

MEMORANDUM

July 17, 1998

ORIGINAL

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *DJ*

RE: DOCKET NO. 980003-GU -- SEBRING GAS SYSTEM, INC.  
AUDIT REPORT - PGA - SIX-MONTH PERIOD ENDED MARCH 31, 1998  
AUDIT CONTROL NO. 98-160-3-1

-----

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

Sebring Gas System, Inc.  
Jerry H. Melendy, Sr.  
3515 Highway 27 South  
Sebring, FL 33870-5452

DNV/sp

Attachment

cc: Chairman Johnson  
Commissioner Clark  
Commissioner Deason  
Commissioner Garcia  
Commissioner Jacobs  
Mary Andrews Bane, Deputy Executive Director/Technical  
Legal Services  
Division of Auditing and Financial Analysis (Devlin/Causseaux/  
File Folder)  
Division of Electric and Gas (Jenkins)  
Orlando District Office (Forbes)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE

07626 JUL 20 88

FP&C-RECORDS/REPORTING

ORIGINAL



**FLORIDA PUBLIC SERVICE COMMISSION**  
*DIVISION OF AUDITING AND FINANCIAL ANALYSIS*  
*BUREAU OF AUDITING*

*Orlando District Office*

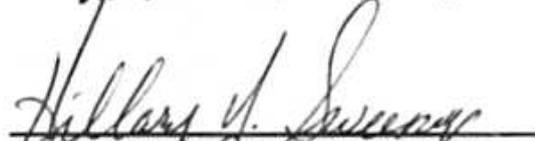
**SEBRING GAS SYSTEM, INC.**

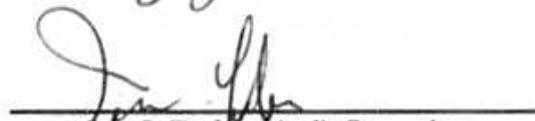
**PURCHASED GAS ADJUSTMENT AUDIT**

**SIX-MONTH PERIOD ENDED MARCH 31, 1998**

**DOCKET NO. 980003-GU**  
**AUDIT CONTROL NO. 98-160-3-1**

  
\_\_\_\_\_  
*Jeffery A. Small, Audit Manager*

  
\_\_\_\_\_  
*Hillary Y. Sweeney, Audit Staff*

  
\_\_\_\_\_  
*Ian J. Forbes, Audit Supervisor*

## TABLE OF CONTENTS

	PAGE
<b>I. AUDITOR'S REPORT</b>	
PURPOSE .....	1
SCOPE LIMITATION .....	1
DISCLAIM PUBLIC USE .....	1
OPINION .....	1
SUMMARY OF SIGNIFICANT PROCEDURES .....	2
<b>II. DISCLOSURE</b>	
1. PURCHASED GAS TRANSMISSION COST ESTIMATES .....	3
<b>III. EXHIBITS</b>	
1. MARCH 1998 FILING - SCHEDULE A-1 .....	4
2. MARCH 1998 FILING - SCHEDULE A-2 .....	5

**DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
AUDITOR'S REPORT**

**JULY 10, 1998**

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

We have applied the procedures described later in this report to audit the accompanying Purchased Gas Adjustment schedules for the six-month period ended March 31, 1998, for Sebring Gas System, Inc. These schedules were prepared by the company as part of its petition for purchased gas adjustment true-up in Docket No. 980003-GU. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

In our opinion, the schedules referred to above present fairly, in all material respects, the company's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and any other matters which were noted in our examination.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all the financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

**Scanned** - The documents or accounts were read quickly looking for obvious errors.

**Compiled** - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**Confirmed** - Evidential matter supporting an account balance, transaction, or other information was obtained from an independent third party.

**Schedules A-1 through A-6** - Compiled and recomputed the company's Schedules A-1 through A-6 for the period October 1997 through March 1998.

**PGA Revenues** - Traced and recomputed therm sales for the above-mentioned period to the company's monthly billing registers and general ledger.

