY RATIO	44.24	%
JURISDICTIONAL RETURN ON COMMON EQUITY	10.08	%