



March 6, 2020

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 2019**.

Please let me know if you have any questions.

Respectfully,

Sean P. Hillary
Controller

Enclosures

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

**PEOPLES GAS SYSTEM
EARNINGS SURVEILLANCE REPORT SUMMARY
DECEMBER 2019
(In \$ Thousands)**

SCHEDULE 1

| | (1) Actual <u>Per Books</u> | (2) FPSC <u>Adjustments</u> | (3) FPSC <u>Adjusted</u> | (4) Pro Forma <u>Adjustments</u> | (5) Pro Forma <u>Adjusted</u> |
|---|-----------------------------------|-----------------------------------|--------------------------------|--|-------------------------------------|
| I. AVERAGE RATE OF RETURN (JURISDICTIONAL) | | | | | |
| <u>NET OPERATING INCOME</u> | \$ <u>67,511</u> | \$ <u>(8,242)</u> | \$ <u>59,269</u> | \$ <u>0</u> | \$ <u>59,269</u> |
| <u>AVERAGE RATE BASE</u> | \$ <u>1,101,761</u> | \$ <u>(155,065)</u> | \$ <u>946,696</u> | \$ <u>0</u> | \$ <u>946,696</u> |
| <u>AVERAGE RATE OF RETURN</u> | <u>6.13 %</u> | | <u>6.26 %</u> | | <u>6.26 %</u> |

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

| | |
|----------|---------------|
| LOW | <u>5.91 %</u> |
| MIDPOINT | <u>6.61 %</u> |
| HIGH | <u>7.07 %</u> |


III. EARNED RETURN ON EQUITY

| | FPSC <u>ADJUSTED</u> | PRO FORMA <u>ADJUSTED</u> |
|------------------------------------|-------------------------|------------------------------|
| A. INCLUDING FLEX RATE REVENUES | <u>10.00 %</u> | <u>10.00 %</u> |
| B. EXCLUDING FLEX RATE REVENUES | <u>9.57 %</u> | <u>9.57 %</u> |

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)

3/6/2020
(Date)

PSC/AFA13

**PEOPLES GAS SYSTEM
AVERAGE RATE BASE
DECEMBER 2019
(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 | 1,848,671 | 5,032 | 771,488 | 11,835 | 1,070,380 | 1,940 | 45,274 | 1,117,593 | (15,833) | 1,101,761 |
| 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 | | | | | | | | | (1,729) | (1,729) |
| Non-Utility Allocation | (1,202) | | (368) | | (834) | | | (834) | | (834) |
| Remove Unbundling Transition Charges | | | | | | | | | - | - |
| Remove Non-Utility Accrued Liability | | | | | | | | | - | - |
| Remove Non-Utility Martin Cty expansion | | | | | | | (115) | (115) | | (115) |
| Remove Unamort. Debt Expense | | | | | | | | | (2,113) | (2,113) |
| Remove Unrecovered Gas Cost | | | | | | | | | - | - |
| Remove Dividends Declared | | | | | | | | | - | - |
| Remove Unrec. Conservation Costs | | | | | | | | | (2,809) | (2,809) |
| Remove Unrec. CIBSR Costs | | | | | | | | | (828) | (828) |
| Remove Competitive Rate Adjustment | | | | | | | | | (2,931) | (2,931) |
| Remove Unamortized Rate Case Expense | | | | | | | | | - | - |
| Gain on Sale of Property | | | | | | | | | - | - |
| Remove Acquis. Adjustment (WFNG) | | (2,947) | (2,781) | | (166) | | | (166) | | (166) |
| Remove MSEA Adjustment | | | | | | | | | | - |
| Cast Iron/Bare Steel Rider (CIBSR) | (127,272) | | (5,664) | | (121,608) | | (7,963) | (129,571) | | (129,571) |
| AFUDC - Eligible CWIP | | | | | | | (10,812) | (10,812) | | (10,812) |
| Other Comp. Income (Unsettled hedges) | | | | | | | | | | - |
| Remove Investment in Subsidiaries | | | | | | | | | (1,214) | (1,214) |
| TOTAL FPSC ADJUSTMENTS | (128,474) | (2,947) | (8,813) | - | (122,608) | (1,940) | (18,890) | (143,438) | (11,828) | (155,085) |
| FPSC ADJUSTED | 1,720,197 | 2,085 | 762,674 | 11,835 | 947,772 | - | 26,384 | 974,156 | (27,460) | 946,696 |
| FLEX RATE REVENUES | | | | | | | | | | |
| ADJUSTED FOR | | | | | | | | | | |
| FLEX RATE REVENUES | 1,720,197 | 2,085 | 762,674 | 11,835 | 947,772 | - | 26,384 | 974,156 | (27,460) | 946,696 |
| PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS: | | | | | | | | | | |
| TOTAL PRO FORMA ADJUSTMENTS | - | - | - | - | - | - | - | - | - | - |
| PRO FORMA ADJUSTED | 1,720,197 | 2,085 | 762,674 | 11,835 | 947,772 | - | 26,384 | 974,156 | (27,460) | 946,696 |