**Cost of Gas** - Traced therms and cost of gas purchased to the company-provided invoices and company's general ledger.

**Other** - Recomputed a sample of customer bills to confirm that the company is using Commission-approved tariffs.

**Disclosure Number 1**

**Subject: Purchased Gas Transmission Cost Estimates**

**Statement of Fact:** The company included the following amounts as transmission costs paid to TECO Peoples Gas for transporting purchased gas through the Avon Park service line.

October 1997	\$1,508	January 1998	\$2,497
November 1997	\$1,707	February 1998	\$2,323
December 1997	\$2,187	March 1998	\$2,515

**Opinion/Recommendation:** The costs recorded for October through December 1997 above are estimates calculated by the company because of an ongoing billing problem with TECO Peoples Gas. This problem was disclosed in the previous staff's audit report for Docket No. 970003-GU.

The costs recorded for January through March 1998 are the actual amounts billed by TECO Peoples Gas. However, the company continued to dispute the amounts calculated by TECO Peoples Gas. During audit staff's field work, the company indicated that the billing dispute was settled in May 1998.

No adjustment is recommended at this time because the billing dispute extends into the next PGA filing period. The company has been advised to calculate a true-up adjustment for the above billing problems and to reflect the adjustment in its next PGA filing with adequate documentation.

