BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Peoples Gas System.	DOCKET NO. 080318-GU ORDER NO. PSC-09-0121-PHO-GU ISSUED: March 2, 2009

Pursuant to Notice and in accordance with Rule 28-106.209, Florida Administrative Code (F.A.C.), a Prehearing Conference was held on February 23, 2009, in Tallahassee, Florida, before Commissioner Nathan Skop, as Prehearing Officer.

APPEARANCES:

ANSLEY WATSON, JR., ESQUIRE, Macfarlane, Ferguson & McMullen, P.O. Box 1531, Tampa, Florida 33601-1531, and JAMES D. BEASLEY, ESQUIRE, Ausley & McMullen, P. O. Box 391, Tallahassee, Florida 32302
On behalf of Peoples Gas System (PGS).

J.R. KELLY and CHARLES REHWINKEL, ESQUIRES,
Office of Public Counsel, W. Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida (OPC).

JOHN W. McWHIRTER, JR. ESQUIRE, McWhirter Law Firm, P.O. Box 3350, Tampa, Florida 33601-3350
On behalf of the Florida Industrial Gas Users (FIGU).

CAROLINE M. KLANCKE, and KATHERINE E. FLEMING, ESQUIRES, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Florida Public Service Commission (STAFF).

PREHEARING ORDER

I. CASE BACKGROUND

On August 11, 2008, pursuant to Section 366.06, Florida Statutes (F.S.), Peoples Gas System (PGS) filed a Petition for authority to increase its rates and charges for natural gas service. The Petition has been scheduled for hearing on March 4-6, 2009.

II. CONDUCT OF PROCEEDINGS

Pursuant to Rule 28-106.211, F.A.C., this Prehearing Order is issued to prevent delay and to promote the just, speedy, and inexpensive determination of all aspects of this case.

III. JURISDICTION

This Commission is vested with jurisdiction over the subject matter by the provisions of Chapter 366, F.S. This hearing will be governed by said Chapter and Chapters 25-7, 25-22, and 28-106, F.A.C., as well as any other applicable provisions of law.

IV. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

Information for which proprietary confidential business information status is requested pursuant to Section 366.093, F.S., and Rule 25-22.006, F.A.C., shall be treated by the Commission as confidential. The information shall be exempt from Section 119.07(1), F.S., pending a formal ruling on such request by the Commission or pending return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been made a part of the evidentiary record in this proceeding, it shall be returned to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of this proceeding, it shall be returned to the person providing the information within the time period set forth in Section 366.093, F.S. The Commission may determine that continued possession of the information is necessary for the Commission to conduct its business.

It is the policy of this Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 366.093, F.S., to protect proprietary confidential business information from disclosure outside the proceeding. Therefore, any party wishing to use any proprietary confidential business information, as that term is defined in Section 366.093, F.S., at the hearing shall adhere to the following:

(1) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the court reporter, in red envelopes clearly marked with the nature of the contents and with the confidential information highlighted. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.

(2) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise confidentiality. Therefore, confidential information should be presented by written exhibit when reasonably possible.

At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the court reporter shall be retained in the Office of Commission Clerk's confidential files. If such material is admitted into the evidentiary record at hearing and is not otherwise subject to a request for confidential classification filed with the Commission, the source of the information must file a request for confidential classification of the information within 21 days of the conclusion of the hearing, as set forth in Rule 25-22.006(8)(b), F.A.C., if continued confidentiality of the information is to be maintained.

V. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties (and Staff) has been prefiled and will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to timely and appropriate objections. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Summaries of testimony shall be limited to five minutes.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer. After all parties and Staff have had the opportunity to cross-examine the witness, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

The parties shall avoid duplicative or repetitious cross-examination. Friendly cross-examination will not be allowed. Cross-examination shall be limited to witnesses whose testimony is adverse to the party desiring to cross-examine. Any party conducting what appears to be a friendly cross-examination of a witness should be prepared to indicate why that witness's direct testimony is adverse to its interests.

VI. ORDER OF WITNESSES

As a result of discussions at the prehearing conference, each witness whose name is preceded by an asterisk (*) will be excused from this hearing if no Commissioner assigned to this case seeks to cross-examine the particular witness. Parties shall be notified as soon as possible as to whether any such witness shall be required to be present at the hearing. The testimony of excused witnesses will be inserted into the record as though read, and all exhibits submitted with those witnesses' testimony shall be identified as shown in Section IX of this Prehearing Order and be admitted into the record.

Witness	Proffered By	Issues #
Direct		
William N. Cantrell	PGS	3

Witness	Proffered By	Issues #
Gordon L. Gillette	PGS	15, 20, 39
Donald A. Murry, Ph.D.	PGS	14, 20
Donna W. Hobkirk	PGS	5, 7-10, 42
Bruce Narzissenfeld	PGS	5
*Alan D. Felsenthal	PGS	18, 19, 40
*Richard F. Wall	PGS	51
*Susan C. Richards	PGS	2, 21, 22, 24, 47
J. Paul Higgins	PGS	1, 8, 12, 13, 15-20, 22, 23, 25-38, 41, 43-46, 57, 58
*Daniel P. Yardley	PGS	48-50, 52, 53
Lewis M. Binswanger	PGS	5, 23, 54-56
*Kandi M. Floyd	PGS	
Helmuth W. Schultz, III	OPC	
Dr. J. Randall Woolridge	OPC	
*Jocelyn Y. Stephens	STAFF	
Rebuttal		
Bruce Narzissenfeld	PGS	5
Donald A. Murry, Ph.D.	PGS	14, 20
J. Paul Higgins	PGS	17, 28-32, 32, 34-37
Lewis M. Binswanger	PGS	23, 33, 54, 55

VII. BASIC POSITIONS

PGS: **Rate Relief Requested**

After making significant efforts to control expenditures, and careful analysis, Peoples Gas System ("PGS" or the "Company") is seeking the Commission's approval for an increase in its base rates and services charges which will produce additional annual revenues of approximately $26.5 million based on a 2009 projected test year. This increase is designed to recover the Company's cost of service and afford it an opportunity to earn a compensatory return on its investment, including a fair and reasonable return on equity of 11.50% within a range of 10.50% to 12.50%. This is a fair and appropriate return to attract capital. PGS is also seeking approval for other changes that will result in an increased ability to recover the costs associated with providing clean-burning natural gas to more Floridians in a safe and reliable manner.

PGS's base rates were last increased in January 2003, the first increase since early 1993. Over the past six years since that increase, a number of factors have contributed to the necessity for the Company to seek the adjustment sought in this case. From 2002 through 2007 the Consumer Price Index increased more than 17%, requiring not only that PGS pay more for the goods and services it needs to provide safe and reliable natural gas service, but also contributing to an increase in the level of the Company's direct and indirect payroll costs. Among the largest increases experienced were the costs of steel and plastic pipe, the core of the Company's infrastructure investment, and insurance and health care. Increases in the costs of these items have been significantly higher than the general inflation that has occurred during this period. The Company has also experienced, and will continue to experience, costs to comply with new government regulations, such as the pipeline integrity management requirements imposed by the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration. Another cost that has substantially increased is PGS's depreciation expense as a result of new depreciation rates ordered by the Commission as a result of the Company's last depreciation study in 2006.

