

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-**

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**DATE:** August 23, 2022

**TO:** Office of the Commission Clerk

**FROM:** Todd M. Brown, Chief of Auditing, Office of Auditing and Performance Analysis. 

**RE:** Docket No.: 20220069-GU  
Company Name: Florida City Gas  
Company Code: GU602  
Audit Purpose: A1a: Rate Case  
Audit Control No.: 2022-161-2-1

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Attached is the Revised (08.23.22) final audit report for the Utility stated above. I am sending the Utility a copy of this memo along with the Revised (08.23.22) audit report. Exhibits 1, 2, and 3, located on pages 6 through 8 of the audit report were incorrect and referenced a different docket. Exhibit 1 – Rate Base, Exhibit 2 – Net Operating Income, and Exhibit 3 – Capital Structure have been replaced in their entirety. These pages are the only corrections made to the final audit report.

TMB/cmm

Attachment: Revised (08.23.22) 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 Revised Report

Florida City Gas  
Rate Case Audit

Twelve Months Ended December 31, 2021

Docket No. 20220069-GU

Audit Control No. 2022-161-2-1

August 19, 2022

A handwritten signature in cursive script that reads "Ron Mavrides".

Ron Mavrides  
Audit Manager

A handwritten signature in cursive script that reads "Simon Ojada".

Simon Ojada  
Audit 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 June 8, 2022. We have applied these procedures to the attached schedules prepared by Florida City Gas in support of its filing for rate relief in Docket No. 20220069-GU.

The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

FCG/Utility refers to Florida City Gas.

FERC refers to the Federal Energy Regulatory Commission.

USOA refers to the FERC Uniform System of Accounts as adopted by Commission Rule 25-7.014 – Records and Reports in General, Florida Administrative Code (F.A.C.).

#### Background

Florida City Gas filed a petition for a permanent rate increase on May 31, 2022, with a historical test year ending December 31, 2021. In its Minimum Filing Requirements (MFRs), the Utility submitted schedules, and we applied our procedures to these schedules.

Florida City Gas is a wholly-owned subsidiary of Florida Power and Light Company (FPL) and FPL is a wholly owned subsidiary of NextEra Energy, Inc. (NextEra Energy), providing natural gas distribution to approximately 116,000 customers in Florida's Miami-Dade, Brevard, St. Lucie, and Indian River counties.

The Utility was granted rate relief by Order No. PSC-2004-0128-PAA-GU, issued February 9, 2004, in Docket No. 20030569-GU, using a projected test year ending September 30, 2004. FCG also filed a petition for a rate increase on October 20, 2017, with a historical test year ending December 31, 2016, in Docket No. 20170179-GU. In that docket, a Joint Motion in support of a Stipulation and Settlement Agreement (SSA) between the parties was filed on March 12, 2018. The SSA addressed all of the matters raised in the FCG rate case, and was approved by the Commission in Order No. PSC-2018-0190-FOF-GU, issued April 20, 2018.

## **Rate Base**

### Utility Plant in Service

**Objectives:** The objectives were to determine whether: 1) Utility plant in service (UPIS) exists and is owned by the utility, 2) Additions are authentic and recorded at original cost, 3) Proper retirements were made when a replacement asset was put into service, 4) UPIS is properly classified in compliance with the USOA, and 5) UPIS balances are properly stated based on Commission adjustments in the prior rate case in Order No. PSC-2004-0128-PA-GU, dated February 9, 2004. Additionally, the objective was to recalculate the 13-month average balance for UPIS as of December 31, 2021.

**Procedures:** Our scope of audit for UPIS was limited. We requested plant addition and retirement information since the last rate case in 2004. Audit staff was told by an FCG representative, that consistent with the responses provided to interrogatories and productions of documents responded to in this docket, FCG was providing plant addition starting from June 1, 2018, the effective date of FCG's current base rates. We received a summary of plant additions and retirements which were reduced by amounts recovered by cost recovery clauses since June 1, 2018, through December 31, 2021. We reconciled the 13-month average plant balances per the MFRs to the general ledger for the test year, including the adjustments to Rate Base. We sampled selected work orders for plant additions and retirements for the proper period, amount, and general ledger account. We reviewed the Utility's procedures for posting plant additions and retirements. No exceptions were noted.

