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August 17, 2007

## VIA E-FILING

Ann Cole  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

**Re: Docket No. 070003-GU – Purchased gas adjustment (PGA) true-up**

Dear Ms. Cole:

Enclosed for filing with the Commission on behalf of Peoples Gas System, please find the original and 12 copies of Peoples' Response to The Staff Audit Report in the above docket for the PGA True-Up for the 12 months ended December 31, 2006 (Audit Control Number 07-067-2-1).

Thank you for your usual assistance.

Sincerely,



ANSLEY WATSON, JR.

AWjr/a  
Enclosures

cc: Parties of Record  
Mrs. Kandi M. Floyd  
Matthew R. Costa, Esquire

Audit Finding No. 1 of the audit report reads as follows:

**AUDIT FINDING NO. 1**

**SUBJECT ANALYSIS: OUT OF PERIOD EXPENSES**

**AUDIT ANALYSIS:** Peoples Gas System (PGS) recorded \$1,412,151 of administrative costs in the 2006 Purchased Gas Adjustment (PGA) filing.

We used the general ledger and selected months of different types of costs for testing. We tested whether the item was PGA related, in the proper period, for the proper amount, and had proper authorization. We found several 2005 items for professional services on FERC Docket No. RP04-249 recorded in 2006 expenses. The amounts totaled \$24,243 in January and \$76,829 in February.

**EFFECT ON THE GENERAL LEDGER:** PGA account 320-804-01-50 is overstated by \$101,072 (24,243 and 76,829)

**EFFECT ON THE FILING:** The 2006 recoverable True-up is overstated by \$105,304, \$101,072 and \$4,693 interest.

**Peoples' Response:**

The invoices for professional services identified in the audit finding were, in fact, recorded in the 2006 expenses (as stated in the audit finding) because that is when they were paid. Had they been paid in 2005 (when the services were performed), they would have been included in the filing for the 2005 true-up (instead of the 2006 true-up). Since the expense was not incurred by Peoples until 2006, the expense was included in the filing for the 2006 true-up. Peoples' position is that this was the proper accounting treatment of the expenses.

Legal and other professional expenses are reviewed at several levels within Peoples Gas. They are reviewed by the contact person who engaged the professional to perform the services. They are then reviewed by an attorney in the TECO Energy Legal Department. Finally, they are reviewed by Peoples' assistant controller, who authorizes payment of the invoices. This review process can take time to complete, particularly if there are any problems with an invoice, or one or more of the persons conducting the review is out of town or on vacation. In the case of these types of invoices, the amount of the expense is not known until the review has been completed and payment has been authorized.

Had Peoples – despite not having incurred the expense in 2005 – included it in the 2005 true-up, it would have recovered interest on an expense it had not yet incurred.

**Peoples Gas System**  
**Docket No. 070003-GU**  
**Response to Audit Control No. 07-067-2-1**  
**August 17, 2007**  
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Because Peoples is entitled, through the purchased gas adjustment clause, to recover only its expenses, must pay interest on any overrecovery of those expenses, and may receive interest on any underrecovery of those expenses, the concept of an expense's being "out-of-period" becomes almost a moot point, completely losing its significance. That is, Peoples earns nothing on its purchases and sales of natural gas; it only recovers its prudently incurred expenses. Everything "washes out" as a result of the true-up, which is an ongoing process. The expenses were prudently incurred, and should therefore be recovered by the Company.