

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: July 6, 2023

TO: Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

FROM: Todd M. Brown, Chief of Auditing, Office of Auditing and Performance Analysis 

RE: Docket No.: 20230023-GU
Company Name: Peoples Gas System, Inc.
Company Code: GU608
Audit Purpose: A1a: Rate Case
Audit Control No.: 2023-101-1-1

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 the Commission Clerk. There are no confidential work papers associated with this audit.

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

Auditor's Report

Peoples Gas Systems, Inc.
File and Suspend Rate Case Audit

Historical Twelve Months Ended December 31, 2022

Docket No. 20230023-GU
Audit Control No. 2023-101-1-1
July 6, 2023

A handwritten signature in black ink, reading "Donna D. Brown".

Donna D. Brown
Audit Manager

A handwritten signature in black ink, reading "Demetrius Jones".

Demetrius Jones
Audit Staff

A handwritten signature in blue ink, reading "Tomer Kopelovich".

Tomer Kopelovich
Audit Staff

A handwritten signature in blue ink, reading "Yen N. Ngo".

Yen N. Ngo
Audit Staff

A handwritten signature in blue ink, reading "Tony Nguyen".

Tony Nguyen
Audit Staff

A handwritten signature in black ink, reading "Ron Mavrides".

Ron Mavrides
Audit Staff

A handwritten signature in black ink, reading "Lily Sampson".

Lily Sampson
Audit Staff

A handwritten signature in black ink, reading "Todd M. Brown".

Todd M. Brown
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 Accounting & Finance in its audit service request dated April 11, 2023. We have applied these procedures to the attached schedules prepared by Peoples Gas System, Inc. in support of its filing for rate relief in Docket No. 20230023-GU.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

PGS refers to Peoples Gas System, Inc.

FERC refers to the Federal Energy Regulatory Commission

USOA refers to the FERC Uniform System of Accounts as adopted by Commission Rule 25-7.014 – Records and Reports in General, Florida Administrative Code (F.A.C.)

Background

Peoples Gas System, Inc. filed a petition for a permanent rate increase on February 3, 2023, with a historical test year ending December 31, 2022, and a projected year ending December 31, 2024.

Peoples Gas System, Inc. is a division of Tampa Electric Company, providing natural gas distribution to approximately 361,000 customers throughout Florida. Tampa Electric Company is a wholly-owned subsidiary of TECO Energy, Inc., which is a wholly-owned indirect subsidiary of Emera Incorporated (Emera).

The Utility's last petition for rate relief was granted by Order No. PSC-2020-0485-FOF-GU, in Docket No. 20200051-GU using a projected test year of December 31, 2021. The historical test year was the twelve months ended December 31, 2019.

Objective: The objective of this audit is to determine whether the Utility's 2022 historic year-end filing in Docket No. 20230023-GU, is consistent and in compliance with Section 366.06 – Rates, Procedures for Fixing and Changing, Florida Statutes (F.S.), and Commission Rule 25-7.014(3) – Records and Reports in General.

Procedures: We performed the following specific procedures to satisfy the overall objective identified above.

Analytical Review

Objective: The objective was to perform an analytical review of the Utility's rate case filing using prior annual reports filed with the Commission.

Procedures: Audit staff developed a three year analytical review that compared the annual percentage changes from 2019 through 2022 for depreciable assets and amortizable assets. In addition, we compared the percentage changes for total revenues and total expenses from 2019 through 2022. We requested explanations from the Utility for any significant changes for depreciable assets, amortizable assets, revenues, and expenses. The Utility provided explanations were sufficient and further follow-up was not required.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether utility plant in service (UPIS) exists and is owned by the utility, additions are authentic and recorded at original cost, proper retirements are made when a replacement asset was put into service, UPIS is properly classified in compliance with the USOA, UPIS balances are properly stated based on Commission adjustments in the prior rate case and to determine the 13-month average balance for UPIS as of December 31, 2022.

Procedures: We reconciled the plant balances as of December 31, 2022 from the filing to the general ledger and recalculated the 13-month average. We statistically selected and tested the plant additions of Account 101 – Plant-in-Service. We reviewed the plant additions of Account 106 – Completed Construction Not Classified and selected the largest amounts for testing. Because these amounts were recorded at the funding level, the Utility provided the schedule showing the list of charges for each sample. We selected the charges from this schedule and traced them to the supporting documentation. We reviewed the allocation procedures of the allocation to Non-Utility plant. We recalculated the percentages of the allocation based on the supporting documentation provided by the Utility. No exceptions were noted.