### Construction Work in Progress:

**Objectives:** The objectives were to determine whether projects that are eligible to accrue allowances for funds used during construction (AFDUC) are excluded from rate base pursuant to Commission Rule 25-7.0141, F.A.C. – Allowances for Funds Used During Construction.

**Procedures:** We verified that there was no AFDUC charged to any projects in the test year.

### Accumulated Depreciation

**Objectives:** The objectives were to determine whether: 1) Accruals, retirements and adjustments to accumulated depreciation (AD) are properly recorded in compliance with the USOA, 2) The utility used the depreciation rates established in prior orders, and 3) Account balances are properly stated based on Commission adjustments in the prior rate case. In addition, the objective was to recalculate the 13-month average balance for AD as of December 31, 2021.

**Procedures:** We traced the accumulated depreciation amounts in the MFR's to the Utility's books and records for the test year. We recalculated the 13-month average balance for UPIS. We traced the depreciation rates to Commission Order No. PSC-2018-0190-FOF-GU, issued April 20, 2018. No exceptions were noted.

## Working Capital

**Objectives:** The objectives were: 1) To verify whether the working capital (WC) calculation is consistent with Commission practice, 2) To determine if any WC accounts are interest-bearing, and if interest-bearing, to provide the corresponding interest revenue or expense, along with how that interest expense or revenue was calculated, and it's location in the MFR's, and 3) To verify that purchase gas over-recoveries are included in WC and that under-recoveries are excluded from WC.

**Procedures:** We reconciled the WC accounts to the general ledger. We determined if any WC accounts were interest-bearing, and if so, was it consistent with Commission practice. We verified if purchase gas over-recoveries were included in WC and that under-recoveries are excluded from WC. No exceptions were noted.

## **Capital Structure**

**Objectives:** The objectives were: 1) To determine whether the non-utility assets supported by the Utility's capital structure were removed in the rate base/capital structure reconciliation, 2) The cost rates used in the computation of the cost of capital are appropriate, 3) The rate base adjustments were adjusted in the capital structure, and 4) To reconcile the Utility book amounts to the MFRs and the general ledger.

**Procedures:** We obtained the rate base/capital structure reconciliation and determined that the non-utility adjustments removed in rate base were removed in the capital structure. Audit staff traced the cost of capital cost rates for the historical base year to the debt documentation. We obtained a reconciliation of the rate base adjustments in the capital structure and traced it to the MFRs and to the general ledger. No exceptions were noted.

## **Net Operating Income**

### Operating Revenue

**Objectives:** The objectives were: 1) To verify that the revenues for the historical base year per the Utility's MFRs are representative of the Utility's books and records, 2) To verify that all classes of customer bills are calculated correctly and are in compliance with the tariffed rates, 3) To verify that unbilled revenues are calculated properly, and 4) To verify compliance with ordered adjustments.

**Procedures:** We reconciled the revenues reported on the MFRs to the General Ledger. We requested samples of all classes of customer bills and the tariffs, including the applicable competitive adjustment and swing charges. We recalculated all sample bills for accuracy and compliance with tariffed rates. We reviewed the unbilled revenues calculation for accuracy. We requested the Company to reconcile their differences between the revenue accounts per the ledgers and the filings. No exceptions were noted.

## Operation and Maintenance Expense

**Objectives:** The objectives were to determine whether 2021 operation and maintenance (O&M) expenses are properly recorded in compliance with the USOA, adequately supported by documentation, and recorded in the correct amount and period.

**Procedures:** We verified, based on judgmental samples of utility transactions, that the sample transactions are adequately supported by source documentation, utility in nature, and do not include non-utility items, and are recorded consistent with the USOA. We reviewed contracts and allocations between the Utility and affiliates for compliance with Rule 25-6.1351 – Cost Allocation and Affiliate Transactions, F.A.C. No exceptions were noted.

## Taxes Other Than Income (TOTI)

**Objectives:** The objectives were to determine whether TOTI is properly recorded and supported by adequate documentation.

**Procedures:** We verified, based on a sample of the Utility's transactions for selected TOTI accounts, that TOTI was adequately supported by source documentation. No exceptions were noted.

## **Other:**

### Analytical Review

**Objective:** The objective was to perform an analytical review of the Utility's rate case filing using prior annual reports filed with the Commission.

**Procedures:** Audit staff developed a three-year analytical review that compared the annual percentage changes from 2019 to 2021, in all O&M and revenue accounts. No exceptions were noted.