Over this same time period, PGS has expanded its distribution system to bring the benefits of clean-burning natural gas to more than 100,000 new customers and, as of the end of 2008, provided service to approximately 334,000 customers. It has added more than 1,500 miles of pipe to its system to bring service to these additional customers. However, during the same time period, PGS experienced a decline in the average per-customer consumption of natural gas on which its 2003 rates were based, due at least in part to the Company's energy conservation programs and appliance efficiencies. PGS's residential customers now use about 11% less gas than they used in 2002 – equivalent to more than a month's average usage. Because the Company's rate design is largely based on customer's consumption of gas, PGS has in essence been penalized for its conservation efforts, and there has been an adverse impact on the Company's ability to recover its costs of providing service and earn a reasonable rate of return on the property it has devoted to public service.

PGS has made substantial efforts to control its expense levels and avoid the need for rate relief while continuing to provide safe, reliable natural gas service, and further enhance the services available to its customers. The Company must constantly make these efforts because its customers have energy choices available to them. While electricity is a necessity for every customer, natural gas service is not. The natural gas business in Florida is highly competitive, evidenced by the fact that only one in every 10 electric customers is a natural gas customer. PGS must control its costs to remain competitive with the other energy options available to its customers and potential customers. Every natural gas customer in Florida uses gas as a matter of choice. PGS's expense-controlling efforts have resulted in its operation and maintenance expenses being more than $11 million, or 14.4%, less than the Commission's benchmark for 2007, the historic base year in this proceeding.

PGS has made a concerted effort since it was last granted base rate relief to maintain its current level of rates in the face of ever increasing costs and declining average use per customer. However, it has reached the point where the Company's rates must be increased so that it may continue to render safe and reliable service to its customers. In essence, the base rates currently in use by PGS are inadequate to permit it to cover operating costs and earn a reasonable rate of return. In view of current economic conditions, rates predicated on an overall rate of return of 8.88% should be approved so that the Company may have an opportunity to cover its operating costs and earn a fair and reasonable rate of return on its investment.

In this filing the Company is seeking approval for other changes that better reflect the costs of providing safe and reliable service to customers. They include the following:

Change in Accounting Treatment for Bad Debt Expense

PGS is seeking approval for a change to permit recovery of the gas cost portion of its uncollectible accounts through the purchased gas adjustment clause ("PGA"), rather than through base rates. The Company believes this manner of recovery is consistent with the Commission's intent in establishing the PGA, which is designed to permit natural gas utilities to recover, on a timely basis, all prudently incurred gas and gas-related costs.

Establishment of a Storm Damage Reserve

The Company is also seeking approval to establish an unfunded storm damage reserve so that any large, unusual and unpredictable costs resulting from storms that may be incurred in any given year can be normalized, or more evenly spread over a longer period of time. Such reserves have been authorized for all Florida electric utilities, and for one Florida natural gas utility, and would help provide rate stability from a customer perspective. PGS is proposing a modest $100,000 annual accrual for its reserve.

Proposed Rate Design

PGS's proposed rates and service charges are designed to produce the Company's requested additional annual revenues of approximately $26.5 million. PGS is proposing some changes to its rate schedules to more accurately reflect the cost of providing service to various customer classes. The cost of serving each customer class is the major consideration in the proposed rate design, which achieves the Company's goals of fairness, energy efficiency, revenue stability, rate moderation and simplicity.

Although the Company's current rate structure employs both fixed "customer" charges and variable per-therm "distribution" charges, the vast majority (over 70% in 2007) of firm base rate revenues are recovered through the variable per-therm charges. Sales customers pay a separate PGA charge (not the subject of this proceeding), for the gas delivered to them. Transportation customers pay only the customer and distribution charges and pay a gas supplier other than PGS for the gas delivered to them through the Company's distribution system.

Among the changes proposed are a reclassification of some General Service ("GS") customers (all commercial and industrial customers receiving firm natural gas service). GS customers vary in size from those with load characteristics similar to those of residential customers all the way up to very large processing loads. The size of the GS-1 rate class (presently 1,000 – 17,499 therms annually) would be reduced by reclassifying the smallest GS-1 customers to the Small General Service ("SGS") class and reclassifying the largest GS-1 customers to the GS-2 class. Under the proposed changes, the SGS rate class would include all GS customers with annual use between 0 and 1,999 therms, the GS-1 rate class would include all GS customers with annual use between 2,000 and 9,999 therms, and the GS-2 rate class would include all GS customers with annual use between 10,000 and 49,999 annual therms. The resulting distribution of customers in the GS classes achieves greater homogeneity of customers under the GS rate classes, and thereby enhances the design of corresponding rates.

In addition, rates for the residential class have been redesigned to recover an increased proportion of fixed costs through the customer charge consistent with the results of the allocated cost of service study and the Company's rate design goals. The potential bill impacts for individual customers associated with this change have been appropriately mitigated by three distinct levels of customer charges ($12, $15 and $20) for different sizes of residential customers. All residential customers would pay the same distribution charge of $0.32034 per therm.

The Company proposes to modify the Residential rate schedule in a manner that limits the eligibility to customers that annually use 1,999 therms or less. Residential customers consuming 2,000 or more therms per year (such as the common areas of condominiums), while remaining "residential" for deposit and certain other purposes, would be reclassified to the corresponding GS rate schedule based on annual use and be eligible for transportation service.

Inclusion of a Gas System Reliability Rider

PGS is proposing a Gas System Reliability Rider ("Rider GSR"), a tariff cost recovery mechanism which would operate similarly to other cost recovery clauses currently used by Florida investor-owned electric and natural gas utilities. Rider GSR, if approved as proposed by the Company, would permit PGS to recover the revenue requirements associated with eligible infrastructure system replacements (e.g., replacements for existing facilities, relining projects to extend useful life of existing facilities, road relocation projects) and incremental O&M expenses, if any, incurred to comply with mandatory pipeline safety regulations. The rider would not permit recovery of revenue requirements associated with any assets specifically included in rate base, or to any operation and maintenance expenses included for recovery through the base rates established in this proceeding. If approved, such recovery would continue until the effective date of revised base rates established in the Company's next base rate proceeding.

The Company has proposed Rider GSR to timely recover the revenue requirements associated with what are largely government-mandated expenditures. These costs are significant, potentially volatile, and difficult to predict, and the Company has no opportunity to recover them absent the filing of a base rate case or a limited proceeding.

Inclusion of a Carbon Reduction Rider

PGS is also proposing another cost recovery mechanism – the Carbon Reduction Rider, or "Rider CR." Rider CR deals with supply (as opposed to distribution) main expansions, and would partially address the significant revenue lag associated with bringing natural gas to areas in Florida not currently served. A supply main to connect the main serving a development to an interstate pipeline or existing Company supply main must be placed in service to permit service to the first customer in a development, but produces no revenue for the Company in and of itself. Revenues will come – over time – from the main(s) serving the development. Revenue requirements associated with the supply main cannot be recovered by the Company without the filing of a base rate case or a limited proceeding. The Commission's approval of Rider CR would remove this financial barrier and position PGS to proactively capture expansion opportunities that support Florida's initiatives to improve fuel diversity and reduce the state's carbon footprint, both worthy objectives. If approved, recovery under Rider CR would continue until the earlier of the end of a five-year recovery period per project, or the effective date of revised base rates established in the Company's next base rate proceeding.

