

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: August 31, 2016
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150203-GU
Company Name: Peoples Gas System
Company Code: GU608
Audit Purpose: A4b - Cast Iron/Bare Steel Pipe Replacement Rider Final True-Up
Audit Control No: 16-074-2-1

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 are no confidential work papers associated with this audit.

LMD/cm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

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

Auditor's Report

Peoples Gas Company
Cast Iron/Bare Steel Pipe Replacement Rider Final True-Up

Twelve Months Ended December 31, 2014

Audit Control No. 16-074-2-1

August 9, 2016

Handwritten signature of Intesar Terkawi in cursive script.

Intesar Terkawi

Audit Manager

Handwritten signature of Linda Hill in cursive script.

Linda Hill

Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Economics in its audit service request dated March 4, 2016. We have applied these procedures to the attached schedule prepared by Peoples Gas .

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility or Peoples refers to Peoples Gas System.

RIDER refers to Cast Iron Bare Steel Pipe Replacement Program.

Exhibit A refers to the True-Up for the period January 1, 2014, through December 31, 2014.

Utility Information

On December 14, 2011, Peoples Gas System filed a petition for approval of a Cast Iron/Bare Steel Pipe Replacement Rider to recover the cost of accelerating the replacement of cast iron and bare steel distribution pipes on its system through a surcharge on customers' bills. Gas utilities have been urged by the U.S. Department of Transportation to replace these older facilities as a safety measure. The Commission approved one million dollars in rate base for the 2009 projected test year for replacement of these pipes in Peoples' last rate case, in Docket No. 080318-GU.

Through the Rider, Peoples seeks approval of an annually adjusted per therm surcharge to capture the cost of replacement of cast iron and bare steel pipes over a ten year period. This accelerated recovery period would increase Peoples' capital expenditures for replacement of the facilities from one million to approximately eight million dollars annually, with the seven million of additional revenue requirement to be recovered annually through the Rider. The one million dollars currently included in rate base would be excluded from recovery through the Rider.

Peoples has had a replacement program in place since 2000. From December 2000 to December 2010, Peoples states that it replaced approximately 200 miles of cast iron and bare steel mains. Peoples requested the Rider to accelerate the replacement of its cast iron and bare steel pipes. Specifically, Peoples proposed to replace bare steel and cast iron mains, service lines, and regulator stations.

. Our objectives and procedures apply to the investments, depreciation rates, True-Up calculations, costs recoverable in the surcharge, that are reflected on Exhibit A.

Qualified Capital Investments

Utility Plant in Service

Objectives: The objectives were to determine whether all RIDER project-related plant additions reflected on Exhibit A for the period January 1, 2014, through December 31, 2014, are properly stated and that the plant additions are incremental to the amounts recovered in base rates.

Procedures: We reconciled the monthly balances for Plant in Service reflected on Exhibit A to the Utility's general ledger as of December 31, 2014. We selected a sample of the RIDER additions during the month of August and traced these additions to supporting documentation and verified that they were recorded to the correct project and account. We verified that Utility plant additions are incremental to the amounts recovered in base rates. No exceptions were noted.

Objectives: The objectives were to determine whether reported costs are properly recoverable and included in the Rider.

Procedures: We obtained the 2014 general ledger and analyzed the costs charged to the RIDER. We verified that no Operation and Maintenance expenses are charged to the RIDER and all overhead costs reported are appropriate and correctly stated. No exceptions were noted.

Objectives: The objectives were to determine whether in-house labor and overhead costs are incremental to base rate and that 2014 payroll is properly stated.

Procedures: We obtained the 2014 payroll ledger segregated by regular and overtime. We requested samples of payroll from each category for the month of August. We verified that the in-house labor and overhead are incremental to the amounts recovered in base rates. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether the Accumulated Depreciation reflected on Exhibit A was calculated using the depreciation rates established in Order No. PSC-12-0476-TRF-GU, issued September 18, 2012, in Docket No. 110320-GU and recalculate the Accumulated Depreciation balance as of December 31, 2014.

