



February 15, 2021

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

Dear Mr. Maurey:

Attached is the Rate of Return calculation of Peoples Gas System for the period ending **December 2020**.

Please let me know if you have any questions.

Respectfully,

/s/ *Sean P. Hillary*
sphillary@tecoenergy.com

Sean P. Hillary
Controller

Enclosures

cc: Office of Public Counsel – Charles Rehwinkel

**PEOPLES GAS SYSTEM
EARNINGS SURVEILLANCE REPORT SUMMARY
December 2020
(In \$ Thousands)**

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>	\$ <u>62,697</u>	\$ <u>(11,193)</u>	\$ <u>51,504</u>	\$ <u>0</u>	\$ <u>51,504</u>
<u>AVERAGE RATE BASE</u>	\$ <u>1,314,032</u>	\$ <u>(262,566)</u>	\$ <u>1,051,466</u>	\$ <u>0</u>	\$ <u>1,051,466</u>
<u>AVERAGE RATE OF RETURN</u>	<u>4.77</u> %		<u>4.90</u> %		<u>4.90</u> %

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

LOW	<u>5.79</u> %
MIDPOINT	<u>6.50</u> %
HIGH	<u>6.98</u> %

III. EARNED RETURN ON EQUITY

	FPSC <u>ADJUSTED</u>	PRO FORMA <u>ADJUSTED</u>
A. INCLUDING FLEX RATE REVENUES	<u>7.37</u> %	<u>7.37</u> %
B. EXCLUDING FLEX RATE REVENUES	<u>6.95</u> %	<u>6.95</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.

Sean P. Hillary, Controller
(Name and Title)

/s/ Sean P. Hillary
sphillary@tecoenergy.com
(Signature)

02/10/2021
(Date)

PSC/AFA13

**PEOPLES GAS SYSTEM
AVERAGE RATE BASE
December 2020
(In \$ Thousands)**

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	2,040,721	5,032	800,625	14,222	1,230,906	1,940	120,248	1,353,093	(39,061)	1,314,032
<u>FPSC ADJUSTMENTS:</u>										
Property for Future Use						(1,940)		(1,940)		(1,940)
Temporary Cash Investment									(3)	(3)
Notes Receivable									-	-
Accounts Rec./Pay. - Assoc Companies									(1,497)	(1,497)
Merchandise Inventory									-	-
Other Accounts Receivable									(1,255)	(1,255)
Non-Utility Allocation	(1,225)		(388)		(837)			(837)		(837)
Remove Unbundling Transition Charges									-	-
Remove Non-Utility Accrued Liability									-	-
Remove Non-Utility Martin Cty expansion							(115)	(115)		(115)
Remove Unamort. Debt Expense									(2,188)	(2,188)
Remove Unrecovered Gas Cost									-	-
Remove Dividends Declared									-	-
Remove Unrec. Conservation Costs									(1,585)	(1,585)
Remove Unrec. CIBSR Costs									(3,107)	(3,107)
Remove Competitive Rate Adjustment									(3,061)	(3,061)
Remove Unamortized Rate Case Expense									(32)	(32)
Gain on Sale of Property									-	-
Remove Acquis. Adjustment (WFNG)		(2,947)	(2,861)		(86)			(86)		(86)
Remove MSEA Adjustment										-
Cast Iron/Bare Steel Rider (CIBSR)	(173,648)		(7,779)		(165,869)		(10,149)	(176,019)		(176,019)
AFUDC - Eligible CWIP							(69,773)	(69,773)		(69,773)
Other Comp. Income (Unsettled hedges)									-	-
Remove Investment in Subsidiaries									(1,068)	(1,068)
TOTAL FPSC ADJUSTMENTS	(174,872)	(2,947)	(11,027)	-	(166,793)	(1,940)	(80,038)	(248,770)	(13,796)	(262,566)
FPSC ADJUSTED	1,865,848	2,085	789,598	14,222	1,064,113	-	40,210	1,104,323	(52,857)	1,051,466
<u>FLEX RATE REVENUES</u>										
ADJUSTED FOR										
FLEX RATE REVENUES	1,865,848	2,085	789,598	14,222	1,064,113	-	40,210	1,104,323	(52,857)	1,051,466
<u>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</u>										
										-
TOTAL PRO FORMA ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-
PRO FORMA ADJUSTED	1,865,848	2,085	789,598	14,222	1,064,113	-	40,210	1,104,323	(52,857)	1,051,466