Other Non-Rate Tariff Modifications

In addition to the adjustments to its rates and charges reflected on the revised rate schedules filed by the Company, PGS seeks the Commission's approval for modifications to the rules and regulations in its natural gas tariff with respect to gas quality to address specifications for natural gas which may be delivered into the Company's system, to the tariff definition of "force majeure" to address certain judicial constructions affecting such term, and to the tariff's Rider ITS (Individual Transportation Service) to address the resolution of imbalances between receipts and deliveries of gas at the Company's interconnections with Gulfstream Natural Gas System, LLC ("Gulfstream") and the responsibility for penalties assessed by Gulfstream.

The Current Economy

PGS and each of its employees are acutely aware of the effects that the current economic turmoil have on individuals and businesses, including the Company's customers. Despite these circumstances, the Company's filing initiating this proceeding was necessary to permit it to obtain the financial ability to continue safely and reliably meeting the natural gas needs of its customers, and expanding the availability of clean-burning natural gas to areas currently unserved. As indicated previously, PGS's customers have chosen natural gas to meet their energy needs despite having other alternatives.

During the customer service hearings conducted in six different Florida cities, there were nothing but positive comments regarding PGS and the service it provides. Those comments demonstrate that the Company is dedicated to customer service. Because of that dedication, and the highly competitive nature of the natural gas business in Florida, PGS would not have initiated this proceeding had it not been a necessity.

OPC: Peoples Gas has substantially overstated its projected revenue requirements. The Commission should not allow revenues to increase by more than $5,673,535 nor allow a return on common equity of greater than 9.5%.

FIGU: FIGU participants do not generally buy gas from Peoples. They transport their own gas through interstate pipelines to interconnections with Peoples' pipeline interconnections, and through Peoples' local distribution system for the mutual benefit of all rather building pipelines that will by pass the Peoples system from the interstate pipeline to FIGU industrial sites.

By contract FIGU participants have agreed that Peoples can interrupt their service and take FIGU-owned gas to meet the critical needs of Peoples' firm customers when required.

FIGU supports the need for Peoples to be financially strong, but believes that current economic circumstances militate toward a lower return on equity and accordingly supports the cost of capital recommendation filed by the Office of Public Counsel.

As a matter of general principle FIGU opposes the implementation of new cost recovery clause tariff riders that move prospective non volatile base rate items to new guaranteed cost recovery clauses.

STAFF: Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions.

VIII. ISSUES AND POSITIONS

TEST PERIOD

ISSUE 1: Are the historical base year ended December 31, 2007, and the projected test year ending December 31, 2009, the appropriate test years to be utilized in this docket?

POSITIONS:

PGS: Yes. The calendar year 2009 is appropriate for setting rates because it best represents the operating conditions during the period when the new rates will be effective. (Higgins)

OPC: No Position.

FIGU: FIGU cautions against projected test years which vary from the statutory mandate of §366.06 Florida Statutes that the Commission should only approve rates using the depreciated investment in utility plant that is actually in use and useful service.

STAFF: Yes. PGS's projected test period of the 12 months ending December 31, 2009 is the appropriate test year to be utilized in this docket with appropriate adjustments.

ISSUE 2: **CATEGORY 2 STIPULATION** - See Section X, Proposed Stipulations

QUALITY OF SERVICE

ISSUE 3: **CATEGORY 2 STIPULATION** - See Section X, Proposed Stipulations

RATE BASE

ISSUE 4: **DROPPED**

ISSUE 5: Should any adjustments be made to Projected Plant, Accumulated Depreciation, and Depreciation Expense?

POSITIONS:

PGS: Yes. Actual net plant in service as of December 31, 2008, exceeded the amount reflected in the MFRs by approximately $6.4 million. This would result in a corresponding increase in the 13-month average net Plant In Service for the 2009 projected test year. (Narzissenfeld, Binswanger, Hobkirk)

OPC: Yes. Distribution Plant should be reduced $15,277,686, Accumulated Depreciation should be reduced $369,404 and Depreciation Expense should be reduced $404,900. This position is subject to revision based on the receipt and analysis of outstanding discovery responses. (Schultz)

FIGU: FIGU takes no position on this issue.

STAFF: No position pending evidence adduced at hearing.

ISSUE 6: **DROPPED**

ISSUE 7: Should any adjustments be made to reduce Plant, Accumulated Depreciation, Depreciation Expense, and other expenses to reflect non-utility operations?

POSITIONS:

PGS: No. All required adjustments to remove non-utility items have been included in the 2009 test year. (Hobkirk)

OPC: No position at this time.

FIGU: FIGU takes no position on this issue.

STAFF: No position pending evidence adduced at hearing.

ISSUE 8: What is the appropriate amount of Construction Work in Progress (CWIP) for the 2009 projected test year?

POSITIONS:

PGS: The appropriate amount of CWIP for the 2009 projected test year is $18,249,444 as reflected on MFR schedule, G-1 page 1. (Higgins, Hobkirk)

OPC: Pending further discovery and the resolution of issues related to Issue 4, the OPC has no position at this time. (Schultz)

FIGU: FIGU takes no position on this issue.

STAFF: No position pending evidence adduced at hearing.

ISSUE 9: What is the appropriate 2009 projected test year Total Plant?

POSITIONS:

PGS: The appropriate 2009 projected test year Total Plant is $1,009,374,293 as reflected on MFR schedule, G-1 page 1, adjusted to reflect the depreciation impact of the $6.4 million increase in the 13-month average Plant In Service as of December 31, 2008. (Higgins, Hobkirk)

OPC: The appropriate 2009 projected test year Total Plant is $994,096,604. (Schultz)

FIGU: FIGU takes no position on this issue.

STAFF: No position pending evidence adduced at hearing.

ISSUE 10: What is the appropriate 2009 projected test year Depreciation Reserve?

POSITIONS:

PGS: The appropriate 2009 projected test year Depreciation Reserve is $426,364,359 as reflected on MFR schedule, G-1 page 1, adjusted to reflect the depreciation impact of the $6.4 million increase in the 13-month average Plant In Service as of December 31, 2008. (Hobkirk)

OPC: The appropriate 2009 projected test year Depreciation Reserve is $425,994,955. (Schultz)

FIGU: FIGU takes no position on this issue.

STAFF: No position pending evidence adduced at hearing.

ISSUE 11: **DROPPED**

ISSUE 12: **CATEGORY 1 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 13: What is the appropriate projected test year Rate Base?

POSITIONS:

PGS: The appropriate projected test year Rate Base is $563,599,436 as reflected on MFR schedule G-1 page 1, adjusted to reflect the increase in total plant and depreciation reserve as of December 31, 2008. (Higgins)

OPC: The test year rate base is subject to the resolution of other issues but should not exceed $548,682,201. (Schultz)

FIGU: FIGU takes no position on this issue.

STAFF: No position pending evidence adduced at hearing.

COST OF CAPITAL

ISSUE 14: What is the appropriate return on common equity for the projected test year?

POSITIONS:

PGS: The appropriate return on common equity for the 2009 projected test year is 11.50% with a range of 10.50% to 12.50%. (Murry)

OPC: The appropriate return on common equity for the 2009 projected test year is 9.25%, as of December 18, 2008.

FIGU: FIGU will agree with OPC on this issue.

STAFF: No position pending evidence adduced at hearing.

