

State of Florida



Public Service Commission

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

DATE: July 25, 2003
TO: Division of Competitive Markets and Enforcement (Brown)
FROM: Division of Auditing and Safety (Vandiver) *V*
RE: **Docket No.** 030004-GU; **Company Name:** City Gas Company of Florida; **Audit Purpose:** Conservation Gas Cost Recovery Clause;
Audit Control No. 03-037-4-1

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 the response to the Division of the Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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FLORIDA PUBLIC SERVICE COMMISSION


***DIVISION OF AUDITING & SAFETY
BUREAU OF AUDITING***

Miami District Office

CITY GAS COMPANY OF FLORIDA
CONSERVATION COST RECOVERY CLAUSE
HISTORICAL YEAR END DECEMBER 31, 2002

DOCKET NO.030004-GU

AUDIT CONTROL NO.03-037-4-1



Yen Ngo, Audit Manager



Kathy Welch, District Supervisor

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**DIVISION OF AUDITING & SAFETY
AUDITOR'S REPORT
July 3, 2003**

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described in this report to audit the Conservation Cost Recovery schedules for the historical 12-month period ended December 31, 2002 for City Gas Company. These schedules were prepared by the utility as part of its petition for Conservation Cost Recovery in Docket No.030004-GU. There is confidential information associated with this audit.

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.

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 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 errors or inconsistency.

Reviewed - The exhibit amounts were reconciled with the general ledger, The general account balances were traced to the subsidiary ledgers, and selective analytical review procedures were applied.

Examined - The exhibit amounts were reconciled with the general ledger. The general account balances were traced to the subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

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

Verified - The item was tested for accuracy, and substantiating documentation was examined.

REVENUES: Examined the revenues from the general ledger and reconciled them to the Company schedules CT-3. Compiled the terms sold from the company's revenue worksheets and applied the applicable rate factors approved in Commission orders. Reconciled the revenue calculation to the company's CT-3 schedules. Recomputed bills for various rate classes to determine that the applicable factor was actually charged.

EXPENSES: Examined expense amounts in the general ledger and reconciled them to the company's CT-3 schedules. Staff tested 100% of all advertising expenses by tracing to the invoices and advertisements. From the company's prepaid printout of incentives, staff pulled a judgmental sample. The incentive expenses were traced to vouchers, invoices, and sales contracts. Benefits, payroll, and common costs were also tested through sample selection.

TRUE-UP: Recalculated the true-up and verified the beginning true-up to the orders and the interest rates to the Wall Street Journal.

II. EXCEPTIONS

Exception No.1

Subject: Payroll

**PAGES 3 - 8
CONFIDENTIAL**

Interest Rates per Wall Street Journal Commercial Paper Interest- first day reporting 30 day commercial paper rate per Tallahassee memo

January 2002	Month 1	1.780%	July 2002	Month 7	1.750%
February 2002	Month 2	1.770%	August 2002	Month 8	1.730%
March 2002	Month 3	1.750%	September 200	Month 9	1.710%
April 2002	Month 4	1.800%	October 2002	Month 10	1.760%
May 2002	Month 5	1.750%	November 200	Month 11	1.650%
June 2002	Month 6	1.770%	December 200	Month 12	1.300%

Interest- first day reporting of subsequent month January 2003 1.290%

INTEREST RATES

	2002 JAN	2002 FEB	2002 MARCH	2002 APRIL	2002 MAY	2002 JUNE	2002 JULY	2002 AUGUST	2002 SEPTEMBER	2002 OCTOBER	2002 NOVEMBER	2002 DECEMBER	TOTAL
Beginning	1.780%	1.770%	1.750%	1.800%	1.750%	1.770%	1.750%	1.730%	1.710%	1.760%	1.650%	1.300%	
Ending	1.770%	1.750%	1.800%	1.750%	1.770%	1.750%	1.730%	1.710%	1.760%	1.650%	1.300%	1.290%	
Total	3.550%	3.520%	3.550%	3.550%	3.520%	3.520%	3.480%	3.440%	3.470%	3.410%	2.950%	2.590%	
Average	1.775%	1.760%	1.775%	1.775%	1.760%	1.760%	1.740%	1.720%	1.735%	1.705%	1.475%	1.295%	
Monthly Average	0.148%	0.147%	0.148%	0.148%	0.147%	0.147%	0.145%	0.143%	0.145%	0.142%	0.123%	0.108%	