Construction Work in Progress

Objectives: The objectives were to determine the nature and purpose of utility projects recorded as Construction Work in Progress (CWIP), and whether projects that are eligible to accrue Allowance for Funds Used During Construction (AFUDC) are excluded from rate base pursuant to Commission Rule 25-7.0141, F.A.C. – Allowance for Funds Used During Construction. The objective was also to determine if CWIP balances are properly stated based on Commission adjustments in the prior rate case in Order No. PSC-2020-0485-FOF-GU, and to recalculate the 13-month average balance for CWIP as of December 31, 2022.

Procedures: We reconciled CWIP amounts in the MFRs to the Utility’s books and records for the period December 31, 2020 to December 31, 2022 and recalculated the 13-month average balance. We statistically selected the projects for sample testing. The Utility explained that the accounting system recorded these projects at the funding level. We obtained a flow chart detailing the process of recording the project from CWIP and transferring to Accounts - 101 Plant-in-Service, 106 – Completed Construction Not Classified, and 108 – Accumulated Depreciation. The Utility provided the work orders for the selected sample projects. Each work order, in turn, was comprised of multiple costs such as materials, supplies, labor, lodging, and etc. We selected the work orders for testing and traced the total amount of each order to the schedule of the incurred charges for the particular work orders. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether accruals, retirements and adjustments to accumulated depreciation are properly recorded in compliance with the USOA, to determine whether the utility used the depreciation rates established in prior orders, and to determine whether the balances are properly stated based on Commission adjustments in the prior rate case,

and to recalculate the 13-month average balance for accumulated depreciation as of December 31, 2022.

Procedures: We reconciled the accumulated depreciation amounts in the MFRs to the Utility's books and records for the period December 31, 2020 to December 31, 2022. We reconciled the prior ordered balances to the general ledger and MFRs. We recalculated the 13-month average balance for UPIS. We determined that the Utility used the depreciation rates recommended in Order No. PSC-2020-0485-FOF-GU. No exception were noted.

Working Capital

Objectives: The objectives were to determine whether the working capital account balances are properly stated based on Commission adjustments in the prior rate case in Order No. PSC-2020-0485-FOF-GU and Commission Rules, and to recalculate the 13-month average balance.

Procedures: We reconciled working capital components from the filing to the general ledger. We verified that the Working Capital adjustments were consistent with the prior rate cases. We determined which Working Capital accounts were interest bearing and verified calculations used to determine the amounts of other deferred credits, prepayments, and other deferred debits for the test year. No exceptions were noted.

Capital Structure

Equity

Objectives: The objectives were to determine whether the equity account balances represent actual equity. We were to also determine the recalculated 13-month balance for equity.

Procedures: We reconciled the equity balances to the Utility provided support and to the general ledger. No exceptions were noted.

Long-Term Debt

Objectives: The objectives were to recalculate the 13-month average balance for Long-Term Debt as of December 31, 2022. We were also to determine whether the Long-Term Debt balances represented actual obligations of the Utility and were properly recorded.

Procedures: We recalculated the cost rate and the 13-month average balances. We also reconciled long-term debt to support documentation and identified all additions and extinguishments since the last rate proceeding. No exceptions were noted.

Short-Term Debt

Objective: The objective was to recalculate the 13-month average for Short-Term Debt as of December 31, 2022. We were also to determine whether Short-Term Debt balances represented actual obligations of the Utility.

Procedures: We reconciled short-term debt obligations to Utility-provided support. We also recalculated the average cost rate and 13-month average. No exceptions were noted.

Customer Deposits

Objectives: The objectives were to determine whether the Utility is collecting and accounting for customer deposits authorized in its Commission-approved tariff.

Procedures: We reconciled customer deposits to the general ledger and recalculated cost rate for outstanding deposits.

Accumulated Deferred Income Taxes

Objective: The objective was to determine whether Accumulated Deferred Income Tax (ADIT) was properly stated.

Procedures: We reconciled ADIT to the general ledger and recalculated the 13-month average. No exceptions were noted.

Net Operating Income

Operating Revenue

Objectives: The objectives were to verify that the revenues for the historical base year per the Utility's Minimum Filing Requirements (MFRs) are representative of the Utility's books and records to verify that all classes of customer bills are calculated correctly and are in compliance with the tariffed rates, to verify that unbilled revenues are calculated properly, and to verify compliance with ordered adjustments.

Procedures: We requested revenue balances and unbilled revenues by month and rate class. We reconciled the Utility provided support to the general ledger. We requested samples of all classes of customer bills and the tariffs. We recalculated all sample bills for accuracy and compliance with tariffed rates. We recalculated unbilled revenues to verify for accuracy. See Finding 1.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether 2022 Operation and Maintenance (O&M) expenses are properly recorded in compliance with the USOA, adequately supported by documentation, and in the correct amount and in the correct period.

