

State of Florida



Public Service Commission

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

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**DATE:** July 1, 2003  
**TO:** Division of Competitive Markets & Enforcement (Makin, Marshall)  
**FROM:** Division of Auditing and Safety (Vandiver) *W*  
**RE:** **Docket No.** 030003-GU; **Company Name:** Peoples Gas System, a division of Tampa Electric Company; **Audit Purpose:** Purchased Gas Cost Recovery True-up for the period January 2002 through December 2002; **Audit Control No.** 03-063-2-1

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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  
Peoples Gas System,  
a division of Tampa Electric Company

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Matthew Costa, Esq.  
Peoples Gas System  
a division of Tampa Electric Co.

Ms. Angela Llewellyn, Administrator  
Peoples Gas System,  
a division of Tampa Electric Company

DOCUMENT NO.  
05046-03  
7/1/03



**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF AUDITING AND SAFETY  
BUREAU OF AUDITING*

*TAMPA DISTRICT OFFICE*

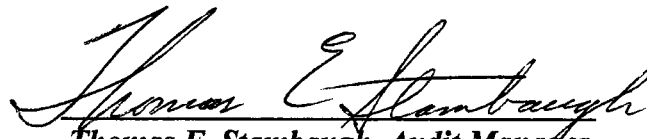
**PEOPLES GAS SYSTEM  
(A Division of Tampa Electric Company)**

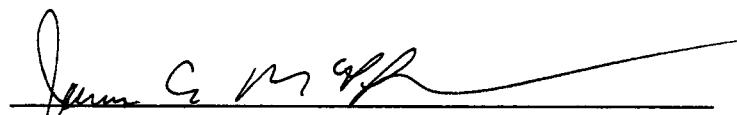
**PURCHASED GAS ADJUSTMENT AND AFFILIATED TRANSACTIONS AUDIT**

**TWELVE MONTHS ENDED DECEMBER 31, 2002**

**Docket 030003-GU**

**Audit Control Number 03-063-2-1**

  
*Thomas E. Stambaugh, Audit Manager*

  
*James A. McPherson, Tampa District Supervisor*

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

**June 20, 2003**

**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 (PGA) and affiliated party gas purchases of Peoples Gas System for the twelve month period ending December 31, 2002. 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.

## **SUMMARY OF SIGNIFICANT FINDINGS:**

During 2002, Prior Energy, an affiliate, supplied 108,801,620 therms of gas at a total cost of \$35,007,309, or \$.3218 per therm. When compared to average pipeline prices for the two major pipelines used, FGT and SONAT, Prior Energy was less costly than the FGT average by \$536,306, and more costly than the SONAT average by \$2,009,729. The net additional cost for Prior Energy gas over the average prices by pipeline was \$1,473,422.

## **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. 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 affiliated companies, Hardee Power Partners and Prior Energy, to prices paid to other suppliers in total. Presented the effect of Prior Energy gas purchases on the total and per-unit price of gas purchased during 2002. 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 matched the beginning true-up and interest rates approved by the FPSC.

**OTHER:** Performed analytical review on expenses for the years 1999, 2000, 2001 and 2002 as part of determining the scope and level of risk of the audit. Developed a scale of prices per therm for those suppliers which had provided ten million or more therms of gas to PGS system supply during 2002. 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 Supply: Prior Energy Compared to Other Suppliers**

**Statement of Fact:** During 2002, PGS purchased natural gas from twenty-seven separate natural gas suppliers. The PGS affiliate Prior Energy (Prior) provided a total of 108,801,620 therms of gas during 2002. Of this total, 23,698,910 therms were provided through the Florida Gas Transmission (FGT) pipeline, 85,049,880 therms were provided through the SONAT pipeline and 52,830 therms were provided through the Gulfstream pipeline.

**Audit Opinion:** The audit staff compared the average per-therm price of other suppliers to the average per-therm price of Prior Energy on the two major pipelines used.

Interstate Pipeline

FGT	Therms	Amount	Cost per Therm
Others	216,478,200	\$71,566,468	\$ .33060
Prior Energy	23,698,910	\$7,298,534	\$ .30797
Savings			<u>(\$ .02263) X 23,698,910 therms = (\$536,306)</u>

SONAT	Therms	Amount	Cost per Therm
Others	22,842,800	\$6,896,753	\$ .30192
Prior Energy	85,049,880	\$27,688,483	\$ .32556
Additional Cost			<u>\$.02363 X 85,049,880 therms = \$2,009,729</u>

