

State of Florida



Public Service Commission

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

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**DATE:** May 22, 2002  
**TO:** Division of Competitive Markets and Enforcement (Makin)  
**FROM:** Division of Auditing and Safety (Vandiver) *W*  
**RE:** **Docket No.** 020003-GU; Peoples Gas System; **Audit Purpose:** Purchased Gas Recovery True-up; **Audit Control No.** 02-032-2-2

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Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp  
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

Ms. Mary Jo Pennino, Vice President, Regulatory  
P. O. Box 111  
Tampa, Florida 33601-0111

Ms. Angela Llewellyn, Administrator  
Peoples Gas System  
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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF AUDITING AND SAFETY  
BUREAU OF AUDITING*

*TAMPA DISTRICT OFFICE*

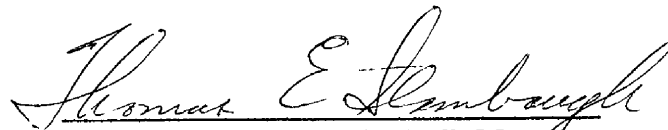
**PEOPLES GAS SYSTEM  
(A Division of Tampa Electric Company)**

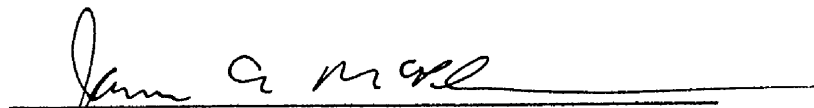
**PURCHASED GAS ADJUSTMENT AND AFFILIATED TRANSACTIONS AUDIT**

**TWELVE MONTHS ENDED DECEMBER 31, 2001**

**Docket 020003-GU**

**Audit Control Number 02-032-2-2**

  
**Thomas E. Stambaugh, Audit Manager**

  
**James A. McPherson, Tampa District Supervisor**

**DIVISION OF AUDITING AND SAFETY  
AUDITOR'S REPORT**

**May 3, 2002**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit the Purchased Gas Adjustment and affiliate party transactions of Peoples Gas System for the twelve month period ending December 31, 2001. There is no confidential information associated with this audit and there are no minority opinions.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

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## **SUMMARY OF SIGNIFICANT FINDINGS:**

During 2001, Peoples Gas System (PGS), purchased natural gas from three suppliers related to the TECO Energy system: Hardee Power Partners; Prior Energy, and TECO Gas Services. Hardee Power Partners and TECO Gas Services had been part of TECO Energy before 2001. Prior Energy was acquired by TECO Energy on November 1, 2001. The total gas supplied by these three companies in 2001 was about 13,764,231 therms at an approximate cost of \$47,818,080 to PGS.

## **SUMMARY OF SIGNIFICANT PROCEDURES:**

Our audit was performed by examining on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

**Scanned** - The document or accounts were read quickly looking for obvious errors.

**Compiled** - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**Verify** - The item was tested for accuracy, and substantiating documentation was examined.

**REVENUE:** Compiled PGA revenues. Tested unbilled revenue and off-system sales. Tested a sample of customer bills in various revenue classes to verify that rates per tariff were in use and that the PGA recovery factor did not exceed the original or revised PGA rates.

**EXPENSE:** Compiled PGA expenses. Compared prices paid by Peoples Gas System for purchases of natural gas from Hardee Power Partners, Prior Energy and TECO Gas Services (TGS), to prices paid to other suppliers in total. Compared the price for gas paid to these three suppliers to the Gas Daily mid-point prices for the applicable days. Presented the effect of Prior Energy gas purchases on the total and per-unit price of gas purchased during 2001. Analyzed expenses from the PGS Open Access reports.

**PGA TRUE-UP:** Reconciled audited revenue and expense amounts to the PGA filing. Verified that the beginning true-up amount and interest rates as stated by PGS conformed to those prescribed by the FPSC.

**OTHER:** Performed analytical review on expenses for the years 1999, 2000 and 2001 as part of determining the scope and level of risk of the audit. Scanned the Florida Department of State, Division of Corporations, listing to identify related parties. Identified the basis of allocation of corporate expenses from TECO Energy to its subsidiaries by tracing those originating costs to the TECO Energy general ledger. Analyzed the allocation methodology to assure it was logical and mathematically accurate.