Procedures: We verified, based on statistical samples of utility transactions, that the sample transactions are adequately supported by source documentation, utility in nature, and do not include non-utility items, and are recorded consistent with the USOA. We reviewed samples of expenses to ensure that amounts supporting non-utility operations were removed. See Findings 2, 3, 4 and 5.

Depreciation and Amortization

Objectives: The objectives were to determine whether 2022 depreciation expense is properly recorded in compliance with the USOA and , Commission adjustments in the prior rate case, and to determine that depreciation expense accruals are calculated using the depreciation rates established in prior Commission orders.

Procedures: We reconciled the depreciation and amortization expense from the MFR schedules to the general ledger. We reconciled depreciation and amortization rates from the Utility provided schedules to the approved Order No. PSC-2020-0485-FOF-GU, recalculated sample of depreciation expense and reconciled the plant balances used for recalculation to the general ledger. No exceptions were noted.

Taxes Other than Income

Objectives: The objectives were to determine whether Taxes Other Than Income (TOTI) is properly recorded and supported by adequate documentation.

Procedures: We reconciled components of TOTI to the general ledger. We reviewed FPSC Regulatory Assessment Fee (RAF) forms filed by the Utility and recalculated the RAF using the FPSC RAF rate. We reviewed federal unemployment, state unemployment, and FICA taxes as reflected in the MFRs and reconciled them to the general ledger. We also recalculated the Gross Receipt Tax (GRT) paid by the Utility and reconciled them to the general ledger and supporting documentation. We verified real estate and tangible property taxes incurred by the Utility for the test year and ensured that all property tax expense reflects the maximum discount available. We reviewed the accruals for franchise fees and reconciled them to the general ledger and the MFRs. No exceptions were noted.

Other

External/Internal Audits

Objective: The objective was to determine if there were any exceptions and disclosures noted in any external/internal audits applicable to this case.

Procedures: We reviewed external audit reports. Utility internal audits were not available. No exceptions were noted.

Affiliate Transactions

Objectives: The objectives were to review intercompany charges to and from divisions, affiliated companies, and non-regulated operations, to determine if costs were allocated pursuant to Commission Rules, and to determine the original amounts allocated, whether the methodology was reasonable, and to check for accuracy and consistent application.

Procedures: Audit staff reviewed the Utility's policies and procedures relating to the recording of affiliate transactions and the cost/allocation manual for employees. During the review of rate base and net operating income, we examined items that were allocated as per the Utility's policies and procedures. No exceptions were noted.

Audit Findings

Finding 1: Operating Revenues

Audit Analysis: As audit staff reconciled the monthly revenues noted on MFR Schedule C-3 to the general ledger, we determined that the Utility inadvertently did not include gross receipts/franchise fees, conservation, and deferred and other revenues in their monthly summation of total operating revenues. However, we determined that the total amount of operating revenues noted on MFR Schedule C-3 reconciled to the total amount of operating revenues for the general ledger.

This finding is for informational purposes only.

Finding 2: Customer Records and Collections

Audit Analysis: Audit staff performed a statistical sample for the months of February, June, and September for O&M Accounts 901 to 932. We tested these transactions to determine whether they were prudent, adequately supported by documentation and in compliance with the Uniform System of Accounts. During our review, we discovered a transaction in the amount of \$422.16 related to the Tampa Bay Buccaneers. This expense related to the Tampa Bay Buccaneers should be reclassified as a non-utility expense.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff recommends a decrease to O&M expense Account 903 in the amount of \$422.16

Finding 3: Association Dues/Economic Development

Audit Analysis: Audit staff reviewed all industry association dues and economic development expenses to determine whether the Utility included the appropriate amount in expenses, and if any expense were for political purposes. Staff determined that there was a \$250 political lobbying expense that was included. The Utility agreed that this expense was included in error and therefore should be included below-the-line in FERC Account 426.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff recommends a decrease to O&M expense account 912 in the amount of \$250.

Finding 4: Advertising

Audit Analysis: Audit staff reviewed all print and audio/visual advertisements and reconciled them to supporting documentation. We determined that several transactions should be removed. They are listed as follows:

- Audit staff recommends the removal the following 11 transactions totaling \$47,476.44. After reviewing each transaction we have found these expenses should be recorded as below-the-line items. See Table 4-1 below for detail.