**PEOPLES GAS SYSTEM
NET OPERATING INCOME
DECEMBER 2019
(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 | 449,738 | 156,151 | 128,716 | 41,270 | 41,230 | 4,764 | 12,238 | - | (2,141) | 382,227 | 87,511 |
| FPSC ADJUSTMENTS: | | | | | | | | | | | |
| Remove Conservation Charges | (20,808) | | (20,808) | | | (0) | | | | (20,808) | (0) |
| Non-Utility Allocation | | | | (38) | | 9 | | | | (29) | 29 |
| Interest Synchronization | | | | | | 430 | | | | 430 | (430) |
| Parent Debt Adjustment | | | | | | - | | | | - | - |
| Remove Fuel Revenues | (156,667) | (156,151) | | | (517) | - | | | | (156,667) | - |
| Economic Development Adjustment | | | (15) | | | 4 | | | | (11) | 11 |
| Employee Activities | | | (86) | | | 21 | | | | (65) | 65 |
| Franchise/Gross Receipts Taxes | (25,023) | | | | (24,833) | (47) | | | | (24,879) | (144) |
| Maintenance of General Plant | | | (53) | | | 13 | | | | (40) | 40 |
| Maint. of Structures and Improvements | | | (6) | | | 2 | | | | (5) | 5 |
| Lobbying included in Dues (AGA, FNGA) | | | - | | | - | | | | - | - |
| Civic/Social Club Dues | | | - | | | - | | | | - | - |
| Remove Acquisition Adj. Amortiz. (WFNG) | | | | (80) | | 20 | | | | (60) | 60 |
| Gain on Sale of Property | | | | | | - | | | | - | - |
| Lease of PHFFU | (103) | | | | | (25) | | | | (25) | (78) |
| Remove ITC Amortization | | | | | | - | | | | - | - |
| Cast Iron/Bare Steel Rider (CIBSR) | (4,239) | | (707) | (1,787) | (1,745) | 0 | | | | (4,239) | 0 |
| Cast Iron/Bare Steel Rider (CIBSR) - ROI | (10,335) | | | | | (2,534) | | | | (2,534) | (7,801) |
| OSS Adjustment | - | | | | | - | | | | - | - |
| TOTAL FPSC ADJUSTMENTS | (217,176) | (156,151) | (21,875) | (1,905) | (27,095) | (2,109) | - | - | - | (208,934) | (8,242) |
| FPSC ADJUSTED | 232,562 | - | 107,040 | 39,365 | 14,135 | 2,655 | 12,238 | - | (2,141) | 173,293 | 59,269 |
| FLEX RATE REVENUES | (2,517) | | | | | (617) | | | | (617) | (1,900) |
| ADJUSTED FOR FLEX RATE REVENUES | 230,045 | - | 107,040 | 39,365 | 14,135 | 2,038 | 12,238 | - | (2,141) | 172,676 | 57,369 |
| PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS: | | | | | | | | | | | |
| Deferred Tax True-up | | | | | | - | | | | - | - |
| TOTAL PRO FORMA ADJUSTMENTS | - | - | - | - | - | - | - | - | - | - | - |
| PRO FORMA ADJUSTED | 232,562 | - | 107,040 | 39,365 | 14,135 | 2,655 | 12,238 | - | (2,141) | 173,293 | 59,269 |
| PER BOOKS CURRENT MONTH AMOUNT | 42,437 | 14,617 | 13,810 | 3,588 | 3,904 | 85 | 1,452 | - | - | 37,457 | 4,980 |

