

State of Florida



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

DATE: May 13, 2009
TO: Devlin Higgins, Regulatory Analyst II, Division of Economic Regulation
FROM: Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*
RE: Docket No: 090004-GU; Company Name: Florida City Gas;
Audit Purpose: Gas Conservation Cost Recovery; Company Code: GU602;
Audit Control No: 09-028-4-3;

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.

DNM/tbm

Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey,
District Offices, File Folder)
Office of Commission Clerk (2)
General Counsel

Mr. Jay Sutton
Florida City Gas
4180 South U.S. Highway 1
Rockledge, FL 32955-5309

Ms. Beth Keating
Akerman Law Firm
106 East College Avenue, Suite 1200
Tallahassee, FL 32301

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE

Miami District Office

FLORIDA CITY GAS

CONSERVATION COST RECOVERY CLAUSE

HISTORICAL YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 090004-GU
AUDIT CONTROL NO. 09-028-4-3

A handwritten signature in cursive script, reading "Kathy L. Welch".

Kathy L. Welch
Audit Manager

A handwritten signature in cursive script, reading "Iliana Piedra".

Iliana Piedra
Accounting Specialist
Reviewer

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**DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT**

May 8, 2009

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED
PARTIES**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules, prepared by Florida City Gas, in support of its filing for conservation Docket No. 090004-GU.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

OBJECTIVES AND PROCEDURES:

Objective: The objective of the audit was to reconcile the schedules to each other and to the general ledger.

Procedures: We prepared a trial balance using the general ledger and reconciled all conservation accounts to the filing.

Objective: The objective was to verify that the true-up was calculated correctly.

Procedures: We agreed the beginning true-up provision to the last order and workpapers. We prepared a recalculation using the filing and Commission approved interest rates.

Objective: The objective of the audit was to determine that the company has applied the approved conservation cost recovery factors to actual therm sales and properly calculated revenues.

Procedures: Therms from the statistics report were multiplied by the ordered rates and compared to the ledger and filing. Some bills were selected and recalculated to determine that the tariff rates were used.

Objective: The objective of the audit was to determine that the actual energy conservation program expenses filed by the company agree with source documentation and meet the requirements of the programs.

Procedures: We reconciled the filing to the general ledger detail. We selected a sample of the vouchers recorded in the general ledger and traced them to source documentation. Audit Finding One discusses a journal entry made to conservation expenses for postage, printing for billing inserts and office supplies.

We verified that the incentives paid by voucher met the program guidelines. We verified that the incentives credited to the bills met the program guidelines. We reviewed contracts with builders to determine if the contracts agreed with the program guidelines.

We compared the payroll file to the file from the last audit to determine if new employees were added.

AUDIT FINDING NO. 1

SUBJECT: NEW COSTS ALLOCATED

AUDIT ANALYSIS: Florida City Gas increased its conservation costs by \$240,531.87 in 2008. The detail of the costs follows:

	TOTAL COSTS	ALLOCATION PERCENT	ALLOCATED AMOUNT
POSTAGE TO MAIL BILLS	\$412,400.00	40.00%	\$164,960.00
BILLING SERVICES	102,014.18	40.00%	40,805.67
BILLING INSERT EXPENSES	40,379.75	40.00%	16,151.90
OFFICE SUPPLIES (1)	6,742.70	40.00%	2,697.08
OFFICE SUPPLIES (2)	50,008.38	40.00%	20,003.35
OFFSET TO SUPPLIES	(18,218.17)	40.00%	(7,287.27)
LEGAL	3,201.00	100.00%	3,201.00
	<u>\$596,527.84</u>		<u>\$240,531.74</u>

The billing inserts were reviewed and did include information about conservation. However, printing and design of the billing inserts, postage and billing services to prepare the bills, legal costs and office supplies are all items that were in base rates during the last rate case. To include these costs in conservation this year would duplicate costs that were allowed in base rates and result in double recovery.

In addition, the supplies included in the Office Supplies (1) category above were for acetylene, oxygen, and water for the office and door hangers that are unrelated to conservation.

The costs in the Office Supplies (2) category above did include some expenses incurred by the employees charged to conservation. However, we cannot determine if any of these expenses were new or if they were also included in base rates.

The interest related to these costs is \$427.

EFFECT OF THE FINDING ON THE GENERAL LEDGER: The entry made to book the \$240,531.87 should be reversed.

EFFECT OF THE FINDING ON THE FILING: Conservation expenses should be reduced by \$240,531.87 and the related interest expense of \$427. The total reduction is \$ 240,958.87.

