

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

ORIGINAL

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**DATE:** August 1, 2007  
**TO:** Daniel Q. Lee, Engineering Specialist IV, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance W  
**RE:** Docket No: 070003-GU; Company Name: Florida City Gas;  
Audit Purpose: Purchased Gas Adjustment 2006  
Audit Control No: 07-067-4-1

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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 the response to the Division of Commission Clerk. There are no confidential work papers associated with this audit.

DNV:bj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of Commission Clerk (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

Mr. Charles A. Rawson, III  
Florida City Gas  
4180 South U.S. Highway 1  
Rockledge, FL 32955

Akerman Law Firm  
Beth Keating  
106 E. College Ave., Suite 1200  
Tallahassee, FL 32301

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**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF REGULATORY COMPLIANCE AND  
CONSUMER ASSISTANCE  
BUREAU OF AUDITING*

*Miami District Office*

**Florida City Gas Company  
Purchased Gas Adjustment Clause Audit  
Limited Scope Audit**

**Twelve Months Ended December 31, 2006**

**DOCKET #070003GU  
AUDIT CONTROL NO. 07-067-4-1**

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  
Professional Accountant Specialist*

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**July 27, 2007**

**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 purchased gas adjustment filing, docket 070003-GU.

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

## **OBJECTIVES AND PROCEDURES:**

**Objective:** To determine if the revenue recorded in the filing agrees with the ledger reported revenue and to determine if the customers were billed according to the utility billing schedule. And, to determine that the billing schedules were under the cap authorized by the Commission.

**Procedure:** We verified that the revenues contained in the Company's General Ledger are reflected on Schedule A-2. City Gas records these revenues in the cost of gas expense account. We verified these revenues to the billing registers.

We tested a sample of customer bills to verify that the appropriate PGA factor was charged. Audit finding four discusses the billing rates applied. City Gas did not change its rates at the beginning of the month as required by the order.

**Objective:** To determine that the cost of gas in the filing agreed with the ledger and could be traced to source documentation. And, to determine that affiliate transactions were properly recorded.

**Procedures:** We attempted to verify that the expenses contained in the Company's General Ledger agreed with Schedule A-2. However, the schedule did not agree because the company began recording the cost of gas in the true-up account along with the revenue and interest. Since the revenue was recorded in the cost of gas account and not the gas expense, this did not leave a clear audit trail because every entry had to be reconciled to the filing. Audit finding one discusses the general ledger balances for revenues and expenses.

The filing was traced to invoices. The invoices from the affiliate were traced to the Sequent cost of gas and compared to market rates. Audit findings two and three discuss the recorded cost of gas.

**Objective:** To determine that the calculation of the true up was correct and calculated using the appropriate interest rates and was properly recorded in the ledger.

**Procedures:** We recomputed the true-up for the period. We verified that the beginning true-up amount and interest rates as stated by the Company on the January A-2 filing were approved by the Florida Public Service Commission. The monthly true-up amounts, as recorded on Schedule A-2, were reconciled to the General Ledger.

We recomputed the final true-up filing, Schedule A7. The amounts on A-7 were agreed to the December cumulative A-2 and to appropriate Commission orders.

## AUDIT FINDING NO. 1

### SUBJECT: LEDGER REPORTING

**AUDIT ANALYSIS:** In the past, the utility recorded the amount paid for gas in a gas expense account, the revenue in a separate purchased gas revenue account, and the difference and interest in a true-up account. This year the utility changed its recording methodology. The gas expense account reconciles to purchased gas revenues. However, some months include entries booking gas costs, then subsequent revenue entries remove these costs from the amount booked for revenue. The gas invoices and cash out transactions are booked in the true-up account along with a credit for the revenue, and interest.

Commission Rule 25-7.014 (1) requires each natural gas utility to maintain its accounts and records in conformity with the Uniform System of Accounts for Natural Gas Companies (USOA) as found in the Code of Federal Regulations, Title 18, Subchapter F, Part 201. General Instruction 2A from 18 CFR Chapter 1 Part 201, states each "utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit ready identification, analysis, and verification of all facts relevant thereto." However, the individual line items for gas costs in the ledger could not be traced directly to the invoices or the filing. All entries that could not be directly reconciled had to be added together and reconciled to the cash outs in the filing.

