

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: November 7, 2019

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20190109-GU
Company Name: Peoples Gas System
Company Code: GU608
Audit Purpose: A19: Storm Restoration for Hurricane Michael
Audit Control No.: 2019-253-2-1

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/cmm

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 System
Storm Restoration Costs

As of April 25, 2019

Docket No. 20190109-GU
Audit Control No. 2019-253-2-1
November 5, 2019

A large, stylized handwritten signature in black ink that reads "Ron Mavrides".

Ron Mavrides
Audit Manager

A handwritten signature in black ink that reads "Intersar Terkawi".

Intersar Terkawi
Staff Auditor

A handwritten signature in black ink that reads "Linda Hill".

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 Accounting and Finance in its audit service request dated September 6, 2019. We have applied these procedures to the attached schedule prepared by Peoples Gas System in support of its filing for storm recovery costs in Docket No. 20190109-GU.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Peoples Gas or Utility refers to the Peoples Gas System.

Incremental Costs are costs that are incremental to costs normally charged to non-cost recovery clause operating expenses in the absence of a storm.

Non-incremental Costs are costs that are not incremental to costs normally charged to non-cost recovery clause operating expenses in the absence of a storm.

Background

On April 25, 2019, Peoples Gas System (Peoples of Company) filed a petition for recovery of approximately \$3.4 million for the incremental restoration costs related to Hurricane Michael and to replenish the Company's storm reserve. In its petition, Peoples asserted that, as a result of Hurricane Michael, it incurred total retail recoverable cost of approximately \$3.3 million, which exceeds and fully depletes the pre-storm balance of \$79,125 in Peoples' storm reserve. Interest and the regulatory assessment fee gross-up add an additional \$70,650. Peoples also requested recovery of \$27,255 related to the write-off of accounts receivable for service provided prior to Hurricane Michael, but on July 3, 2019, Peoples and the Office of Public Council agreed to remove this as a recoverable amount. The storm recovery amounts totaled \$3,382,702.

This audit's focus was on:

1. Recoverable restoration costs incurred are in accordance with Rule 25-6.0143, Use of Accumulated Provision Accounts 228.1., 228.2, and 228.4. Florida Administrative Code (F.A.C.)
2. The accuracy and validity of all amounts shown in Exhibit A of Document No. 03931-2019.
3. The proper treatment of all non-incremental and capital costs pursuant to Rule 25- 6.0143, Florida Administrative Code (F.A.C.)

Utility Books and Records

Objective: The objective was to determine whether all the storm costs incurred are supported by the Utility's books and records.

Procedures: We reconciled to the Utility's books and records the costs listed on the Utility prepared schedule entitled "Storm Response and Restoration Costs Related to Hurricane Michael" used as our Exhibit in this report. See Finding 2 for our changes to this exhibit.

Expense

Regular Payroll and Related Costs

Objectives: The objectives were to determine whether employee labor expenses were properly stated, storm related, and recoverable under this docket.

Procedures: We selected a judgmental sample of payroll entry costs from the Regular Payroll and Related Costs details for testing and examined them for proper positions, pay rates, and other related costs. No exceptions were noted.

Overtime Labor

Objectives: The objectives were to determine whether employee overtime labor expense was properly stated, storm related, and recoverable under this docket.

Procedures: We selected a judgmental sample of overtime costs from the Regular Payroll and Related Costs details for testing and examined them for proper positions, pay rates, and other related costs. No exceptions were noted.

Affiliated Payroll and Related Costs

Objectives: The objectives were to determine whether affiliated payroll and related costs were properly stated, storm related, and recoverable under this docket.

Procedures: We selected a judgmental sample of affiliated payroll and related costs from the Regular Payroll and Related Costs details for testing and examined them for proper positions, pay rates, and other related costs. No exceptions were noted.

Outside Services – Contractors

Objectives: The objectives were to determine whether contractors and vendor services costs were properly stated, storm related, and recoverable under this docket.

Procedures: We selected a judgmental sample of costs for detail testing and traced the amounts to the supporting invoices and vendor contracts. See Finding 1 for more information.

Logistics

Objectives: The objectives were to determine whether logistics costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

Procedures: We reconciled the balances of Logistics costs to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or employee expense reports. No exceptions were noted.

Vehicle & Fuel

Objectives: The objectives were to determine whether vehicle and fuel costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

Procedures: We reconciled the balances of vehicle and fuel costs to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to source documents. No exceptions were noted.

Materials and Supplies

Objectives: The objectives were to determine whether material and supplies were properly stated, recoded in the period incurred, and related to Hurricane Michael.

Procedures: We reconciled the balances of materials and supplies to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or inventory records. No exceptions were noted.

Safety Public Service Announcements

Objectives: The objectives were to determine whether safety public service announcements costs were properly stated, recoded in the period incurred, and related to Hurricane Michael.

Procedures: We reconciled the balances of safety public service announcements costs to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to source documents. No exceptions were noted.

Uncollectible Account Expense

Objectives: The objective was to determine the nature of the uncollectible accounts and that they were treated as agreed with the Office of Public Counsel.

Procedures: We verified that the original petition was adjusted to remove \$27,255 in accounts receivable from the recoverable storm costs as provided in a Joint Notice of Partial Stipulation with the OPC. The Stipulation states that “these customers either lost or incurred significant damage to their home or business due to the storm and were financially compromised. Therefore, the storm led to the write-off of these accounts by PGS”.