Total Net Additional Cost of Prior Energy over Other Suppliers: \$1,473,422

**Recommendation:** Peoples Gas System 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.

COMPANY: PEOPLES GAS SYSTEM		COMPARISON OF ACTUAL VERSUS ORIGINAL ESTIMATE OF THE PURCHASED GAS ADJUSTMENT COST RECOVERY FACTOR								SCHEDULE A-1	
For Commercial Customers		FOR THE PERIOD OF: JANUARY 02 through DECEMBER 02								Page 3 of 3	
		CURRENT MONTH: December 02				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)	\$122,204	\$98,867	(\$23,337)	(23.60)	\$1,561,476	\$1,383,706	(\$177,770)	(12.85)		
2	NO NOTICE SERVICE	\$34,737	\$34,737	\$0	0.00	\$282,043	\$282,042	(\$1)	(0.00)		
3	SWING SERVICE	\$1,057,797	\$0	(\$1,057,797)	#DIV/0!	\$7,431,863	\$0	(\$7,431,863)	#DIV/0!		
4	COMMODITY (Other)	\$4,464,746	\$2,171,950	(\$2,292,796)	(105.66)	\$64,311,376	\$28,035,532	(\$36,275,844)	(129.39)		
5	DEMAND	\$2,166,669	\$2,206,453	\$39,784	1.80	\$20,534,445	\$20,966,208	\$431,763	2.06		
6	OTHER	\$75,651	\$55,674	(\$20,177)	(36.24)	\$621,763	\$682,623	(\$139,140)	(20.38)		
LESS END-USE CONTRACT:											
7	COMMODITY (Pipeline)	\$41,762	\$34,725	(\$7,037)	(20.26)	\$617,305	\$628,999	\$11,694	1.86		
8	DEMAND	\$324,020	\$242,935	(\$81,085)	(33.38)	\$3,554,759	\$3,527,055	(\$27,704)	(0.79)		
9	OTHER	\$125,425	\$95,930	(\$29,495)	0.00	\$1,371,101	\$1,358,093	(\$13,008)	0.00		
10											
11	TOTAL COST (1+2+3+4+5+6)-(7+8+9+10)	\$7,430,787	\$4,194,091	(\$3,236,706)	(77.17)	\$89,399,801	\$45,835,963	(\$43,563,838)	(95.04)		
12	NET UNBILLED	\$779,496	\$0	(\$779,496)	0.00	\$541,945	\$0	(\$541,945)	0.00		
13	COMPANY USE	\$5,872	\$0	(\$5,872)	0.00	\$93,633	\$0	(\$93,633)	0.00		
14	TOTAL THERM SALES (11)	\$7,303,731	\$4,194,091	(\$3,109,640)	(74.14)	\$108,453,233	\$45,835,963	(\$62,617,270)	(136.61)		
<b>THERMS PURCHASED</b>											
15	COMMODITY (Pipeline)	24,390,423	20,713,562	(3,676,861)	(17.75)	337,632,141	282,738,512	(54,893,629)	(19.41)		
16	NO NOTICE SERVICE	5,887,573	5,887,573	0	0.00	47,803,756	47,803,756	0	0.00		
17	SWING SERVICE	2,453,161	0	(2,453,161)	#DIV/0!	20,480,947	-	(20,480,947)	#DIV/0!		
18	COMMODITY (Other)	10,657,944	7,365,790	(3,292,154)	(44.70)	195,757,521	98,735,651	(97,021,870)	(98.26)		
19	DEMAND	48,478,272	48,306,305	(171,967)	(0.36)	457,526,109	450,436,104	(7,090,005)	(1.57)		
20	OTHER	0	0	0	0.00	-	-	0	0.00		
LESS END-USE CONTRACT:											
21	COMMODITY (Pipeline)	8,610,683	7,159,837	(1,450,846)	(20.26)	123,862,092	124,573,025	710,933	0.57		
22	DEMAND	8,736,036	6,549,873	(2,186,163)	(33.38)	111,521,782	109,833,073	(1,688,709)	(1.54)		
23	OTHER	0	0	0	0.00	-	-	0	0.00		
24	TOTAL PURCHASES (17+18-23)	13,111,105	7,365,790	(5,745,315)	(78.00)	216,218,468	98,735,651	(117,482,817)	(118.99)		
25	NET UNBILLED	1,052,708	0	(1,052,708)	0.00	(195,917)	-	195,917	0.00		
26	COMPANY USE	10,260	0	(10,260)	0.00	195,702	-	(195,702)	0.00		
27	TOTAL THERM SALES (24)	12,797,508	7,365,790	(5,431,718)	(73.74)	272,462,647	98,735,651	(173,726,996)	(175.95)		
<b>CENTS PER THERM</b>											
28	COMMODITY (Pipeline)	(1/15)	0.00501	0.00477	(0.00024)	(4.97)	0.00462	0.00489	0.00027	5.50	
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)	0.43120	#DIV/0!	#DIV/0!	#DIV/0!	0.36322	#DIV/0!	#DIV/0!	#DIV/0!	
31	COMMODITY (Other)	(4/18)	0.41891	0.29487	(0.12404)	(42.07)	0.32853	0.28395	(0.04458)	(15.70)	
32	DEMAND	(5/19)	0.04469	0.04568	0.00098	2.15	0.04488	0.04655	0.00166	3.58	
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)	0.00485	0.00485	(0.00000)	(0.00)	0.00498	0.00505	0.00007	1.30	
35	DEMAND	(8/22)	0.03709	0.03709	(0.00000)	(0.00)	0.03188	0.03211	0.00024	0.74	
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)	0.56676	0.56941	0.00266	0.47	0.41347	0.46423	0.05076	10.93	
38	NET UNBILLED	(12/25)	0.74047	0.00000	(0.74047)	0.00	(2.76620)	0.00000	2.76620	0.00	
39	COMPANY USE	(13/26)	0.57233	0.00000	(0.57233)	0.00	0.00000	0.00000	0.00000	0.00	
40	TOTAL THERM SALES	(11/27)	0.58064	0.56941	0.00266	0.47	0.32812	0.46423	0.13611	29.32	
41	TRUE-UP	(E-4)	(0.01340)	(0.01340)	0.00000	0.00	(0.01340)	(0.01340)	0.00000	0.00	
42	TOTAL COST OF GAS	(40+41)	0.56724	0.55601	(0.01123)	(2.02)	0.31472	0.45083	0.13611	30.19	
43	REVENUE TAX FACTOR		1.00503	1.00503	0.00000	0.00	1.00503	1.00503	0.00000	0.00	
44	PGA FACTOR ADJUSTED FOR TAXES	(42x43)	0.57010	0.55880	(0.01130)	(2.02)	0.31630	0.45310	0.13680	30.19	
45	PGA FACTOR ROUNDED TO NEAREST .001		57.010	55.880	(1.12992)	(2.02)	31.630	45.310	13.67961	30.19	