**Audit Disclosure No. 1**

**Subject: Gas Purchases from TECO Gas Services and Hardee Power**

**Statement of Fact:** PGS is a division of Tampa Electric Company. Tampa Electric Company is a subsidiary of TECO Energy, Inc. Hardee Power Partners, Ltd., is a limited partnership which owns Hardee Power Station, a wholesale power generation project. Hardee Power Partners, Ltd, is a component of TECO Power Services Corporation.

TECO Gas Services, Inc. (TGS) is a Pool Manager and gas marketer. TGS is a subsidiary of TECO Solutions, which, in turn, is a subsidiary of TECO Energy. As a pool manager, TGS buys gas for small commercial customers in order to meet the minimum therm threshold.

In January 2001, PGS purchased 490,680 therms of gas from TECO Gas Services at a cost of \$588,816. Hardee Power Partners provided 123,500 therms of gas to PGS at a cost of \$125,136 in January, 2001. No other purchases from these companies were made by PGS during 2001. These purchases were transacted in response to heavy winter demand.

Comparison of the prices paid by PGS to HPP and TECO Gas in January yields the following information:

<u>Vendor</u>	<u>Therm Price</u>	<u>Therms</u>	<u>Total</u>
HPP	\$1.01325	123,500	\$125,136
Gas Daily Mid-Point	\$1.0565	123,500	<u>\$130,478</u>
Difference			\$ (5,341)
TECO Gas	\$1.2000	490,680	\$588,816
Gas Daily Mid-Point	\$1.1280	490,680	<u>\$553,487</u>
Difference			\$ <u>35,329</u>
Total Difference			<u>\$29,988</u>

(The "Gas Daily" is a publication which includes the daily midpoints of the most common gas prices paid.)

**Audit Opinion:** Per-unit prices paid by PGS to HPP were below the midpoint and were within the range of prices for the actual trading days. Per-unit prices paid to TGS were higher than the Gas Daily mid-point on each day of purchase.

## Audit Disclosure No. 2

### Subject: Acquisition of Prior Energy Corporation by TECO Energy

**Statement of Fact:** Prior Energy Corporation (Prior Energy), is a gas marketer which supplied natural gas to Peoples Gas System (PGS) during and before 2001. On November 1, 2001, Prior Energy was purchased by TECO Energy. When asked about the reason for the purchase of Prior Energy, when PGS and TECO Gas Services were already included in the TECO Energy group, TECO Energy responded as follows:

“The decision to purchase Prior Energy was part of TECO Energy’s strategic growth initiative. Prior Energy is a leading natural gas management company, which handles all facets of natural gas energy management services, including natural gas supply management, asset management, risk-management services and consulting services. Acquiring Prior Energy enabled TECO Energy to expand the complimentary range of services its portfolio of diversified businesses provide. This significantly enhances TECO Energy’s ability to be a one-stop energy service provider of natural gas management to a growing client base not only in Florida but also throughout the Southeast.

While Peoples Gas System is a natural gas distribution company operating in the State of Florida and TECO Gas Services, Inc. provides gas management and marketing services for large cogeneration customers primarily in Florida; Prior Energy operates throughout the Southeast and, as previously stated, offers comprehensive services for all facets of natural gas energy management for large commercial, industrial, power generation, municipal and other governmental agency customers. Therefore, given the activities or services being provided as well as the geographical and targeted markets of each subsidiary, ownership of the entities is not a duplication.”

We compared the average purchase price paid to Prior Energy to the average purchase price paid to all other suppliers before and after Prior was purchased by TECO Energy. The results are shown below.

	<u>Therms</u>	<u>Dollars</u>	<u>Prior Per Unit</u>	<u>Others Per Unit</u>	<u>Difference</u>	<u>Prior’s Cost Over/(Under)</u>
Jan-Oct	106,252,700	\$42,232,375	\$.397	\$.462	(\$.065)	(\$6,906,426)
Nov-Dec	18,105,610	\$4,872,858	\$.269	\$.247	\$.022	\$398,323

The information taken from PGS Gas Purchase Reports shows that Prior Energy prices were lower than the aggregate of other suppliers for the January through October period, but higher than other suppliers during the November through December period.

**Recommendation:** PGS should not pay more for gas purchased from a related party than it would pay for gas purchased from other suppliers. Any amounts paid to affiliates greater than amounts charged by non-affiliates should not be recovered through the PGA. The fact that a supplier is an affiliated company should not be a controlling factor in determining which supplier is used. Best price and availability should continue to govern gas supply negotiations.