ISSUE 15: What is the appropriate capital structure for the projected test year?

POSITIONS:

PGS: The appropriate capital structure for 2009 is Company's proposed capital structure as shown on MFR Schedule G-3, page 2. (Higgins, Gillette)

OPC: The PGS capital structure as filed is not inappropriate so long as recognition is given that its level of equity is higher than the proxy group used for purposes of determining an appropriate cost Common equity. (Woolridge)

FIGU: FIGU will agree with OPC on this issue.

STAFF: No position pending evidence adduced at hearing.

ISSUE 16: **CATEGORY 1 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 17: What is the appropriate cost rate of short-term debt for the projected test year?

POSITIONS:

PGS: The appropriate cost rate of short-term debt for the projected test year is 4.50%, as shown on MFR Schedule G-3, page 4. (Higgins)

OPC: The appropriate cost rate of short term debt for the test year is 1.76%. (Woolridge)

FIGU: FIGU takes no position on this issue.

STAFF: No position pending evidence adduced at hearing.

ISSUE 18: What is the appropriate amount of accumulated deferred taxes to be included in the capital structure for the projected test year?

POSITIONS:

PGS: The appropriate amount of accumulated deferred taxes to be included in the capital structure for the projected test year is $27,670,682, as shown on MFR Schedule G-3, page 2. (Felsenthal, Higgins)

OPC: No position at this time.

FIGU: FIGU takes no position on this issue.

STAFF: No position pending evidence adduced at hearing.

ISSUE 19: **CATEGORY 1 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 20: What is the appropriate weighted average cost of capital for the projected test year?

POSITIONS:

PGS: The appropriate weighted average cost of capital for the projected test year is 8.88%, as reflected on MFR Schedule G-3, page 2. (Higgins, Gillette, Murry)

OPC: The appropriate weighted average cost of capital for the projected test year is subject to the resolution of other issues but should be no greater than 7.77%. (Woolridge)

FIGU: FIGU will agree with OPC on this issue.

STAFF: No position pending evidence adduced at hearing.

REVENUES

ISSUE 21: **CATEGORY 2 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 22: **CATEGORY 2 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 23: What amount, if any, of Off-System Sales revenues should be included in the projected test year?

POSITIONS:

PGS: The amount of Off-System Sales revenues that should be included in the projected test year is $500,000. This is the amount that was included to reduce the revenue requirements in the Company's last base rate proceeding for the purpose of establishing rates, and also represents the Company's 25% share of reasonably attainable off-system sales for the projected test year. (Higgins, Binswanger)

OPC: Off-system sales should be increased by $1,500,000. (Schultz)

FIGU: FIGU takes no position on this issue.

STAFF: No position pending evidence adduced at hearing.

ISSUE 24: What is the appropriate amount of projected test year total Operating Revenues?

POSITIONS:

PGS: The appropriate amount of total operating revenues is $169,906,126, as reflected on MFR Schedule G-2, page 1. (Richards)

OPC: The appropriate amount of projected test year total operating revenues is $171,406,126. (Schultz)

FIGU: FIGU takes no position on this issue.

STAFF: No position pending evidence adduced at hearing.

EXPENSES

ISSUE 25: Are the trend rates used by PGS to calculate projected O&M expenses appropriate?

POSITIONS:

PGS: Yes. (Higgins)

OPC: No. The 2008 average CPI has dropped considerably from the 2.90% requested by the company to 0.1%. The projected 2009 CPI should also be reduced accordingly.

FIGU: FIGU takes no position on this issue.

STAFF: Yes. The trend rates used by PGS to calculate projected O&M expenses are appropriate.

ISSUE 26: Should the projected test year O&M expense be adjusted for the effect of any changes to the trend factors?

POSITIONS:

PGS: No. (Higgins)

OPC: Yes as addressed in Issue 25.

FIGU: FIGU takes no position on this issue.

STAFF: No. The trend rates were not changed so no adjustments are necessary.

ISSUE 27: **CATEGORY 2 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 28: Should any adjustments be made to Account 920, Administrative and General Salaries, or any other accounts related to employee compensation?

POSITIONS:

PGS: None of the adjustments proposed by OPC to Account 920 or other accounts related to employee compensation is appropriate. The Company's total level of compensation, including incentive compensation, is reasonable based on market comparisons. The Company's incentive compensation is only one component of overall compensation for officers, key employees and general employees. Taken as a whole, the incentive plans are appropriately designed to motivate employees to achieve customer-focused operational and financial goals. The adjustments proposed by OPC are flawed and should be rejected because they would result in the Company's compensating its employees at below the market average for comparable positions. While OPC's witness complains about the "incentive" aspects of the Company's compensation system, he has presented no evidence that the total compensation of PGS employees is unreasonable or imprudently incurred. However, the merit increase guidelines for 2009 were recently changed.

As a result, payroll expense for the projected test year should be reduced by $253,300. (Higgins)

OPC: Yes. Payroll expense should be reduced $210,199 to account for the slowdown in customer growth. Incentive compensation should be reduced by $2,714,400 to account for their excessive amount relative to any benefits produced for ratepayers. Adjustments should also be made to reflect the zero percent executive base pay raises implemented in February 2009. (Schultz)

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 29: What is the appropriate amount of rate case expense and what is the appropriate amortization period for that expense?

POSITIONS:

PGS: The appropriate amount of rate case expense and appropriate amortization period for that expense are $1,000,000 and three years, respectively. (Higgins)

OPC: Rate case expense should not exceed $684,500 and should be amortized over no less than 5 years consistent with historical spacing of rate case filings. (Schultz).

FIGU: No Position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 30: Is PGS's proposed recovery of the gas cost portion of bad debt expense through the Purchased Gas Adjustment Clause appropriate?

POSITIONS:

PGS: Yes. Recovery of the gas cost portion of bad debt expense through the Purchased Gas Adjustment (PGA) Clause is consistent with the Commission's policy of recovering gas cost-related expenses. (Higgins)

OPC: No. Uncollectible expense recovery is properly a matter for base rate treatment. Recovery through the PGA Clause will reduce scrutiny and company incentive to pursue collection. (Schultz).

FIGU: No position.

STAFF: No. PGS's adjustment to transfer $723,580 of the bad debt expense to the Purchased Gas Adjustment Clause should be reversed.

ISSUE 31: Should any adjustments be made to bad debt expense?

POSITIONS:

PGS: No. However, if PGS's proposed recovery of the gas cost portion of bad debt expense through the Purchased Gas Adjustment Clause is not approved by the Commission, bad debt expense must be increased by $723,580. (Higgins)

OPC: Yes. Consistent with Commission practice, bad debt expense should be based on a 5-year historical average.

FIGU: No position.

STAFF: Yes. Bad debt expense should be increased by $723,580, and should be based on a four-year average. This adjustment is designed to reflect the removal of the gas cost portion from the Purchased Gas Adjustment Clause as discussed in Issue 30.

ISSUE 32: Should any adjustments be made to Account 926, Employee Pensions and Benefits?

POSITIONS:

PGS: No. PGS has properly forecasted employee pensions and benefits for the 2009 projected test year and no adjustment is warranted. (Higgins)

OPC: Yes. Employee welfare/activity expense should be reduced $172,881 to match these expenses to the appropriate trending and inflation factors. Also, $569,500 of expense related to restricted stock grants and stock options should be reduced due to the excessive nature of this type of expense. (Schultz)

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 33: What is the appropriate amount of pipeline integrity expense, if any, to be included in the projected test year?

