

State of Florida



# Public Service Commission

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

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**DATE:** July 11, 2012  
**TO:** Office of Commission Clerk  
**FROM:** Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 120003-GU  
 Company Name: Peoples Gas System.  
 Company Code: GU608  
 Audit Purpose: A3c Purchased Gas Cost Recovery Clause  
 Audit Control No: 12-011-2-1

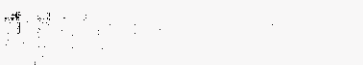
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Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

CJP/lmd

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File



DOCUMENT NUMBER-DATE

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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 Cost Recovery Clause

**Twelve Months Ended December 31, 2011**

Docket No. 120003-GU  
Audit Control No. 12-011-2-1  
**June 26, 2012**

Handwritten signature of Tomer Kopelovich.

Tomer Kopelovich  
Audit Manager

Handwritten signature of Linda Hill-Slaughter.

Linda Hill-Slaughter  
Reviewer

DOCUMENT NUMBER-DATE

04613 JUL 11 2

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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 12, 2012. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Peoples Gas System in support of its 2011 filing for the Purchased Gas Cost Recovery Clause in Docket No. 120003-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

### **General**

#### Definition

Utility refers to the Peoples Gas System.

PGA refers to the Purchased Gas Cost Recovery Clause.

### **Revenues**

#### Operating Revenues

**Objectives:** The objectives were to determine the actual therms sold for the period January 1, 2011, through December 31, 2011, and whether the Utility applied the Commission approved cost recovery factor to actual therms sales.

**Procedures:** We compiled PGA revenues from the general ledger and tied these amounts to the Utility's filing. We recomputed the monthly PGA revenues using the proper net of tax revenue factor and traced to the monthly filing. We reconciled therms sold to the monthly filing. We recomputed a selected sample of unbilled revenues using therms from the FRS 265 Report. No exceptions were noted.

### **Expenses**

#### Operation and Maintenance Expense

**Objectives:** The objectives were to verify that Operation and Maintenance (O&M) Expense listed on the Utility's Form A-2 filing was supported by adequate documentation and that the expenses are appropriately recovered through the PGA.

**Procedures:** We compiled PGA costs from the general ledger and tied this amount to the filing. We traced invoices for gas purchases to various vendors. We verified utility use amounts and that the amounts were removed from the cost of gas. No exceptions were noted.

## **Hedging**

**Objective:** The objective was to verify the Utility's financial hedging procedures.

**Procedures:** We reviewed the Position Summary Report. We reviewed the NYMEX Henry Hub gas future contract. We compared 2010 and 2011 hedging transactions. We determined that of the seventy-seven transactions settled during 2011, sixty-five were unfavorable showing losses of \$10,701,560. Twelve transactions showed a profit of \$282,970.

## **True-Up**

**Objective:** The objective was to determine if the True-Up and Interest Provision as filed on Schedule A-2 was properly calculated.

**Procedures:** We traced the December 31, 2010, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2011, using the Commission approved beginning balance as of December 31, 2010, the Financial Commercial Paper rates, and the 2011 PGA revenues and costs. No exceptions were noted.

## **Analytical Review**

**Objective:** The objective was to perform an analytical review of the Utility's PGA revenues and expenses to determine if there were any material changes or inconsistencies from the prior year.

**Procedures:** We compared 2011 to 2010 revenues and expenses. We requested explanations from the Utility for significant variances. Explanations provided were sufficient. Further follow-up was not required.

Audit Findings

**None**

# Exhibit

## Exhibit 1: True Up

COMPANY: PEOPLES GAS SYSTEM	SCHEDULE A-2							
	January-11 Through December-11				Page 1 of 1			
	CURRENT MONTH: DECEMBER 11				PERIOD TO DATE			
	ACTUAL	ESTIMATE	DIFFERENCE		ACTUAL	ESTIMATE	DIFFERENCE	
			AMOUNT	%			AMOUNT	%
<b>TRUE-UP CALCULATION</b>								
1 PURCHASED GAS COST (A-1, LINES 3+4-13)	\$9,545,414	\$5,231,945	(\$4,313,469)	(\$0.82446)	\$154,212,949	\$61,652,218	(\$92,560,731)	(\$1.50134)
2 TRANSPORTATION COST (A-1, LINES 1+2+5+6-7-8-9)	4,049,988	4,627,907	577,919	0.12488	\$48,360,341	\$45,838,714	(2,521,627)	(0.05501)
3 TOTAL	13,595,402	9,859,852	(3,735,550)	(0.37886)	\$202,573,291	\$107,490,932	(95,082,359)	(0.88456)
4 FUEL REVENUES (NET OF REVENUE TAX)	14,223,999	9,859,852	(4,364,147)	(0.44262)	\$207,843,951	\$107,490,932	(100,353,019)	(0.93360)
5 TRUE-UP REFUND/(COLLECTION)	(83,687)	(83,687)	0	0.00000	(\$1,004,266)	(\$1,004,266)	0	0.00000
6 FUEL REVENUE APPLICABLE TO PERIOD * (LINE 4 (+ or -) LINE 5)	14,140,312	9,776,165	(4,364,147)	(0.44641)	\$206,839,685	\$106,486,666	(100,353,019)	(0.94240)
7 TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	544,910	(83,687)	(628,597)	7.51129	\$4,266,394	(\$1,004,266)	(5,270,660)	5.24827
8 INTEREST PROVISION-THIS PERIOD (21)	18	124	107	0.85774	\$5,506	\$4,135	(1,371)	(0.33156)
9 BEGINNING OF PERIOD TRUE-UP AND INTEREST	72,222	2,713,440	2,641,218	0.97338	(10,603,272)	2,709,430	13,312,702	4.91347
10 TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	83,687	83,687	0	0.00000	\$1,004,266	\$1,004,266	0	0.00000
10a OVER EARNINGS REFUND	(1,040)	0	1,040	0.00000	(\$23,152)	\$0	23,152	0.00000
11 TOTAL EST/ACT TRUE-UP (7+8+9+10+10a)	699,797	2,713,565	2,013,768	0.74211	(5,350,258)	2,713,565	8,063,822	2.97167
11a REFUNDS FROM PIPELINE	0	0	0	0.00000	\$6,050,055	\$0	(6,050,055)	0.00000
12 ADJ TOTAL EST/ACT TRUE-UP (11+11a)	699,797	2,713,565	2,013,768	0.74211	\$699,797	\$2,713,565	\$2,013,768	\$0.74211
<b>INTEREST PROVISION</b>								
13 BEGINNING TRUE-UP AND INTEREST PROVISION (9)	72,222	2,713,440	2,641,218	0.97338	* 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)	699,779	2,713,440	2,013,661	0.74211				
15 TOTAL (13+14)	772,001	5,426,881	4,654,879	0.85774				
16 AVERAGE (50% OF 15)	386,001	2,713,440	2,327,440	0.85774				
17 INTEREST RATE - FIRST DAY OF MONTH	0.08	0.08	0	0.00000				
18 INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	0.03	0.03	0	0.00000				
19 TOTAL (17+18)	0.110	0.110	0	0.00000				
20 AVERAGE (50% OF 19)	0.055	0.055	0	0.00000				
21 MONTHLY AVERAGE (20/12 Months)	0.00458	0.00458	0	0.00000				
22 INTEREST PROVISION (16x21)	\$18	\$124	\$107	\$0.85774				