**Audit Disclosure No. 3**

**Subject: Adjustments to Transport Trailer Charges and Legal Fees**

**Statement of Fact:** During 2001, PGS classified \$449,553 as transport trailer charges and \$26,078 as legal fees in its PGA filing.

**Audit Opinion:** PGS pays transport trailer charges to transport gas in areas where it has no gas mains. During 2001, PGS misclassified \$10,050.35 of natural gas fuel costs as transport charges. This misclassification will not make a difference in total recoverable costs. However, the gas purchased was a sale for resale on which no taxes should be paid by PGS. PGS paid \$1,123 of federal excise taxes and state taxes on the gas which should not have been paid. The detail of these taxes is that \$534 was paid in January and \$589 was paid in February.

Legal fees are incurred as part of expense to file the PGA with the FPSC. In this year, the invoices for legal fees were provided to the auditor and reviewed for relevancy to the PGA filing. PGS responded to a question from the auditor that \$507 had been charged erroneously to the PGA. This amount was included in the PGA filing for July, 2001. PGS stated that the remainder, \$6,410, was paid to Attorneys Bracewell and Patterson. Bracewell and Patterson represented PGS before the Federal Energy Regulatory Commission.

	<u>Legal</u>	<u>Transport</u>
Total	\$26,078	\$449,553
Remove non-PGA costs	507	1,123
Recoverable Remainder	<u>\$25,571</u>	<u>\$448,430</u>

**Recommendation:** Accept the recoverable remainder of \$25,571 in legal fees and the recoverable remainder of \$448,430 in transport fees for PGA recovery purposes.