CALCULATION OF TRUE-UP

Total Revenues-net of tax, (Line 4)	(185,500)	(163,497)	(172,018)	(132,498)	(124,756)	(128,309)	(126,299)	(129,134)	(119,736)	(121,672)	(140,124)	(153,898)	(1,697,441)
Prior True-up (Line 5)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(745,761)
Total revenue to current period	(247,647)	(225,644)	(234,165)	(194,645)	(186,903)	(190,456)	(188,446)	(191,281)	(181,883)	(183,819)	(202,271)	(216,045)	(2,443,202)
Conservation Expenses (Line 7)	186,441	192,771	165,039	182,304	172,039	158,704	202,060	197,153	176,626	181,420	152,822	200,711	2,168,090
Payroll Adjustments		171			1,670						2,447		4,288
Adjusted Conservation Expense	186,441	192,942	165,039	182,304	173,709	158,704	202,060	197,153	176,626	181,420	155,269	200,711	
True-up this period (Line 8)	(61,206)	(32,702)	(69,126)	(12,341)	(13,194)	(31,752)	13,614	5,872	(5,257)	(2,399)	(47,002)	(15,334)	(270,824)
Interest provision (Line 9)	(1,102)	(1,072)	(1,067)	(1,036)	(957)	(900)	(814)	(703)	(620)	(527)	(411)	(327)	(9,536)
True-up & interest beginning (Line 10)	(745,761)	(745,922)	(717,550)	(725,595)	(676,826)	(628,829)	(599,334)	(524,387)	(457,071)	(400,801)	(341,580)	(326,845)	
Prior true-up coll. refunded	62,147	62,147	62,147	62,147	62,147	62,147	62,147	62,147	62,147	62,147	62,147	62,147	745,761
Total net true-up (Revised)	(745,922)	(717,550)	(725,595)	(676,826)	(628,829)	(599,334)	(524,387)	(457,071)	(400,801)	(341,580)	(326,845)	(280,360)	
True-up for the month CO. FILING	(745,923)	(717,724)	(725,768)	(676,998)	(630,675)	(601,182)	(526,237)	(458,925)	(402,657)	(343,439)	(331,155)	(284,671)	(284,671)
Difference	1	174	173	172	1,846	1,848	1,850	1,854	1,856	1,859	4,310	4,311	

CALCULATION OF INTEREST

Beginning true up and int.	(745,761)	(745,922)	(717,550)	(725,595)	(676,826)	(628,829)	(599,334)	(524,387)	(457,071)	(400,801)	(341,580)	(326,845)	(6,890,502)
Ending true-up before int	(744,820)	(716,477)	(724,529)	(675,789)	(627,872)	(598,434)	(523,573)	(456,368)	(400,181)	(341,053)	(326,435)	(280,032)	(6,415,564)
Total	(1,490,581)	(1,462,400)	(1,442,078)	(1,401,384)	(1,304,698)	(1,227,263)	(1,122,907)	(980,756)	(857,252)	(741,854)	(668,015)	(606,878)	(13,306,066)
Average true up	(745,291)	(731,200)	(721,039)	(700,692)	(652,349)	(613,632)	(561,454)	(490,378)	(428,626)	(370,927)	(334,007)	(303,439)	(6,653,033)
Interest rate per above	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%	0.14%	0.14%	0.14%	0.12%	0.11%	
Interest per staff	(1,102)	(1,072)	(1,067)	(1,036)	(957)	(900)	(814)	(703)	(620)	(527)	(411)	(327)	(9,536)
True-up for the month per (WP 2) Company's Filing	(1,102)	(1,073)	(1,067)	(1,037)	(958)	(903)	(817)	(706)	(622)	(530)	(414)	(329)	(9,558)
Difference	0	1	0	1	1	3	3	3	2	3	3	2	22

Source: Company prepared schedule A-2

III. DISCLOSURES

Disclosure No. 1

Subject: Incentives

Statement of Fact: The company incorrectly booked the ECP3 incentives to ECP7 incentives. The following mistakes were discovered based on random sample testing:

<u>Sample Item No.</u>	<u>Program</u>	<u>Date</u>	<u>Amount Booked</u>	<u>Amount Removed</u>
19	ECP7	1/31/02	3,625.00	1,575.00
20	ECP7	2/28/02	1,575.00	<u>525.00</u>
Total to be booked to ECP3 (Account 606.877)				<u><u>2,100.00</u></u>

Since the adjustment results in the transferring of the incentive expense from ECP7 to EC3, the outcome does not affect the final true-up.