POSITIONS:

PGS: The appropriate amount of pipeline integrity expense to be included in the projected test year is $751,500 as reflected on MFR Schedule G-2, page 12 and supported by Exhibit JPH-4. This is the projected expenditure for 2009. Although not every item shown on Exhibit JPH-4 will recur annually, the average annual expense over the next eight years is expected to be approximately $720,000. (Higgins, Binswanger)

OPC: Projected test year pipeline integrity expense should be reduced by $250,000 to $501,500. (Schultz)

FIGU: No position.

STAFF: Projected test year pipeline integrity expense should be reduced by $250,000.

ISSUE 34: Should the Commission allow PGS to establish a storm damage reserve, and if so, what is the appropriate amount of annual storm expense accrual?

POSITIONS:

PGS: Yes. PGS's requested storm damage reserve will serve to normalize the level of storm damage expense over time. The appropriate amount of annual storm expense accrual is $75,000, which reflects exclusions of expense not permitted by Rule 25-6.0143, F.A.C. (Higgins)

OPC: No. The need for an unfunded reserve of $1 million and $100,000 annual accrual appears overstated based on experience. (Schultz)

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 35: Should any adjustments be made to Account 912, Demonstrating and Selling expenses?

POSITIONS:

PGS: No. PGS has properly forecasted the expenses in Account 912 for the projected test year, which are over 25% less than in 2001, the historic base year in the Company's last base rate proceeding. (Higgins)

OPC: Yes. Projected demonstrating and selling expenses should be reduced $2,000,530 due to the ineffectiveness of this service that is provided by an affiliate. (Schultz)

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 36: Should the costs to fund Directors and Officers Liability Insurance be included in the projected test year?

POSITIONS:

PGS: Yes. Director's & Officer's Liability ("D&O") Insurance is an ordinary and necessary business expense for a public utility and benefits the ratepayers by covering defense costs and making it possible to recruit and retain talented directors and officers. PGS has properly forecasted D&O Insurance expense and no adjustment is warranted. In addition, PGS incurs no direct expense for D&O Insurance, all of such expense being incurred as a result of the costs allocated by TECO Energy to PGS. OPC's position would disallow the expense twice. No adjustment under this Issue or Issue 37 is appropriate. (Higgins)

OPC: No. The entire projected DOL insurance expense should be eliminated since the insurance benefits primary shareholder defending lawsuits from shareholders. (Schultz)

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 37: Should any adjustments be made to costs allocated by TECO to PGS?

POSITIONS:

PGS: PGS has properly forecasted the allocated costs and, except as noted below, no adjustment is warranted. The merit increase guidelines for 2009 were recently changed. As a result, Account 921 should be reduced by $26,500 representing a reduction in payroll expense allocated by TECO to PGS. (Higgins)

OPC: Yes. $1,262,437 of allocated incentive and bonus compensation and DOL expense should be removed. (Schultz)

FIGU: No Position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 38: What is the appropriate amount of Taxes Other Than Income Taxes?

POSITIONS:

PGS: The appropriate amount of Taxes Other Than Income Taxes is $10,823,933 as reflected on MFR Schedule G-2, page 1. (Higgins)

OPC: $10,823,933.

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 39: Is it appropriate to make a parent debt adjustment as per Rule 25-14.004, Florida Administrative Code?

POSITIONS:

PGS: No. TECO Energy, Inc. only raises debt for the operations of its unregulated affiliates. None of the proceeds of TECO Energy debt has ever been invested in PGS. All TECO Energy equity infusions into PGS have been made from internally generated funds or externally-generated equity. A parent debt adjustment is therefore inappropriate. (Gillette)

OPC: Yes. (Schultz)

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 40: What is the appropriate Income Tax Expense, including current and deferred income taxes, ITC amortization, and interest synchronization?

POSITIONS:

PGS: The appropriate Income Tax Expense, including current and deferred income taxes, ITC amortization, and interest synchronization for the 2009 projected test year is $9,204,184 as reflected on MFR Schedule G-2, page 29, subject to increase to reflect the income tax effect of the adjustments made in Issues 27, 28 and 37. (Felsenthal)

OPC: The appropriate income tax expense amounts are reflected in Exhibit HWS-1, Schedule C-1, per the testimony of Helmuth W. Schultz. (Schultz)

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 41: What is the appropriate amount of projected test year O&M Expense?

POSITIONS:

PGS: The appropriate amount of O&M Expense in the projected test year is $72,608,899, as reflected on MFR Schedule G-2, page 1, reduced by $328,660 to reflect the adjustments made in Issues 27, 28, 34 and 37. (Higgins)

OPC: $65,598,432. (Schultz)

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 42: What is the appropriate amount of projected test year Depreciation and Amortization Expense?

POSITIONS:

PGS: The appropriate amount of Depreciation and Amortization Expense in the projected test year is $43,804,733, adjusted to reflect the depreciation impact of the increase in the 13-month average Total Plant as of December 31, 2008 (see Issue 9). (Higgins, Hobkirk)

OPC: $42,759,833. (Schultz)

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 43: What is the appropriate level of Total Operating Expenses for the 2009 projected test year?

POSITIONS:

PGS: The appropriate level of Total Operating Expenses for the 2009 projected test year is $135,961,429, as reflected on MFR Schedule G-2, page 1, reduced by $201,879 to reflect the after tax impact of the adjustments made in Issues 27, 28, 34 and 37, and increased to reflect the after-tax impact of the increase in depreciation expense in Issue 42. (Higgins)

OPC: $132,210,478. (Schultz)

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 44: What is the appropriate amount of projected test year Net Operating Income?

POSITIONS:

PGS: The appropriate amount of Net Operating Income in the projected test year is $33,944,697, as reflected on MFR Schedule G-2, page 1, increased by $201,879 to reflect the after tax impact of the adjustments made in Issues 27, 28, 34 and 37 and reduced to reflect the after-tax impact of the increase in depreciation expense in Issue 42. (Higgins)

OPC: $39,195,648. (Schultz)

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

REVENUE REQUIREMENTS

ISSUE 45: **CATEGORY 1 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 46: What is the appropriate projected test year operating revenue increase, if any?

POSITIONS:

PGS: The appropriate operating revenue increase for the projected test is $26,488,091, as reflected on MFR Schedule G-5, decreased by $306,569 to reflect the adjustment made in Issues 27, 28, 34 and 37, and increased by the impacts of the adjustments in Issues 13 and 44. (Higgins)

OPC: $5,673,535. (Schultz)

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

RATES

ISSUE 47: **CATEGORY 2 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 48: **CATEGORY 1 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 49: What are the appropriate customer charges?

