

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

## -M-E-M-O-R-A-N-D-U-M-

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**DATE:** November 20, 2019

**TO:** Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

**FROM:** Dale R. Buys, Public Utilities Supervisor, Division of Accounting & Finance *DRB*

**RE:** Docket No. 20190171-GU – Petition for Approval of 2018 True-up, the Projected 2019 True-up and 2020 Revenue Requirements and Surcharges Associated with Cast Iron/Bare Steel Pipe Replacement Rider, by Peoples Gas System.

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Please file the attached email correspondence and the accompanying attachments (2) in the documents section in Docket No. 20190171-GU.

RECEIVED-FPSC  
2019 NOV 20 AM 9:20  
COMMISSION  
CLERK

## Dale Buys

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**From:** Floyd, Kandi M. <KFloyd@tecoenergy.com>  
**Sent:** Monday, November 18, 2019 2:52 PM  
**To:** Dale Buys  
**Cc:** Mark Cicchetti; Hillary, Sean P.  
**Subject:** Peoples Gas System Revised Surveillance Reports  
**Attachments:** PGS December 2017 SR Revised.pdf; PGS December 2018 SR Revised.pdf

Dale:

Per our conversation on Friday, attached are PGS revised Surveillance Reports for 2017 and 2018. Additionally, below are points that have shaped our position with the amended CIBS amended filing.

- In Order No. PSC-12-0476-TRF-GU approving the establishment of Peoples' Cast Iron Bare Steel Rider, Peoples agreed to use actual overall cost of capital, including the return on equity from Peoples last rate case and to use the most currently available December earnings surveillance report to determine the return on Cast Iron Bare Steel Rider assets.
- In response to Staff's Second Data Request to Docket No. 20190171-GU, Peoples stated that its weighted average cost of capital (WACC) is compliant with Internal Revenue Code (IRC) § 167 and § 168. This was based on the premise that the Limitation Provision in Treasury Regulation Section § 1.167(1)-1(h)(6)(i) states that as long as the amount of depreciation-related ADIT used in ratemaking is lower than the amount that would have been used under the Consistency Rule, then there is no violation of Normalization.
- After further review, Peoples has determined that in calculating its WACC it has been removing plant from rate base for recovery through the Cast Iron Bare Steel Rider recovery clause without removing the associated accumulated deferred income tax ("ADIT"), which may lead to a normalization violation. Specifically, in removing the Cast Iron Bare Steel Plant from rate base for recovery through the Cast Iron Bare Steel Rider Peoples' has been making the pro rata adjustment over only the investor sources of capital. The precedent of making the pro rata adjustment over investor sources of capital only is Order No. PSC-03-0038FOF-GU, issued January 6, 2003, in Docket No. 020384-GU, In re: Petition for rate increase by Peoples Gas System. That order stated that any pro rata adjustment should be made over investor sources which would only include common equity, preferred stock, short-term and long-term debt. In a subsequent Commission order on this issue, Order No. PSC-09-0571-FOF-EI issued August 21, 2009 for Peoples' sister company, Tampa Electric, it was stated that "removing plant from rate base for recovery through cost recovery clauses without removing the associated ADITs and ITCs may lead to a normalization violation."
- The normalization rules imposed by the IRC employ an accounting and ratemaking concept, normalization, to ensure that the capital subsidies of accelerated depreciation and investment tax credits provide an investment incentive for regulated utilities. They accomplish this by premising the availability of these benefits upon compliance with a set of accounting and ratemaking rules, which prescribe the way in which these tax benefits must be reflected. With regard to depreciation, the rules require the establishment of deferred taxes and establish limits on the amount of ADIT that can offset rate base and designate the events that give rise to deferred tax reversals. In short, it is a comprehensive system of control over the reflection of the benefits of accelerated depreciation in ratemaking. As part of these rules, any ratemaking procedure or adjustment with respect to a utility's tax expense, depreciation expense, or reserve for deferred taxes must also be consistently used with respect to the other two such items and with respect to rate base. The consequences of a depreciation normalization violation are that the taxpayer loses the ability to use accelerated tax methods of depreciation with respect to all of its jurisdictional assets, both those it owns when the violation occurs and those it acquires in the future.