**PEOPLES GAS SYSTEM
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
DECEMBER 2019
(In \$ Thousands)**

SCHEDULE 4

| | 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 (%) |
| AVERAGE | | | | | | | | | | | |
| LONG TERM DEBT | 322,295 | (2,591) | (35,551) | 284,152 | 30.02% | 4.73 | 1.42 | 4.73 | 1.42 | 4.73 | 1.42 |
| SHORT TERM DEBT | 52,429 | | (5,830) | 46,599 | 4.92% | 3.04 | 0.15 | 3.04 | 0.15 | 3.04 | 0.15 |
| CUSTOMER DEPOSITS | 26,344 | | (2,691) | 23,652 | 2.50% | 2.46 | 0.06 | 2.46 | 0.06 | 2.46 | 0.06 |
| COMMON EQUITY | 496,724 | (3,422) | (54,854) | 438,447 | 46.31% | 9.25 | 4.28 | 10.75 | 4.98 | 11.75 | 5.44 |
| DEFERRED INCOME TAX | 203,970 | (32,620) | (17,505) | 153,845 | 16.25% | | | | | | |
| TAX CREDITS - ZERO COST | - | - | - | - | 0.00% | | | | | | |
| TOTAL | 1,101,761 | (38,633) | (116,432) | 946,696 | 100.00% | | 5.91 | | 6.61 | | 7.07 |

PEOPLES GAS SYSTEM
EARNED RETURN ON COMMON EQUITY
FPSC ADJUSTED BASIS
DECEMBER 2019
(In \$ Thousands)

SCHEDULE 5

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

| | | |
|---|-----------------------|--------------|
| FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN | 6.26 % | (Schedule 1) |
| LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR: | | |
| LONG TERM DEBT | (1.42) % | |
| SHORT TERM DEBT | (0.15) % | |
| PREFERRED STOCK | 0.00 % | |
| CUSTOMER DEPOSITS | (0.06) % | |
| TAX CREDITS-WEIGHTED COST(MIDPOINT) | 0.00 % | |
| SUBTOTAL | <u>(1.63) %</u> | |
| TOTAL | 4.63 % | |
| DIVIDED BY RECONCILED COMMON EQUITY RATIO | <u>46.31 %</u> | |
| JURISDICTIONAL RETURN ON COMMON EQUITY | <u><u>10.00 %</u></u> | |

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

| | | |
|---|----------------------|--------------|
| NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES | \$ 57,369 | (Schedule 3) |
| RATE BASE EXCLUDING FLEX RATE REVENUES | \$ <u>946,696</u> | (Schedule 2) |
| FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN | 6.06 % | |
| LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR: | | |
| LONG TERM DEBT | (1.42) % | |
| SHORT TERM DEBT | (0.15) % | |
| PREFERRED STOCK | 0.00 % | |
| CUSTOMER DEPOSITS | (0.06) % | |
| TAX CREDITS-WEIGHTED COST(MIDPOINT) | 0.00 % | |
| SUBTOTAL | <u>(1.63) %</u> | |
| TOTAL | 4.43 % | |
| DIVIDED BY RECONCILED COMMON EQUITY RATIO | <u>46.31 %</u> | |
| JURISDICTIONAL RETURN ON COMMON EQUITY | <u><u>9.57 %</u></u> | |

PEOPLES GAS COMPANY
CAPITAL STRUCTURE USED FOR AFUDC CALCULATION
DECEMBER 2019
(In \$ Thousands)