COMPANY: SEBRING GAS SYSTEM, INC.		COMPARISON OF ACTUAL VERSUS ORIGINAL ESTIMATE OF THERM PURCHASED GAS ADJUSTMENT COST RECOVERY FACTOR				SCHEDULE A-1 (REVISED 9/8/94)			
ESTIMATED FOR THE PERIOD OF:		APRIL 97		Through		MARCH 98			
		CURRENT MONTH:		MAR 98		PERIOD TO DATE			
COST OF GAS PURCHASED		ACTUAL	REVISED ESTIMATE	DIFFERENCE		ACTUAL	REVISED ESTIMATE	DIFFERENCE	
				AMOUNT	%			AMOUNT	%
1	COMMODITY (Pipeline)	\$265	\$248	\$19	(33.81)	\$2,289	\$2,261	\$28	1.24
2	NO NOTICE SERVICE	0	0	0	0.00	0	0	0	0.00
3	SWING SERVICE	0	0	0	0.00	0	0	0	0.00
4	COMMODITY (Other)	15,150	17,800	(2,650)	(14.89)	148,864	170,460	(21,596)	(12.67)
5	DEMAND	6,548	2,301	4,247	184.57	28,458	24,124	4,334	17.97
6	OTHER - TECO Transportation and Peninsula Energy Service Co. Capacity Costs - MAR 1998	1,208	2,318	(1,110)	(47.89)	59,592	54,226	1,482	2.73
<b>LESS END-USE CONTRACT:</b>									
7	COMMODITY (Pipeline)	0	0	0	0.00	0	0	0	0.00
8	DEMAND	0	0	0	0.00	0	0	0	0.00
9		0	0	0	0.00	0	0	0	0.00
10		0	0	0	0.00	0	0	0	0.00
11	TOTAL COST (1+2+3+4+5+6+10)-(7+8+9)	\$23,171	\$22,665	\$506	2.23	\$239,203	\$251,071	(\$11,868)	(4.73)
12	NET UNBILLED	0	0	0	0.00	0	0	0	0.00
13	COMPANY USE	0	0	0	0.00	0	0	0	0.00
14	TOTAL THERM SALES	\$23,960	\$22,665	\$1,295	5.72	\$243,523	\$241,841	\$1,682	0.70
<b>THERM PURCHASED</b>									
15	COMMODITY (Pipeline) BILLING DETERMINANTS ONLY	65,750	61,000	4,750	7.79	595,060	588,010	7,050	1.20
16	NO NOTICE SERVICE BILLING DETERMINANTS ONLY	0	0	0	0.00	0	0	0	0.00
17	SWING SERVICE COMMODITY	0	0	0	0.00	0	0	0	0.00
18	COMMODITY (Other) COMMODITY	65,750	61,000	4,750	7.79	595,060	588,010	7,050	1.20
19	DEMAND BILLING DETERMINANTS ONLY	173,600	61,000	112,600	184.59	702,910	588,010	114,900	19.54
20	OTHER - TECO TRANSPORT CHARGE BILLING DETERMINANTS ONLY	64,911	61,000	3,911	6.41	600,292	592,370	7,922	1.34
<b>LESS END-USE CONTRACT:</b>									
21	COMMODITY (Pipeline)	0	0	0	0.00	0	0	0	0.00
22	DEMAND	0	0	0	0.00	0	0	0	0.00
23		0	0	0	0.00	0	0	0	0.00
24	TOTAL PURCHASES (15+18+19)-(21+22)	65,750	61,000	4,750	7.79	595,060	588,010	7,050	1.20
25	NET UNBILLED	0	0	0	0.00	0	0	0	0.00
26	COMPANY USE	0	0	0	0.00	0	0	0	0.00
27	TOTAL THERM SALES (24-26 Estimated Only) FROM SCHEDULE A-3 FOR ACTUAL	64,770	61,000	3,770	6.18	590,793	587,138	3,655	0.62
<b>CENTS PER THERM</b>									
28	COMMODITY (Pipeline) (1/15)	0.403	0.403	(0.000)	(0.08)	0.385	0.385	0.000	0.04
29	NO NOTICE SERVICE (2/16)	0.000	0.000	0.000	0.00	\$0.00000	0.000	\$0.00000	0.00
30	SWING SERVICE (3/17)	0.000	0.00000	0.00000	0.00	\$0.00000	\$0.00000	\$0.00000	0.00
31	COMMODITY (Other) (4/18)	23.042	29.180	(6.138)	(21.04)	25.017	28.989	(3.973)	(13.70)
32	DEMAND (5/19)	3.772	3.772	(0.000)	(0.01)	4.049	4.103	(0.054)	(1.32)
33	OTHER (6/20)	1.881	3.800	(1.939)	(51.03)	9.927	9.154	0.773	8.45
<b>LESS END-USE CONTRACT:</b>									
34	COMMODITY Pipeline (7/21)	0.00000	0.00000	0.00000	0.00	0.00000	0.00000	\$0.00000	0.00
35	DEMAND (8/22)	0.00000	0.00000	0.00000	0.00	0.00000	0.00000	\$0.00000	0.00
36		0.00000	0.00000	0.00000	0.00	0.00000	0.00000	\$0.00000	0.00
37	TOTAL COST OF PURCHASES (11/24)	35.241	37.156	(1.915)	(5.15)	40.198	42.688	(2.500)	(5.88)
38	NET UNBILLED (12/25)	0.00000	0.00000	0.00000	0.00	\$0.00000	\$0.00000	\$0.00000	0.00
39	COMPANY USE (13/26)	0.00000	0.00000	0.00000	0.00	\$0.00000	\$0.00000	\$0.00000	0.00
40	TOTAL COST OF THERM SOLD (11/27)	35.774	37.156	(1.382)	(3.72)	40.488	42.762	(2.274)	(5.32)
41	TRUE-UP (E-2)	(0.85869)	(0.85869)	0.00000	0.00	(0.85869)	(0.85869)	0.00000	0.00
42	TOTAL COST OF GAS (40+41)	34.915	36.299	(1.384)	(3.81)	39.629	41.903	(2.274)	(5.43)
43	REVENUE TAX FACTOR	1.01911	1.01911	0.00000	0.00	1.01911	1.01911	0.00000	0.00
44	PGA FACTOR ADJUSTED FOR TAXES (42+43)	35.583	36.993	(1.410)	(3.81)	40.387	42.704	(2.317)	(5.43)
45	PGA FACTOR ROUNDED TO NEAREST .001	35.583	36.993	(1.410)	(3.81)	40.387	42.704	(2.317)	(5.43)