**PEOPLES GAS SYSTEM
NET OPERATING INCOME
December 2020
(In \$ Thousands)**

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	422,027	126,167	133,279	45,496	40,893	(559)	15,080	-	(1,026)	359,330	62,697
FPSC ADJUSTMENTS:											
Remove Conservation Charges	(21,493)		(21,493)			0				(21,493)	0
Non-Utility Allocation				(44)	-	11				(33)	33
Interest Synchronization						503				503	(503)
Parent Debt Adjustment						-				-	-
Remove Fuel Revenues	(126,658)	(126,167)			(491)	-				(126,658)	-
Economic Development Adjustment			(17)			4				(13)	13
Employee Activities			(70)			17				(53)	53
Franchise/Gross Receipts Taxes	(23,995)				(23,818)	(43)				(23,861)	(134)
Maintenance of General Plant			(34)			8				(25)	25
Maint. of Structures and Improvements			(5)			1				(4)	4
Lobbying included in Dues (AGA, FNGA)			-			-				-	-
Civic/Social Club Dues			-			-				-	-
Remove Acquisition Adj. Amortiz. (WFNG)				(80)		20				(60)	60
Gain on Sale of Property						-				-	-
Lease of PHFFU	(107)					(26)				(26)	(80)
Remove ITC Amortization						-		-		-	-
Cast Iron/Bare Steel Rider (CIBSR)	(8,359)		(3,222)	(2,420)	(2,717)	0				(8,359)	0
Cast Iron/Bare Steel Rider (CIBSR) - ROI	(14,129)					(3,465)				(3,465)	(10,665)
OSS Adjustment	-					-				-	-
TOTAL FPSC ADJUSTMENTS	(194,740)	(126,167)	(24,841)	(2,544)	(27,025)	(2,970)	-	-	-	(183,548)	(11,193)
FPSC ADJUSTED	227,287	-	108,438	42,952	13,868	(3,530)	15,080	-	(1,026)	175,783	51,504
FLEX RATE REVENUES	(2,820)					(691)				(691)	(2,128)
ADJUSTED FOR											
FLEX RATE REVENUES	224,467	-	108,438	42,952	13,868	(4,221)	15,080	-	(1,026)	175,091	49,376
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:											
Deferred Tax True-up						-				-	-
TOTAL PRO FORMA ADJUSTMENTS	-		-			-			-	-	-
PRO FORMA ADJUSTED	227,287	-	108,438	42,952	13,868	(3,530)	15,080	-	(1,026)	175,783	51,504
PER BOOKS											
CURRENT MONTH AMOUNT	44,829	16,418	14,552	4,070	3,311	324	1,079	-	-	39,753	5,076

**PEOPLES GAS SYSTEM
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
December 2020
(In \$ Thousands)**

SCHEDULE 4

AVERAGE	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	335,637	(2,634)	(56,499)	276,505	26.30%	4.69	1.23	4.69	1.23	4.69	1.23
SHORT TERM DEBT	129,896		(22,039)	107,857	10.26%	1.16	0.12	1.16	0.12	1.16	0.12
CUSTOMER DEPOSITS	26,126		(4,188)	21,938	2.08%	2.48	0.05	2.48	0.05	2.48	0.05
COMMON EQUITY	604,291	(3,303)	(101,966)	499,021	47.46%	9.25	4.39	10.75	5.10	11.75	5.58
DEFERRED INCOME TAX	218,083	(44,038)	(27,899)	146,145	13.90%						
TAX CREDITS - ZERO COST	-	-	-	-	0.00%						
TOTAL	<u>1,314,032</u>	<u>(49,975)</u>	<u>(212,591)</u>	<u>1,051,466</u>	<u>100.00%</u>		<u>5.79</u>		<u>6.50</u>		<u>6.98</u>