EXHIBITS

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION
JANUARY 2008 THROUGH DECEMBER 2008

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Total
1 RCS AUDIT FEES	-	-	-	-	-	-	-	-	-	-	-	-	-
2 OTHER PROGRAM REVS	-	-	-	-	-	-	-	-	-	-	-	-	-
3 CONSERV. ADJ REVS	(145,334)	(140,700)	(136,555)	(129,671)	(115,100)	(106,568)	(102,569)	(95,892)	(107,659)	(103,963)	(127,436)	(147,575)	(1,459,022)
4 TOTAL REVENUES	(145,334)	(140,700)	(136,555)	(129,671)	(115,100)	(106,568)	(102,569)	(95,892)	(107,659)	(103,963)	(127,436)	(147,575)	(1,459,022)
5 PRIOR PERIOD TRUE UP NOT APPLICABLE TO THIS PERIOD CONSERVATION REVENUES	(10,529)	(10,529)	(10,529)	(10,529)	(10,529)	(10,529)	(10,529)	(10,529)	(10,529)	(10,528)	(10,527)	(10,526)	(126,342)
6 APPLICABLE TO THE PERIOD	(155,863)	(151,229)	(147,084)	(140,200)	(125,629)	(117,097)	(113,098)	(106,421)	(118,188)	(114,491)	(137,963)	(158,101)	(1,585,364)
CONSERVATION EXPENSES													
7 (FROM CT-3, PAGE 1)	142,275	242,317	169,971	232,517	175,692	223,886	373,015	108,313	190,596	214,370	420,139	185,559	2,678,650
8 TRUE-UP THIS PERIOD	(13,568)	91,088	22,887	92,317	50,063	106,789	259,917	1,892	72,408	99,879	282,176	27,458	1,093,286
9 INTEREST PROVISION THIS PERIOD (FROM CT-3 PAGE 3)	(429)	(203)	(28)	129	304	463	860	1,149	1,890	2,342	1,694	916	9,084
10 TRUE-UP & INTER. PROV. BEGINNING OF MONTH	(126,342)	(129,830)	(28,417)	4,972	107,946	168,842	286,622	557,928	571,498	656,325	769,074	1,063,471	
11 PRIOR PERIOD TRUE UP													
COLLECTED/(REFUNDED)	10,529	10,529	10,529	10,529	10,529	10,529	10,529	10,529	10,529	10,528	10,527	10,526	
12 TOTAL NET TRUE UP (SUM LINES 8+9+10+11)	(129,830)	(28,417)	4,972	107,946	168,842	286,622	557,928	571,498	656,325	769,074	1,063,471	1,102,370	1,102,370

CALCULATION OF TRUE-UP AND INTEREST PROVISION
JANUARY 2008 THROUGH DECEMBER 2008

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Total
1. INTEREST PROVISION													
BEGINNING TRUE-UP	(126,342)	(129,830)	(28,417)	4,972	107,946	168,842	286,622	557,928	571,498	656,325	769,074	1,063,471	
2. ENDING TRUE-UP BEFORE INTEREST	(129,401)	(28,213)	4,999	107,818	168,538	286,160	557,068	570,349	654,435	766,732	1,061,777	1,101,455	
3. TOTAL BEGINNING & ENDING TRUE-UP	(255,743)	(158,044)	(23,417)	112,789	276,484	455,001	843,690	1,128,276	1,225,933	1,423,057	1,830,851	2,164,926	
4. AVERAGE TRUE-UP (LINE 3 TIMES 50%)	(127,872)	(79,022)	(11,709)	56,395	138,242	227,501	421,845	564,138	612,967	711,529	915,426	1,082,463	
5. INTER. RATE - 1ST DAY OF REPORTING MONTH	4.980%	3.080%	3.090%	2.630%	2.840%	2.430%	2.450%	2.440%	2.450%	4.950%	2.950%	1.490%	
6. INTER. RATE - 1ST DAY OF SUBSEQUENT MONTH	3.080%	3.090%	2.630%	2.840%	2.430%	2.450%	2.440%	2.450%	4.950%	2.950%	1.490%	0.540%	
7. TOTAL (SUM LINES 5 & 6)	8.060%	6.170%	5.720%	5.470%	5.270%	4.880%	4.890%	4.890%	7.400%	7.900%	4.440%	2.030%	
8. AVG INTEREST RATE (LINE 7 TIMES 50%)	4.030%	3.085%	2.860%	2.735%	2.635%	2.440%	2.445%	2.445%	3.700%	3.950%	2.220%	1.015%	
9. MONTHLY AVG INTEREST RATE	0.336%	0.257%	0.238%	0.228%	0.220%	0.203%	0.204%	0.204%	0.308%	0.329%	0.185%	0.085%	
10. INTEREST PROVISION (LINE 4 TIMES LINE 9)	(429)	(203)	(28)	129	304	463	860	1,149	1,890	2,342	1,694	916	9,084
10. a. INT. ADJ													