

State of Florida



Public Service Commission

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COMMISSION
CLERK

DATE: July 28, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance *CJP*
Analysis
RE: Docket No.: 110003-GU
Company Name: Peoples Gas System
Company Code: GU608
Audit Purpose: Purchased Gas Cost Recovery Clause
Audit Control No: 11-005-2-1

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 a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

CJP/kby

Attachments: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

05262 JUL 28 =

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Peoples Gas System
Purchased Gas Adjustment

Twelve Months Ended December 31, 2010

Docket No. 110003-GU
Audit Control No. 11-005-2-1

July 19, 2011

A handwritten signature in cursive script, appearing to read "Tomer".

Tomer Kopelovich
Audit Manager

A handwritten signature in cursive script, appearing to read "Linda Hill-Slaughter".

Linda Hill-Slaughter
Reviewer

DOCUMENT NUMBER-DATE

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated January 5, 2011. We have applied these procedures to the attached summary exhibit prepared by Peoples Gas System (PGS) and to several of its related schedules in support of its filing for the Purchased Gas Adjustment (PGA) in Docket No. 110003-GU.

This audit was performed following general standards and fieldwork standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

Revenues

Objectives: Our objectives were to verify that the revenues contained in the PGS general ledger are reflected in the PGA filing and ensure that all revenue items applicable to the PGA clause are included for recovery in the filing.

Procedures: We compiled PGA revenues from the general ledger and tied these amounts to the PGA filing. We verified that 75% of the net income from Off System Sales were credited to PGA revenues. We recomputed the monthly PGA revenues using the proper net of tax revenue factor and traced to the monthly filing. We agreed therms sold to the monthly filing. We recomputed a selected amount of unbilled revenues using therms from the FRS 265 Report.

Expenses

Objectives: Our objectives were to verify that the PGA costs in the filing agree to the general ledger and are reconcilable to the other books and records of PGS.

Procedures: We compiled PGA costs from the general ledger and tied this amount to the filing. We verified that only authorized cost items were recovered through the PGA filing. We traced invoices for gas purchases to various vendors. We verified the calculations for company use amounts and that the amounts were removed from the cost of gas for PGA consideration.

Hedging

Objective: Our objective was to validate the PGS financial hedging transactions.

Procedures: We reviewed the Position Summary Report. We reviewed the NYMEX Henry Hub gas future contract. We compared 2009 and 2010 hedging transactions. We determined that of the 90 transactions settled during 2010, 83 were unfavorable showing losses of \$14,802,150. Seven transactions showed a profit of \$559,230.

Analytical Procedures

Objective: Our objective was to determine if there were any material changes or inconsistencies from the prior year filing.

Procedure: We compared the 2009 filing to the 2010 filing for revenues and expenses.

True-Up

Objective: Our objective was to verify that the True-Up and interest provision amount at December 31, 2010, was properly calculated.

Procedure: We recalculated the True-Up and interest provision amount as of December 31, 2010, using the Commission approved beginning balance as of December 31, 2009, the 2010 commercial paper rates, and the 2010 PGA revenues and costs.

Audit Findings

None

Exhibit

Exhibit 1: Calculation of the Final True-Up Amount

COMPANY: PEOPLES GAS SYSTEM		SCHEDULE A-2							
FOR THE PERIOD OF:		January-10 Through December-10				Page 1 of 1			
	CURRENT MONTH:		DECEMBER 10		PERIOD TO DATE				
	ACTUAL	ESTIMATE	DIFFERENCE		ACTUAL	ESTIMATE	DIFFERENCE		
			AMOUNT	%			AMOUNT	%	
TRUE-UP CALCULATION									
1 PURCHASED GAS COST (A-1, LINES 3+4-13)	\$23,312,421	\$4,681,320	(\$18,631,101)	(\$3.97988)	\$234,212,795	\$69,500,566	(\$164,712,229)	(\$2.36994)	
2 TRANSPORTATION COST (A-1, LINES 1+2+5+6-7-8-9)	4,953,862	6,128,866	1,175,004	0.19172	\$50,161,617	\$47,018,505	(3,143,112)	(0.06665)	
3 TOTAL	28,266,282	10,810,186	(17,456,096)	(1.61478)	\$284,374,411	\$116,519,071	(167,855,340)	(1.44058)	
4 FUEL REVENUES (NET OF REVENUE TAX)	23,980,733	10,810,186	(13,170,547)	(1.21835)	\$280,408,488	\$116,519,071	(163,889,417)	(1.40655)	
5 TRUE-UP REFUND/(COLLECTION)	176,806	176,806	0	0.00000	\$2,121,675	\$2,121,675	0	0.00000	
6 FUEL REVENUE APPLICABLE TO PERIOD * (LINE 4 (+ or -) LINE 5)	24,157,539	10,986,992	(13,170,547)	(1.19674)	\$282,530,163	\$118,640,746	(163,889,417)	(1.38139)	
7 TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	(4,108,743)	176,806	4,285,549	24.23867	(\$1,844,249)	\$2,121,675	3,965,924	1.86924	
8 INTEREST PROVISION-THIS PERIOD (21)	(1,762)	564	2,327	4.12261	\$11,756	\$6,933	(4,822)	(0.69552)	
9 BEGINNING OF PERIOD TRUE-UP AND INTEREST	(6,315,961)	2,708,866	9,024,827	3.33159	(6,649,104)	2,702,497	9,351,601	3.46036	
10 TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	(176,806)	(176,806)	0	0.00000	(\$2,121,675)	(\$2,121,675)	0	0.00000	
10a TRANSITION COST RECOVERY REFUND	0	0	(0)	0.00000	\$0	\$0	(0)	0.00000	
11 TOTAL EST/ACT TRUE-UP (7+8+9+10+10a)	(10,603,272)	2,709,430	13,312,702	4.91347	(10,603,272)	2,709,430	13,312,702	4.91347	
11a REFUNDS FROM PIPELINE	0	0	0	0.00000	\$0	\$0	0	0.00000	
12 ADJ TOTAL EST/ACT TRUE-UP (11+11a)	(10,603,272)	2,709,430	13,312,702	4.91347	(\$10,603,272)	\$2,709,430	\$13,312,702	\$4.91347	
INTEREST PROVISION									
13 BEGINNING TRUE-UP AND INTEREST PROVISION (9)	(6,315,961)	2,708,866	9,024,827	3.33159	* If line 5 is a refund add to line 4 If line 5 is a collection () subtract from line 4				
14 ENDING TRUE-UP BEFORE INTEREST (13+7-5+10a+11a)	(10,601,510)	2,708,866	13,310,376	4.91363					
15 TOTAL (13+14)	(16,917,471)	5,417,732	22,335,203	4.12261					
16 AVERAGE (50% OF 15)	(8,458,735)	2,708,866	11,167,601	4.12261					
17 INTEREST RATE - FIRST DAY OF MONTH	0.25	0.25	0	0.00000					
18 INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	0.25	0.25	0	0.00000					
19 TOTAL (17+18)	0.500	0.500	0	0.00000					
20 AVERAGE (50% OF 19)	0.250	0.250	0	0.00000					
21 MONTHLY AVERAGE (20/12 Months)	0.02083	0.02083	0	0.00000					
22 INTEREST PROVISION (16x21)	(\$1,762)	\$564	\$2,327	\$4.12261					