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DIVISION OF
ACCOUNTING & FINANCE

March 1, 2016

Mr. Andrew L. Maurey, Director
Florida Public Service Commission
Division of Accounting and Finance
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Mr. Maurey:

In accordance with Rule 25-7.1353, enclosed is the Forecasted Earnings Surveillance Report of Peoples Gas System for the year ending **December 31, 2016**.

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
2016 Budget**

SCHEDULE 1

	(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>
I. AVERAGE RATE OF RETURN (JURISDICTIONAL)					
<u>NET OPERATING INCOME</u>	\$ 51,692	\$ (2,573)	\$ 49,119	\$ 0	\$ 49,119
 AVERAGE RATE BASE	\$ 817,526	\$ (58,001)	\$ 759,525	\$ 0	\$ 759,525
 AVERAGE RATE OF RETURN	<u>6.32 %</u>		<u>6.47 %</u>		<u>6.47 %</u>

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

LOW	<u>5.93 %</u>
MIDPOINT	<u>6.35 %</u>
HIGH	<u>6.77 %</u>

III. EARNED RETURN ON EQUITY

	FPSC <u>ADJUSTED</u>	PRO FORMA <u>ADJUSTED</u>
A. INCLUDING FLEX RATE REVENUES	<u>11.04 %</u>	<u>11.04 %</u>
B. EXCLUDING FLEX RATE REVENUES	<u>10.59 %</u>	<u>10.59 %</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)

2/26/16
(Date)

PSC/AFA13

**PEOPLES GAS SYSTEM
AVERAGE RATE BASE
2016 Budget**

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	1,443,774	5,032	692,649	7,817	748,340	1,940	30,120	780,400	37,126	817,526
FPSC ADJUSTMENTS:										
Property for Future Use						(1,940)		(1,940)		(1,940)
Temporary Cash Investment									-	-
Notes Receivable									-	-
Accounts Rec./Pay. - Assoc Companies									(4,500)	(4,500)
Merchandise Inventory									-	-
Other Accounts Receivable									(7,237)	(7,237)
Non-Utility Allocation	(438)		(169)		(270)			(270)		(270)
Remove Unbundling Transition Charges									-	-
Remove Non-Utility Accrued Liability									-	-
Remove Non-Utility Martin Cty expansion							(115)	(115)		(115)
Remove Unamort. Debt Expense									(1,192)	(1,192)
Remove Unrecovered Gas Cost									(26)	(26)
Remove Dividends Declared									-	-
Remove Unrec. Conservation Costs									-	-
Remove Competitive Rate Adjustment									(2,447)	(2,447)
Remove Unamortized Rate Case Expense									-	-
Gain on Sale of Property									-	-
Remove Acquis. Adjustment (WFNG)		(2,947)	(2,542)		(405)			(405)		(405)
Remove MSEA Adjustment									-	-
Cast Iron/Bare Steel Rider (CIBSR)	(38,813)		(1,652)		(37,161)		(1,272)	(38,433)		(38,433)
Other Comp. Income (Unsettled hedges)									-	-
Remove Investment in Subsidiaries									(1,436)	(1,436)
TOTAL FPSC ADJUSTMENTS	(39,251)	(2,947)	(4,362)	-	(37,836)	(1,940)	(1,387)	(41,162)	(16,838)	(58,001)
FPSC ADJUSTED	1,404,523	2,085	688,287	7,817	710,504	-	28,733	739,238	20,288	759,525
FLEX RATE REVENUES										
ADJUSTED FOR										
FLEX RATE REVENUES	1,404,523	2,085	688,287	7,817	710,504	-	28,733	739,238	20,288	759,525
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:										
TOTAL PRO FORMA ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-
PRO FORMA ADJUSTED	1,404,523	2,085	688,287	7,817	710,504	-	28,733	739,238	20,288	759,525

