

**STIPULATION AND SETTLEMENT AGREEMENT**

This Stipulation and Settlement Agreement (this "Agreement") is made and entered into as of the 16<sup>th</sup> day of December 2010, by and between Peoples Gas System ("PGS" or the "Company"), and the Office of Public Counsel ("OPC"), sometimes referred to hereinafter collectively as the "Parties" and individually as a "Party".

WHEREAS, by Order No. PSC-09-0411-FOF-GU ("Order No. 09-0411"), issued June 9, 2009 in Docket No. 080318-GU, the Florida Public Service Commission (the "Commission") granted in part and denied in part PGS' petition for a rate increase and, among other things, awarded PGS a 10.75 percent return on common equity ("ROE") midpoint with a range of plus or minus 100 basis points for surveillance reporting purposes;

WHEREAS, primarily as a result of record low temperatures in Florida during the first quarter of 2010, PGS' Earnings Surveillance Report ("ESR") for the aforementioned quarter indicated the Company's earnings exceeded the top of its authorized ROE range established by Order No. 09-0411;

WHEREAS, representatives of the Parties and Commission Staff ("Staff") met to discuss the Company's March 2010 ESR and, as requested by Staff, by letter dated June 9, 2010, PGS agreed, subject to certain conditions, to cap its 2010 calendar year earned ROE at 11.75 percent, the top of the range established by Order No. 09-0411;

WHEREAS, PGS' ESRs for the second and third quarters of 2010 continued to reflect an earned ROE above the top of the range established by Order No. 09-0411, and PGS recorded a provision in each such report to recognize the Company's anticipated 2010 overearnings (the "Existing Provision");

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ECR \_\_\_\_\_  
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WHEREAS, Staff has raised questions regarding certain deficiencies in the Company's depreciation reserves through data requests directed to PGS in connection with the Company's

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2008 and 2009 annual status reports contained in its annual reports filed pursuant to Rule 25-7.014(3), *Florida Administrative Code*;

WHEREAS, representatives of PGS and OPC have met and engaged in negotiations for the purpose of reaching agreement on the disposition of any overearnings (as defined in PGS' letter dated June 9, 2010) for the 2010 calendar year; and

WHEREAS, the Commission's approval of this Agreement will remove uncertainties with respect to the disposition of any PGS overearnings for the 2010 calendar year, and provide substantial short term and long term benefits for the Company's customers.

NOW, THEREFORE, in consideration of the foregoing and the covenants contained herein, the Parties hereby stipulate and agree as follows:

1. Upon final approval of this Agreement by the Commission, PGS will refund a total of \$3,000,000 to its customers in the form of a one-time credit to customer bills, such refund to be effected as hereinafter described. Refunds will be applied only to active bills at the time the refunds are being made. The refunds will commence with Cycle 1 billing one month following the date the Commission's order approving this Agreement becomes final and non-appealable. The refunds will be made on a volumetric cents-per-therm, basis based on each customer's consumption during the month the refund is applied to the customer's bill. The portion of the total refund amount allocable to each customer class, and the cents-per-therm refund factors will be determined in the same manner used by PGS to allocate and recover costs under the energy conservation cost recovery clause in Docket No. 100004-GU (as first approved by the Commission's Order No. 23576 in Docket No. 900002-EG). Any overpayment or underpayment of the one-time refund amount will be trued-up in a subsequent period.

2. Calculation of PGS' earned ROE to determine the amount of any earnings above an 11.75 percent ROE will be on an "FPSC Adjusted Basis" as set forth in the Company's ESR required by Rule 25-7.1352, *Florida Administrative Code*, for December 31, 2010, using the

adjustments made in the Company's rate proceeding in Docket No. 080318-GU, but excluding that portion of the Company's share of net revenues derived from Off-System Sales that exceeds \$2,068,676. See Orders Nos. 09-0411 and PSC-10-0208-S-GU. All reasonable and prudent expenses and investment will be included in the calculation.

3. The amount of any overearnings, calculated as provided in paragraph 2 of this Agreement, in excess of \$3,000,000 shall be used to correct or mitigate deficiencies in the Company's depreciation reserves as may be agreed by PGS and Staff. In its ESR for the final quarter of 2010, PGS will assign \$3,000,000 of any overearnings against the Existing Provision with any remaining balance resulting from a year-end ROE above 11.75 percent, as calculated pursuant to paragraph 2 of this Agreement, credited to the depreciation reserve adjustments contemplated by this paragraph 3. Such ESR will contain a pro forma adjustment for the portion of Off-System Sales revenues to be retained by PGS as described in paragraph 2.

4. Final Commission approval of this Agreement in its entirety will resolve all matters arising out of PGS' overearnings for the year ending December 31, 2010.

5. The provisions of this Agreement are contingent upon approval of this Agreement in its entirety by the Commission. The Parties agree that they will support this Agreement and will not request or support any order, relief, outcome or result in conflict with the terms of this Agreement in any administrative or judicial proceeding relating to, reviewing or challenging the establishment, approval, adoption or implementation of this Agreement or the subject matter hereof.

6. The Parties agree to jointly petition the Commission for approval of this Agreement at the earliest possible time in order to facilitate implementation of the refund and other provisions hereof, and will urge the Commission to take final agency action approving this Agreement at the earliest possible time.

7. In the event the Commission rejects or modifies this Agreement, in whole or in part, the Parties agree that this Agreement shall become void unless such rejection or modification is ratified by the Parties, and that thereafter each Party may pursue its interests as those interests may exist, and neither Party will be bound by or make reference to this Agreement before the Commission, any court, or any other administrative body.

8. This Agreement may be executed in counterpart originals, and a facsimile or scan of the original signature shall be deemed an original.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives as of the day and year first above written.

*[remainder of this page left blank intentionally]*

**PEOPLES GAS SYSTEM**

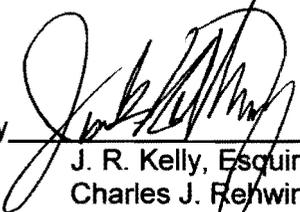
By  \_\_\_\_\_

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Attorneys for Peoples Gas System

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