



PEOPLES GAS

May 17, 2010

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DEPARTMENT OF
ECONOMIC REGULATION

Mr. John Slemkewicz, Supervisor
Bureau of Rate Filings and Surveillance
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Mr. Slemkewicz:

Attached is the Rate of Return calculation of Peoples Gas System for the period ending **March 2010**.

As previously reported in the Company's Rate of Return calculation for the period ending December 2009, this report continues to reflect the ongoing pro-forma adjustment to remove the impact of a one time \$4 million income tax expense true-up made in November 2009. The expense reduction was the result of a decrease to the deferred tax liability balance, which was necessary to properly state certain non-plant deferred tax accounts for temporary differences accumulated over the years.

The ROE reported in this filing reflects the impact of high first quarter revenues that resulted from one of the coldest winters in 40 years. No pro-forma adjustment has been made to remove this impact since weather is an ongoing, unpredictable component of earnings. The impact on ROE of this unusual winter weather was roughly 185 basis points. As a result, the Company will continue to monitor the levels of ROE for the remainder of 2010.

Please let me know if you have any questions.

Respectfully,

Jeffrey S. Chronister
Controller

Enclosures

**PEOPLES GAS SYSTEM
EARNINGS SURVEILLANCE REPORT SUMMARY
March 2010**

SCHEDULE 1

	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments	(5) Pro Forma Adjusted
I. AVERAGE RATE OF RETURN (JURISDICTIONAL)					
NET OPERATING INCOME	\$ 53,586	\$ 831	\$ 54,417	\$ (3,985)	\$ 50,432
AVERAGE RATE BASE	\$ 566,824	\$ (17,303)	\$ 549,521	\$ 0	\$ 549,521
AVERAGE RATE OF RETURN	9.45 %		9.90 %		9.18 %

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

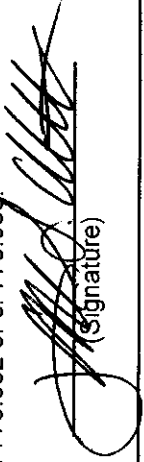
LOW	7.99 %		FPSC ADJUSTED		PRO FORMA ADJUSTED
MIDPOINT	8.47 %		A. INCLUDING FLEX RATE REVENUES	13.73 %	12.22 %
HIGH	8.95 %		B. EXCLUDING FLEX RATE REVENUES	12.90 %	11.39 %

III. EARNED RETURN ON EQUITY

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)

5/14/10
(Date)

PSC/AFA13

PEOPLES GAS SYSTEM
AVERAGE RATE BASE
March 2010

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	1,000,967	5,249	434,410	8,875	562,931	229	17,378	580,538	(13,714)	566,824
FPSC ADJUSTMENTS:										
Property for Future Use						(229)		(229)		(229)
Temporary Cash Investment										
Notes Receivable										
Accounts Rec./Pay. - Assoc Companies										
Merchandise Inventory										
Other Accounts Receivable									(3,991)	(3,991)
Non-Utility Allocation	(337)		(141)		(196)			(196)	(5,249)	(5,249)
Remove Regulatory Tax Asset										(196)
Remove Unbundling Transition Charges										
Remove Non-Utility Accrued Liability										
Remove Non-Utility Martin Cty expansion										
Remove Unamort. Debt Expense							(115)	(115)		(115)
Remove Unrecovered Gas Cost									(2,645)	(2,645)
Remove Dividends Declared									1,716	1,716
Remove Unrec. Conservation Costs										
Remove Competitive Rate Adjustment										
Remove Unamortized Rate Case Expense									(3,160)	(3,160)
Gain on Sale of Property									(718)	(718)
Remove Acquis. Adjustment (WFNG)		(2,947)	(2,004)		(943)			(943)		(943)
Remove MSEA Adjustment							(420)	(420)		(420)
Other Comp. Income (Unsettled hedges)										
Remove Investment in Subsidiaries										
TOTAL FPSC ADJUSTMENTS	(337)	(2,947)	(2,146)		(1,136)	(229)	(535)	(1,903)	(15,400)	(17,303)
FPSC ADJUSTED	1,000,630	2,302	432,264	8,875	561,793	-	16,843	578,635	(29,114)	549,521
FLEX RATE REVENUES										
ADJUSTED FOR										
FLEX RATE REVENUES	1,000,630	2,302	432,264	8,875	561,793	-	16,843	578,635	(29,114)	549,521
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:										
TOTAL PRO FORMA ADJUSTMENTS										
PRO FORMA ADJUSTED	1,000,630	2,302	432,264	8,875	561,793	-	16,843	578,635	(29,114)	549,521

PEOPLES GAS SYSTEM
 CAPITAL STRUCTURE
 FPSC ADJUSTED BASIS
 March 2010

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	231,677	(6,099)	(5,789)	219,849	40.01%	7.16	2.86	7.16	2.86	7.16	2.86
SHORT TERM DEBT	(92)	-	2	(90)	-0.02%	0.82	0.00	0.82	0.00	0.82	0.00
RESIDENTIAL DEPOSITS	9,501	-	-	9,501	1.73%	6.00	0.10	6.00	0.10	6.00	0.10
COMMERCIAL DEPOSITS	27,065	-	-	27,065	4.93%	7.00	0.35	7.00	0.35	7.00	0.35
INACTIVE DEPOSITS	244	-	-	244	0.04%	-	-	-	-	-	-
COMMON EQUITY	268,805	2,094	(6,950)	263,949	48.03%	9.75	4.68	10.75	5.16	11.75	5.64
DEFERRED INCOME TAX	29,624	(626)	-	28,998	5.28%	-	-	-	-	-	-
TAX CREDITS - ZERO COST	-	5	-	5	0.00%	-	-	-	-	-	-
TOTAL	566,824	(4,566)	(12,736)	549,521	100.00%	-	7.99	-	8.47	-	8.95

PEOPLES GAS SYSTEM
 EARNED RETURN ON COMMON EQUITY
 FPSC ADJUSTED BASIS
 March 2010

<u>A. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY</u>		
<u>INCLUDING FLEX RATE REVENUES</u>		
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN		9.90 % (Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL		
WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(2.86) %	
SHORT TERM DEBT	0.00 %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.45) %	
TAX CREDITS-WEIGHTED COST (MIDPOINT)	0.00 %	
SUBTOTAL	<u>(3.31) %</u>	
TOTAL	6.59 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	48.03 %	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u>13.73 %</u>	

<u>B. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY</u>		
<u>EXCLUDING FLEX RATE REVENUES</u>		
NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 52,237	(Schedule 3)
RATE BASE EXCLUDING FLEX RATE REVENUES	\$ 549,521	(Schedule 2)
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN		9.51 %
LESS: RECONCILED AVERAGE JURISDICTIONAL		
WEIGHTED COST RATES FOR:		
LONG TERM DEBT	(2.86) %	
SHORT TERM DEBT	0.00 %	
PREFERRED STOCK	0.00 %	
CUSTOMER DEPOSITS	(0.45) %	
TAX CREDITS-WEIGHTED COST (MIDPOINT)	0.00 %	
SUBTOTAL	<u>(3.31) %</u>	
TOTAL	6.20 %	
DIVIDED BY RECONCILED COMMON EQUITY RATIO	48.03 %	
JURISDICTIONAL RETURN ON COMMON EQUITY	<u>12.90 %</u>	