- Under Revenue Procedure 2017-47, 2017-38 Internal Revenue Bulletin 233 issued on September 7, 2017, the Internal Revenue Service (IRS) has crafted safe-harbor for taxpayers owning public utility properties so that accidental failure to follow practice or procedure consistent with normalization rules for ITC or depreciation won't be considered violation of normalization rules and won't operate to deny taxpayers benefits of ITC or accelerated depreciation. To qualify for this relief, taxpayer must change its inconsistent practice to consistent practice approved by utility regulator at next available opportunity, and retain documentation. If regulator considered and addressed application of normalization rules to inconsistent practice or procedure at time of rate-making approval, taxpayer won't qualify for safe-harbor.
- To avoid a potential normalization violation, Peoples' requests that it modify its WACC calculation such that plant removed from rate base for recovery through the Cast Iron Bare Steel Rider should be removed from the capital structure through a specific adjustment to ADIT and the remainder through a pro rata adjustment over investor sources of capital. Peoples believes that a specific adjustment to the ADIT is appropriate in this instance because the asset investments related to Rider CI/BSR qualify as "repair" under IRS rules and are allowed to be fully deducted in the year they are incurred. The ADIT that results from the treatment of these assets can be easily determined and should be specifically removed when reconciling to rate base.
- The CIBS assets are placed in service for book and depreciated. For Tax purposes, the amounts paid for repairs and maintenance for CIBS that are not required to be capitalized under Internal Revenue Code section 263(a) and may be deducted for tax when placed in service under Section 162.

Please let me know if you have any questions.

Thanks,

k.

Kandi Floyd  
Director, Regulatory Affairs  
Peoples Gas System  
702 N. Franklin St.  
Tampa, FL 33602  
Work - 813.228.4668  
Cell - 813.781.8848  
kfloyd@tecoenergy.com

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**PEOPLES GAS SYSTEM  
REVISED EARNINGS SURVEILLANCE REPORT SUMMARY  
DECEMBER 2017**

SCHEDULE 1

	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments	(5) Pro Forma Adjusted
<b>I. AVERAGE RATE OF RETURN (JURISDICTIONAL)</b>					
<u>NET OPERATING INCOME</u>	\$ 55,101	\$ (3,266)	\$ 51,835	\$ 0	\$ 51,835
<u>AVERAGE RATE BASE</u>	\$ 880,136	\$ (66,975)	\$ 813,161	\$ 0	\$ 813,161
<u>AVERAGE RATE OF RETURN</u>	6.26 %		6.37 %		6.37 %

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

LOW	5.73 %
MIDPOINT	6.38 %
HIGH	6.80 %

**III. EARNED RETURN ON EQUITY**

	FPSC ADJUSTED	PRO FORMA ADJUSTED
<b>A. INCLUDING FLEX RATE REVENUES</b>	10.75 %	10.75 %
<b>B. EXCLUDING FLEX RATE REVENUES</b>	10.34 %	10.34 %

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)

(Date)

PSC/AFA13

**PEOPLES GAS SYSTEM  
AVERAGE RATE BASE  
DECEMBER 2017**

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
<b>PER BOOKS</b>	1,556,535	5,032	704,525	11,109	845,933	1,940	22,838	870,711	9,425	880,136
<b>FPSC ADJUSTMENTS:</b>										
Property for Future Use						(1,940)		(1,940)		(1,940)
Temporary Cash Investment									(3)	(3)
Notes Receivable									-	-
Accounts Rec./Pay. - Assoc Companies									-	-
Merchandise Inventory									-	-
Other Accounts Receivable									(5,493)	(5,493)
Non-Utility Allocation	(466)		(128)		(338)			(338)		(338)
Remove Unbundling Transition Charges									-	-
Remove Non-Utility Accrued Liability									-	-
Remove Non-Utility Martin Cty expansion							(115)	(115)		(115)
Remove Unamort. Debt Expense									(1,095)	(1,095)
Remove Unrecovered Gas Cost									-	-
Remove Dividends Declared									-	-
Remove Unrec. Conservation Costs									(75)	(75)
Remove Unrec. CIBSR Costs									-	-
Remove Competitive Rate Adjustment									(2,742)	(2,742)
Remove Unamortized Rate Case Expense									-	-
Gain on Sale of Property									-	-
Remove Acquis. Adjustment (WFNG)		(2,947)	(2,622)		(325)			(325)		(325)
Remove MSEA Adjustment									-	-
Cast Iron/Bare Steel Rider (CIBSR)	(52,821)		(2,460)		(50,361)		(3,213)	(53,574)		(53,574)
Other Comp. Income (Unsettled hedges)									-	-
Remove Investment in Subsidiaries									(1,276)	(1,276)
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(53,287)</b>	<b>(2,947)</b>	<b>(5,210)</b>	<b>-</b>	<b>(51,024)</b>	<b>(1,940)</b>	<b>(3,328)</b>	<b>(56,291)</b>	<b>(10,884)</b>	<b>(66,975)</b>
<b>FPSC ADJUSTED</b>	<b>1,503,248</b>	<b>2,085</b>	<b>699,315</b>	<b>11,109</b>	<b>794,909</b>	<b>-</b>	<b>19,510</b>	<b>814,420</b>	<b>(1,259)</b>	<b>813,161</b>
<b>FLEX RATE REVENUES ADJUSTED FOR</b>										
<b>FLEX RATE REVENUES</b>	<b>1,503,248</b>	<b>2,085</b>	<b>699,315</b>	<b>11,109</b>	<b>794,909</b>	<b>-</b>	<b>19,510</b>	<b>814,420</b>	<b>(1,259)</b>	<b>813,161</b>
<b>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</b>										
<b>TOTAL PRO FORMA ADJUSTMENTS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>PRO FORMA ADJUSTED</b>	<b>1,503,248</b>	<b>2,085</b>	<b>699,315</b>	<b>11,109</b>	<b>794,909</b>	<b>-</b>	<b>19,510</b>	<b>814,420</b>	<b>(1,259)</b>	<b>813,161</b>