Procedures: We reconciled the monthly balances for Accumulated Depreciation reflected on Exhibit A to the Utility's general ledger as of December 31, 2014. We recalculated the filing's Accumulated Depreciation balance, as of December 31, 2014, and verified the use of correct depreciation rates. No exceptions were noted.

Recovery

Objectives: The objectives were to determine whether the collected surcharges are properly stated for the period January 1, 2014, through December 31, 2014, and that the Utility applied the Commission approved factors to actual therm sales.

Procedures: We traced the monthly surcharges reflected on Exhibit A to the monthly revenue reports and the Utility's general ledger for the year ended December 31, 2014. We computed the factors by rate code and traced them to the Utility's tariff. We selected and recalculated a sample of residential and commercial customers' bills for the month of October and November 2014 to verify that the approved tariff rate was used in billing. No exceptions were noted.

Other

Depreciation Expense

Objective: The objective was to verify that the depreciation rates approved in Order No. PSC-12-0476-TRF-GU were used to calculate Depreciation Expense.

Procedures: We reconciled the monthly balances for Depreciation Expense reflected on Exhibit A to the general ledger for the year ended December 31, 2014. We recalculated Depreciation Expense for the year and verified depreciation rates. No Exceptions were noted.

Property Tax Expense

Objective: The objective was to determine whether Property Tax Expenses included on Exhibit A are properly calculated.

Procedures: We determined that the Utility is using the correct tax rate recommended in Order PSC-12-0476-TRF-GU. We recalculated property tax for the RIDER and agreed the amount to the filing. No exceptions were noted.

True-Up

Objective: The objective was to determine if the True-Up and Interest Provision Exhibit A was properly calculated.

Procedures: We recalculated the monthly True-Up and Interest Provision amounts through December 31, 2014, using the January 1, 2013, ending balance, the Financial Commercial Paper rates, and the 2014 RIDER revenues and costs. No exceptions were noted.

Exhibit

Exhibit 1: True-Up

Peoples Gas System
Cast Iron/Bare Steel Replacement Program (CIBSR)
Calculation of the Final True-Up Amount
January 2014 to December 2014

Docket No
Exhibit A
Page 2 of 3

Final True-Up Amount
(in Dollars)

Line	Description	Actual January	Actual February	Actual March	Actual April	Actual May	Actual June	Actual July	Actual August	Actual September	Actual October	Actual November	Actual December	End of Period Total
1.	CIBSR Revenues (net of Revenue Taxes)	\$247,787	\$255,179	\$214,051	\$193,065	\$160,404	\$153,132	\$140,786	\$130,752	\$140,258	\$145,374	\$163,926	\$213,698	\$2,158,414
2.	True-Up Provision	1,523	1,523	1,523	1,523	1,523	1,523	1,523	1,523	1,523	1,523	1,523	1,528	18,281
3.	CIBSR Revenues Applicable to Period (Lines 1 + 2)	249,310	256,702	215,574	194,588	161,927	154,655	142,309	132,275	141,781	146,897	165,449	215,226	2,176,695
4.	CIBSR Costs													
a.	Return on Investment	\$ 92,274	\$ 95,120	\$ 102,614	\$ 110,270	\$ 118,788	\$ 129,322	\$ 138,697	\$ 149,171	\$ 159,875	\$ 169,693	\$ 178,071	\$ 184,867	1,628,762
b.	Depreciation	\$ 20,288	\$ 22,297	\$ 24,097	\$ 25,087	\$ 28,163	\$ 28,931	\$ 29,946	\$ 35,475	\$ 38,692	\$ 42,921	\$ 46,273	\$ 47,889	390,060
c.	Property Taxes	\$ 11,436	\$ 11,436	\$ 11,436	\$ 11,436	\$ 11,436	\$ 11,436	\$ 11,436	\$ 11,436	\$ 11,436	\$ 11,436	\$ 11,436	\$ 11,436	137,233
d.	Total CIBSR Costs	\$ 123,998	\$ 128,854	\$ 138,148	\$ 146,793	\$ 158,387	\$ 169,689	\$ 180,079	\$ 196,082	\$ 210,003	\$ 224,050	\$ 235,780	\$ 244,192	2,156,056
5.	Over/Under Recovery (Line 3 - Line 4d)	\$ 125,312	\$ 127,849	\$ 77,427	\$ 47,795	\$ 3,541	\$ (15,034)	\$ (37,770)	\$ (63,807)	\$ (68,223)	\$ (77,153)	\$ (70,331)	\$ (28,966)	20,640
6.	Interest Provision	\$ 6	\$ 11	\$ 16	\$ 23	\$ 20	\$ 16	\$ 19	\$ 16	\$ 13	\$ 9	\$ 6	\$ 4	159
7.	Beginning Balance True-Up & Interest Provision	\$ 33,685	\$ 157,480	\$ 283,817	\$ 359,737	\$ 406,032	\$ 408,070	\$ 391,529	\$ 352,255	\$ 286,941	\$ 217,208	\$ 138,541	\$ 66,693	33,685
8.	True-Up Collected/(Refunded) (see Line 2)	\$ (1,523)	\$ (1,523)	\$ (1,523)	\$ (1,523)	\$ (1,523)	\$ (1,523)	\$ (1,523)	\$ (1,523)	\$ (1,523)	\$ (1,523)	\$ (1,523)	\$ (1,528)	(18,281)
9.	End of Period Total True-Up (Lines 5+6+7-8)	\$157,480	\$283,817	\$359,737	\$406,032	\$408,070	\$391,529	\$352,255	\$286,941	\$217,208	\$138,541	\$66,693	\$36,203	\$36,203