According to 18 CFR Chapter 1 Part 201, Accounts 800 to 805 record different types of gas purchases as expenses depending on where ownership occurred. All state that the "account shall include the cost, at point of receipt of the utility of natural gas purchased" and requires that records supporting this account shall be so maintained that there shall be readily available for each vendor and for each point of receipt, the quantity of gas, basis of charges, and amount paid for the gas. Recording revenue in the gas expense does not agree with this description.

The net effect on the true-up account is the same, and the filing is correct. However, by recording all costs, and revenues in the true-up account, the audit trail is difficult to follow especially because individual line items in the true-up account could not be reconciled to the gas purchases and accruals. The cost of gas and the revenues had to be recomputed and several items in the ledger had to be compared in total in order to verify the accuracy of the ledger and the filing. The audit trail needs to be improved.

**EFFECT ON THE GENERAL LEDGER:** The ledger should be changed to properly record costs in an expense account and revenues in a revenue account. The difference should be booked in the true-up account with the interest.

**EFFECT ON THE FILING:** The company is not following required accounting procedures. This failure makes it more difficult for the Commission to verify the accuracy of the utility's filing. The utility should comply with the required accounting procedures.

## **AUDIT FINDING NO. 2**

### **SUBJECT: AFFILIATE GAS COSTS**

**AUDIT ANALYSIS:** The utility purchases most of its gas from Sequent Energy Management, an affiliate of Florida City Gas (FCG). The invoice from Sequent is based on an asset management agreement. The base load purchased by FCG is charged based on prices in the Platts "Inside FERC's Gas Market Report for Prices of Spot Gas Delivered to Pipelines" at the first of the month. Spot purchases are charged using the "Gas Daily" prices. Transportation costs and a factor for line losses are added to these costs.

Although there is no Commission rule for affiliate transactions in the natural gas industry, Commission policy regarding affiliate transactions is expressed in the electric rule, 25-6.1351 (3) (c) FAC, as follows:

"When a utility purchases services and products from an affiliate and applies the cost to regulated operations, the utility shall apportion to regulated operations the lesser of fully allocated costs or market price. Except, a utility may apportion to regulated operations more than fully allocated costs if the charge is less than or equal to the market price. If a utility apportions to regulated operations more than fully allocated costs, the utility must maintain documentation to support and justify how doing so benefits regulated operations and would be based on prevailing price valuation."

The utility calculation of costs charged to Florida City Gas is based on market price. Based on the rule, the amount recorded for the cost of gas needs to be the lower of cost or market. We requested the gas costs on June 8, 2007. Several documents were received from the utility but none contained the actual costs paid by Sequent. The information obtained enabled us to determine that all gas was priced at market rates. The utility needs to provide the actual costs paid by Sequent for gas sent to the Florida pipeline for the year and invoices for May, since May is the month we attempted to test to determine that the actual cost of gas is not less than market. The utility has requested more time to obtain this information. We will review this information when provided and issue a supplemental report if an adjustment is needed to the filing.

**EFFECT ON THE GENERAL LEDGER:** The effect on the ledger will be determined when further information is received.

**EFFECT ON THE FILING:** The effect on the filing will be determined when further information is received.



### AUDIT FINDING NO. 3

#### SUBJECT: Off System Sales

**AUDIT ANALYSIS:** Commission Order PSC-96-0482-FOF-GU discusses Off System Sales (OSS) for City Gas and states:

"City Gas will determine the Non Gas Energy Charge based on competitive conditions existing at the time of each transaction. City Gas has incorporated a 50/50 sharing mechanism in Rate Schedule OSS, whereby both City Gas and its customers benefit from the non gas revenues generated from the off-system or opportunity sales. That is, City Gas will retain 50% of non-gas revenues above the line, and the firm sales customers will receive 50% through a credit to the costs of purchases in the PGA clause. Because off-system sales will improve City Gas' system load factor and provide additional revenues to meet the company's revenue requirements, we find that the proposed Off-System Rate Schedule should be approved, to become effective March 19, 1996."