FOR THE PERIOD OF:

January-02 Through December-02

	CURRENT MONTH: DECEMBER 02		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)	\$9,640,451	\$3,355,998	(\$6,284,453)	(\$1.87260)	\$110,635,466	\$42,006,313	(\$68,629,153)	(\$1.63378)
2 TRANSPORTATION COST (A-1, LINES 1+2+5+6-7-8)	3,596,867	3,724,798	127,931	0.03435	\$33,268,843	\$33,464,800	195,957	0.00586
3 TOTAL	13,237,317	7,080,796	(6,156,521)	(0.86947)	\$143,904,308	\$75,471,113	(68,433,195)	(0.90675)
4 FUEL REVENUES (NET OF REVENUE TAX)	12,922,927	7,080,796	(5,842,131)	(0.82507)	\$139,585,119	\$75,471,113	(64,114,006)	(0.84952)
5 TRUE-UP REFUND/(COLLECTION)	300,079	300,079	0	0.00000	\$3,600,915	\$3,600,915	0	0.00000
6 FUEL REVENUE APPLICABLE TO PERIOD * (LINE 4 (+ or -) LINE 5)	13,223,006	7,380,875	(5,842,131)	(0.79152)	\$143,186,034	\$79,072,028	(64,114,006)	(0.81083)
7 TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	(14,312)	300,079	314,391	1.04769	(\$718,275)	\$3,600,915	4,319,190	1.19947
8 INTEREST PROVISION-THIS PERIOD (21)	(3,750)	2,404	6,154	2.55970	\$30,799	\$37,339	6,540	0.17516
9 BEGINNING OF PERIOD TRUE-UP AND INTEREST	(3,317,541)	2,227,822	5,545,363	2.48914	652,710	2,192,887	1,540,177	0.70235
10 TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	(300,079)	(300,079)	0	0.00000	(\$3,600,915)	(\$3,600,915)	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)	(3,635,681)	2,230,226	5,865,907	2.63019	(3,635,681)	2,230,226	5,865,907	2.63019
11a REFUNDS FROM PIPELINE	0	0	0	0.00000	\$0	\$0	0	0.00000
12 ADJ TOTAL EST/ACT TRUE-UP (11+11a)	(3,635,681)	2,230,226	5,865,907	2.63019	(\$3,635,681)	\$2,230,226	\$5,865,907	\$2.63019
<b>INTEREST PROVISION</b>								
13 BEGINNING TRUE-UP AND INTEREST PROVISION (9)	(3,317,541)	2,227,822	5,545,363	2.48914				
14 ENDING TRUE-UP BEFORE INTEREST (13+7-5+10a+11a)	(3,631,932)	2,227,822	5,859,753	2.63026				
15 TOTAL (13+14)	(6,949,472)	4,455,643	11,405,116	2.55970				
16 AVERAGE (50% OF 15)	(3,474,736)	2,227,822	5,702,558	2.55970				
17 INTEREST RATE - FIRST DAY OF MONTH	1.30	1.30	0	0.00000				
18 INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	1.29	1.29	0	0.00000				
19 TOTAL (17+18)	2.590	2.590	0	0.00000				
20 AVERAGE (50% OF 19)	1.295	1.295	0	0.00000				
21 MONTHLY AVERAGE (20/12 Months)	0.10792	0.10792	0	0.00000				
22 INTEREST PROVISION (16x21)	(\$3,750)	\$2,404	\$6,154	\$2.55970				

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

5