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DIVISION OF  
ACCOUNTING & FINANCE

February 17, 2014

Ms. Cheryl Bulecza-Banks, Supervisor  
Division of Accounting and Finance  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Dear Ms. Bulecza-Banks:

Attached is the Rate of Return calculation of Peoples Gas System for the period ending **December 2013**.

Please let me know if you have any questions.

Respectfully,

A handwritten signature in black ink, appearing to read "Jeffrey S. Chronister".

Jeffrey S. Chronister  
Controller

JSC/av

Enclosures

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

**PEOPLES GAS SYSTEM  
EARNINGS SURVEILLANCE REPORT SUMMARY  
DECEMBER 2013**

SCHEDULE 1

	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments	(5) Pro Forma Adjusted
<b>I. AVERAGE RATE OF RETURN (JURISDICTIONAL)</b>					
<u>NET OPERATING INCOME</u>	\$ 45,348	\$ (244)	\$ 45,104	\$ 0	\$ 45,104
<u>AVERAGE RATE BASE</u>	\$ 682,826	\$ (19,959)	\$ 662,867	\$ 0	\$ 662,867
<u>AVERAGE RATE OF RETURN</u>	6.64 %		6.80 %		6.80 %

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

LOW	<u>6.20 %</u>
MIDPOINT	<u>6.64 %</u>
HIGH	<u>7.07 %</u>

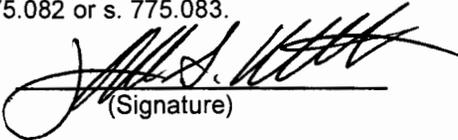
**III. EARNED RETURN ON EQUITY**

	<u>FPSC ADJUSTED</u>	<u>PRO FORMA ADJUSTED</u>
A. INCLUDING FLEX RATE REVENUES	<u>11.14 %</u>	<u>11.14 %</u>
B. EXCLUDING FLEX RATE REVENUES	<u>10.35 %</u>	<u>10.35 %</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)

2/14/14  
(Date)

PSC/AFA13

**PEOPLES GAS SYSTEM  
AVERAGE RATE BASE  
DECEMBER 2013**

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	1,211,393	5,032	577,329	7,170	631,926	360	32,263	664,549	18,277	682,826
<u>FPSC ADJUSTMENTS:</u>										
Property for Future Use						(360)		(360)		(360)
Temporary Cash Investment									(2)	(2)
Notes Receivable									-	-
Accounts Rec./Pay. - Assoc Companies									(1,369)	(1,369)
Merchandise Inventory									-	-
Other Accounts Receivable									(6,962)	(6,962)
Non-Utility Allocation	(394)		(177)		(217)			(217)		(217)
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									(1,137)	(1,137)
Remove MTM CF Derivative									-	-
Remove Unrecovered Gas Cost									-	-
Remove Dividends Declared									1,255	1,255
Remove Unrec. Conservation Costs									-	-
Remove Competitive Rate Adjustment									(4,235)	(4,235)
Remove Unamortized Rate Case Expense									(16)	(16)
Gain on Sale of Property									-	-
Remove Acquis. Adjustment (WFNG)		(2,947)	(2,303)		(644)			(644)		(644)
Remove MSEA Adjustment							(1,225)	(1,225)		(1,225)
Cast Iron/Bare Steel Rider (CIBSR)	(2,315)		(15)		(2,300)		(1,523)	(3,823)		(3,823)
Other Comp. Income (Unsettled hedges)									-	-
Remove Investment in Subsidiaries									(1,109)	(1,109)
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(2,709)</b>	<b>(2,947)</b>	<b>(2,496)</b>	<b>-</b>	<b>(3,161)</b>	<b>(360)</b>	<b>(2,863)</b>	<b>(6,384)</b>	<b>(13,575)</b>	<b>(19,959)</b>
<b>FPSC ADJUSTED</b>	<b>1,208,684</b>	<b>2,085</b>	<b>574,833</b>	<b>7,170</b>	<b>628,765</b>	<b>-</b>	<b>29,400</b>	<b>658,165</b>	<b>4,702</b>	<b>682,867</b>
<u>FLEX RATE REVENUES</u>										
ADJUSTED FOR										
<b>FLEX RATE REVENUES</b>	<b>1,208,684</b>	<b>2,085</b>	<b>574,833</b>	<b>7,170</b>	<b>628,765</b>	<b>-</b>	<b>29,400</b>	<b>658,165</b>	<b>4,702</b>	<b>662,867</b>
<u>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</u>										
									-	-
<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>PRO FORMA ADJUSTED</b>	<b>1,208,684</b>	<b>2,085</b>	<b>574,833</b>	<b>7,170</b>	<b>628,765</b>	<b>-</b>	<b>29,400</b>	<b>658,165</b>	<b>4,702</b>	<b>662,867</b>