**PEOPLES GAS SYSTEM
NET OPERATING INCOME
2016 Budget**

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	Operating Net Income
PER BOOKS	426,240	159,800	96,132	61,329	35,847	9,638	13,803	-	(2,000)	374,548	51,692
FPSC ADJUSTMENTS:											
Remove Conservation Charges	(13,488)		(13,488)			-				(13,488)	-
Non-Utility Allocation				(17)	0	6				(11)	11
Interest Synchronization						430				430	(430)
Parent Debt Adjustment						0				-	-
Remove Fuel Revenues	(160,352)	(159,800)			(552)	-				(160,352)	-
Economic Development Adjustment			(18)			7				(11)	11
Employee Activities			(32)			12				(20)	20
Intercompany Adjustment			(8)			3				(5)	5
Maintenance of General Plant			(38)			15				(23)	23
Maint. of Structures and Improvements			(11)			4				(7)	7
Lobbying included in Dues (AGA, FNGA)			(56)			22				(34)	34
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	(63)
Remove ITC Amortization						-				-	-
Cast Iron/Bare Steel Rider (CIBSR)	(1,718)			(1,141)	(577)	-				(1,718)	0
Cast Iron/Bare Steel Rider (CIBSR) - ROI	(3,612)					(1,393)				(1,393)	(2,219)
OSS Adjustment	-					-				-	-
TOTAL FPSC ADJUSTMENTS	(179,230)	(159,800)	(13,651)	(1,238)	(1,129)	(840)	-	-	-	(176,658)	(2,573)
FPSC ADJUSTED	247,009	-	82,481	60,091	34,718	8,798	13,803	-	(2,000)	197,890	49,119
FLEX RATE REVENUES	(2,335)					(901)				(901)	(1,434)
ADJUSTED FOR											
FLEX RATE REVENUES	244,674	-	82,481	60,091	34,718	7,897	13,803	-	(2,000)	196,989	47,685
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:											
Deferred Tax True-up						-				-	-
TOTAL PRO FORMA ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-	-
PRO FORMA ADJUSTED	247,009	-	82,481	60,091	34,718	8,798	13,803	-	(2,000)	197,890	49,119
PER BOOKS											
CURRENT MONTH AMOUNT	31,055	10,620	7,948	5,194	2,712	17	1,337	-	-	27,828	3,227

**PEOPLES GAS SYSTEM
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
2016 Budget**

SCHEDULE 4

	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 (%)
AVERAGE											
LONG TERM DEBT	261,348	(3,644)	(21,899)	235,805	31.05%	5.33	1.65	5.33	1.65	5.33	1.65
SHORT TERM DEBT	6,345		(539)	5,806	0.78%	2.20	0.02	2.20	0.02	2.20	0.02
RESIDENTIAL DEPOSITS	10,176		-	10,176	1.34%	2.00	0.03	2.00	0.03	2.00	0.03
COMMERCIAL DEPOSITS	31,804		-	31,804	4.19%	3.00	0.13	3.00	0.13	3.00	0.13
INACTIVE DEPOSITS	213		-	213	0.03%						
COMMON EQUITY	350,657	(2,035)	(29,625)	318,997	42.00%	9.75	4.10	10.75	4.52	11.75	4.94
DEFERRED INCOME TAX	156,983	(258)	-	156,725	20.63%						
TAX CREDITS - ZERO COST		-	-	-	0.00%						
TOTAL	817,526	(5,938)	(52,063)	759,525	100.00%		5.93		6.35		6.77

PEOPLES GAS SYSTEM
 EARNED RETURN ON COMMON EQUITY
 FPSC ADJUSTED BASIS
 2016 Budget

SCHEDULE 5

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

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	6.47 %	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.65) %	
SHORT TERM DEBT	(0.02) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.16) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(1.83) %</u>	
 TOTAL	 4.64 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>42.00 %</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u><u>11.04 %</u></u>	

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 47,685	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ <u>759,525</u>	(Schedule 2)
 FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	 6.28 %	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.65) %	
SHORT TERM DEBT	(0.02) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.16) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(1.83) %</u>	
 TOTAL	 4.45 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>42.00 %</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u><u>10.59 %</u></u>	