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DIVISION OF  
ACCOUNTING & FINANCE

PEOPLES GAS

August 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 **June 2012**.

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

**PEOPLES GAS SYSTEM  
EARNINGS SURVEILLANCE REPORT SUMMARY  
JUNE 2012**

SCHEDULE 1

	(1) <u>Actual</u> <u>Per Books</u>	(2) <u>FPSC</u> <u>Adjustments</u>	(3) <u>FPSC</u> <u>Adjusted</u>	(4) <u>Pro Forma</u> <u>Adjustments</u>	(5) <u>Pro Forma</u> <u>Adjusted</u>
<b>I. AVERAGE RATE OF RETURN</b> <b>(JURISDICTIONAL)</b>					
<u>NET OPERATING INCOME</u>	\$ <u>47,435</u>	\$ <u>320</u>	\$ <u>47,755</u>	\$ <u>0</u>	\$ <u>47,755</u>
<u>AVERAGE RATE BASE</u>	\$ <u>619,448</u>	\$ <u>(15,577)</u>	\$ <u>603,871</u>	\$ <u>0</u>	\$ <u>603,871</u>
<u>AVERAGE RATE OF RETURN</u>	<u>7.66</u> %		<u>7.91</u> %		<u>7.91</u> %

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

LOW	<u>7.29</u> %
MIDPOINT	<u>7.74</u> %
HIGH	<u>8.19</u> %

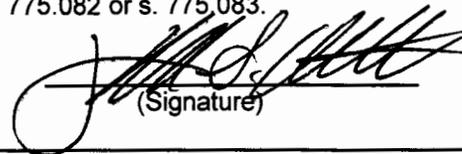
**III. EARNED RETURN ON EQUITY**

	<u>FPSC</u> <u>ADJUSTED</u>	<u>PRO FORMA</u> <u>ADJUSTED</u>
A. INCLUDING FLEX RATE REVENUES	<u>11.13</u> %	<u>11.13</u> %
B. EXCLUDING FLEX RATE REVENUES	<u>10.32</u> %	<u>10.32</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)

8/9/12  
(Date)

PSC/AFA13

**PEOPLES GAS SYSTEM  
AVERAGE RATE BASE  
JUNE 2012**

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	1,104,357	5,032	515,031	9,836	584,522	229	25,146	609,897	9,551	619,448
<b>FPSC ADJUSTMENTS:</b>										
Property for Future Use						(229)		(229)		(229)
Temporary Cash Investment									-	-
Notes Receivable									-	-
Accounts Rec./Pay. - Assoc Companies									(1,358)	(1,358)
Merchandise Inventory									(47)	(47)
Other Accounts Receivable									(5,682)	(5,682)
Non-Utility Allocation	(356)		(150)		(206)			(206)		(206)
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									(1,108)	(1,108)
Remove Unrecovered Gas Cost									-	-
Remove Dividends Declared									-	-
Remove Unrec. Conservation Costs									-	-
Remove Competitive Rate Adjustment									(3,399)	(3,399)
Remove Unamortized Rate Case Expense									(242)	(242)
Gain on Sale of Property									-	-
Remove Acquis. Adjustment (WFNG)		(2,947)	(2,184)		(763)			(763)		(763)
Remove MSEA Adjustment							(1,225)	(1,225)		(1,225)
Other Comp. Income (Unsettled hedges)									-	-
Remove Investment in Subsidiaries									(1,203)	(1,203)
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(356)</b>	<b>(2,947)</b>	<b>(2,334)</b>	<b>-</b>	<b>(969)</b>	<b>(229)</b>	<b>(1,340)</b>	<b>(2,538)</b>	<b>(13,039)</b>	<b>(15,577)</b>
<b>FPSC ADJUSTED</b>	<b>1,104,001</b>	<b>2,085</b>	<b>512,697</b>	<b>9,836</b>	<b>583,553</b>	<b>-</b>	<b>23,806</b>	<b>607,359</b>	<b>(3,488)</b>	<b>603,871</b>
<b>FLEX RATE REVENUES</b>										
ADJUSTED FOR										
<b>FLEX RATE REVENUES</b>	<b>1,104,001</b>	<b>2,085</b>	<b>512,697</b>	<b>9,836</b>	<b>583,553</b>	<b>-</b>	<b>23,806</b>	<b>607,359</b>	<b>(3,488)</b>	<b>603,871</b>
<b>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</b>										
TOTAL PRO FORMA ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-
<b>PRO FORMA ADJUSTED</b>	<b>1,104,001</b>	<b>2,085</b>	<b>512,697</b>	<b>9,836</b>	<b>583,553</b>	<b>-</b>	<b>23,806</b>	<b>607,359</b>	<b>(3,488)</b>	<b>603,871</b>