Table 4-1

Description	Amount
ANNUAL EVENT	\$ 1,500.00
Invoice 62241 - pgs generator letter	\$ 2,863.57
*PERMIT #16 MAILINGS	\$ 4,531.55
Invoice 62435 - PGS Lakewood Ranch	\$ 849.84
Postage Ship Courier	\$ 18,512.68
Direct Chrg Bill - Document Srv (October)	\$ 308.80
PGS partnership with UF Gators	\$ 450.00
NEFBA Inv 30160	\$ 12,250.00
PGS advertising with Tampa Bay Builders Associatio	\$ 1,710.00
Distributed educational materials and speaking opp	\$ 1,000.00
*INV#463286	\$ 3,500.00
Total	\$ 47,476.44

- Audit staff recommends the removal of the following 40 transactions totaling \$49,803.41. After reviewing each transaction we have found these expenses should have been recovered through the conservation clause. See Table 4-2 below for detail.

Table 4-2

Description	Amount
PGS web site advertising	\$ 850.00
PGS web site advertising	\$ 1,015.00
PGS FB, IG advertising	\$ 427.52
PGS FB advertising	\$ 229.01
Florida Public Media Inv 13512	\$ 1,200.00
Gators Cookbook Digital Ad	\$ 4,500.00
Programing services for weekly energy consulting	\$ 258.75
Love your home radio	\$ 4,810.00
Florida Public Media Inv 13588	\$ 1,200.00
Florida Public Media Inv 13669	\$ 1,200.00
Schifino Lee	\$ 1,200.00
Bally Sports 19-3334	\$ 5,100.00
Digital advertising and at in-person networking ev	\$ 1,015.02
Production and installation of PGS vinyl billboard	\$ 1,022.00
PGS - Tankless Water heater mailer	\$ 6,548.90
Florida Public Media Inv 13764	\$ 1,000.00
TOTAL \$1,000.00 LESS: PAY/CREDIT \$0.00 P	\$ 1,000.00
Peoples Gas Twitter advertising	\$ 25.19
Florida Public Media Inv 13939	\$ 1,000.00
Invoice 297-08-016 - Miami Letter	\$ 646.01
TOTAL \$1,000.00 LESS: PAY/CREDIT \$0.00 P	\$ 1,000.00
Postage Ship Courier	\$ 1,549.20
Jacksonville Letter and postcard project	\$ 2,718.00
Florida Public Media Inv 14144	\$ 1,000.00
Florida Public Media Inv 14213	\$ 1,000.00
PGS LinkedIn advertising	\$ 101.91
PGS LinkedIn advertising	\$ 25.11
PGS FB advertising	\$ 1,422.26
PGS LinkedIn advertising	\$ 105.75
PGS FB and Instagram advertising	\$ 481.50
PGS LinkedIn advertising	\$ 50.37
PGS LinkedIn advertising	\$ 27.71
PGS LinkedIn advertising	\$ 63.46
PGS LinkedIn advertising	\$ 51.17
Design services	\$ 1,237.20
Freelance design work	\$ 2,062.00
Florida Public Media Inv 14270	\$ 1,000.00
PGS FB and Instagram advertising	\$ 1,040.79
PGS FB and Instagram advertising	\$ 417.83
PGS FB and Instagram advertising	\$ 201.75
Total	\$ 49,803.41

- Audit staff recommends the removal of the following 19 transactions totaling \$19,170.63. Each of these transactions reflect an advertisement with a named storm. These transactions should be recovered in the named storm docket. See Table 4-3 below for detail.

Table 4-3

Description	Amount
PGS LinkedIn advertising	\$ 204.10
PGS LinkedIn advertising	\$ 73.86
PGS LinkedIn advertising	\$ 108.22
PGS LinkedIn advertising	\$ 430.25
PGS LinkedIn advertising	\$ 66.60
PGS LinkedIn advertising	\$ 102.47
PGS LinkedIn advertising	\$ 133.20
PGS LinkedIn advertising	\$ 168.84
PGS LinkedIn advertising	\$ 102.05
PGS LinkedIn advertising	\$ 48.96
PGS LinkedIn advertising	\$ 134.76
PGS LinkedIn advertising	\$ 195.45
PGS LinkedIn advertising	\$ 355.98
PGS LinkedIn advertising	\$ 39.46
PGS LinkedIn advertising	\$ 36.97
PGS FB and Instagram advertising	\$ 2,511.89
Springboard Inv WW12409	\$ 3,341.64
14386	\$ 1,000.00
WW12408	\$ 10,115.93
Total	\$ 19,170.63

- Audit staff recommends the removal of the following 15 transactions totaling \$19,393.20. For each of these transactions, inadequate support was provided to determine if the advertisement was recoverable in the rate case. See Table 4-4 below for detail.

