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October 31, 2002

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Blanco 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. 020384-GU – Application for rate increase by Tampa Electric Company d/b/a/Peoples Gas System

Peoples Gas System/Audit Control No. 02-122-2-1
Rate Case Audit – Period Ending December 31, 2001

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' rate case and historic test year – twelve months ended December 31, 2001.

Audit Disclosure No. 1

Subject: Airplane Purchases and Depreciation

Audit Opinion: Based on our review of these transactions, PGS retired the correct amounts of airplane book values and properly accounted for salvage values. However, the 2001 over-depreciation of $17,800 must be corrected. Therefore, the depreciation expense and accumulated depreciation as stated in the MFR's should be reduced by this amount.

Peoples' Response: The excess depreciation expense in the amount of $17,800 for Company aircraft has been adjusted in the Depreciation Study Docket No. 010383-GU with a reserve transfer approved by the Commission on October 15, 2002. The final Order for Docket No. 010383-GU is currently pending, and is scheduled to be issued on or about November 5, 2002. Therefore, no further adjustment in this proceeding is necessary.

DOCUMENT NO.
11974-02
11/1/02

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

1 (800) 282-4441
WWW.PEOPLESGAS.COM

Audit Disclosure No. 2

Subject: Transfer of Plant from Propane System

Audit Opinion: An FPSC engineering study showed that all propane assets have been removed from the land. Therefore, the propane transfer station and associated electric work totaling $38,286 should also be removed from plant in service. The engineer also reported that only 4.4% of the land is currently occupied by a natural gas regulator station. We believe that only this percent of the land, landscaping and fence should be considered used and useful, and the remainder (95.6%) removed from the MFRs as non-utility.

Description	Per Books	Percent Removed	Amount Removed
Propane Transfer Station	$35,832	100%	$35,832
Electric Work	2,454	100%	2,454
	$38,286		$38,286
Landscaping	$31,675	95.6%	$30,281
Fence	5,138		4,912
Sub-total	$75,099		$73,479
Land	$147,820	95.6%	$141,316
Total	$222,919		$214,795

Associated accumulated depreciation taken over four and one-half years of $22,154 and test year depreciation expense of $4,923 should also be removed.

Peoples' Response: Peoples agrees with the removal of $38,286 for the propane transfer station and electric work from plant in service. However, when acquiring the land for the regulator site, Peoples bought the smallest plot of land available for purchase. (Deed restrictions associated with properties within the area prevented owners from dividing their properties into sub-parcels.)

Consistent with all property owners' obligations within the area, Peoples is bound by the various deed restrictions and must therefore, maintain the property and its landscaping so as to remain in compliance with the covenants addressed within the property owners' obligatory documents.

Because Peoples' regulator site is dictated by geography and the size of the lot was non-negotiable, and the fact that Peoples is legally bound to abide by deed restrictions, Peoples believes that the full amount of $184,633 for landscaping, fence, and land should remain in plant in service. Peoples also believes that the amount of associated accumulated depreciation taken over four and one-half year and the test year depreciation expense should be adjusted to reflect the allowance of the $184,633 as part of plant in service.

Audit Disclosure No. 3

Subject: Mapping of the Distribution System

Recommendation: PGS should issue Request for Proposals to the general business community to identify potential service providers.

Peoples' Response: In general, Peoples' agrees with the auditor's recommendation and the Company intends to issue Request for Proposals to identify future service providers when practical.

Audit Disclosure No. 4

Subject: Selling and Advertising Adjustments

Recommendation: Analysis revealed that charitable contributions, image enhancing advertisements and expenses of a non-utility nature were recorded in these accounts and included in the MFR's. An adjustment of $132,285 is needed to remove these non-allowable expenses.

Account	Contributions	Image Enhancing	Non-utility & Other	Audit Adj.
912	$14,335	$15,168	$20,733	$50,236
913	5,870	32,650	34,345	72,865
930	145	0	9,039	9,184
	$20,350	$47,818	$64,117	$132,285

Peoples' Response: Peoples agrees with the audit recommendation.