**PEOPLES GAS SYSTEM  
NET OPERATING INCOME  
JUNE 2012**

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	383,139	154,504	81,065	49,393	31,878	(32,043)	50,907	-	-	335,704	47,435
<b>FPSC ADJUSTMENTS:</b>											
Remove Conservation Charges	(7,378)		(7,378)			-				(7,378)	-
Non-Utility Allocation				(24)	0	9				(15)	15
Interest Synchronization						70				70	(70)
Parent Debt Adjustment						(22)				(22)	22
Remove Fuel Revenues	(154,970)	(154,504)			(466)	-				(154,970)	-
Economic Development Adjustment			(8)			3				(5)	5
Employee Activities			(126)			49				(77)	77
Intercompany Adjustment			(8)			3				(5)	5
Maintenance of General Plant			(24)			9				(15)	15
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						-				-	-
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(162,348)</b>	<b>(154,504)</b>	<b>(7,569)</b>	<b>(104)</b>	<b>(466)</b>	<b>162</b>	<b>-</b>	<b>-</b>	<b>(186)</b>	<b>(162,667)</b>	<b>320</b>
<b>FPSC ADJUSTED</b>	<b>220,791</b>	<b>-</b>	<b>73,496</b>	<b>49,289</b>	<b>31,412</b>	<b>(31,881)</b>	<b>50,907</b>	<b>-</b>	<b>(186)</b>	<b>173,037</b>	<b>47,755</b>
<b>FLEX RATE REVENUES</b>	<b>(3,552)</b>					<b>(1,370)</b>				<b>(1,370)</b>	<b>(2,182)</b>
<b>ADJUSTED FOR</b>											
<b>FLEX RATE REVENUES</b>	<b>217,239</b>	<b>-</b>	<b>73,496</b>	<b>49,289</b>	<b>31,412</b>	<b>(33,251)</b>	<b>50,907</b>	<b>-</b>	<b>(186)</b>	<b>171,667</b>	<b>45,573</b>
<b>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</b>											
Deferred Tax True-up						-				-	-
<b>TOTAL PRO FORMA ADJUSTMENTS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>PRO FORMA ADJUSTED</b>	<b>220,791</b>	<b>-</b>	<b>73,496</b>	<b>49,289</b>	<b>31,412</b>	<b>(31,881)</b>	<b>50,907</b>	<b>-</b>	<b>(186)</b>	<b>173,037</b>	<b>47,755</b>
<b>PER BOOKS</b>											
<b>CURRENT MONTH AMOUNT</b>	<b>30,245</b>	<b>12,446</b>	<b>5,683</b>	<b>4,192</b>	<b>2,529</b>	<b>(4,527)</b>	<b>6,013</b>	<b>-</b>	<b>-</b>	<b>26,336</b>	<b>3,909</b>

**PEOPLES GAS SYSTEM  
CAPITAL STRUCTURE  
FPSC ADJUSTED BASIS  
JUNE 2012**

SCHEDULE 4

<b>AVERAGE</b>	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	225,710	(3,373)	(4,922)	217,415	36.00%	6.82	2.46	6.82	2.46	6.82	2.46
SHORT TERM DEBT	408	-	(9)	399	0.07%	0.23	0.00	0.23	0.00	0.23	0.00
RESIDENTIAL DEPOSITS	10,546	-	-	10,546	1.75%	6.00	0.11	6.00	0.11	6.00	0.11
COMMERCIAL DEPOSITS	28,524	-	-	28,524	4.72%	7.00	0.33	7.00	0.33	7.00	0.33
INACTIVE DEPOSITS	199	-	-	199	0.03%						
COMMON EQUITY	278,182	(215)	(6,154)	271,814	45.01%	9.75	4.39	<b>10.75</b>	4.84	11.75	5.29
DEFERRED INCOME TAX	75,879	(904)	-	74,975	12.42%						
TAX CREDITS - ZERO COST		-	-	-	0.00%						
<b>TOTAL</b>	<b>619,448</b>	<b>(4,492)</b>	<b>(11,085)</b>	<b>603,871</b>	<b>100.00%</b>		<b>7.29</b>		<b>7.74</b>		<b>8.19</b>

PEOPLES GAS SYSTEM  
 EARNED RETURN ON COMMON EQUITY  
 FPSC ADJUSTED BASIS  
 JUNE 2012

SCHEDULE 5

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

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	7.91 %	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(2.46) %	
SHORT TERM DEBT	0.00 %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.44) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(2.90) %</u>	
 TOTAL	 5.01 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>45.01 %</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u><u>11.13 %</u></u>	

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 45,573	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ <u>603,871</u>	(Schedule 2)
 FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	 7.55 %	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(2.46) %	
SHORT TERM DEBT	0.00 %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.44) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(2.90) %</u>	
 TOTAL	 4.65 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>45.01 %</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u><u>10.32 %</u></u>	