POSITIONS:

PGS: The appropriate Customer Charges are:

Rate Class	Annual therms	Customer Charge
Residential Service 1	0-99	$ 12.00
Residential Service 2	100-249	$ 15.00
Residential Service 3	250-1,999	$ 20.00
Commercial Street Lighting Service		$ 0.00
Small General Service	0-1,999	$ 25.00
General Service 1	2,000 – 9,999	$ 35.00
General Service 2	10,000 – 49,999	$ 50.00
General Service 3	50,000 – 249,999	$150.00
General Service 4	250,000 – 499,999	$250.00

Rate Class	Annual therms	Customer Charge
General Service 5	500,000 +	$300.00
Small Interruptible Service	1,000,000 – 3,999,999	$300.00
Interruptible Service	4,000,000 – 50,000,000	$475.00
Interruptible Service Lg Vol	50,000,000 +	$475.00
Natural Gas Vehicle Service		$ 45.00
Residential Standby Generator Service		$ 20.00
Commercial Standby Generator Service		$ 35.00
Wholesale Service		$150.00

The proposed customer charges provide customers with appropriate price signals concerning the use of natural gas, improve intra-class fairness and increase revenue stability.

(Yardley)

OPC: No position.

FIGU: Agree with PGS.

STAFF: This is a fall-out issue and will be decided at the May 19, 2009 Agenda Conference.

ISSUE 50: What are the appropriate per therm Distribution Charges?

POSITIONS:

PGS: The appropriate per therm Distribution Charges are:

Residential Service – 1	$0.32034
Residential Service – 2	$0.32034
Residential Service – 2	$0.32034
Commercial Street Lighting Service	$0.19715
Small General Service	$0.36345
General Service 1	$0.28056
General Service 2	$0.24235
General Service 3	$0.20980
General Service 4	$0.15708
General Service 5	$0.11814
Small Interruptible Service	$0.07421
Interruptible Service	$0.03334
Interruptible Service - Large Volume	$0.00848
Natural Gas Vehicle Service	$0.18834

Residential Standby Generator Service	
0-20.0 therms	$0.00000
>20.0 therms	$0.32034
Commercial Standby Generator Service	
0-40.0 therms	$0.00000
>40.0 therms	$0.28056
Wholesale Service	$0.15571

The proposed distribution charges result in an appropriate level of revenues recovered from each customer class, supporting the Company's rate design goals and contributing to greater inter-class fairness.

(Yardley)

OPC: No position.

FIGU: No position.

STAFF: This is a fall-out issue and will be decided at the May 19, 2009 Agenda Conference.

ISSUE 51: **CATEGORY 2 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 52: **CATEGORY 2 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 53: **CATEGORY 2 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 54: Should the Commission approve PGS's proposed "Gas System Reliability Rider," which would permit recovery of revenue requirements associated with eligible infrastructure system replacements (e.g., replacements for existing facilities, relining projects to extend useful life of existing facilities, road relocation projects) and incremental O&M expenses, if any, incurred to comply with mandatory pipeline safety regulations? If approved as proposed by PGS, such recovery would continue until the effective date of revised base rates established in the Company's next base rate proceeding. The rider would also provide for the refund of O&M expenses, if any, incurred to comply with mandatory pipeline safety regulations, in excess of such expenses included in the Company's most recent base rate proceeding.

POSITIONS:

PGS: Yes. The Gas System Reliability Rider would permit the Company to recover, in a timely manner, the revenue requirements associated with municipal, county, state, or federal mandated relocations of Company facilities or safety requirements, over which it has no control. When Peoples is mandated to relocate its facilities, the Company has no choice as to whether or not it incurs costs, and – absent the Gas System Reliability Rider – would be required to file a full rate case or limited proceeding to recover the revenue requirements (including depreciation expense) associated with these mandated investments. (Binswanger)

OPC: No. The company has not demonstrated that regulatory oversight of these costs should be removed from base rates review. The type of costs here are not sufficiently large or volatile as to warrant recovery in a "clause" mechanism, nor has PGS proposed any downward ROE adjustment in the event the rider is adopted. (Schultz)

FIGU: FIGU opposes this tariff rider because the costs are not volatile. The depreciation charge collected from customers is normally sufficient for pipeline replacement and repair.

STAFF: No position pending evidence adduced at hearing.

ISSUE 55: Should the Commission approve PGS's proposed "Carbon Reduction Rider," which would permit recovery of revenue requirements associated with incremental capital expenditures, if any, for installation of supply mains (as defined in the rider) to serve primarily residential developments? If approved as proposed by PGS, such recovery would continue until the earlier of (i) the end of a five-year recovery period, or (ii) the effective date of revised base rates established in the Company's next base rate proceeding.

POSITIONS:

PGS: Yes. The Carbon Reduction Rider would permit the Company to recover, for a five year period only per project, the revenue requirements associated with the installation of supply main used to connect primarily residential developments to supply sources of natural gas. Expanding natural gas service in Florida to areas not currently served by natural gas supports various Florida initiatives associated with lowering carbon emissions, including Governor Crist's Executive Order Number 07-126 which states, in part, that Florida has committed to becoming a leader in reducing emissions of greenhouse gases. (Binswanger)

OPC: No. The company has not demonstrated that regulatory oversight of these costs should be removed from base rates review. The type of costs here are not sufficiently large or volatile as to warrant recovery in a "clause" mechanism, nor has PGS proposed any downward ROE adjustment in the event the rider is adopted. (Schultz)

FIGU: No position on the issue because the cost recovery clause is not applicable to the FIGU rate classes, but in principle this is a capital expenditure. It is not the type of volatile expense normally associated with cost recovery clauses.

STAFF: No position pending evidence adduced at hearing.

ISSUE 56: **CATEGORY 2 STIPULATION** - See Section X, Proposed Stipulations

OTHER ISSUES

ISSUE 57: Should any of the $2,380,000 interim rate increase granted by Order No. PSC-08-0696-PCO-GU be refunded to the ratepayers?

POSITIONS:

PGS: No. (Higgins)

OPC: No position at this time.

FIGU: No position.

STAFF: No position pending evidence adduced at hearing.

ISSUE 58: **CATEGORY 1 STIPULATION** - See Section X, Proposed Stipulations

ISSUE 59: Should this docket be closed?

POSITIONS:

PGS: Yes. This docket should be closed after the Commission has issued its final order and the time for filing an appeal has expired.

OPC: No position at this time.

FIGU: Yes.

STAFF: No position pending evidence adduced at hearing.

IX. EXHIBIT LIST

Witness	Proffered By		Description
Direct			
Various	PGS	PGS-1	MFR Schedules
William N. Cantrell	PGS	WNC-1	Map of PGS Service Areas
William N. Cantrell	PGS	WNC-2	Map of Interstate Pipelines in Florida
William N. Cantrell	PGS	WNC-3	Executive Summary of Black & Veatch Study on Direct Use of Natural Gas
Donald A. Murry, Ph.D.	PGS	DAM-1	Real GDP Consensus Forecast
Donald A. Murry, Ph.D.	PGS	DAM-2	Comparison of Selected Bond Yields
Donald A. Murry, Ph.D.	PGS	DAM-3	Blue Chip Treasury Forecasts