Audit Disclosure No. 5

Subject: Economic Development Expenses

Recommendation: This rule became effective July 17, 1995. The utility's last rate case was for the year ended December 31, 1991, and PGS employees stated they were not aware of the rule.

Analysis reveled that the following economic development expenses were recorded on the MFR's in total without using the 95 percent rule. An adjustment of $7,593 is needed to reflect the non-allowable economic development expenses.

Account	Total Charges	Adjustment %	Audit Adjustment
912	$80,669	0.05%	$4,033
913	32,366	0.05%	1,618
930	38,825	0.05%	1,941
			$7,593

Peoples' Response: These are accurate findings.

Audit Disclosure No. 6

Subject: General and Administration Expenses

Recommendation: Analysis revealed that certain transactions were not properly recorded in the general ledger and MFR's. An adjustment of $27,443 is needed to reflect the non-allowable expenses.

Account	Description	Audit Adjustment
921	Should be account 923	$(10,448)
921	Employee Appreciation Dinner	(17,253)
923	Miscoded into account 921	10,448
926	Tuition reimbursement for non-PGS employees	(10,190)
		$(27,443)

Peoples' Response: These are accurate findings.

Audit Disclosure No. 7

Subject: Allocation of Non-Utility Plant Expense

Recommendation: Auditors calculated the percentage of total non-utility plant to total utility plant to be 1.69 percent and multiplied it by the total Maintenance of General Plant expense of $242,358 to arrive at $4,096. Therefore, Maintenance and General Plant expense should be reduced by $4,096 to adjust for non-utility plant expense.

Account 932, Maintenance of General Plant, includes almost two thousand entries. The Company did not perform an analysis of this account to identify expenses that would match the plant allocation. Therefore, Staff believes that the simple percentage method is a satisfactory substitute for adjusting the expense account.

Peoples' Response: Peoples agrees with the audit recommendation.

Audit Disclosure No. 8

Subject: Peoples Sales and Service Adjustments

Recommendation: The following adjustments are needed to account for these non-utility items in the thirteen-month averages in the MFR filing for 2001.

Working Capital

Account No.	Account Description	Dr, (Cr) Amount
144.02	Accumulated Provision Uncollected Account	$3,077
165.xx	Prepayments	(3,831)
236.02	Taxes Accrued – Income	975

Capital Structure

201.xx	Common Stock	385
207& 211	Additional Capital	96,154
216.xx	Un-appropriated Retained Earnings	489,285

Peoples' Response: Peoples agrees with the audit recommendation. However, these are adjustments to 2001 thirteen-month averages only. Therefore, the adjustments have no impact on the projected test year.

Audit Disclosure No. 9

Subject: Adjustments to Income Tax Provision

Recommendation: Accept the revised Schedules C-20, 21, 24, as submitted by the utility, in the MFR filing.

Peoples' Response: Peoples agrees with the audit recommendation.

Audit Disclosure No. 10

Subject: Outsourcing Sales and Marketing Functions

Auditor Opinion: Documentation provided by the utility did not conclusively indicate that outsourcing would provide savings to the ratepayers. Additionally, since little, if any, investigation outside of TECO Energy for a suitable vendor had been undertaken, it has not been shown that using a related party was more cost efficient than doing these functions themselves or using an outside vendor.

Peoples' Response: Peoples did not perform a formal "cost-benefit analysis". Peoples performed an in depth analysis of its 2000 expenses to determine the total cost of its sales and marketing activities regardless of where the costs might have been charged (depreciation expense, taxes other than income, G&A expense, etc.). TECO Partners then agreed to perform the same level of sales and marketing for less than Peoples was previously paying. The decision to outsource was a simple matter of getting the same services for less money.

Sincerely,

Francis J. Sivard

Francis J. Sivard
Vice-President, Accounting and Regulatory

Cc: Ansley Watson, Jr.
Wraye Grimard