Table 4-4

Description	Amount
Timothy Boatright INV 10-1-21	\$ 575.00
Invoice 62328 - OCALA / FT MYERS	\$ 1,536.95
Advertising design services	\$ 1,235.88
Advertising design services	\$ 575.00
Postage Ship Courier	\$ 4,530.68
Freelance design services	\$ 1,235.88
Design services	\$ 1,237.20
Direct Chrg Bill - PrintShop Srv (April)	\$ 1,060.45
Schifino Lee Inv 28381	\$ 2,500.00
Invoice 297-08-017 - Miami postcard	\$ 487.54
Freelance creative work	\$ 1,237.20
Direct Chrg Bill - PrintShop Srv (October)	\$ 682.15
Direct Chrg Bill - PrintShop Srv (October)	\$ 102.27
Carl Auxiliary INV PGS-005-08	\$ 1,200.00
Carl Auxiliary INV PGS-005-07	\$ 1,200.00
Total	\$ 19,396.20

- Audit staff recommends the removal of the following 9 transactions totaling \$5,400. Each of these transactions were billed to TECO Partners. See Table 4-5 below for detail.

Table 4-5

Description	Amount
email marketing platform that works through Infor	\$ 1,000.00
Inbox Guru access	\$ 550.00
Inbox Guru	\$ 550.00
Inbox Guru subscription	\$ 550.00
Inbox Guru	\$ 550.00
Inbox Guru	\$ 550.00
Inbox Guru	\$ 550.00
Inbox Guru	\$ 550.00
Inbox Guru subscription	\$ 550.00
Total	\$ 5,400.00

- Audit staff recommends the removal of New York Yankees Invoice 6366 in the amount of \$30,000. This transaction represented an image enhancing advertisement.

In addition, audit staff recommends the that following transactions are reclassified:

- Audit staff recommends the reclassification of the following 66 transactions totaling \$22,540.17. While each transaction is recognized as an above the line business expense, they do not belong in Account 913 – Advertising. Please see Table 4-6 below for detail.

Table 4-6

Description	Amount	Reclass Account #
Marketing team holiday lunch	\$ 124.06	921
Biz Journal subscription	\$ 294.00	921
PGS membership dues for builders association	\$ 625.00	921
Monitor for remote work	\$ 213.99	921
Direct Chrg Bill - PrintShop Srv (January)	\$ 2,130.00	921
PGS return to office vinyl banners	\$ 1,565.87	921
Gallup strengths assessment for Erik Swanson	\$ 19.99	921
Marketing media lunch	\$ 63.76	921
Marketing project tracking and dashboard consultin	\$ 2,062.00	921
Condolence gift	\$ 81.68	926
Direct Chrg Bill - PrintShop Srv (March)	\$ 2.20	921
Working lunch session	\$ 34.68	921
PGS Instagram link in bio tool	\$ 2.50	921
PGS Instagram link in bio tool	\$ 250.00	921
PGS video subtitle app	\$ 190.00	921
Provides access to marketing opportunities.	\$ 595.00	921
Discuss a number of projects	\$ 33.22	921
Marketing team building exercise	\$ 40.00	921
Airtable subscription for marketing team usage	\$ 410.00	921
Material handoff with contractor Tim Boatright	\$ 8.13	921
Airtable support	\$ 2,062.00	921
Team Meeting	\$ 53.88	921
Postage to notify residents of an area that a pipe replacement project	\$ 686.85	921
Direct Chrg Bill - PrintShop Srv (June)	\$ 632.65	921
Printing and mailing postcards for PGS	\$ 256.15	921
PGS mailing - 2022 storm season generator promo	\$ 379.83	921
PGS preso access for design services	\$ 287.88	921
Empower preso access	\$ 3,023.16	921
PGS preso resource	\$ 2.88	921
PGS preso access	\$ 30.23	921
Direct Chrg Bill - PrintShop Srv (July)	\$ 577.00	921
Catering service for Jacksonville Construction Rea	\$ 540.91	921
Canva design software access	\$ 95.68	921
Working meeting for communications	\$ 33.03	921
Annual Vineo plan for Peoples Gas online video hos	\$ 599.00	921
Working lunch	\$ 37.42	921
Appreciation for exceptional help	\$ 77.13	926
Office supply	\$ 65.98	921
Tool for dashboard display	\$ 468.00	921
Marketing & Communications team building	\$ 199.64	921
*0336-0302-9	\$ 146.77	921
Supplies for builder event raffle	\$ 4.28	921
Items for raffle to capture builder developer cont	\$ 50.50	921
Enrichment course	\$ 799.00	921
Team meeting	\$ 90.09	921
Marketing + Comm team building lunch	\$ 275.22	921
Marketing + Communications team birthday celebrati	\$ 151.59	921
Marketing + Comm team lunch	\$ 167.21	921
Marketing + Comm team lunch (Vega bday)	\$ 152.93	921
Professional dues	\$ 575.00	921
Photo for exec retirement	\$ 7.50	921
Frames for exec retirement	\$ 77.38	921
Cleaning and pressing logo tablecloth	\$ 28.55	921
*0336-0302-9	\$ 33.36	921
Marketing team planning lunch	\$ 98.18	921
Jacksonville Jags Thanksgiving event, external aff	\$ 166.67	921
Thank-you gifts for team members.	\$ 50.00	926
Thank-you gifts for team members.	\$ 50.00	926
Thank-you gifts for team members.	\$ 25.00	926
Thank-you gifts for team members.	\$ 25.00	926
Thank-you gifts for team members.	\$ 25.00	926
Thank-you gifts for team members.	\$ 25.00	926
Working Lunch	\$ 28.68	926
Appreciation gifts for freelancers who regularly w	\$ 150.00	926
Larson RNG ribbon-cutting event	\$ 186.88	921
Writing Course	\$ 295.00	921
Total	\$ 22,540.17	