In May 2007, the utility booked \$442,122 as the 50% share of off system sales revenues for April 2005 to March 2006. The utility only books the revenue once a year. The support provided for the off system sales is not a calculation of off system sales revenue. The calculation determines aggregate net margin for Florida City Gas in accordance with its asset management agreement.

The computation includes revenues from Sequent's sales to Florida City Gas based on its invoices which include transportation costs and line loss allocations and its off system sales to arrive at total revenues. It then determines total costs for both types of sales based on market costs without transportation or line losses. Transportation costs are added in to determine total costs. The net of the revenue less the cost is considered the net margin. Fifty percent of that number is given back to City Gas.

The revenues for off system sales should be determined based on **only** off system sales less actual costs for those transactions, which could not be determined. Since Florida City Gas purchases are to be purchased at cost based on the last finding, 100% of any amount over cost for Florida City Gas purchases should be returned to Florida City Gas, not 50%.

The utility should provide corrected calculations of off system sales 50% credit using the correct calculation and costs. We will review these calculations when provided and provide a supplemental report at that time.

**EFFECT ON THE GENERAL LEDGER:** The effect on the ledger will be determined when further information is received.

**EFFECT ON THE FILING:** The effect on the filing will be determined when further information is received.

**AUDIT FINDING NO. 4**

**SUBJECT: BILLING RATES**

**AUDIT ANALYSIS:** Several bills were tested to determine if the utility used the rates specified in their monthly rate schedules. Some of the bills were found to be billed at the prior month's rate and BTU conversion factor, mainly in July. The prior month was billed at the correct rate as was the month after. An example follows for a bill in rate code 814-830 Commercial and Industrial GS 1.2:

MONTH	TOTAL OF ALL CONSUMPTION RATES PER RATE SCHEDULES	RATE PER BILL	
JANUARY	1.77741	1.77741	
FEBRUARY	1.59524	1.59524	
MARCH	1.44524	1.44524	
APRIL	1.44524	1.44524	
MAY	1.44524	1.44524	
JUNE	1.27524	1.27524	
JULY	1.20524	1.27524	JUNE RATE AND CONVERSION FACTOR USED
AUGUST	1.20524	1.20524	
SEPTEMBER	1.20524	1.20524	AUG RATE AND CONVERSION FACTOR USED
OCTOBER	1.14524	1.14524	
NOVEMBER	1.14524	1.14524	
DECEMBER	1.25524	1.25524	

The rates are under the cap specified in the last purchased gas adjustment order. The revenues in the clause are correct because they reflect what was billed to the customers. However, all customers should be billed the same rates each month. If some billing cycles are not billed each monthly code, then customers are not billed consistently with the other customers. Several bills tested in July used the June rates.

The utility changed its customer billing system in February 2007. As a result of this change, the detailed information such as account notes, itemized transactions and adjustments are not available to determine if bills rendered included prior months adjusted consumption or if the bill rendered is a re-bill from the prior month. The utility representatives believe these differences are caused by adjustments. However, all twelve months were reviewed for each customer and the June bills did not appear to be for prior month's usage.

The utility needs to change rates for each billing cycle monthly to make sure that each customer is billed the same rate each month as all of the other customers.

**EFFECT ON THE LEDGER:** There is no effect on the ledger. The utility needs to bill consistent rates in the future.

**EFFECT ON THE FILING:** The filing is not affected because the actual billed revenues were included using the billing registers.