**PEOPLES GAS SYSTEM  
NET OPERATING INCOME  
DECEMBER 2017**

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	424,980	156,528	103,699	50,702	35,888	2,599	22,604	-	(2,141)	369,879	55,101
<b>FPSC ADJUSTMENTS:</b>											
Remove Conservation Charges	(16,693)		(16,693)			-				(16,693)	0
Non-Utility Allocation				(17)	-	7				(10)	10
Interest Synchronization						349				349	(349)
Parent Debt Adjustment						-				-	-
Remove Fuel Revenues	(156,969)	(156,528)			(441)	-				(155,969)	-
Economic Development Adjustment			(9)			3				(6)	6
Employee Activities			(83)			32				(51)	51
Intercompany Adjustment			(8)			3				(5)	5
Maintenance of General Plant			(34)			13				(21)	21
Maint. of Structures and Improvements			(11)			4				(7)	7
Lobbying included in Dues (AGA, FNGA)			(33)			13				(20)	20
Civic/Social Club Dues			-			-				-	-
Remove Acquisition Adj. Amortiz. (WFNG)				(80)		31				(49)	49
Gain on Sale of Property						-				-	-
Lease of PHFFU	(60)					(23)				(23)	(37)
Remove ITC Amortization						-				-	-
Cast Iron/Bare Steel Rider (CIBSR)	689		2,669	(1,210)	(770)	-				689	0
Cast Iron/Bare Steel Rider (CIBSR) - ROI	(4,962)					(1,914)				(1,914)	(3,048)
OSS Adjustment						-				-	-
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(177,995)</b>	<b>(156,528)</b>	<b>(14,201)</b>	<b>(1,307)</b>	<b>(1,211)</b>	<b>(1,482)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(174,730)</b>	<b>(3,265)</b>
<b>FPSC ADJUSTED</b>	<b>246,985</b>	<b>-</b>	<b>89,498</b>	<b>49,395</b>	<b>34,677</b>	<b>1,117</b>	<b>22,604</b>	<b>-</b>	<b>(2,141)</b>	<b>195,150</b>	<b>51,835</b>
<b>FLEX RATE REVENUES</b>	<b>(2,310)</b>					<b>(891)</b>				<b>(891)</b>	<b>(1,419)</b>
<b>ADJUSTED FOR</b>											
<b>FLEX RATE REVENUES</b>	<b>244,674</b>	<b>-</b>	<b>89,498</b>	<b>49,395</b>	<b>34,677</b>	<b>226</b>	<b>22,604</b>	<b>-</b>	<b>(2,141)</b>	<b>194,259</b>	<b>50,416</b>
<b>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</b>											
Deferred Tax True-up						-				-	-
<b>TOTAL PRO FORMA ADJUSTMENTS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>PRO FORMA ADJUSTED</b>	<b>246,985</b>	<b>-</b>	<b>89,498</b>	<b>49,395</b>	<b>34,677</b>	<b>1,117</b>	<b>22,604</b>	<b>-</b>	<b>(2,141)</b>	<b>195,150</b>	<b>51,835</b>
PER BOOKS											
<b>CURRENT MONTH AMOUNT</b>	<b>42,142</b>	<b>17,225</b>	<b>8,922</b>	<b>3,217</b>	<b>3,521</b>	<b>5,725</b>	<b>(2,420)</b>	<b>-</b>	<b>-</b>	<b>38,190</b>	<b>5,952</b>