Audit staff also noted the inclusion of certain expenses that the analysts may want to remove from Account 913 – Advertising.

- The following transactions were website hosting fees. The Utility provided the URL to the website and it includes both conservation and non-conservation information. Audit staff was unable to determine the cost breakdown. See Table 4-7 for more detail, which is included for informational purposes only.

Table 4-7

Description	Amount
Fee for cloud hosting related to Builder Microsite	\$ 25.00
Subscription fee.	\$ 25.00
Cloud hosting related to Builder Microsite	\$ 25.00
Cloud hosting related to Builder Microsite	\$ 25.00
Internet scheduling for Builders page	\$ 25.00
Website service for scheduling	\$ 25.00
Builder Site hosting renewal	\$ 216.00
Scheduling tools	\$ 25.00
Total	\$ 391.00

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff recommends a decrease Account 913 in the amount of \$171,246.68. We also recommend reclassifying \$22,540.17 from Account 913, to the aforementioned accounts noted in Table 4-6.

Finding 5: O&M Expenses

Audit Analysis: Audit staff reviewed a statistical sample of the 400 and 800 expense accounts to determine whether each expense was supported by adequate documentation, recorded in the proper period, recoverable in the rate base, and in the proper amount. We determined several transactions should be removed and reclassified from these accounts. They are listed as follows:

- Audit staff recommends the removal of the following 18 transactions totaling \$8,112.35 from Account 413 – Expenses Related to Assets Leased to Others. After reviewing each transaction we have found these transactions were billed to TECO Energy Services. See Table 5-1 below for detail.

Table 5-1

Description	Amount
3 way CNG valves for city of Orlando T-Fill lines	\$ 793.35
\$200.00 data monthly data contract	\$ 200.00
\$200.00 data monthly data contract	\$ 200.00
See Attached invoices and receipt , five invoices	\$ 1,000.00
City of Orlando CNG station Data contract	\$ 200.00
City of Orlando CNG data contract with Opel fuels	\$ 200.00
City of Orlando CNG station	\$ 338.39
City of Orlando 3-way valve stock Replinish	\$ 1,053.47
City of Orlando Data contract	\$ 200.00
City of Orlando CNG T-Fill line 3 way valves	\$ 1,217.74
City of Orlando defuel system relief valve	\$ 390.61
Shipping charges	\$ 31.05
Data contract	\$ 200.00
City of Orlando T-Fill 3-way valves	\$ 1,248.74
Data contract City of Orlando	\$ 200.00
TrueStar Energy Inv 046807 MAR. 2022	\$ 213.00
TrueStar Energy Inv 043241 OCT. 2021	\$ 213.00
TrueStar Energy Inv 045285 Dec. 2021	\$ 213.00
Total	\$ 8,112.35

- Audit staff recommends the reclassification of the following 15 transactions totaling \$1,685.96 from Account 413 – Expenses Related to Assets Leased to Others to Account 880 – Other Expenses. See Table 5-2 for detail.

Table 5-2

Description	Amount
Tolls	\$ 17.89
New paint stick for locating	\$ 27.05
Training	\$ 37.93
Vehicle maintenance	\$ 48.80
Training	\$ 59.99
Training	\$ 858.08
Repair parts for City of Orlando CNG station	\$ 10.85
Tolls	\$ 100.00
Invoice meeting	\$ 30.44
e-pass	\$ 40.00
Tolls	\$ 43.62
Invoices meeting held at restaurant	\$ 61.32
Work boots	\$ 210.00
Invoices meeting office under construction	\$ 95.19
Business Meals	\$ 44.80
Total	\$ 1,685.96

- Audit staff recommends the removal of document number 7024827101 in the amount of \$5,183.89 from Account 873 – Compressor Station Fuel and Power. There was no supporting documentation for this transaction.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Audit staff recommends a decrease to Account 413 in the amount of \$8,112.35. We also recommend reclassifying \$1,685.96 from Account 413 to the aforementioned accounts noted in Table 5-2. In addition, we recommend a decrease in Account 873 in the amount of \$5,183.89.