Combined For All Rate Classes

FOR THE PERIOD OF: JANUARY 01 through DECEMBER 01

	CURRENT MONTH: December 01				PERIOD TO DATE				
	ACTUAL	REV. FLEX DOWN EST.	DIFFERENCE		ACTUAL	REV. FLEX DOWN EST.	DIFFERENCE		
			AMOUNT	%			AMOUNT	%	
<b>COST OF GAS PURCHASED</b>									
1 COMMODITY (Pipeline)	\$118,807	\$159,415	\$40,608	25.47	\$1,833,396	\$1,640,264	(\$193,132)	(11.77)	
2 NO NOTICE SERVICE	\$61,383	\$61,383	(\$0)	(0.00)	\$497,217	\$497,218	\$1	0.00	
3 SWING SERVICE	\$0	\$0	\$0	#DIV/0!	\$7,076,461	\$18,116,153	\$11,039,692	60.94	
4 COMMODITY (Other)	\$6,934,432	\$3,922,343	(\$3,012,089)	(76.79)	\$123,164,946	\$84,056,084	(\$39,108,862)	(46.53)	
5 DEMAND	\$3,491,090	\$3,729,585	\$238,495	6.39	\$34,592,829	\$34,325,953	(\$266,876)	(0.78)	
6 OTHER	\$138,301	\$75,000	(\$63,301)	(84.40)	\$1,013,471	\$865,000	(\$148,471)	(17.16)	
LESS END-USE CONTRACT:									
7 COMMODITY (Pipeline)	\$53,614	\$51,166	(\$2,448)	(4.78)	\$775,625	\$727,561	(\$48,064)	(6.61)	
8 DEMAND	\$471,988	\$448,546	(\$23,442)	(5.23)	\$6,342,700	\$8,135,800	(\$206,900)	(3.37)	
9 OTHER	\$178,324	\$138,060	(\$42,264)	(31.06)	\$1,635,494	\$1,641,808	\$6,314	0.38	
10									
11 TOTAL COST (1+2+3+4+5+6)-(7+8+9+10)	\$10,040,088	\$7,311,954	(\$2,728,134)	(37.31)	\$159,424,502	\$130,995,506	(\$28,428,996)	(21.70)	
12 NET UNBILLED	\$368,183	\$0	(\$368,183)	0.00	(\$4,161,073)	\$0	\$4,161,073	0.00	
13 COMPANY USE	\$5,704	\$0	(\$5,704)	0.00	\$136,737	\$0	(\$136,737)	0.00	
14 TOTAL THERM SALES (11)	\$8,285,851	\$7,311,954	(\$973,897)	(13.32)	\$177,670,835	\$130,995,506	(\$46,675,329)	(35.63)	
<b>THERMS PURCHASED</b>									
15 COMMODITY (Pipeline)	32,720,299	29,732,462	(2,987,837)	(10.05)	480,728,980	360,752,942	(119,976,038)	(33.26)	
16 NO NOTICE SERVICE	10,403,910	10,403,910	0	0.00	84,274,040	84,274,040	0	0.00	
17 SWING SERVICE	0	0	0	#DIV/0!	11,484,740	26,524,150	15,039,410	56.70	
18 COMMODITY (Other)	28,637,379	17,665,030	(10,972,349)	(62.11)	301,755,970	152,900,190	(148,855,780)	(97.35)	
19 DEMAND	79,866,476	83,914,809	4,248,333	5.06	790,214,789	750,284,934	(39,929,855)	(5.32)	
20 OTHER	0	0	0	0.00	-	-	0	0.00	
LESS END-USE CONTRACT:									
21 COMMODITY (Pipeline)	12,644,770	12,067,432	(577,338)	(4.78)	194,312,680	181,328,602	(12,984,078)	(7.16)	
22 DEMAND	12,698,080	12,067,432	(630,648)	(5.23)	198,685,810	181,328,602	(17,357,208)	(8.47)	
23 OTHER	0	0	0	0.00	-	-	0	0.00	
24 TOTAL PURCHASES (17+18-23)	28,637,379	17,665,030	(10,972,349)	(62.11)	313,240,710	179,424,340	(133,816,370)	(74.58)	
25 NET UNBILLED	979,124	0	(979,124)	0.00	(4,682,790)	-	4,682,790	0.00	
26 COMPANY USE	14,780	0	(14,780)	0.00	209,204	-	(209,204)	0.00	
27 TOTAL THERM SALES (24)	22,057,844	17,665,030	(4,392,814)	(24.87)	298,898,216	179,424,340	(119,473,876)	(65.47)	
<b>CENTS PER THERM</b>									
28 COMMODITY (Pipeline)	(1/15)	0.00363	0.00536	0.00173	32.28	0.00381	0.00455	0.00073	16.12
29 NO NOTICE SERVICE	(2/16)	0.00590	0.00590	(0.00000)	(0.00)	0.00590	0.00590	0.00000	0.00
30 SWING SERVICE	(3/17)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	0.61616	0.68301	0.06684	9.79
31 COMMODITY (Other)	(4/18)	0.24215	0.22204	(0.02011)	(9.06)	0.40816	0.54974	0.14158	25.75
32 DEMAND	(5/19)	0.04382	0.04444	0.00062	1.40	0.04378	0.04575	0.00197	4.31
33 OTHER	(6/20)	0.00000	0.00000	0.00000	0.00	0.00000	0.00000	0.00000	0.00
LESS END-USE CONTRACT:									
34 COMMODITY (Pipeline)	(7/21)	0.00424	0.00424	0.00000	0.00	0.00399	0.00401	0.00002	0.52
35 DEMAND	(8/22)	0.03717	0.03717	(0.00000)	(0.00)	0.03225	0.03384	0.00159	4.70
36 OTHER	(9/23)	0.00000	0.00000	0.00000	0.00	0.00000	0.00000	0.00000	0.00
37 TOTAL COST	(11/24)	0.35059	0.41392	0.06333	15.30	0.50895	0.73009	0.22114	30.29
38 NET UNBILLED	(12/25)	0.37603	0.00000	(0.37603)	0.00	0.88859	0.00000	(0.88859)	0.00
39 COMPANY USE	(13/26)	0.38592	0.00000	(0.38592)	0.00	0.65361	0.00000	(0.65361)	0.00
40 TOTAL THERM SALES	(11/27)	0.45517	0.41392	(0.04125)	(9.97)	0.53697	0.73009	0.19312	26.45
41 TRUE-UP	(E-4)	0.02635	0.02635	0.00000	0.00	0.02635	0.02635	0.00000	0.00
42 TOTAL COST OF GAS	(40+41)	0.48152	0.44027	(0.04125)	(9.37)	0.56332	0.75844	0.19312	25.53
43 REVENUE TAX FACTOR		1.00503	1.00504	0.00000	0.00	1.00503	1.00503	0.00000	0.00
44 PGA FACTOR ADJUSTED FOR TAXES	(42x43)	0.48394	0.44249	(0.04145)	(9.37)	0.56615	0.76024	0.19409	25.53
45 PGA FACTOR ROUNDED TO NEAREST .001		48.394	44.249	(4.14500)	(9.37)	56.815	76.024	19.40900	25.53

