

State of Florida



Public Service Commission

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

DATE: September 8, 2003
TO: Division of Competitive Markets and Enforcement (Bulecza-Banks)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Response from:** Peoples Gas System, a division of Tampa Electric Company;
Audit Purpose: Tax Expansion Factors ; **Audit Control No.:** 02-268-1-1

Attached is the response from Peoples Gas System, a division of Tampa Electric Company, to the audit disclosures contained in the final audit report distributed on August 11, 2003

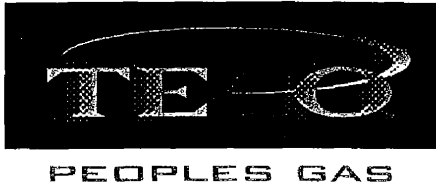
DV/jcp
Attachment

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

DOCUMENT NUMBER - DATE

08581 SEP 11 8

FPSC-COMMISSION CLERK



Matthew R. Costa
Corporate Counsel
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August 27, 2003

via Federal Express

Denise N. Vandiver, Bureau Chief
Division of Auditing and Safety
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

RECEIVED
AUG 29 2003
Florida Public Service Commission
Division of Auditing and Safety

**Re: Undocketed; Peoples Gas System's Response;
Final Audit Report of Tax Expansion Factors dated August 11, 2003;
Audit Control No. 02-268-1-1**

Dear Ms. Vandiver:

Enclosed herewith is the response of Peoples Gas System ("Peoples"), a division of Tampa Electric Company, to the above-referenced Final Audit Report.

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

Thank you for your assistance.

Sincerely,

Matthew R. Costa
Corporate Counsel

Enclosures

cc: Mr. Frank Sivard (w/encl)
Ms. Angie Llewellyn (w/encl)
Mrs. Kandi Floyd (w/encl)

Peoples Gas System Response to Audit Control No. 02-268-1-1

Undocketed

Purpose: To review the tax expansion factors used in billing and preparing cost recovery schedules for each of the investor-owned gas utilities

Date: August 27, 2003

Audit Disclosure No. 1

Subject: Regulatory Assessment Fee Rolled Into Base Rates

Peoples Response: No Response

Audit Disclosure No. 2

Subject: Regulatory Assessment Fee and Gross Receipts Tax Rolled into the PGA and ECCR

Peoples Response: No Response

Audit Disclosure No. 3

Subject: Gross Receipts Tax Rate for Line Item Customer Billing

Statement of Fact (Portions): The rate applied to utility services shall be 2.5 percent as stated in Chapter 203.01 Florida Statutes. (Peoples rate indicated at 2.58%)

. . . The stated rate from Chapter 203.01(2)(b), Florida Statutes is 2.5%. Peoples Gas System did not provide any support for the inflated rate used.

Peoples Response:

Peoples pays state gross receipts tax (GRT) on gross receipts tax revenue. In order to ensure the same amount is recovered from customers, the statutory 2.5% GRT rate on the gas bill is "grossed up". Peoples also pays a regulatory assessment fee (RAF) on gross receipts tax revenue. In order to ensure RAF paid on GRT revenue is recovered from customers the RAF rate is factored in the GRT billing rate.

See Example on attached page:

Audit Disclosure No. 3

Example

(1)	(2)	(3) (1) / (2)	(4)	(5) (3) x (4)	(6) (3) + (5)
State Gross Receipts Tax Rate	1 minus Tax Rate	Effective G.R. Rate On Gas Bill: "Grossed Up" Rate	State RAF Rate	RAF Recovery Factor	Final Billing Rate On Gas Bill
2.50%	0.9750	2.5641%	0.500%	\$0.000128	2.5769%
		Gas Bill			
	Customer Charge	\$8.50			
	Distribution Charge	672.80			
	Fuel Charge	318.70			
	Subtotal	\$1,000.00	Base For GRT		
GRTax	2.5641%	\$25.64			
RAF	0.50%	0.135% x's \$25.64	- Paid To State Semiannually		
	2.5769%	\$25.77	Recorded as GRT Revenue and Accounts Receivable & GRT Liability and Expense		
	Total Gas Bill	\$1,025.64			
		GRTax Return			
2.5% X's Total Gas Bill		\$25.64	Paid To State Monthly via Tax Return		

Audit Disclosure No. 4

Subject: Calculation of Franchise Fees for Line Item Customer Billing

Statement of Fact: With respect to the four companies (Chesapeake Utilities, Florida Public Utilities Co., Peoples Gas System and St. Joe Natural Gas) that charged a franchise fee tax, audit staff has found differences in the calculations. FPUC included the franchise fee tax in the total applicable charges subject to gross receipts tax while Chesapeake Utilities, Peoples Gas System and St. Joe Natural Gas excluded it from the total applicable charges.

Peoples Response:

The statement that Peoples Gas System excluded the franchise fee tax from the total applicable charges is incorrect. Peoples pays local franchise fee (Fee) to cities that impose that fee. The Fee is calculated and paid as agreed to in a franchise fee agreement with each city. The majority of the agreements base the Fee on retail sales of gas so the Fee is calculated on the total gas bill. In order to ensure the Fee is paid on all revenue (including Fee revenue), the gross receipts tax and regulatory assessment fee is paid on the Fee revenue and in order to ensure all these Fees and taxes are recovered from customers, the Fee rate on the gas bill is "grossed up".

See Example on attached page

Audit Disclosure No. 4

Example

(1)	(2)	(2) / (2)	(3)	(4)	(5)
Fee Agreement Rate	1 minus Fee Rate	Fee Recovery or "Grossed Up" Rate	GR Tax Recovery Rate	RAF Recovery Factor	Final Billing Rate On Gas Bill
6.00%	0.9400	6.3830%	1.025641026	1.0050251	6.580%

<u>Gas Bill</u>	
Customer Charge	\$8.50
Distribution Charge	672.80
Fuel Charge	318.70
Subtotal	\$1,000.00 Base For Gross Receipts Tax
GR Tax 2.564%	\$25.64
RAF 0.500%	0.13 .5% x's \$25.64
2.5769%	\$25.77 Recorded as Revenue & Expense
	\$1,025.77 Base For Franchise Fee Billing Rate
Franchise Fee 6.383%	65.47 6.383% x's \$1,025.77
GR Tax Portion 2.564%	1.68 2.564% x's \$65.47 - Paid To State
RAF Portion 0.503%	0.33 .5% x's \$65.47 - Paid To State
6.58%	\$67.48 Recorded as F. Fee Revenue & Accts. Receivable and F.Fee Liability & Expense
Total Gas Bill	\$1,093.25

<u>Payment To City</u>	
	\$1,000.00
	\$25.64
	\$65.47
\$1,091.12	Revenue Subject To Fee
6.00%	Fee Agreement Rate
\$65.47	Fee Paid To City Per Agreement

Audit Disclosure No. 5

Subject: Calculation of Fuel Cost rate for customer billing

Peoples Response:

No Response

Audit Disclosure No. 6

Subject: 1973 Gas Cost

Peoples Response:

No Response