### Affiliate Transactions

**Objectives:** The objectives were to review intercompany charges to and from divisions, affiliated companies, and non-regulated operations, to determine if an appropriate amount of costs were allocated pursuant to Commission Rules, and to determine the original amounts allocated, whether the methodology was reasonable, and to check for accuracy and consistent application.

**Procedures:** Audit staff reviewed the Utility's policies and procedures relating to the recording of affiliate transactions and the cost/allocation manual for the parent company, Florida Power and Light, whose procedures are followed by FCG.



Audit Findings

**None**

## Exhibits

### Exhibit 1: Revised (08/23/22) Rate Base

Schedule B-2

Rate Base - 13 Month Average

Page 1 of 1

Florida Public Service Commission  
 Company: Florida City Gas  
 Docket No.: 20220069-GU

Explanation: Provide a schedule calculating a 13-month average rate base as adjusted for the historic base year.

Type Of Data Shown:  
 Historic Base Year Data: 12/31/21  
 Witness: Liz Fuentes

Line No.	Utility Plant	Average Per Books	Adjustment	Adjusted Average
1	PLANT IN SERVICE	\$ 521,622,640	\$ (30,083,403)	\$ 491,539,237
2	COMMON PLANT ALLOCATED	-	-	-
3	ACQUISITION ADJUSTMENT	21,656,835	-	21,656,835
4	PROPERTY HELD FOR FUTURE USE	-	-	-
5	CONSTRUCTION WORK IN PROGRESS	27,602,674	(3,658,086)	23,944,588
6	TOTAL PLANT	\$ 570,882,149	\$ (33,741,489)	\$ 537,140,660
	<u>DEDUCTIONS</u>			
7	ACCUM. DEPR. - UTILITY PLANT	\$ 187,020,332	\$ (781,287)	\$ 186,239,045
8	ACCUM. DEPR. - COMMON PLANT	-	-	-
9	ACCUM. AMORT. - ACQ. ADJ.	12,031,576	-	12,031,576
10	ACCUM. DEPR. - LEASEHOLD IMPR.	-	-	-
11	CUSTOMER ADV. FOR CONST.	-	-	-
12	TOTAL DEDUCTIONS	\$ 199,051,908	\$ (781,287)	\$ 198,270,621
13	PLANT NET	\$ 371,830,241	\$ (32,960,202)	\$ 338,870,039
	<u>ALLOWANCE FOR WORKING CAPITAL</u>			
14	BALANCE SHEET METHOD	\$ 28,932,348	\$ (15,212,528)	\$ 13,719,820
15	TOTAL RATE BASE	\$ 400,762,589	\$ (48,172,730)	\$ 352,589,859
16	NET OPERATING INCOME	\$ 18,751,697	\$ (1,646,275)	\$ 17,105,422
17	RATE OF RETURN	4.68%		4.85%

Supporting Schedules: B-1, B-3, B-4, B-5, B-6, B-7, B-8, B-11, B-12, B-13, C-1

Recap Schedules:

## Exhibit 2: Revised (08/23/22) Net Operating Income

Schedule C-1

Net Operating Income

Page 1 of 1

Florida Public Service Commission

Explanation: Provide the calculation of net operating income per books for the historic base year and the prior year

Type of Data Shown:  
Historic Base Year Date: 12/31/2021  
Historic Base Year - 1: 12/31/2020  
Witness: Liz Fuentes

Company: Florida City Gas

Docket No: 20220069-GU

Line No.		Net Operating Income - Historic Base Year Ended 12/31/2021					Jurisdictional Amount Proposed Rates
		(1) Prior Year Ended Total Company Per Books (Base Year - 1)	(2) Current Historic Base Year Ended Total Company Per Books	(3) Adjustments	(4) Company Adjusted (2) - (3)	(5) Revenue Adjustment	
1	OPERATING REVENUES	\$90,204,298	\$109,274,361	(\$46,078,882)	\$63,195,479	n/a	n/a
2	OPERATING EXPENSES						
3	OPERATION & MAINTENANCE	50,568,002	54,468,465	(30,001,038)	24,467,427		
4	DEPRECIATION & AMORTIZATION (A)	15,868,820	23,053,124	(7,963,171)	15,089,953		
5	TAXES OTHER THAN INCOME TAXES	8,666,876	9,054,448	(6,025,645)	3,028,803		
6	GAINS/LOSSES FROM DISPOSITION OF UTILITY PLANT	0	(113,767)	0	(113,767)		
7	INCOME TAXES						
8	- FEDERAL	3,086,866	3,152,920	(310,423)	2,836,467		
9	- STATE	366,193	347,066	(66,330)	280,739		
10	DEFERRED INCOME TAXES						
11	- FEDERAL	(1,810,905)	23,089	-	23,089		
12	- STATE	(32,660)	537,316	-	537,316		
13	INVESTMENT TAX CREDIT - NET	-	-	-	-		
14	TOTAL OPERATING EXPENSES	\$76,743,212	\$90,522,664	(\$44,432,607)	\$46,090,056		
15	OPERATING INCOME	\$13,521,086	\$18,751,697	\$ (1,646,275)	\$17,105,422		

