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October 5, 2000

IN REPLY REFER TO:

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VIA FEDEX

Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 000002-EG – Energy Conservation Cost Recovery Clause

**Peoples Gas System/Audit Control No. 00-082-2-1 (PGS-WF)
Peoples Gas System/Audit Control No. 00-082-2-2 (PGS)**

Dear Ms. Bayo:

Please accept this letter as the response of Peoples Gas System ("Peoples" or the "Company") to the Audit Report mentioned above. The audit was performed with respect to Peoples' true-up filing for the 9 months ended December 31, 1999 (the "ECCR Filing").

Peoples' receipt of the referenced Audit Report differed from its past experiences in this continuing docket. First, upon completion of the auditor's work on past audits, the auditor has held an exit interview with Company representatives to discuss the audit and the auditor's findings. No such exit interview was conducted at the conclusion of the audit which resulted in the referenced Audit Report. Second, the Company has in the past received a copy of the audit report directly from the Division of Records and Reporting, accompanied by a letter indicating that the Company should file a response to the audit report within a stated number of days from the date of the letter. The undersigned received no such letter in the case of the referenced Audit Report. Instead, the undersigned received only a copy of an internal memorandum from the Division of Regulatory Oversight to the Division of Competitive Services, to which the referenced Audit Report was attached.

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For the foregoing reasons, Peoples has delayed until now its response to the referenced Audit Report, and is responding at this time for the purpose of advising the Commission that it does not agree with all of the suggested disallowances set forth in the disclosures contained in the Audit Report.

In response to the disclosures in the Audit Report, Peoples will accept adjustments to reduce advertising expenses included in the ECCR Filing if such expenses represent duplicate payments, or checks which were not disbursed, or are determined by Peoples to lack sufficient documentation to determine whether they are ECCR-related. Peoples' position is that all other advertising expenses for PGS and PGS-WF included in the ECCR Filing are appropriate for recovery through the ECCR Clause, and were properly included in the ECCR Filing for recovery. If Peoples subsequently agrees to remove any other advertising expenses (or portions thereof) included in the ECCR Filing, it will accept, prior to the Prehearing Conference in this docket, adjustments to further reduce the advertising expenses included in the ECCR Filing.

Sincerely,



Ansley Watson, Jr.

AWjr/a

cc: Shevie Brown
Denise Vandiver
Bruce Narzissenfeld
Rosemary Barbour
Brent Caldwell