**PEOPLES GAS SYSTEM  
CAPITAL STRUCTURE  
FPSC ADJUSTED BASIS  
DECEMBER 2017**

**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		261,368	(2,220)	(15,120)	244,028	30.01%	5.32	1.60	5.32	1.60	5.32	1.60
SHORT TERM DEBT		41,070		(2,396)	38,674	4.76%	1.62	0.08	1.62	0.08	1.62	0.08
RESIDENTIAL DEPOSITS		7,241		(336)	6,905	0.85%	2.00	0.02	2.00	0.02	2.00	0.02
COMMERCIAL DEPOSITS		20,006		(929)	19,077	2.35%	3.00	0.07	3.00	0.07	3.00	0.07
INACTIVE DEPOSITS		454		(21)	433	0.05%						
COMMON EQUITY		372,738	(2,777)	(21,586)	348,375	42.84%	9.25	3.96	10.75	4.61	11.75	5.03
DEFERRED INCOME TAX		177,259	(14,007)	(7,582)	155,670	19.14%						
TAX CREDITS - ZERO COST			-	-	-	0.00%						
<b>TOTAL</b>		<b>880,136</b>	<b>(19,004)</b>	<b>(47,971)</b>	<b>813,161</b>	<b>100.00%</b>		<b>5.73</b>		<b>6.38</b>		<b>6.80</b>

PEOPLES GAS SYSTEM  
 EARNED RETURN ON COMMON EQUITY  
 FPSC ADJUSTED BASIS  
 DECEMBER 2017

SCHEDULE 5

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

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	6.37 %	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.60) %	
SHORT TERM DEBT	(0.08) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.09) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(1.77) %</u>	
 TOTAL	 4.60 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>42.84 %</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u><u>10.75 %</u></u>	

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 50,416	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ 813,161	(Schedule 2)
 FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	 <u>6.20 %</u>	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.60) %	
SHORT TERM DEBT	(0.08) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.09) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(1.77) %</u>	
 TOTAL	 4.43 %	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>42.84 %</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u><u>10.34 %</u></u>	



**PEOPLES GAS SYSTEM  
REVISED EARNINGS SURVEILLANCE REPORT SUMMARY  
DECEMBER 2018  
(In \$ Thousands)**

SCHEDULE 1

	(1) <u>Actual</u> <u>Per Books</u>	(2) <u>FPSC</u> <u>Adjustments</u>	(3) <u>FPSC</u> <u>Adjusted</u>	(4) <u>Pro Forma</u> <u>Adjustments</u>	(5) <u>Pro Forma</u> <u>Adjusted</u>
<b>I. AVERAGE RATE OF RETURN (JURISDICTIONAL)</b>					
<u>NET OPERATING INCOME</u>	\$ 59,312	\$ (4,762)	\$ 54,549	\$ 0	\$ 54,549
<u>AVERAGE RATE BASE</u>	\$ 957,122	\$ (94,992)	\$ 862,130	\$ 0	\$ 862,130
<u>AVERAGE RATE OF RETURN</u>	6.20 %		6.33 %		6.33 %

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

LOW	5.76 %
MIDPOINT	6.43 %
HIGH	6.87 %

**III. EARNED RETURN ON EQUITY**

	<u>FPSC</u> <u>ADJUSTED</u>	<u>PRO FORMA</u> <u>ADJUSTED</u>
A. INCLUDING FLEX RATE REVENUES	10.53 %	10.53 %
B. EXCLUDING FLEX RATE REVENUES	10.08 %	10.08 %

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)

(Signature)

(Date)