Exhibits

Exhibit 1: Rate Base

SCHEDULE B-2

RATE BASE - 13 MONTH AVERAGE

PAGE 1 OF 1

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13-MONTH
AVERAGE RATE BASE AS ADJUSTED FOR THE HISTORIC BASE YEAR.

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA: 12/31/22
WITNESS: R. PARSONS

COMPANY: PEOPLES GAS SYSTEM, INC.

DOCKET NO.: 20230023-GU

LINE NO.	UTILITY PLANT	AVERAGE PER BOOKS	ADJUSTMENT	ADJUSTED AVERAGE
1	PLANT IN SERVICE	\$2,573,845,285	(\$29,839,959)	\$2,544,005,326
2	COMMON PLANT ALLOCATED	\$0	(\$1,109,995)	(\$1,109,995)
3	ACQUISITION ADJUSTMENT	\$5,031,897	(\$2,946,879)	\$2,085,018
4	PROPERTY HELD FOR FUTURE USE	\$1,939,552	(\$1,939,552)	\$0
5	CONSTRUCTION WORK IN PROGRESS	\$195,971,742	(\$97,251,689)	\$98,720,053
6	TOTAL PLANT	\$2,776,788,476	(\$133,088,074)	\$2,643,700,402
	DEDUCTIONS			
7	CUSTOMER ADVANCES FOR CON'S	(\$20,227,795)	\$0	(\$20,227,795)
8	ACCUM. DEPR. - UTILITY PLANT	(\$838,039,154)	\$112,068	(\$837,927,086)
9	ACCUM. DEPR. - COMMON PLANT	\$0	\$419,406	\$419,406
10	ACCUM. AMORT - ACQ. ADJ.	(\$5,028,153)	\$2,946,879	(\$2,081,274)
11	ACCUM. AMORT. - LEASEHOLD/OTHER	(\$24,106,787)	\$0	(\$24,106,787)
12				\$0
13				\$0
14	TOTAL DEDUCTIONS	(\$887,401,689)	\$3,476,353	(\$883,923,536)
15	PLANT NET	\$1,889,386,587	(\$129,609,721)	\$1,759,776,866
	ALLOWANCE FOR WORKING CAPITAL			
16	BALANCE SHEET METHOD	(\$9,153,158)	(\$17,664,342)	(\$25,817,500)
17	TOTAL RATE BASE	\$1,881,233,428	(\$147,274,062)	\$1,733,959,366
18	NET OPERATING INCOME	\$101,167,131	(\$1,339,387)	\$99,827,744
19	RATE OF RETURN	5.38%		5.76%

SUPPORTING SCHEDULES: B-1, B-3, B-10, B-13, C-1

RECAP SCHEDULES: A-2, E-6 p.1, E-6 p.2, G-1 p.1

Exhibit 2: Net Operating Income

SCHEDULE C-1

NET OPERATING INCOME

PAGE 1 OF 1

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE THE CALCULATION OF NET OPERATING INCOME PER BOOKS FOR THE HISTORIC BASE YEAR AND THE PRIOR YEAR.

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA: 12/31/22
HISTORIC BASE YR - 1: 12/31/21
WITNESS: R. PARSONS

COMPANY: PEOPLES GAS SYSTEM, INC.