PEOPLES GAS SYSTEM
EARNED RETURN ON COMMON EQUITY
FPSC ADJUSTED BASIS
December 2020
(In \$ Thousands)

SCHEDULE 5

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

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	4.90 %	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL		
WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.23) %	
SHORT TERM DEBT	(0.12) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.05) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(1.40) %</u>	
TOTAL	3.50 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>47.46 %</u>	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u><u>7.37 %</u></u>	

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 49,398	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ <u>1,051,466</u>	(Schedule 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	4.70 %	
LESS: RECONCILED AVERAGE JURISDICTIONAL		
WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.23) %	
SHORT TERM DEBT	(0.12) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.05) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(1.40) %</u>	
TOTAL	3.30 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>47.46 %</u>	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u><u>6.95 %</u></u>	

**PEOPLES GAS SYSTEM
CAPITAL STRUCTURE USED FOR AFUDC CALCULATION
DECEMBER 2020
(In \$ Thousands)**

SCHEDULE A

CAPITAL COMPONENTS	ADJUSTED AVERAGE BALANCE	CAPITAL RATIO	COST OF CAPITAL	WEIGHTED COST OF CAPITAL
LONG TERM DEBT	\$ 287,879	27.38%	4.69%	1.28%
SHORT TERM DEBT	112,294	10.68%	1.16% *	0.12%
CUSTOMER DEPOSITS	21,938	2.08%	2.48% *	0.05%
COMMON EQUITY	483,211	45.96%	9.90% **	4.55%
DEFERRED INCOME TAX	146,145	13.90%	0.00%	-
INVESTMENT TAX CREDITS	-	0.00%	0.00%	-
TOTAL	\$ 1,051,466	100.00%		6.00%

*13-MONTH AVERAGE

**Per Order No. PSC-2020-0485-FOF-GU, a 9.90% return on equity shall be used for all purposes including the calculation of the Company's AFUDC rate.

Debt Ratio 24.17%
Equity Ratio 75.83%

**PEOPLES GAS SYSTEM
CAPITAL STRUCTURE USED FOR AFUDC CALCULATION
DECEMBER 2020
(In \$ Thousands)**

SCHEDULE B

CAPITAL COMPONENTS	PER BOOKS	COMMISSION ADJUSTMENTS*	ADJUSTED AVERAGE BALANCE
LONG TERM DEBT	\$ 335,637	\$ (59,132)	\$ 287,879
SHORT TERM DEBT	129,896	(22,039)	112,294
CUSTOMER DEPOSITS	26,126	(4,188)	21,938
COMMON EQUITY	604,291	(105,269)	483,211
DEFERRED INCOME TAX	218,083	(71,938)	146,145
INVESTMENT TAX CREDITS	-	-	-
TOTAL	\$ 1,314,032	\$ (262,566)	\$ 1,051,466

*FOR ADJUSTMENTS DETAILS, SEE SCHEDULE 2.

Per Order No. PSC-2020-0485-FOF-GU, a 54.7% equity ratio (investor sources with any difference to actual equity ratio spread ratably over long-term and short term debt) shall be used for all purposes including the calculation of the Company's AFUDC rate.

**PEOPLES GAS SYSTEM
 METHODOLOGY FOR MONTHLY COMPOUNDING
 OF THE AFUDC RATE
 DECEMBER 2020**

SCHEDULE C

MONTHS	AFUDC BASE	MONTHLY AFUDC	CUMULATIVE AFUDC
JAN	1.00000000	0.0048676	0.0048676
FEB	1.00486755	0.0048912	0.0097588
MAR	1.00975879	0.0049151	0.0146738
APR	1.01467385	0.0049390	0.0196128
MAY	1.01961282	0.0049630	0.0245758
JUN	1.02457584	0.0049872	0.0295630
JUL	1.02956301	0.0050115	0.0345745
AUG	1.03457446	0.0050358	0.0396103
SEP	1.03961031	0.0050604	0.0446707
OCT	1.04467066	0.0050850	0.0497557
NOV	1.04975565	0.0051097	0.0548654
DEC	1.05486539	0.0051346	0.0600000

Annual Rate (R) = .0600

Monthly Rate = $((1 + R)^{(1/12)}) - 1 = 0.0048676$