**EXHIBITS**

Company Schedule A-7  
Company Schedule A-2

COMPANY: FLORIDA CITY GAS		FINAL FUEL OVER/UNDER RECOVERY		SCHEDULE A-7 (REVISED 4/30/01)
FOR THE PERIOD:		JANUARY 06	Through	DECEMBER 06
1	TOTAL ACTUAL FUEL COST FOR THE PERIOD		A-2 Line 3	\$37,939,241
2	TOTAL ACTUAL FUEL REVENUES FOR THE PERIOD		A-2 Line 6	<u>\$38,146,907</u>
3	ACTUAL OVER/(UNDER) RECOVERY FOR THE PERIOD (Line 2- Line 1)		A-2 Line 7	\$207,666
3a	ADJUSTMENTS		A-2 Line 10a	\$0
3b	OSS 50% MARGIN SHARING		A-2 Line 10b	\$442,112
4	INTEREST PROVISION		A-2 Line 8	<u>\$110,697</u>
5	ACTUAL OVER/(UNDER) RECOVERY FOR THE PERIOD (Lines 3 + 3a + 3b + 4)			\$760,475
6	LESS: ESTIMATED/ACTUAL OVER/(UNDER) RECOVERY FOR THE PERIOD JANUARY 06 Through DECEMBER 06 (From Schedule E-2) WHICH WAS INCLUDED IN THE CURRENT PERIOD RECOVERY FACTOR (JAN 07 through DEC 07)			<u>(\$770,441)</u>
7	FINAL FUEL OVER/(UNDER) RECOVERY TO BE INCLUDED IN THE PROJECTED PERIOD (JAN 08 Through DEC 08) (Line 5- Line 6)			<u>\$1,530,916</u>

FOR THE CURRENT PERIOD:

JANUARY 06 Through DECEMBER 06

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL PERIOD
<b>TRUE-UP CALCULATION</b>													
1 PURCHASED GAS COST	\$5,263,563	\$3,442,627	\$2,433,284	\$2,115,706	\$2,101,291	\$1,752,849	\$1,683,062	\$2,764,615	\$1,988,683	\$1,263,806	\$2,761,823	\$2,835,817	\$30,407,126
2 TRANSPORTATION COST	\$833,582	\$753,660	\$833,582	\$606,655	\$470,983	\$458,221	\$473,312	\$473,312	\$458,221	\$506,587	\$818,449	\$845,551	\$7,532,115
3 TOTAL COST	\$6,097,145	\$4,196,287	\$3,266,866	\$2,722,361	\$2,572,274	\$2,211,070	\$2,156,374	\$3,237,927	\$2,446,904	\$1,770,393	\$3,580,272	\$3,681,368	\$37,939,241
4 FUEL REVENUES (Net of Revenue Tax)	\$6,380,288	\$4,876,361	\$4,847,111	\$3,655,243	\$3,444,887	\$2,870,964	\$2,459,542	\$2,403,491	\$2,388,961	\$2,225,177	\$2,580,478	\$3,336,364	\$41,468,867
4a Under-recovery	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4b ADJUSTED NET FUEL REVENUES *	\$6,380,288	\$4,876,361	\$4,847,111	\$3,655,243	\$3,444,887	\$2,870,964	\$2,459,542	\$2,403,491	\$2,388,961	\$2,225,177	\$2,580,478	\$3,336,364	\$41,468,867
5 TRUE-UP (COLLECTED) OR REFUNDED	(\$276,831)	(\$276,831)	(\$276,831)	(\$276,831)	(\$276,831)	(\$276,831)	(\$276,831)	(\$276,831)	(\$276,831)	(\$276,831)	(\$276,831)	(\$276,819)	(\$3,321,960)
6 FUEL REVENUE APPLICABLE TO PERIOD (LINE 4 (+ or -) LINE 5)	\$6,103,457	\$4,599,530	\$4,570,280	\$3,378,412	\$3,168,056	\$2,594,133	\$2,182,711	\$2,126,660	\$2,112,130	\$1,948,346	\$2,303,647	\$3,059,545	\$38,146,907
7 TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	\$6,312	\$403,243	\$1,303,414	\$656,051	\$595,782	\$383,063	\$26,337	(\$1,111,267)	(\$334,774)	\$177,953	(\$1,276,625)	(\$621,823)	\$207,666
8 INTEREST PROVISION-THIS PERIOD (21)	(\$5,577)	(\$3,934)	\$320	\$5,439	\$10,245	\$14,871	\$17,595	\$16,456	\$14,421	\$15,355	\$14,194	\$11,312	\$110,697
8a ADJUST PRIOR MONTHS' INTEREST													\$0
9 BEGINNING OF PERIOD TRUE-UP AND INTEREST	(\$1,661,171)	(\$1,383,605)	(\$707,465)	\$873,100	\$1,811,421	\$3,136,391	\$3,811,156	\$4,131,919	\$3,313,939	\$3,270,417	\$3,740,556	\$2,754,956	(\$1,661,171)
10 TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	\$276,831	\$276,831	\$276,831	\$276,831	\$276,831	\$276,831	\$276,831	\$276,831	\$276,831	\$276,831	\$276,831	\$276,819	\$3,321,960
10a ADJUSTMENTS (if applicable)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10b OSS 50% MARGIN SHARING	\$0	\$0	\$0	\$0	\$442,112	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$442,112
11 TOTAL ESTIMATED/ACTUAL TRUE-UP (7+8+9+10+10a+10b)	(\$1,383,605)	(\$707,465)	\$873,100	\$1,811,421	\$3,136,391	\$3,811,156	\$4,131,919	\$3,313,939	\$3,270,417	\$3,740,556	\$2,754,956	\$2,421,264	\$2,421,264
<b>INTEREST PROVISION</b>													
12 BEGINNING TRUE-UP AND INTEREST PROVISION (9+10a)	(\$1,661,171)	(\$1,383,605)	(\$707,465)	\$873,100	\$1,811,421	\$3,136,391	\$3,811,156	\$4,131,919	\$3,313,939	\$3,270,417	\$3,740,556	\$2,754,956	
13 ENDING TRUE-UP BEFORE INTEREST (12+10b+7-5)	(\$1,378,028)	(\$703,531)	\$872,780	\$1,805,982	\$3,126,146	\$3,796,285	\$4,114,324	\$3,297,483	\$3,255,996	\$3,725,201	\$2,740,762	\$2,409,952	
14 TOTAL (12+13)	(\$3,039,199)	(\$2,087,136)	\$165,314	\$2,679,081	\$4,937,567	\$6,932,676	\$7,925,479	\$7,429,402	\$6,569,935	\$6,995,618	\$6,481,318	\$5,164,908	
15 AVERAGE (50% OF 14)	(\$1,519,600)	(\$1,043,568)	\$82,657	\$1,339,542	\$2,468,784	\$3,466,338	\$3,962,740	\$3,714,701	\$3,284,968	\$3,497,809	\$3,240,659	\$2,582,454	
16 INTEREST RATE - FIRST DAY OF MONTH	0.04300	0.04510	0.04530	0.04780	0.04960	0.05010	0.05290	0.05360	0.05270	0.05260	0.05270	0.05250	
17 INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	0.04510	0.04530	0.04780	0.04960	0.05010	0.05290	0.05360	0.05270	0.05260	0.05270	0.05250	0.05260	
18 TOTAL (16+17)	0.08810	0.09040	0.09310	0.09740	0.09970	0.10300	0.10650	0.10630	0.10530	0.10530	0.10520	0.10510	
19 AVERAGE (50% OF 18)	0.04405	0.04520	0.04655	0.04870	0.04985	0.05150	0.05325	0.05315	0.05265	0.05265	0.05255	0.05255	
20 MONTHLY AVERAGE (19/12 Months)	0.00367	0.00377	0.00388	0.00406	0.00415	0.00429	0.00444	0.00443	0.00439	0.00439	0.00438	0.00438	
21 INTEREST PROVISION (15x20)	(\$5,577)	(\$3,934)	\$320	\$5,439	\$10,245	\$14,871	\$17,595	\$16,456	\$14,421	\$15,355	\$14,194	\$11,311	