Peoples Gas System
 Cast Iron/Bare Steel Replacement Program (CIBSR)
 Calculation of the Final True-Up Amount
 January 2014 to December 2014

Docket No.
 Exhibit A
 Page 3 of 3

Interest Provision
 (in Dollars)

<u>Line</u>	<u>Description</u>	<u>Actual January</u>	<u>Actual February</u>	<u>Actual March</u>	<u>Actual April</u>	<u>Actual May</u>	<u>Actual June</u>	<u>Actual July</u>	<u>Actual August</u>	<u>Actual September</u>	<u>Actual October</u>	<u>Actual November</u>	<u>Actual December</u>	<u>End of Period Total</u>
1.	Beginning True-Up Amount	\$33,685	\$157,480	\$283,817	\$359,737	\$406,032	\$408,070	\$391,529	\$352,255	\$286,941	\$217,208	\$138,541	\$66,693	
2.	Ending True-Up Amount Before Interest	157,474	283,806	359,721	406,009	408,050	391,513	352,236	286,925	217,195	138,532	66,687	36,199	
3.	Total of Beginning & Ending True-Up (Lines 1 + 2)	191,159	441,286	643,538	765,746	814,082	799,583	743,765	639,180	504,136	355,740	205,228	102,892	
4.	Average True-Up Amount (Line 3 x 1/2)	95,580	220,643	321,769	382,873	407,041	399,792	371,883	319,590	252,068	177,870	102,614	51,446	
5.	Interest Rate (First Day of Reporting Business Month)	0.08%	0.07%	0.06%	0.07%	0.08%	0.04%	0.06%	0.06%	0.07%	0.06%	0.07%	0.08%	
6.	Interest Rate (First Day of Subsequent Business Month)	0.07%	0.06%	0.07%	0.08%	0.04%	0.06%	0.06%	0.07%	0.06%	0.07%	0.08%	0.10%	
7.	Total of Beginning & Ending Interest Rates (Lines 5 + 6)	0.15%	0.13%	0.13%	0.15%	0.12%	0.10%	0.12%	0.13%	0.13%	0.13%	0.15%	0.18%	
8.	Average Interest Rate (Line 7 x 1/2)	0.075%	0.065%	0.065%	0.075%	0.060%	0.050%	0.060%	0.065%	0.065%	0.065%	0.075%	0.090%	
9.	Monthly Average Interest Rate (Line 8 x 1/12)	0.006%	0.005%	0.005%	0.006%	0.005%	0.004%	0.005%	0.005%	0.005%	0.005%	0.006%	0.008%	
10.	Interest Provision for the Month (Line 4 x Line 9)	\$6	\$11	\$16	\$23	\$20	\$16	\$19	\$16	\$13	\$9	\$6	\$4	\$ 159