



February 15, 2012

Mr. John Slemkewicz, Supervisor
Bureau of Rate Filings and Surveillance
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Mr. Slemkewicz :

Attached is the Rate of Return calculation of Peoples Gas System for the period ending **December 2011.**

Please let me know if you have any questions.

Respectfully,

Jeffrey S. Chronister
Controller

JSC/av

Enclosures

cc: Office of Public Counsel – J.R. Kelly

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CALCULATION

**PEOPLES GAS SYSTEM
EARNINGS SURVEILLANCE REPORT SUMMARY
December 2011**

SCHEDULE 1

	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments	(5) Pro Forma Adjusted
I. AVERAGE RATE OF RETURN (JURISDICTIONAL)					
<u>NET OPERATING INCOME</u>	\$ 46,947	\$ 313	\$ 47,260	\$ 0	\$ 47,260
<u>AVERAGE RATE BASE</u>	\$ 600,622	\$ (17,584)	\$ 583,038	\$ 0	\$ 583,038
<u>AVERAGE RATE OF RETURN</u>	<u>7.82 %</u>		<u>8.11 %</u>		<u>8.11 %</u>

**II. REQUIRED RATES OF RETURN
AVERAGE CAPITAL STRUCTURE
(FPSC ADJUSTED BASIS)**

LOW	<u>7.53 %</u>
MIDPOINT	<u>8.00 %</u>
HIGH	<u>8.46 %</u>

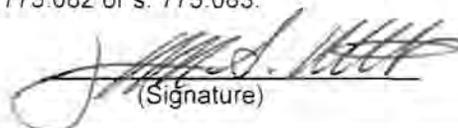
III. EARNED RETURN ON EQUITY

	<u>FPSC ADJUSTED</u>	<u>PRO FORMA ADJUSTED</u>
A. INCLUDING FLEX RATE REVENUES	<u>10.99 %</u>	<u>10.99 %</u>
B. EXCLUDING FLEX RATE REVENUES	<u>10.14 %</u>	<u>10.14 %</u>

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his or her official duty shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082 or s. 775.083.

Jeffrey S. Chronister, Controller
(Name and Title)


(Signature)

2/14/12
(Date)

PSC/AFA13

PEOPLES GAS SYSTEM
AVERAGE RATE BASE
December 2011

SCHEDULE 2

	(1)	(2)	(3)	(4)	(5)	(7)	(8)	(9)	(10)	(11)
	Plant in Service	Plant Acquisition Adjustment	Accumulated Depreciation & Amortization	Customer Advances for Construction	Net Plant in Service	Property Held for Future Use	Construction Work in Progress	Net Utility Plant	Working Capital	Total Rate Base
PER BOOKS	1,077,530	5,115	494,139	9,639	578,867	229	19,952	599,048	1,574	600,622
FPSC ADJUSTMENTS:										
Property for Future Use						(229)		(229)		(229)
Temporary Cash Investment										-
Notes Receivable										-
Accounts Rec./Pay - Assoc. Companies									(2,648)	(2,648)
Merchandise Inventory									(38)	(38)
Other Accounts Receivable									(5,757)	(5,757)
Non-Utility Allocation	(352)		(147)		(205)			(205)		(205)
Remove Regulatory Tax Asset										-
Remove Unbundling Transition Charges										-
Remove Non-Utility Accrued Liability										-
Remove Non-Utility Martin Cty expansion							(115)	(115)		(115)
Remove Unamort. Debt Expense									(1,520)	(1,520)
Remove Unrecovered Gas Cost										-
Remove Dividends Declared										-
Remove Unrec. Conservation Costs										-
Remove Competitive Rate Adjustment									(3,280)	(3,280)
Remove Unamortized Rate Case Expense									(328)	(328)
Gain on Sale of Property										-
Remove Acquis. Adjustment (WFNG)		(2,947)	(2,144)		(803)			(803)		(803)
Remove MSEA Adjustment							(1,225)	(1,225)		(1,225)
Other Comp. Income (Unsettled hedges)										-
Remove Investment in Subsidiaries									(1,436)	(1,436)
TOTAL FPSC ADJUSTMENTS	(352)	(2,947)	(2,291)	-	(1,008)	(229)	(1,340)	(2,577)	(15,007)	(17,584)
FPSC ADJUSTED	1,077,178	2,168	491,848	9,639	577,859	-	18,612	596,471	(13,433)	583,038
FLEX RATE REVENUES										
ADJUSTED FOR										
FLEX RATE REVENUES	1,077,178	2,168	491,848	9,639	577,859	-	18,612	596,471	(13,433)	583,038
PRO FORMA REVENUE INCREASE AND										
ANNUALIZATION ADJUSTMENTS:										
TOTAL PRO FORMA ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-
PRO FORMA ADJUSTED	1,077,178	2,168	491,848	9,639	577,859	-	18,612	596,471	(13,433)	583,038

