

State of Florida



Public Service Commission

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COMMISSION
CLERK

DATE: August 16, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*
RE: Docket No.: 100462-GU
Company Name: Peoples Gas System
Company Code: GU608
Audit Purpose: Overearnings Review
Audit Control No: 11-129-2-1

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
05813 AUG 16 =
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State of Florida



Public Service Commission


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

Auditor's Report

Peoples Gas System
Overearnings Review

12 Months Ended December 31, 2010

Docket No. 100462-GU
Audit Control No. 11-129-2-1
July 29, 2011


Linda Hill-Slaughter
Audit Manager


Tomer Kopelovich
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 May 9, 2011. We have applied these procedures to the attached Earnings Surveillance Report Summary for December 2010 prepared by Peoples Gas System (PGS) and to several of its related schedules in support of its filing for the Overearnings Review in Docket No. 100462-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

Rate Base

Objectives: Our objectives were to review the calculation of the FPSC Adjusted Average Rate Base, including the per book amounts and the FPSC adjustments on Schedule 2 of the December 2010 Earnings Surveillance Report.

Procedures: We reconciled average rate base reported on Schedule 2 by tracing all per book amounts as of December 31, 2010, to the general ledger. We reviewed all calculations. We tested FPSC adjustments for proper calculation consistent with the last rate case per FPSC Order 09-0411-FOF-GU, dated June 9, 2009, and overearnings amounts per FPSC Order 11-0111-PAA-GU, dated February 10, 2011.

Utility Plant in Service (UPIS)

Objective: Our objective was to verify plant balances for the 13-month period ending December 31, 2010.

Procedures: We traced plant balances to the general ledger. We verified that plant balances per Schedule 2 were accurately reported by PGS.

Accumulated Depreciation

Objectives: Our objectives were to determine that accruals to accumulated depreciation and depreciation expense were properly recorded in compliance with Commission approved rates.

Procedures: We reviewed PGS' accumulated depreciation and depreciation expense and verified that they were properly calculated using Commission approved rates.

Working Capital

Objectives: Our objective was to determine that PGS' working capital is properly calculated using the balance sheet method in compliance with its last rate case in PSC Order No 09-0411-FOF-GU, dated June 9, 2010.

Procedures: We traced the working capital accounts to the general ledger to determine if accounts were properly included in the working capital allowance computation. In addition, we recalculated working capital by using the balance sheet method.

Net Operating Income

Utility Filing

Objectives: Our objectives were to review the calculation of the FPSC Adjusted Income Statement including the per book amounts and the FPSC Adjustments on Schedule 3.

Procedures: We traced net operating income per Schedule 3 to the revenues and expenses reported per PGS' income statement. We traced revenues and expenses to the general ledger and verified against PGS' reported net utility operating income. We reviewed all FPSC adjustments for proper calculation.

Revenues

Objective: Our objective was to determine that revenues as reported on Schedule 3 are properly recorded in compliance with Commission rules.

Procedures: We traced operating revenues per Schedule 3 to the general ledger. We tested FPSC adjustments for proper calculation consistent with the last rate case per Order No. 09-0411-FOF-GU, dated June 9, 2009.

Operation and Maintenance Expense (O&M)

Objective: Our objective was to determine that O&M expenses per Schedule 3 were properly recorded in compliance with Commission rules.

Procedure: We traced O&M expenses per Schedule 3 to the general ledger. We tested FPSC adjustments for proper calculation consistent with the last rate case per Order No. 09-0411-FOF-GU, dated June 9, 2009.

Capital Structure

Objectives: Our objectives were to review the calculation of the FPSC Average Capital Structure, including the per book amounts, the adjustments and the cost rates on Schedule 4.

Procedures: We traced all components of the PGS capital structure to the general ledger per Schedule 4. In addition, we recalculated the average capital structure and cost rate.

Audit Findings

None

**PEOPLES GAS SYSTEM
EARNINGS SURVEILLANCE REPORT SUMMARY
December 2010**

SCHEDULE 1

Exhibit 1: Earnings Surveillance Report Summary

	(1) Actual Per Books	(2) FPSC Adjustments	(3) FPSC Adjusted	(4) Pro Forma Adjustments	(5) Pro Forma Adjusted
I. AVERAGE RATE OF RETURN (JURISDICTIONAL)					
<u>NET OPERATING INCOME</u>	\$ 49,708	\$ (543)	\$ 49,165	\$ 0	\$ 49,165
<u>AVERAGE RATE BASE</u>	\$ 580,618	\$ (23,262)	\$ 557,356	\$ 0	\$ 557,356
<u>AVERAGE RATE OF RETURN</u>	8.56 %		8.82 %		8.82 %

**II. REQUIRED RATES OF RETURN
AVERAGE CAPITAL STRUCTURE
(FPSC ADJUSTED BASIS)**

LOW	7.87 %
MIDPOINT	8.35 %
HIGH	8.83 %

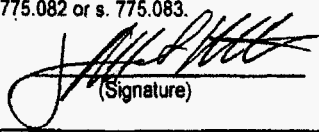
III. EARNED RETURN ON EQUITY

	FPSC ADJUSTED	PRO FORMA ADJUSTED
A. INCLUDING FLEX RATE REVENUES	11.73 %	11.73 %
B. EXCLUDING FLEX RATE REVENUES	10.90 %	10.90 %

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his or her official duty shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082 or s. 775.083.

Jeffrey S. Chronister, Controller
(Name and Title)


(Signature)

2/14/11
(Date)

PSC/AFA13

Exhibit