PSC/AFA13

**PEOPLES GAS SYSTEM  
AVERAGE RATE BASE  
DECEMBER 2018  
(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	1,677,396	5,032	738,675	10,055	933,698	1,940	29,446	965,084	(7,962)	957,122
<b>FPSC ADJUSTMENTS:</b>										
Property for Future Use						(1,940)		(1,940)		(1,940)
Temporary Cash Investment									(3)	(3)
Notes Receivable									-	-
Accounts Rec./Pay. - Assoc Companies									-	-
Merchandise Inventory									-	-
Other Accounts Receivable									(3,437)	(3,437)
Non-Utility Allocation	(480)		(145)		(335)			(335)		(335)
Remove Unbundling Transition Charges									-	-
Remove Non-Utility Accrued Liability									-	-
Remove Non-Utility Martin Cty expansion							(115)	(115)		(115)
Remove Unamort. Debt Expense									(1,502)	(1,502)
Remove Unrecovered Gas Cost									-	-
Remove Dividends Declared									1,189	1,189
Remove Unrec. Conservation Costs									(2,935)	(2,935)
Remove Unrec. CIBSR Costs									-	-
Remove Competitive Rate Adjustment									(2,780)	(2,780)
Remove Unamortized Rate Case Expense									-	-
Gain on Sale of Property									-	-
Remove Acquis. Adjustment (WFNG)		(2,947)	(2,701)		(246)			(246)		(246)
Remove MSEA Adjustment									-	-
Cast Iron/Bare Steel Rider (CIBSR)	(75,103)		(3,911)		(71,193)		(10,410)	(81,603)		(81,603)
Other Comp. Income (Unsettled hedges)									-	-
Remove Investment in Subsidiaries									(1,285)	(1,285)
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(75,584)</b>	<b>(2,947)</b>	<b>(6,757)</b>	<b>-</b>	<b>(71,774)</b>	<b>(1,940)</b>	<b>(10,525)</b>	<b>(84,239)</b>	<b>(10,753)</b>	<b>(94,992)</b>
<b>FPSC ADJUSTED</b>	<b>1,601,812</b>	<b>2,085</b>	<b>731,918</b>	<b>10,055</b>	<b>861,924</b>	<b>-</b>	<b>18,921</b>	<b>880,845</b>	<b>(18,715)</b>	<b>862,130</b>
<b>FLEX RATE REVENUES</b>										
<b>ADJUSTED FOR</b>										
<b>FLEX RATE REVENUES</b>	<b>1,601,812</b>	<b>2,085</b>	<b>731,918</b>	<b>10,055</b>	<b>861,924</b>	<b>-</b>	<b>18,921</b>	<b>880,845</b>	<b>(18,715)</b>	<b>862,130</b>
<b>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</b>										
<b>TOTAL PRO FORMA ADJUSTMENTS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>PRO FORMA ADJUSTED</b>	<b>1,601,812</b>	<b>2,085</b>	<b>731,918</b>	<b>10,055</b>	<b>861,924</b>	<b>-</b>	<b>18,921</b>	<b>880,845</b>	<b>(18,715)</b>	<b>862,130</b>

**PEOPLES GAS SYSTEM  
NET OPERATING INCOME  
DECEMBER 2018  
(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	475,275	183,182	120,420	60,675	39,330	3,775	10,722	-	(2,141)	415,963	59,312
<b>FPSC ADJUSTMENTS:</b>											
Remove Conservation Charges	(19,674)		(19,674)			-				(19,674)	(0)
Non-Utility Allocation				(18)	-	5				(13)	13
Interest Synchronization						118				118	(118)
Parent Debt Adjustment						-				-	-
Remove Fuel Revenues	(183,708)	(183,182)			(526)	-				(183,708)	-
Economic Development Adjustment			(16)			4				(12)	12
Employee Activities			(71)			18				(53)	53
Intercompany Adjustment			(8)			2				(6)	6
Maintenance of General Plant			(37)			9				(28)	28
Maint. of Structures and Improvements			(11)			3				(8)	8
Lobbying included in Dues (AGA, FNGA)			(78)			19				(57)	57
Civic/Social Club Dues			-			-				-	-
Remove Acquisition Adj. Amortiz. (WFNG)				(80)		20				(60)	60
Gain on Sale of Property						-				-	-
Lease of PHFFU	(60)					(15)				(15)	(45)
Remove ITC Amortization						-				-	-
Cast Iron/Bare Steel Rider (CIBSR)	(2,058)		738	(1,721)	(1,076)	-				(2,058)	(0)
Cast Iron/Bare Steel Rider (CIBSR) - ROI	(6,477)					(1,642)				(1,642)	(4,835)
OSS Adjustment						-				-	-
<b>TOTAL FPSC ADJUSTMENTS</b>	<b>(211,677)</b>	<b>(183,182)</b>	<b>(19,153)</b>	<b>(1,619)</b>	<b>(1,602)</b>	<b>(1,459)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(207,215)</b>	<b>(4,762)</b>
<b>FPSC ADJUSTED</b>	<b>263,298</b>	<b>-</b>	<b>101,267</b>	<b>58,856</b>	<b>37,728</b>	<b>2,316</b>	<b>10,722</b>	<b>-</b>	<b>(2,141)</b>	<b>208,749</b>	<b>54,548</b>
<b>FLEX RATE REVENUES</b>	<b>(2,265)</b>					<b>(574)</b>				<b>(574)</b>	<b>(1,691)</b>
<b>ADJUSTED FOR</b>											
<b>FLEX RATE REVENUES</b>	<b>261,033</b>	<b>-</b>	<b>101,267</b>	<b>58,856</b>	<b>37,728</b>	<b>1,742</b>	<b>10,722</b>	<b>-</b>	<b>(2,141)</b>	<b>208,175</b>	<b>52,858</b>
<b>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</b>											
Deferred Tax True-up						-				-	-
<b>TOTAL PRO FORMA ADJUSTMENTS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>PRO FORMA ADJUSTED</b>	<b>263,298</b>	<b>-</b>	<b>101,267</b>	<b>58,856</b>	<b>37,728</b>	<b>2,316</b>	<b>10,722</b>	<b>-</b>	<b>(2,141)</b>	<b>208,749</b>	<b>54,549</b>
<b>PER BOOKS</b>											
<b>CURRENT MONTH AMOUNT</b>	<b>41,950</b>	<b>15,720</b>	<b>10,605</b>	<b>4,316</b>	<b>3,557</b>	<b>1,424</b>	<b>113</b>	<b>-</b>	<b>-</b>	<b>35,735</b>	<b>6,215</b>

