



ORIGINAL
RECEIVED - FPSC

02 JUN 18 PM 12: 03

COMMISSION
CLERK

June 17, 2002

DISTRIBUTION CENTER
02 JUN 18 AM 10: 47

via Federal Express

Ms. Blanca S. Bayo, Director
Division of the Commission Clerk & Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Purchased Gas Recovery Docket No. 020003-GU;
Peoples Gas System's Response; Audit Control No. 02-032-2-2.

Dear Ms. Bayo:

Please accept this as the response of Peoples Gas System, a division of Tampa Electric Company, to the Final Audit Report for the Purchased Gas Adjustment in Docket No. 020003-GU.

In general, the audit report refers to the total gas supplied in 2001 by certain of Peoples' affiliates as part of its Summary of Significant Findings. However, the audit report erroneously states the volume and cost associated with purchases by Peoples from Hardee Power Partners, Prior Energy, and TECO Gas Services during the year 2001 were 114,598,150 therms at an approximate cost of \$47,812,931. It should also be noted that the vast majority of the volume and cost was incurred before the acquisition of Prior Energy.

AUS _____
CAF _____
CMP _____
COM 5
CTR _____
ECR _____
GCL _____
OPC _____
MMS _____
SEC 1
OTH _____

Audit Disclosure No. 1:

While the price paid to TECO Gas Services was above the price report in *Gas Daily* for the midpoint, the price paid was within the range for that date.

PEOPLES GAS
702 NORTH FRANKLIN STREET
P. O. BOX 2562
TAMPA, FL 33601-2562
AN EQUAL OPPORTUNITY COMPANY

DOCUMENT NUMBER - DATE

06294 JUN 18 02

RECEIVED & FILED

QLM

FPSC-BUREAU OF RECORDS

1 (800) 282-4441
WWW.PEOPLES GAS.COM

FPSC-COMMISSION CLERK

Audit Disclosure No. 2:

First, it should be noted that the table included in Audit Disclosure No. 2 is incorrect. The corrected values are shown in the table below:

	Therms	Dollars	Prior Per Unit	Others Per Unit	Difference	Prior's Cost Over/(Under)
Jan-Oct	95,624,100	\$42,337,984	\$.443	\$.462	(\$019)	(\$1,816,858)
Nov-Dec	18,359,870	\$4,760,995	\$.259	\$.247	\$.012	\$220,318

While the values in the table have been corrected above, the comparison attempted in the table is invalid. For both time periods, the price paid to Prior cannot be compared to the price paid for all other gas purchases. Peoples Gas purchases a wide variety of gas packages that have varying parameters such as delivery location, length of term, reliability level, and operational flexibility. Comparing one supplier's gas supply package against the aggregate of all other packages ignores the impact these parameters have on pricing. In particular, during the January - October 2001 period referenced in the table, Prior provided primarily "baseload" gas supply. Baseload gas supply is typically the lowest priced gas because the buyer takes delivery of the same quantity every day. Thus, for this period the gas supply from Prior would be expected to be lower than the average.

Conversely, during November and December 2001, Prior was supplying a significant amount of "swing" gas supply. Peoples Gas buys swing gas to balance the daily variations in customer load created by weather, day-of-week, etc. Since swing gas allows the buyer to vary the quantity purchased every day, swing gas is generally more expensive. So, for November and December, the price paid to Prior would be expected to be more expensive than the average.

Thus, the recommendation that "PGS should not pay more for gas purchased from a related party than it would pay for gas purchased from other suppliers" ignores the multitude of parameters that drive the pricing of individual natural gas packages. Prior Energy has been a valued supplier for Peoples Gas for many years. The price paid to Prior Energy for a particular gas supply package may be higher than the price paid for other packages, but in no way does this mean a portion of the price should not be recovered through the PGA. It merely means that the package from Prior has parameters that make it more "valuable" than the other package. Comparisons between gas supply contracts can only be made if all terms, conditions and parameters are identical. Peoples Gas will continue to select natural gas packages based on the best combination of price, reliability, flexibility, location, etc.

Ms. Blanca S. Bayo, Director
Purchased Gas Recovery Docket No. 020003-GU;
Peoples Gas System's Response; Audit Control No. 02-032-2-2.
June 17, 2002
Page 3

Peoples Gas does agree that any amount paid to affiliates greater than amounts charged by non-affiliates should not be recovered through the PGA assuming that the gas procurement circumstances and contract terms and conditions are identical.

Audit Disclosure No. 3:

Peoples Gas has no comment.

Please acknowledge your receipt and filing of the above response by stamping a duplicate copy of this letter and returning the same to the undersigned in the enclosed preaddressed envelope.

Thank you for your assistance.

Sincerely,



Matthew R. Costa
Corporate Counsel

cc: Ms. Denise N. Vandiver
Ms. Mary Jo Pennino
Ms. Angie Llewellyn
Ms. Wraye Grimard
Mr. W. Edward Elliott