**PEOPLES GAS SYSTEM  
NET OPERATING INCOME  
DECEMBER 2013**

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	383,731	143,451	90,277	51,377	33,103	14,720	5,455	-	-	338,383	45,348
<b>FPSC ADJUSTMENTS:</b>											
Remove Conservation Charges	(9,433)		(9,433)			-				(9,433)	-
Non-Utility Allocation				(13)	0	5				(8)	8
Interest Synchronization						96				96	(96)
Parent Debt Adjustment						0				-	-
Remove Fuel Revenues	(143,887)	(143,451)			(436)	-				(143,887)	-
Economic Development Adjustment			(9)			4				(5)	5
Employee Activities			(126)			49				(77)	77
Intercompany Adjustment			(8)			3				(5)	5
Maintenance of General Plant			(31)			12				(19)	19
Maint. of Structures and Improvements			(11)			4				(7)	7
Lobbying included in Dues (AGA, FNGA)			(35)			14				(21)	21
Civic/Social Club Dues			0			-				-	-
Remove Acquisition Adj. Amortiz. (WFNG)				(80)		31				(49)	49
Gain on Sale of Property						-		0		-	-
Lease of PHFFU	(60)					23				23	(83)
Remove ITC Amortization						-		-		-	-
Cast Iron/Bare Steel Rider (CIBSR)	143		204	(61)	-	-				143	0
Cast Iron/Bare Steel Rider (CIBSR) - ROI	(416)					(160)				(160)	(256)
OSS Adjustment	-					-				-	-
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(153,653)</b>	<b>(143,451)</b>	<b>(9,450)</b>	<b>(153)</b>	<b>(436)</b>	<b>81</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(153,409)</b>	<b>(244)</b>
<b>FPSC ADJUSTED</b>	<b>230,078</b>	<b>-</b>	<b>80,827</b>	<b>51,224</b>	<b>32,667</b>	<b>14,801</b>	<b>5,455</b>	<b>-</b>	<b>-</b>	<b>184,974</b>	<b>45,104</b>
<b>FLEX RATE REVENUES</b>	<b>(3,652)</b>					<b>(1,409)</b>				<b>(1,409)</b>	<b>(2,243)</b>
<b>ADJUSTED FOR</b>											
<b>FLEX RATE REVENUES</b>	<b>226,426</b>	<b>-</b>	<b>80,827</b>	<b>51,224</b>	<b>32,667</b>	<b>13,392</b>	<b>5,455</b>	<b>-</b>	<b>-</b>	<b>183,565</b>	<b>42,861</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>PRO FORMA ADJUSTED</b>	<b>230,078</b>	<b>-</b>	<b>80,827</b>	<b>51,224</b>	<b>32,667</b>	<b>14,801</b>	<b>5,455</b>	<b>-</b>	<b>-</b>	<b>184,974</b>	<b>45,104</b>
<b>PER BOOKS</b>											
<b>CURRENT MONTH AMOUNT</b>	<b>27,200</b>	<b>9,148</b>	<b>7,180</b>	<b>4,454</b>	<b>2,456</b>	<b>(282)</b>	<b>1,385</b>	<b>-</b>	<b>-</b>	<b>24,341</b>	<b>2,859</b>

**PEOPLES GAS SYSTEM  
CAPITAL STRUCTURE  
FPSC ADJUSTED BASIS  
DECEMBER 2013**

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		231,333	(4,334)	(7,147)	219,852	33.17%	5.53	1.83	5.53	1.83	5.53	1.83
SHORT TERM DEBT		1,200	-	(38)	1,162	0.18%	0.50	0.00	0.50	0.00	0.50	0.00
RESIDENTIAL DEPOSITS		9,296		-	9,296	1.40%	2.00	0.03	2.00	0.03	2.00	0.03
COMMERCIAL DEPOSITS		29,576		-	29,576	4.46%	3.00	0.13	3.00	0.13	3.00	0.13
INACTIVE DEPOSITS		228		-	228	0.03%						
COMMON EQUITY		294,275	1,617	(9,316)	286,576	43.23%	9.75	4.21	<b>10.75</b>	4.65	11.75	5.08
DEFERRED INCOME TAX		116,916	(739)	-	116,177	17.53%						
TAX CREDITS - ZERO COST			-	-	-	0.00%						
<b>TOTAL</b>		<u>682,824</u>	<u>(3,456)</u>	<u>(16,501)</u>	<u>662,867</u>	<u>100.00%</u>		<u>6.20</u>		<u>6.64</u>		<u>7.07</u>

PEOPLES GAS SYSTEM  
 EARNED RETURN ON COMMON EQUITY  
 FPSC ADJUSTED BASIS  
 DECEMBER 2013

SCHEDULE 5

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

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	6.80 %	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.83) %	
SHORT TERM DEBT	0.00 %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.16) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(1.99) %</u>	
 TOTAL	 4.81 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>43.23 %</u>	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u><u>11.14 %</u></u>	

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 42,861	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ <u>662,867</u>	(Schedule 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	6.47 %	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.83) %	
SHORT TERM DEBT	0.00 %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.16) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(1.99) %</u>	
 TOTAL	 4.48 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>43.23 %</u>	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u><u>10.35 %</u></u>	