**PEOPLES GAS SYSTEM
NET OPERATING INCOME
December 2011**

SCHEDULE 3

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Operating Revenues	O & M Gas Expense	O & M Other	Depreciation & Amortization	Taxes Other Than Income	Income Taxes Current	Deferred Income Taxes (Net)	Investment Tax Credit (Net)	Gain/Loss on Disposition	Total Operating Expenses	Net Operating Income
PER BOOKS	444,085	211,250	83,329	48,260	35,816	(18,739)	37,222	-	-	397,138	46,947
FPSC ADJUSTMENTS:											
Remove Conservation Charges	(6,907)		(6,907)							(6,907)	-
Non-Utility Allocation				(24)	0	9				(15)	15
Interest Synchronization						120				120	(120)
Parent Debt Adjustment						(61)				(61)	61
Remove Fuel Revenues	(211,848)	(211,250)			(598)	-				(211,848)	-
Economic Development Adjustment			(9)			3				(6)	6
Employee Activities			(134)			52				(82)	82
Intercompany Adjustment			(8)			3				(5)	5
Maintenance of General Plant			(23)			9				(14)	14
Maint. of Structures and Improvements			(11)			4				(7)	7
Lobbying included in Dues (AGA, FNGA)			(15)			6				(9)	9
Civic/Social Club Dues			0			-				-	-
Remove Acquisition Adj. Amortiz. (WFNG)				(80)		31				(49)	49
Gain on Sale of Property									(186)	(186)	186
Remove ITC Amortization										-	-
OSS Adjustment										-	-
TOTAL FPSC ADJUSTMENTS	(218,755)	(211,250)	(7,106)	(104)	(598)	176	-	-	(186)	(219,068)	313
FPSC ADJUSTED	225,330	-	76,223	48,156	35,218	(18,563)	37,222	-	(186)	178,070	47,260
FLEX RATE REVENUES ADJUSTED FOR	(3,726)					(1,437)				(1,437)	(2,289)
FLEX RATE REVENUES	221,604	-	76,223	48,156	35,218	(20,000)	37,222	-	(186)	176,633	44,971
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:											
Deferred Tax True-up										-	-
TOTAL PRO FORMA ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-	-
PRO FORMA ADJUSTED	225,330	-	76,223	48,156	35,218	(18,563)	37,222	-	(186)	178,070	47,260
PER BOOKS CURRENT MONTH AMOUNT	29,139	12,477	5,855	4,093	2,206	(978)	2,157	-	-	25,810	3,329

**PEOPLES GAS SYSTEM
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
December 2011**

SCHEDULE 4

<u>AVERAGE</u>	PER BOOKS	ADJUSTMENTS		ADJUSTED	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
		SPECIFIC	PRO RATA			COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
LONG TERM DEBT	224,861	(4,226)	(5,472)	215,163	36.90%	6.88	2.54	6.88	2.54	6.88	2.54
SHORT TERM DEBT	3,212	-	(80)	3,132	0.54%	0.37	0.00	0.37	0.00	0.37	0.00
RESIDENTIAL DEPOSITS	10,784	-	-	10,784	1.85%	6.00	0.11	6.00	0.11	6.00	0.11
COMMERCIAL DEPOSITS	28,231	-	-	28,231	4.84%	7.00	0.34	7.00	0.34	7.00	0.34
INACTIVE DEPOSITS	201	-	-	201	0.03%						
COMMON EQUITY	278,518	(167)	(6,904)	271,447	46.56%	9.75	4.54	10.75	5.01	11.75	5.47
DEFERRED INCOME TAX	54,817	(737)	-	54,080	9.28%						
TAX CREDITS - ZERO COST	-	-	-	-	0.00%						
TOTAL	600,624	(5,130)	(12,456)	583,038	100.00%		7.53		8.00		8.46

PEOPLES GAS SYSTEM
 EARNED RETURN ON COMMON EQUITY
 FPSC ADJUSTED BASIS
 December 2011

SCHEDULE 5

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

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	8.11	%	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:			
LONG TERM DEBT	(2.54)	%	
SHORT TERM DEBT	0.00	%	
PREFERRED STOCK	0.00	%	
CUSTOMER DEPOSITS	(0.45)	%	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00	%	
SUBTOTAL	(2.99)	%	
 TOTAL	 5.12	 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 46.56	 %	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 10.99	 %	

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 44,971		(Schedule 3)
 RATE BASE EXCLUDING FLEX RATE REVENUES	 \$ 583,038		 (Schedule 2)
 FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	 7.71	 %	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:			
LONG TERM DEBT	(2.54)	%	
SHORT TERM DEBT	0.00	%	
PREFERRED STOCK	0.00	%	
CUSTOMER DEPOSITS	(0.45)	%	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00	%	
SUBTOTAL	(2.99)	%	
 TOTAL	 4.72	 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 46.56	 %	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 10.14	 %	