SCHEDULE A

| <u>CAPITAL COMPONENTS</u> | <u>ADJUSTED AVERAGE BALANCE</u> | <u>CAPITAL RATIO</u> | <u>COST OF CAPITAL</u> | <u>WEIGHTED COST OF CAPITAL</u> |
|---------------------------|---|--------------------------|----------------------------|---|
| LONG TERM DEBT | \$ 284,152 | 30.02% | 4.54% | 1.36% |
| SHORT TERM DEBT | 46,599 | 4.92% | 3.04% * | 0.15% |
| CUSTOMER DEPOSITS | 23,652 | 2.50% | 2.46% * | 0.06% |
| COMMON EQUITY | 438,447 | 46.31% | 10.75% | 4.98% |
| DEFERRED INCOME TAX | 153,845 | 16.25% | 0.00% | - |
| INVESTMENT TAX CREDITS | <u>-</u> | <u>0.00%</u> | 0.00% | <u>-</u> |
| TOTAL | \$ 946,696 | 100.00% | | 6.55% |

* 13-MONTH AVERAGE

Note: The current AFUDC rate of 5.97% was authorized in Order No. PSC-2019-0291-PPA-GU Docket No. 20190091-GU, effective January 1, 2019.

**PEOPLES GAS SYSTEM
CAPITAL STRUCTURE USED FOR AFUDC CALCULATION
DECEMBER 2019
(In \$ Thousands)**

SCHEDULE B

| <u>CAPITAL COMPONENTS</u> | <u>PER BOOKS</u> | <u>COMMISSION ADJUSTMENTS*</u> | <u>ADJUSTED AVERAGE BALANCE</u> |
|---------------------------|---------------------|------------------------------------|---|
| LONG TERM DEBT | \$ 322,295 | \$ (38,142) | \$ 284,152 |
| SHORT TERM DEBT | 52,429 | (5,830) | 46,599 |
| CUSTOMER DEPOSITS | 26,344 | (2,691) | 23,652 |
| COMMON EQUITY | 496,724 | (58,277) | 438,447 |
| DEFERRED INCOME TAX | 203,970 | (50,125) | 153,845 |
| INVESTMENT TAX CREDITS | - | - | - |
| TOTAL | \$ 1,101,761 | \$ (155,065) | \$ 946,696 |

* FOR ADJUSTMENT DETAILS, SEE SCHEDULE 2.

**PEOPLES GAS COMPANY
 METHODOLOGY FOR MONTHLY COMPOUNDING
 OF THE AFUDC RATE
 DECEMBER 2019**

SCHEDULE C

AFUDC COMPOUNDING

| | |
|-----------------------|-----------|
| ((1+R/12)^(1/12))-1 = | 6.55% |
| ((1+R/12)^(1/12)) = | 1.0655000 |
| (1+R/12) = | 1.0053010 |
| (R/12) = | 0.0053010 |

| MONTHS | AFUDC BASE | MONTHLY AFUDC | CUMULATIVE AFUDC |
|--------|---------------|------------------|---------------------|
| JAN | 1.00000000 | 0.0053010 | 0.0053010 |
| FEB | 1.00530102 | 0.0053291 | 0.0106301 |
| MAR | 1.01063013 | 0.0053574 | 0.0159875 |
| APR | 1.01598750 | 0.0053858 | 0.0213733 |
| MAY | 1.02137326 | 0.0054143 | 0.0267876 |
| JUN | 1.02678758 | 0.0054430 | 0.0322306 |
| JUL | 1.03223059 | 0.0054719 | 0.0377025 |
| AUG | 1.03770246 | 0.0055009 | 0.0432033 |
| SEP | 1.04320334 | 0.0055300 | 0.0487334 |
| OCT | 1.04873338 | 0.0055594 | 0.0542927 |
| NOV | 1.05429273 | 0.0055888 | 0.0598816 |
| DEC | 1.05988155 | 0.0056184 | 0.0655000 |