COMPANY: PEOPLES GAS SYSTEM

SCHEDULE A-2

"REVISED"

Page 1 of 1

FOR THE PERIOD OF:

January-01 Through December-01

	CURRENT MONTH: DECEMBER 01				PERIOD TO DATE			
	ACTUAL	ESTIMATE	DIFFERENCE		ACTUAL	ESTIMATE	DIFFERENCE	
			AMOUNT	%			AMOUNT	%
<b>TRUE-UP CALCULATION</b>								
1 PURCHASED GAS COST (A-1, LINES 3+4-9-13)	\$6,750,404	\$3,786,283	(\$2,964,121)	(\$0.78286)	\$128,469,176	\$100,530,429	(\$27,938,747)	(\$0.27791)
2 TRANSPORTATION COST (A-1, LINES 1+2+5+6-7-8)	3,283,980	3,525,671	241,691	0.06855	\$30,818,589	\$30,465,074	(353,515)	(0.01160)
3 TOTAL	10,034,384	7,311,954	(2,722,430)	(0.37233)	\$159,287,765	\$130,995,506	(28,292,259)	(0.21598)
4 FUEL REVENUES (NET OF REVENUE TAX)	8,285,851	7,311,954	(973,897)	(0.13319)	\$177,670,835	\$130,995,506	(46,675,329)	(0.35631)
5 TRUE-UP REFUND/(COLLECTION)	(317,160)	(317,160)	0	0.00000	(\$3,805,920)	(\$3,805,920)	0	0.00000
6 FUEL REVENUE APPLICABLE TO PERIOD * (LINE 4 (+ or -) LINE 5)	7,968,691	6,994,794	(973,897)	(0.13923)	\$173,864,915	\$127,189,586	(46,675,329)	(0.36697)
7 TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	(2,065,692)	(317,160)	1,748,532	(5.51309)	\$14,577,150	(\$3,805,920)	(18,383,070)	4.83013
8 INTEREST PROVISION-THIS PERIOD (21)	2,427	3,485	1,058	0.30367	(\$262,925)	\$82,503	345,427	4.18686
9 BEGINNING OF PERIOD TRUE-UP AND INTEREST	2,398,816	2,189,402	(209,414)	(0.09565)	(\$17,467,435)	\$2,110,384	19,577,819	9.27690
10 TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	317,160	317,160	0	0.00000	\$3,805,920	\$3,805,920	0	0.00000
10a ENVIRONMENTAL REFUND	0	0	0	0.00000	\$0	\$0	0	0.00000
11 TOTAL EST/ACT TRUE-UP (7+8+9+10+10a)	652,710	2,192,887	1,540,176	0.70235	652,710	2,192,887	1,540,176	0.70235
11a REFUNDS FROM PIPELINE	0	0	0	0.00000	\$0	\$0	0	0.00000
12 ADJ TOTAL EST/ACT TRUE-UP (11+11a)	652,710	2,192,887	1,540,176	0.70235				
<b>INTEREST PROVISION</b>								
13 BEGINNING TRUE-UP AND INTEREST PROVISION (9)	2,398,816	2,189,402	(209,414)	(0.09565)				
14 ENDING TRUE-UP BEFORE INTEREST (13+7-5+10a+11a)	650,284	2,189,402	1,539,118	0.70299				
15 TOTAL (13+14)	3,049,100	4,378,804	1,329,704	0.30367				
16 AVERAGE (50% OF 15)	1,524,550	2,189,402	664,852	0.30367				
17 INTEREST RATE - FIRST DAY OF MONTH	2.04	2.04	0	0.00000				
18 INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	1.78	1.78	0	0.00000				
19 TOTAL (17+18)	3.820	3.820	0	0.00000				
20 AVERAGE (50% OF 19)	1.910	1.910	0	0.00000				
21 MONTHLY AVERAGE (20/12 Months)	0.159	0.159	0	0.00000				
22 INTEREST PROVISION (16x21)	\$2,427	\$3,485	\$1,058	\$0.30367				

\* If line 5 is a refund add to line 4  
If line 5 is a collection ( ) subtract from line 4