



February 15, 2019

Bart Fletcher, Public Utilities Supervisor
Division of Accounting and Finance
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Dear Mr. Fletcher:

Attached is the Rate of Return calculation of Peoples Gas System for the period ending **December 2018**.

Please let me know if you have any questions.

Respectfully,

A handwritten signature in black ink, appearing to read "S. Hillary".

Sean P. Hillary
Controller

Enclosures

cc: Office of Public Counsel – J.R. Kelly

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

| | (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 | \$ 59,312 | \$ (4,922) | \$ 54,389 | \$ 0 | \$ 54,389 |
| AVERAGE RATE BASE | \$ 957,122 | \$ (94,995) | \$ 862,127 | \$ 0 | \$ 862,127 |
| AVERAGE RATE OF RETURN | 6.20 % | | 6.31 % | | 6.31 % |

III. EARNED RETURN ON EQUITY

| | FPSC ADJUSTED | PRO FORMA ADJUSTED |
|---|------------------|-----------------------|
| II. REQUIRED RATES OF RETURN AVERAGE CAPITAL STRUCTURE (FPSC ADJUSTED BASIS) | | |
| LOW | 5.50 % | |
| MIDPOINT | 6.13 % | 11.17 % |
| HIGH | 6.55 % | 10.71 % |
| A. INCLUDING FLEX RATE REVENUES | 11.17 % | 11.17 % |
| B. EXCLUDING FLEX RATE REVENUES | 10.71 % | 10.71 % |

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)

2/12/19
(Date)

PEOPLES GAS SYSTEM
AVERAGE RATE BASE
DECEMBER 2018
(In \$ Thousands)

| | (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 | 736,675 | 10,055 | 933,698 | 1,940 | 29,446 | 965,084 | (7,962) | 957,122 |
| FPSC ADJUSTMENTS: | | | | | | | | | | |
| 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 | | | | | | | | | | |
| Non-Utility Allocation | (480) | | (145) | | (335) | | | (335) | (3,437) | (3,437) |
| Remove Unbundling Transition Charges | | | | | | | | | | |
| Remove Non-Utility Accrued Liability | | | | | | | | | | |
| Remove Non-Utility Martin Cty expansion | | | | | | | (115) | (115) | | (115) |
| Remove Unamort. Debt Expense | | | | | | | | | | |
| Remove Unrecovered Gas Cost | | | | | | | | | | |
| Remove Dividends Declared | | | | | | | | | | |
| Remove Unrec. Conservation Costs | | | | | | | | | | |
| Remove Unrec. CIBSR Costs | | | | | | | | | | |
| Remove Competitive Rate Adjustment | | | | | | | | | | |
| Remove Unamortized Rate Case Expense | | | | | | | | | | |
| Gain on Sale of Property | | (2,947) | (2,701) | | (246) | | | (246) | | (246) |
| Remove Acquis. Adjustment (WFNG) | | | | | | | | | | |
| Remove MSEA Adjustment | | | | | | | | | | |
| Cast Iron/Bare Steel Rider (CIBSR) | (75,106) | | (3,911) | | (71,196) | | (10,410) | (81,606) | | (81,606) |
| Other Comp. Income (Unsettled hedges) | | | | | | | | | | |
| Remove Investment in Subsidiaries | | | | | | | | | | |
| TOTAL FPSC ADJUSTMENTS | (75,587) | (2,947) | (6,757) | | (71,777) | (1,940) | (10,525) | (84,242) | (1,285) | (94,995) |
| FPSC ADJUSTED | 1,601,809 | 2,085 | 731,918 | 10,055 | 861,921 | - | 18,921 | 880,842 | (18,715) | 862,127 |
| FLEX RATE REVENUES | | | | | | | | | | |
| ADJUSTED FOR | | | | | | | | | | |
| FLEX RATE REVENUES | 1,601,809 | 2,085 | 731,918 | 10,055 | 861,921 | - | 18,921 | 880,842 | (18,715) | 862,127 |
| PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS: | | | | | | | | | | |
| TOTAL PRO FORMA ADJUSTMENTS | | | | | | | | | | |
| PRO FORMA ADJUSTED | 1,601,809 | 2,085 | 731,918 | 10,055 | 861,921 | - | 18,921 | 880,842 | (18,715) | 862,127 |

SCHEDULE 4

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

| 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 | 276,545 | (2,050) | (33,693) | 240,802 | 27.93% | 5.00 | 1.40 | 5.00 | 1.40 | 5.00 | 1.40 |
| SHORT TERM DEBT | 48,240 | | (5,921) | 42,319 | 4.91% | 2.42 | 0.12 | 2.42 | 0.12 | 2.42 | 0.12 |
| RESIDENTIAL DEPOSITS | 6,509 | | - | 6,509 | 0.75% | 2.00 | 0.02 | 2.00 | 0.02 | 2.00 | 0.02 |
| COMMERCIAL DEPOSITS | 20,011 | | - | 20,011 | 2.32% | 3.00 | 0.07 | 3.00 | 0.07 | 3.00 | 0.07 |
| INACTIVE DEPOSITS | 134 | | - | 134 | 0.02% | | | | | | |
| COMMON EQUITY | 415,247 | (1,877) | (50,740) | 362,630 | 42.06% | 9.25 | 3.89 | 10.75 | 4.52 | 11.75 | 4.94 |
| DEFERRED INCOME TAX | 190,436 | (713) | - | 189,723 | 22.01% | | | | | | |
| TAX CREDITS - ZERO COST | | | | - | 0.00% | | | | | | |
| TOTAL | 957,122 | (4,640) | (90,355) | 862,127 | 100.00% | | 5.50 | | 6.13 | | 6.55 |

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

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

| | | |
|---|-----------------|----------------------------|
| FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN | | |
| LESS: RECONCILED AVERAGE JURISDICTIONAL | | |
| WEIGHTED COST RATES FOR: | | |
| LONG TERM DEBT | (1.40) % | |
| SHORT TERM DEBT | (0.12) % | |
| PREFERRED STOCK | 0.00 % | |
| CUSTOMER DEPOSITS | (0.09) % | |
| TAX CREDITS-WEIGHTED COST (MIDPOINT) | 0.00 % | |
| SUBTOTAL | <u>(1.61) %</u> | <u>6.31 %</u> (Schedule 1) |
| TOTAL | 4.70 % | |
| DIVIDED BY RECONCILED COMMON EQUITY RATIO | <u>42.06 %</u> | |
| JURISDICTIONAL RETURN ON COMMON EQUITY | <u>11.17 %</u> | |

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

| | | |
|--|-----------------|---------------|
| NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES | \$ 52,698 | (Schedule 3) |
| RATE BASE EXCLUDING FLEX RATE REVENUES | \$ 862,127 | (Schedule 2) |
| FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN | | |
| LESS: RECONCILED AVERAGE JURISDICTIONAL | | |
| WEIGHTED COST RATES FOR: | | |
| LONG TERM DEBT | (1.40) % | |
| SHORT TERM DEBT | (0.12) % | |
| PREFERRED STOCK | 0.00 % | |
| CUSTOMER DEPOSITS | (0.09) % | |
| TAX CREDITS-WEIGHTED COST (MIDPOINT) | 0.00 % | |
| SUBTOTAL | <u>(1.61) %</u> | <u>6.11 %</u> |
| TOTAL | 4.50 % | |
| DIVIDED BY RECONCILED COMMON EQUITY RATIO | <u>42.06 %</u> | |
| JURISDICTIONAL RETURN ON COMMON EQUITY | <u>10.71 %</u> | |