**PEOPLES GAS SYSTEM  
CAPITAL STRUCTURE  
FPSC ADJUSTED BASIS  
DECEMBER 2018  
(In \$ Thousands)**

SCHEDULE 4

	<u>AVERAGE</u>	<u>PER BOOKS</u>	<u>ADJUSTMENTS</u>		<u>ADJUSTED</u>	<u>RATIO (%)</u>	<u>LOW POINT</u>		<u>MIDPOINT</u>		<u>HIGH POINT</u>	
			<u>SPECIFIC</u>	<u>PRO RATA</u>			<u>COST RATE (%)</u>	<u>WEIGHTED COST (%)</u>	<u>COST RATE (%)</u>	<u>WEIGHTED COST (%)</u>	<u>COST RATE (%)</u>	<u>WEIGHTED COST (%)</u>
LONG TERM DEBT		276,545	(2,050)	(21,209)	253,286	29.38%	5.00	1.47	5.00	1.47	5.00	1.47
SHORT TERM DEBT		48,240		(3,727)	44,513	5.16%	2.42	0.12	2.42	0.12	2.42	0.12
RESIDENTIAL DEPOSITS		6,509		(426)	6,083	0.71%	2.00	0.01	2.00	0.01	2.00	0.01
COMMERCIAL DEPOSITS		20,011		(1,308)	18,703	2.17%	3.00	0.07	3.00	0.07	3.00	0.07
INACTIVE DEPOSITS		134		(9)	125	0.01%						
COMMON EQUITY		415,247	(1,877)	(31,939)	381,431	44.24%	9.25	4.09	10.75	4.76	11.75	5.20
DEFERRED INCOME TAX		190,436	(21,395)	(11,052)	157,989	18.33%						
TAX CREDITS - ZERO COST			-	-	-	0.00%						
<b>TOTAL</b>		<u>957,122</u>	<u>(25,322)</u>	<u>(69,669)</u>	<u>862,130</u>	<u>100.00%</u>		<u>5.76</u>		<u>6.43</u>		<u>6.87</u>

PEOPLES GAS SYSTEM  
 EARNED RETURN ON COMMON EQUITY  
 FPSC ADJUSTED BASIS  
 DECEMBER 2018  
 (In \$ Thousands)

SCHEDULE 5

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

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	6.33 %	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.47) %	
SHORT TERM DEBT	(0.12) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.08) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(1.67) %</u>	
TOTAL	4.66 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>44.24 %</u>	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u>10.53 %</u>	

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 52,858	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ <u>862,130</u>	(Schedule 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	<u>6.13 %</u>	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(1.47) %	
SHORT TERM DEBT	(0.12) %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.08) %	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	0.00 %	
SUBTOTAL	<u>(1.67) %</u>	
TOTAL	4.46 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	<u>44.24 %</u>	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u>10.08 %</u>	