DOCKET NO.: 20230023-GU

NET OPERATING INCOME - HISTORIC BASE YEAR ENDED 12/31/2022

LINE NO.		(1)	(2)	(3)	(4)	(5)	(6)
		PRIOR YEAR ENDED TOTAL COMPANY PER BOOKS (BASE YEAR - 1)	CURRENT HISTORIC BASE YEAR ENDED TOTAL COMPANY PER BOOKS	ADJUSTMENTS	COMPANY ADJUSTED (2) - (3)	REVENUE ADJUSTMENT	JURISDICTIONAL AMOUNT PROPOSED RATES
		12/31/2021	12/31/2022				
1	OPERATING REVENUES	\$ 517,145,588	\$ 644,223,425	\$ (331,209,892)	\$ 313,013,533	\$ -	\$ 313,013,533
	OPERATING EXPENSES:						
2	GAS EXPENSE	161,278,817	263,438,319	(263,438,319)	-	-	-
3	OPERATION & MAINTENANCE	140,031,483	153,041,292	(30,659,528)	122,381,764	-	122,381,764
4	DEPRECIATION & AMORTIZATION	55,696,881	47,035,837	(454,559)	46,581,278	-	46,581,278
5	TAXES OTHER THAN INCOME TAXES	47,718,678	53,866,712	(32,208,778)	21,657,934	-	21,657,934
	INCOME TAXES:						
6	- FEDERAL	7,513,856	3,901,927	(2,434,583)	1,467,344	-	1,467,344
7	- STATE	724,697	461,000	(674,739)	(213,739)	-	(213,739)
	DEFERRED INCOME TAXES						
8	- FEDERAL	10,760,742	16,804,780	-	16,804,780	-	16,804,780
9	- STATE	2,531,053	4,730,255	-	4,730,255	-	4,730,255
10	INVESTMENT TAX CREDIT - NET	-	-	-	-	-	-
11	GAIN ON SALE OF PROPERTY	61,983	(223,826)	-	(223,826)	-	(223,826)
12	TOTAL OPERATING EXPENSES	\$ 426,318,191	\$ 543,056,295	\$ (329,870,506)	\$ 213,185,789	\$ -	\$ 213,185,789
13	OPERATING INCOME	\$ 90,827,397	\$ 101,167,131	\$ (1,339,367)	\$ 99,827,744	\$ -	\$ 99,827,744

Totals may be affected due to rounding.

SUPPORTING SCHEDULES: C-2

RECAP SCHEDULES: B-2, C-2, D-11, E-6 p.5, G-2 p.1

Exhibit 3: Capital Structure

SCHEDULE D-1

COST OF CAPITAL - 13-MONTH AVERAGE

PAGE 1 OF 2

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: PEOPLES GAS SYSTEM, INC.

DOCKET NO.: 20230023-GU

EXPLANATION: PROVIDE THE COMPANY'S 13-MONTH AVERAGE RECONCILED JURISDICTIONAL CAPITAL STRUCTURE AND COST RATES FOR EACH CLASS OF CAPITAL FOR THE HISTORIC BASE YEAR OF THE CURRENT CASE AND THE HISTORIC BASE YEAR OR TEST YEAR OF THE LAST RATE CASE.

TYPE OF DATA SHOWN:
PRIOR HISTORIC BASE YEAR: 12/31/19
HISTORIC BASE YEAR DATA: 12/31/22
WITNESS: R. PARSONS

LINE NO	CLASS OF CAPITAL (1)	LAST RATE CASE - HISTORIC BASE YEAR ENDED 12/31/2019				PRESENT RATE CASE - HISTORIC BASE YEAR ENDED 12/31/2022						
		DOLLARS (2)	RATIO (3)	COST RATE (4)	WEIGHTED COST (5)	AMOUNT PER BOOKS (6)	ADJUSTMENTS			RATIO (10)	COST RATE (11)	WEIGHTED COST (12)
						SPECIFIC (7)	PRORATA (8)	NET* (9)				
1	COMMON EQUITY	\$438,447,214	46.31%	10.75%	4.98%	\$889,651,616	\$394,142	(\$83,205,080)	\$813,006,985	46.89%	9.90%	4.64%
2	LONG TERM DEBT	284,152,469	30.02%	4.73%	1.42%	545,284,272	(4,743,770)	(37,778,516)	514,059,251	29.65%	3.97%	1.18%
3	SHORT TERM DEBT	40,599,071	4.92%	3.04%	0.15%	167,682,708	(189,998)	(11,735,893)	159,284,242	9.18%	2.20%	0.20%
4	CUSTOMER DEPOSITS	23,652,225	2.50%	2.46%	0.06%	28,428,835	0	(1,727,256)	26,701,539	1.54%	2.48%	0.04%
5	DEFERRED INCOME TAX	153,844,654	16.25%	0.00%	0.00%	250,105,937	(15,031,623)	(14,285,087)	220,848,247	12.74%	0.00%	0.00%
6	TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0	0	0.00%	0.00%	0.00%
7	TOTAL	\$948,695,634	100.00%		6.51%	\$1,881,233,428	(\$19,571,249)	(\$127,702,813)	\$1,733,959,366	100.00%		6.08%

* Includes additional adjustments in accordance with 2020 Stipulation paragraph 2(a). Peoples' shall use a 54.7% equity ratio (investor sources with any difference to actual equity ratio spread ratably over long-term and short-term debt). See calculations on MFR Schedule D-10.

Totals may be affected due to rounding

SUPPORTING SCHEDULES: B-1 p.2, D-2 p.1, D-3, D-4, D-5, D-8, D-10

RECAP SCHEDULES: A-1, A-2, C-22