Witness	Proffered By		Description
Donald A. Murry, Ph.D.	PGS	DAM-4	Value Line Interest Rates and Forecasts (2003-2013)
Donald A. Murry, Ph.D.	PGS	DAM-5	PGS Proposed Capital Structure as of December 31, 2009
Donald A. Murry, Ph.D.	PGS	DAM-6	Comparable Gas Companies - Comparison of Common Equity Ratios
Donald A. Murry, Ph.D.	PGS	DAM-7	Comparable Gas Companies - Comparison of Financial Strength and Bond Ratings
Donald A. Murry, Ph.D.	PGS	DAM-8	Comparable Gas Companies - Comparison of Value Line's Safety and Timeliness Rank
Donald A. Murry, Ph.D.	PGS	DAM-9	Comparable Gas Companies - Comparison of Returns on Common Equity
Donald A. Murry, Ph.D.	PGS	DAM-10	Comparable Gas Companies - Comparison of Declared Dividends
Donald A. Murry, Ph.D.	PGS	DAM-11	Comparable Gas Companies - Comparison of Dividend Payout Ratios
Donald A. Murry, Ph.D.	PGS	DAM-12	Comparable Gas Companies - Comparison of Average Annual Price-Earnings Ratios
Donald A. Murry, Ph.D.	PGS	DAM-13	Comparable Gas Companies - Discounted Cash Flow Growth Rate Summary
Donald A. Murry, Ph.D.	PGS	DAM-14	Comparable Gas Companies - Dividend Growth Rate DCF Using Current Share Prices
Donald A. Murry, Ph.D.	PGS	DAM-15	Comparable Gas Companies - Dividend Growth Rate DCF Using 52-Week Share Prices

Witness	Proffered By		Description
Donald A. Murry, Ph.D.	PGS	DAM-16	Comparable Gas Companies - Earnings Growth Rate DCF Using Current Share Prices
Donald A. Murry, Ph.D.	PGS	DAM-17	Comparable Gas Companies - Earnings Growth Rate DCF Using 52-Week Share Prices
Donald A. Murry, Ph.D.	PGS	DAM-18	Comparable Gas Companies - Projected Growth Rate DCF Using Current Share Prices
Donald A. Murry, Ph.D.	PGS	DAM-19	Comparable Gas Companies - Projected Growth Rate DCF Using 52-Week Share Prices
Donald A. Murry, Ph.D.	PGS	DAM-20	Ibbotson Example Size Premium Calculation
Donald A. Murry, Ph.D.	PGS	DAM-21	Comparable Gas Companies - Size Adjusted Capital Asset Pricing Model
Donald A. Murry, Ph.D.	PGS	DAM-22	Comparable Gas Companies - Historical Capital Asset Pricing Model
Donald A. Murry, Ph.D.	PGS	DAM-23	Comparable Gas Companies - Summary of Financial Analysis
Donald A. Murry, Ph.D.	PGS	DAM-24	Proposed Cost of Capital as of December 31, 2009
Donald A. Murry, Ph.D.	PGS	DAM-25	Comparable Gas Distribution Companies - Comparison of After-Tax Times Interest Earned Ratios
Donna W. Hobkirk	PGS	DWH-1	MFRs Sponsored
Alan D. Felsenthal	PGS	ADF-1	MFRs Sponsored
Alan D. Felsenthal	PGS	ADF-2	Calculation of IRC Required Deferred Income Tax Adjustment

Witness	Proffered By		Description
Richard F. Wall	PGS	RFW-1	MFRs Sponsored
Susan C. Richards	PGS	SCR-1	MFRs Sponsored
Susan C. Richards	PGS	SCR-2	Residential Average Use Projections
Susan C. Richards	PGS	SCR-3	Summary of Regression Statistics
Susan C. Richards	PGS	SCR-4	Actual Therm / Bill vs. Regression Forecast
Susan C. Richards	PGS	SCR-5	Weighted 60-Day Billing Period Average Heating and Cooling Degree Days
Susan C. Richards	PGS	SCR-6	Executive Summary from "An Economic Analysis of Consumer Response to Natural Gas Prices"
J. Paul Higgins	PGS	JPH-1	MFRs Sponsored
J. Paul Higgins	PGS	JPH-2	2009 Operating Budget - Operations & Maintenance Expense Summary
J. Paul Higgins	PGS	JPH-3	Storm Reserve Analysis
J. Paul Higgins	PGS	JPH-4	Pipeline Integrity / System Reliability Costs - Projected O&M Expenses
J. Paul Higgins	PGS	JPH-5	Reconciliation of Capital Structure to Rate Base
J. Paul Higgins	PGS	JPH-6	Calculated Average Return on Capital - December 31, 2009
Daniel P. Yardley	PGS	DPY-1	MFRs Sponsored
Daniel P. Yardley	PGS	DPY-2	Summary of Reclassification of Residential and General Service Customers

Witness	Proffered By		Description
Daniel P. Yardley	PGS	DPY-3	Rate of Return and Required Increase by Class to Yield Uniform Rate of Return
Daniel P. Yardley	PGS	DPY-4	Comparison of Existing and Proposed Base Revenues
Daniel P. Yardley	PGS	DPY-5	Comparison of Class-by-Class Rate of Return at Current and Proposed Rates
Daniel P. Yardley	PGS	DPY-6	Comparison of Monthly Customer Charges /Customer-Related Costs
Lewis M. Binswanger	PGS	LMB-1	Residential Appliance Energy Comparison
Lewis M. Binswanger	PGS	LMB-2	Example Calculations of GSR and CR Surcharges
Kandi M. Floyd	PGS	KMF-1	Gas Quality Comparisons
Helmuth W. Schultz, III	OPC	Appendix	Qualifications of Helmuth W. Schultz, III
Helmuth W. Schultz, III	OPC	HWS-1	Adjustments
Dr. J. Randall Woolridge	OPC	Appendix	Qualifications of Dr. J. Randall Woolridge
Dr. J. Randall Woolridge	OPC	JRW-1	Weighted Average Cost of Capital
Dr. J. Randall Woolridge	OPC	JRW-2	Interest Rates
Dr. J. Randall Woolridge	OPC	JRW-3	Summary Financial Statistics for Gas Proxy Group
Dr. J. Randall Woolridge	OPC	JRW-4	Capital Structure Ratios and Debt Cost Rate
Dr. J. Randall Woolridge	OPC	JRW-5	S & P 500 Price CV / Bear Stearns Bond Price Index CV
Dr. J. Randall Woolridge	OPC	JRW-6	The Relationship Between Estimated ROE and Market-To-Book-Ratios

Witness	Proffered By		Description
Dr. J. Randall Woolridge	OPC	JRW-7	Public Utility Capital Cost Indicators
Dr. J. Randall Woolridge	OPC	JRW-8	Industry Average Betas
Dr. J. Randall Woolridge	OPC	JRW-9	Three Stage DCF Model
Dr. J. Randall Woolridge	OPC	JRW-10	DCF Study
Dr. J. Randall Woolridge	OPC	JRW-11	CAPM Study
Dr. J. Randall Woolridge	OPC	JRW-12	Summary of Dr. Murry's Results
Dr. J. Randall Woolridge	OPC	JRW-13	Analyst's Long term Forecasted EPS Growth Rates
Dr. J. Randall Woolridge	OPC	JRW-14	Value Line 3-5 year Growth Rate Forecasts
Dr. J. Randall Woolridge	OPC	JRW-15	Historical Risk Premium Evaluation
Dr. J. Randall Woolridge	OPC	JRW-16	CFO's Equity Risk Premium
Jocelyn Y. Stephens	STAFF	JYS-1	Staff Audit Report
Rebuttal			
Bruce Narzissenfeld	PGS	BN-1 Revised	Projected and Actual Capital Expenditures (3 categories)
Donald A. Murry, Ph.D.	PGS	DAM-26	Historical Interest Rate Trends
Donald A. Murry, Ph.D.	PGS	DAM-27	Baa-rated Corporate Bonds – January 2004 - December 2008
Donald A. Murry, Ph.D.	PGS	DAM-28	Size Effect within Industries
Lewis M. Binswanger	PGS	LMB-3	Infrastructure Cost Recovery Mechanisms (American Gas Association, December 2007)

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

X. PROPOSED STIPULATIONS

As referenced in Section VIII, above, the parties have reached stipulations on several issues. These stipulations fall within one of two categories, as listed below. "Category 1" stipulations reflect the agreement of PGS, Staff, and at least one of the intervenors in this docket. Intervenors who have not affirmatively agreed with a particular Category 1 stipulation but otherwise take no position on the issue are identified in the proposed stipulation. "Category 2" stipulations reflect the agreement of PGS and Staff where no other party has taken a position on the issue.