COMPANY: SEBRING GAS SYSTEM, INC.		CALCULATION OF TRUE-UP AND INTEREST PROVISION				SCHEDULE A-2 (REVISED 6/08/94)			
FOR THE PERIOD OF:		APRIL 97 Through MARCH 98							
		CURRENT MONTH: MAR 98				PERIOD TO DATE			
		ACTUAL	REVISED ESTIMATE	DIFFERENCE AMOUNT	DIFFERENCE %	ACTUAL	REVISED ESTIMATE	DIFFERENCE AMOUNT	DIFFERENCE %
<b>TRUE-UP CALCULATION</b>									
1	PURCHASED GAS COST (A-1, LINES 1, 4 & 10)	\$15,415	\$18,046	\$2,631	14.58	\$151,153	\$172,721	\$21,568	12.49
2	TRANSPORTATION COST (A-1, LINES 2, 3, 5 & 6)	7,756	4,619	(3,137)	(67.91)	88,050	78,350	(9,700)	(12.38)
3	TOTAL (A-1, LINE 11)	23,171	22,665	(506)	(2.23)	239,203	251,071	11,868	4.73
4	FUEL REVENUES (A-1, LINE 14) (NET OF REVENUE TAX)	23,960	22,665	(1,295)	(5.72)	243,523	241,841	(1,682)	(0.70)
5	TRUE-UP (COLLECTED) OR REFUNDED	457	457	0	0.00	5,027	5,027	0	0.00
6	FUEL REVENUE APPLICABLE TO PERIOD * (LINE 4 (+ or -) LINE 5)	24,417	23,122	(1,295)	(5.60)	248,550	246,868	(1,682)	(0.68)
7	TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	1,246	457	(789)	(172.73)	9,347	(4,203)	(13,550)	322.39
8	INTEREST PROVISION - THIS PERIOD (21)	(1)	0	1	100.00	(351)	(273)	78	100.00
9	BEGINNING OF PERIOD TRUE-UP AND INTEREST	(853)	(13,337)	(12,684)	95.10	(3,834)	(3,834)	0	0.00
10	TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	(457)	(457)	0	0.00	(5,027)	(5,027)	0	0.00
10a	FLEX RATE REFUND (if applicable)	0	0	0	0.00	0	0	0	0.00
11	TOTAL ESTIMATED/ACTUAL TRUE-UP (7+8+9+10+10a)	\$135	(\$13,337)	(\$13,472)	101.02	\$135	(\$13,337)	(\$13,472)	101.01
<b>INTEREST PROVISION</b>									
12	BEGINNING TRUE-UP AND INTEREST PROVISION (9)	(\$853)	(\$13,337)	(\$12,684)	95.10				
13	ENDING TRUE-UP BEFORE INTEREST (12+7-5)	138	(13,337)	(13,473)	101.02				
14	TOTAL (12+13)	(517)	(26,674)	(26,157)	98.06				
15	AVERAGE (50% OF 14)	(258)	(13,337)	(13,079)	98.06				
16	INTEREST RATE - FIRST DAY OF MONTH	5.53000%	0.00000%	-5.53000%	(100.00)				
17	INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	5.55000%	0.00000%	-5.55000%	(100.00)				
18	TOTAL (16+17)	11.08000%	0.00000%	-11.08000%	(100.00)				
19	AVERAGE (50% OF 18)	5.54000%	0.00000%	-5.54000%	(100.00)				
20	MONTHLY AVERAGE (19/12 Months)	0.46167%	0.00000%	-0.46167%	(100.00)				
21	INTEREST PROVISION (15x20)	(\$1)	\$0	\$1.19	(100.00)				

\* If line 5 is a refund add to line 4  
 If line 5 is a collection ( ) subtract from line 4

STATE OF FLORIDA

Commissioners:  
JULIA L. JOHNSON, CHAIRMAN  
J. TERRY DEASON  
SUSAN F. CLARK  
JOE GARCIA  
E. LEON JACOBS, JR.



DIVISION OF RECORDS & REPORTING  
BLANCA S. BAYO  
DIRECTOR  
(850) 413-6770

**Public Service Commission**

July 21, 1998

Jerry H. Melendy, Senior, President  
Sebring Gas System, Inc.  
3515 Highway 27 South  
Sebring, Florida 33870-5452

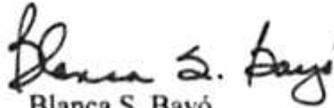
Re: Docket No. 980003 - GU - Sebring Gas System, Inc.  
Audit Report - PGA - Six-Month Period Ended March 31, 1998  
Audit Control # 98-160-3-1

Dear Mr. Melendy:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above case will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

  
Blanca S. Bayo

BSB/ABF  
Enclosure

cc: Public Counsel  
Division of Audit and Financial Analysis