NOTE

(A) HISTORIC BASE YEAR ENDED 12/31/2020 INCLUDES (\$56,884) OF AMORTIZATION OF GAINS FROM DISPOSITION OF UTILITY PLANT

Supporting Schedules: C-2, C-3, C-20, C-21

Recap Schedules

# Exhibit 3: Revised (08/23/22) Capital Structure

Schedule D-1

Cost of Capital - 13-Month Average

Page 1 of 2:

Florida Public Service Commission  
 Company: Florida City Gas  
 Docket No.: 20220069 GU

Explanation: Provide the company's 13-month average reconciled jurisdictional capital structure and cost rates for each class of capital for the historic base year of the current case and the historic base year or test year of the last rate case.

Type of Data Shown:  
 His. Base YR Last Case: 12/31/16  
 His. Base YR Current Case: 12/31/21  
 Witness: Liz Fuentes

Line No	(1) Class of Capital	Last Rate Case - Historic Base Year Ended 12/31/2016						Present Rate Case - Historic Base Year Ended 12/31/2021							
		(2) Dollars	(3) Rate	Cost Rate		Weighted Cost		(8) Amount Books	Adjustments		(11) Net	(12) Rate	(13) Cost Rate	(14) Weighted Cost	
				(4) Requested	(5) Approved (A)	(6) Requested	(7) Approved (A)		(9) Specific	(10) Prorata					
1	COMMON EQUITY	\$ 84,139,517	39.21%	11.25%	10.19%	4.41%	4.00%	\$ 165,581,593	\$ -	\$ (18,298,071)	\$ 147,283,522	41.77%	10.75%	4.49%	
2	LONG TERM DEBT	76,165,906	35.50%	4.75%	4.75%	1.69%	1.69%	100,065,235	(4,368,004)	(10,574,193)	85,113,038	24.14%	3.60%	0.87%	
3	SHORT TERM DEBT	13,480,467	6.23%	1.89%	1.89%	0.12%	0.12%	78,787,276	-	(8,705,615)	70,081,661	19.88%	0.75%	0.15%	
4	PREFERRED STOCK	-	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	0.00%	0.00%	0.00%	
5	CUSTOMER DEPOSITS	3,901,581	1.82%	2.73%	2.73%	0.05%	0.05%	3,609,806	-	(98,912)	3,210,894	0.91%	2.77%	0.03%	
6	TAX CROTS - 0 COST	6	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	0.00%	0.00%	0.00%	
7	TX CROTS - WTD CST	-	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	0.00%	0.00%	0.00%	
8	ACCUM DEFERRED RAC TAXES - 0 COST	36,891,759	17.19%	0.00%	0.00%	0.00%	0.00%	52,728,679	0	(5,826,935)	46,901,744	13.30%	0.00%	0.00%	
9	OTHER (EXPLAIN)	-	0.00%	0.00%	0.00%	0.00%	0.00%	-	-	-	-	0.00%	0.00%	0.00%	
10	TOTAL	\$ 214,579,236	100.00%			6.27%	5.85%	\$ 400,762,589	\$ (4,368,004)	\$ (43,804,726)	\$ 352,589,859	100.00%		5.53%	

\*The cost rate for common equity is the company's proposed rate.

NOTE: (A) FCG's last rate case (Docket No. 20170179 GU) resulted in Commission approval of a settlement agreement. Therefore, all cost rates reflected in column (5) represent projected data filed in Docket No. 20170179-GU, except for the 10.19% common equity cost rate that was specifically authorized in the settlement agreement.

Supporting Schedules: B-1 p.2

Recap Schedules: A-2