CATEGORY 1 STIPULATIONS:

ISSUE 12: What is the appropriate 2009 projected test year Working Capital Allowance?

Stipulation: The appropriate 2009 projected test year Working Capital Allowance is ($11,494,371). (FIGU does not affirmatively stipulate this issue but takes no position on the issue.)

ISSUE 16: What is the appropriate cost rate of long-term debt for the projected test year?

Stipulation: The appropriate cost rate of long-term debt for the projected test year is 7.20%.

ISSUE 19: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure for the projected test year?

Stipulation: The appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure for the projected test year are $7,862 and 0%, respectively, as shown on MFR Schedule G-3, page 2. (FIGU does not affirmatively stipulate this issue but takes no position on the issue.)

ISSUE 45: What is the appropriate projected test year revenue expansion factor to be used in calculating the revenue deficiency?

Stipulation: The appropriate projected test year revenue expansion factor to be used in calculating the revenue deficiency is 1.6436. (FIGU does not affirmatively stipulate this issue but takes no position on the issue.)

ISSUE 48: What is the appropriate cost of service methodology to be used in allocating costs to the rate classes?

Stipulation: The appropriate methodology is contained in revised MFR Schedule H, and should reflect the Commission approved adjustments to rate base, expenses, rate of return, and net operating income. (OPC does not affirmatively stipulate this issue but takes no position on the issue.)

ISSUE 58: Should PGS be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, earnings surveillance reports, and books and records which will be required as a result of the Commission's findings in this docket?

Stipulation: Yes. PGS should be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case. (FIGU does not affirmatively stipulate this issue but takes no position on the issue.)

ISSUE 59: Should this docket be closed?

Stipulation: Yes. This docket should be closed after the Commission has issued its final order and the time for filing an appeal has expired.

CATEGORY 2 STIPULATIONS:

ISSUE 2: Are the projected bills and therms for the test year ending December 31, 2009, appropriate for use in this case?

Stipulation: Yes. The projected bills and therms for the test year ending December 31, 2009 are appropriate for use in this case.

ISSUE 3: Is the quality of gas service provided by PGS adequate?

Stipulation: Yes.

ISSUE 21: Has PGS made the appropriate test year adjustments to remove revenues and expenses recoverable through the Purchased Gas Adjustment Clause?

Stipulation: Yes.

ISSUE 22: Has PGS made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

Stipulation: Yes.

ISSUE 27: Should any adjustments be made to the 2007 O&M expenses for staff Audit Finding Nos. 1 and 2, to address out-of-period expenses, reclassifications, and non-utility expenditures?

Stipulation: Yes. Adjustments should be made to the 2007 O&M expenses to remove out-of-period, reclassifications, and non-utility expenses. Based on these trended adjustments, 2009 Office Supplies and Expenses, Account 921, should be reduced by $18,853 and Miscellaneous General Expenses, Account No. 930.2 should be reduced by $5,007.

ISSUE 47: Are PGS's estimated revenues by rate class at present rates for the projected test year appropriate?

Stipulation: Yes. PGS's estimated revenues by rate class at present rates for the projected test year are appropriate.

ISSUE 51: What are the appropriate Miscellaneous Service Charges?

Stipulation: The appropriate revised miscellaneous service charges are as follows:

Service Charge	Staff Recommendation
Account Opening Charge	$28
Service Initiation Charge - Residential	$50 for initial meter
Service Initiation Charge - Other	$30 for each additional meter
Reconnection Charge - Residential	$70 for initial meter
Reconnection Charge - Other	$20 for each additional meter
Temporary Meter Turn-off Charge	$20
Failed Trip Charge	$25

ISSUE 52: Is PGS's proposal to stratify its current single residential service class into three individual classes appropriate?

Stipulation: Yes. The proposal allows the Company to recover a greater proportion of fixed customer-related costs indicated by the allocated cost of service study through customer charges, while at the same time managing the potential bill impacts for individual customers to reasonable levels. Absent establishing the three billing classes, the bill impacts associated with increasing fixed cost recoveries through the customer charge would be too large for smaller residential customers that use natural gas for fewer appliances.

ISSUE 53: Is PGS's proposal to reclassify certain customers appropriate?

Stipulation: Yes. Redefining the GS-1 class (presently 1,000-17,500 annual therms) by moving the smallest GS-1 customers (up to 1,999 annual therms) into an expanded SGS rate class and moving the largest GS-1 customers (above 10,000 annual therms) into an expanded GS-2 rate class is appropriate to provide greater homogeneity and reduce the potential for intra-class subsidies.

At present all residential customers take service under the RS rate. The reclassification of a limited number of large residential customers addresses a separate issue, which relates to common areas of condominiums. Such use is considered residential even though the characteristics of the load are similar to use by larger GS customers. By expanding the eligibility of the GS-1 through GS-5 rate schedules to include residential use, the largest residential customers are included with similarly-situated non-residential customers for pricing purposes. An additional benefit of this approach is that it clarifies the rights of condominium units to purchase their gas supply from a third-party pursuant to the Company's transportation service program. The deposit terms and conditions associated with residential service would continue to apply to condominium customers that are reclassified to a GS rate schedule.

ISSUE 56: What is the appropriate effective date for PGS's revised rates and charges?

Stipulation: The revised rates and charges should become effective for meter readings on or after 30 days following the date of the Commission vote approving the rates and charges which, under the current schedule, would mean for meter readings taken on or after June 18, 2009.

XI. PENDING MOTIONS

There are no pending motions at this time.

XII. PENDING CONFIDENTIALITY MATTERS

1. PGS's Request for Confidential Classification of Document No. 11228-08 (Portions of Audit Report and Workpapers) is pending.

2. PGS's Request for Confidential Classification of Document No. 01413-09 is pending.

XIII. POST-HEARING PROCEDURES

If no bench decision is made, each party shall file a post-hearing statement of issues and positions. A summary of each position of no more than 50 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of this Prehearing Order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 50 words, it must be reduced to no more than 50 words. If a party fails to file a post-hearing statement, that party shall have waived all issues and may be dismissed from the proceeding.

Pursuant to Rule 28-106.215, F.A.C., a party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 40 pages and shall be filed at the same time.

XIV. RULINGS

Opening statements, if any, shall not exceed ten minutes per party.

It is therefore,

ORDERED by Commissioner Nathan A. Skop, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Nathan A. Skop, as Prehearing Officer, this 2nd day of March, 2009.

NATHAN A. SKOP
Commissioner and Prehearing Officer

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.