Non-Incremental Costs

Objectives: The objectives were to determine whether capitalized costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143(1)(d), F.A.C. This rule states that the utility will be allowed to charge to Account No. 228.1, costs that are incremental to costs normally charged to non-cost recovery clause operating expenses in the absence of a storm. In addition, capital expenditures for the removal, retirement and replacement of damaged facilities charged to cover storm-related damages shall exclude the normal cost for the removal, retirement and replacement of those facilities in the absence of a storm.

Procedures: We requested a detailed description of capitalized costs as well as the policies and procedures for recording these costs. We tested capitalized costs to determine if the Utility included for recovery only those costs that are allowed by the applicable Rule. No exceptions were noted.

Capital Costs

Objectives: The objectives were to determine whether the capitalized costs have been accounted for correctly and removed in their entirety from the recoverable costs per Rule 25-6.0143(1) (d), Florida Administrative Code (F.A.C.).

Procedures: We requested the supporting documentation of the capital costs of \$205,553. The Utility declined to provide the support documentations stating that the capital costs have not been included in the recoverable costs, and the Utility is not seeking recovery for the capital costs of \$205,553. No further review as made of the Utility's stated capital costs.

Interest on Unamortized Costs

Objectives: The objectives were to determine whether the interest on unamortized costs included in Exhibit A was properly stated, recoded in the period incurred, and related to Hurricane Michael.

Procedures: We requested the support for the calculation of the interest amount which the Utility estimated to be \$53,720. The interest amount will change based on the recoverable amount and the interest rate. No exceptions were noted.

Audit Findings

Finding 1: Contracted Equipment Rates

Audit Analysis: The Utility paid contractor, RSR Industrial Coatings, Inc., equipment charges of \$600 a day for a tractor and \$700 a day for a dump trailer, for a total of \$3,000 and \$3,500, respectively. This equipment was not covered in the specified lists of rental equipment and rental rates as written in the contract. The Utility responded that the “equipment is special equipment that was not contemplated in the original contract and therefore there is no reference in the contract for this equipment”. The cost for this equipment was considerably more than similarly listed rental items specified in the contract, such as \$100 a day for a pick-up truck and \$175 a day for a truck with trailer. In addition, “saws, blowers, rakes, shovels and miscellaneous tools” were not listed on the contract, but were charged for \$200 a day.

Effect on the General Ledger: None

Effect on the Filing: To be determined by analyst.

Finding 2: Post Petition Adjustments to Exhibit A

Audit Analysis: The utility made seven adjustments to the original petition for storm recovery costs of April 25, 2019, in response to staff document requests and OPC interrogatories. This reduced the recoverable amount by \$31,353. Audit staff reviewed these amounts. See Table 2-1 for details.

Although Audit staff reviewed the interest calculation on Line 14 of our exhibit of this report, we did not calculate the effect on interest of these adjustments. Interest on line 14 is calculated from March 2019 through December 2019.

Table 2-1

Line	Description	Amount	Source
1	Recoverable Storm Response and Restoration Costs	\$3,312,052	Line No. 13 of SPH Exhibit-
2			
3	<i>Adjustments:</i>		
4	Remove Uncollectible Accounts Expense	(27,255)	Joint Notice of Partial Stipulation with OPC filed
5	Latam Catering invoice corrections	(284)	Response to OPC
6	Allied Universal security invoice correction	(200)	Response to OPC
7	Voyager SW FL invoice - amount included on Nov and Dec invo	(72)	Interrogatory 30
8	Mikell - grounding related to capitalized gate	(3,248)	Response to FPSC Request
			Interrogatory 10
9	PowerKleen Invoice Item 7014645842	(235)	Response to FPSC Request
10	See key copy 5 on response #8	(59)	#8 and 8a - 213.95+21.40
			Response to FPSC Request
		<u>(31,353)</u>	
	Actual Recoverable Storm Response and Restoration Costs	<u><u>\$3,280,699</u></u>	

Effect on the General Ledger: None

Effect on the Filing: Reduce the total storm-related costs per original petition by \$31,353 This does not include an adjustment to interest.

Exhibit

Exhibit 1: Hurricane Michael Restorative Costs

EXHIBIT A
Peoples Gas System
Storm Response and Restoration Costs Related to Hurricane Michael

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Line No.		
1	Regular Payroll and Related Costs	\$ 470,950
2	OT Labor	789,630
3	Affiliated Payroll and Related Costs	221,627
4	Outside Services - Contractors	470,476
5	Logistics	1,577,230
6	Vehicle & Fuel	51,730
7	Materials & Supply	213,387
8	Safety Public Service Announcements	90,200
9	Uncollectible Amounts	27,255
10	Total Recoverable Storm-Related Costs/Losses	3,872,698
11	Non-Incremental Costs (per FPSC Rule 25.6 014.3)	(555,093)
12	Capital Costs	(205,553)
13	Recoverable Storm Response and Restoration Costs	3,312,052
14	Interest on Unamortized Costs	53,720
15	Adjusted Recoverable Storm Response and Restoration Costs	3,365,772
16	Regulatory Assessment Fee Multiplier	1.07503
17	Total System Storm Losses to be Recovered from Customers ("Recoverable Storm Amount")	\$ 3,382,702

Notes: Includes interests related to provided by Total Energy Gas Company, Total Services, and Total Energy.