IV. EXHIBITS

ACTUAL CONSERVATION PROGRAM COSTS PER PROGRAM
JANUARY 2002 THROUGH DECEMBER 2002

PROGRAM NAME	CAPITAL INVESTMENT	PAYROLL & BENEFITS	MATERIALS & SUPPLIES	ADVERTISING	INCENTIVES	OUTSIDE SERVICES	VEHICLE	OTHER	TOTAL
PROGRAM 1: SINGLE FAMILY HOME BUILDER	-	123,685	-	15,883	1,099,602	-	9,399	-	1,248,569
PROGRAM 2: MULTI FAMILY HOME BUILDER	-	9,849	-	-	16,706	-	1,717	-	28,272
PROGRAM 3: ELECTRIC REPLACEMENT	-	88,767	-	89,116	91,457	-	5,311	-	274,651
PROGRAM 4: DEALER PROGRAM	-	-	-	-	-	-	-	-	-
PROGRAM 5: SCHOOLS PROGRAM	-	-	-	-	-	-	-	-	-
PROGRAM 6: PROPANE CONVERSION	-	14	-	-	-	-	75	-	89
PROGRAM 7: WATER HEATER RETENTION	-	29,848	-	-	32,125	-	1,364	-	63,337
PROGRAM 8: RESIDENTIAL CUT AND CAP	-	14,632	-	-	3,768	-	814	-	19,214
PROGRAM 9: COMM/IND CONVERSION	-	264,157	-	-	21,317	-	13,091	-	298,565
PROGRAM 10: ALTERNATIVE TECHNOLOGY	-	4,672	-	2,450	-	-	1,603	-	8,725
COMMON COSTS	-	36,532	-	149,715	-	39,330	1,091	-	226,668
TOTAL TOTAL OF ALL PROGRAMS	-	572,156	-	257,164	1,264,975	39,330	34,465	-	2,168,090

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ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION
JANUARY 2002 THROUGH DECEMBER 2002

	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Total
1 RCS AUDIT FEES	-	-	-	-	-	-	-	-	-	-	-	-	-
2 OTHER PROGRAM REVS	-	-	-	-	-	-	-	-	-	-	-	-	-
3 CONSERV ADJ REVS	(185,501)	(163,497)	(172,018)	(132,498)	(124,757)	(128,309)	(126,298)	(129,135)	(119,736)	(121,672)	(140,124)	(153,898)	(1,697,443)
4 TOTAL REVENUES	(185,501)	(163,497)	(172,018)	(132,498)	(124,757)	(128,309)	(126,298)	(129,135)	(119,736)	(121,672)	(140,124)	(153,898)	(1,697,443)
5 PRIOR PERIOD TRUE UP NOT APPLICABLE TO THIS PERIOD	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,147)	(62,144)	(745,761)
6 CONSERVATION REVENUES APPLICABLE TO THE PERIOD	(247,648)	(225,644)	(234,165)	(194,645)	(186,904)	(190,456)	(188,445)	(191,282)	(181,883)	(183,819)	(202,271)	(216,042)	(2,443,204)
7 CONSERVATION EXPENSES (FROM CT-3, PAGE 1)	186,441	192,771	165,039	182,304	172,039	158,704	202,060	197,153	176,626	181,420	152,822	200,711	2,168,090
8 TRUE-UP THIS PERIOD	(61,207)	(32,873)	(69,126)	(12,341)	(14,865)	(31,752)	13,615	5,871	(5,257)	(2,399)	(49,449)	(15,331)	(275,114)
9 INTEREST PROVISION THIS PERIOD (FROM CT-3 PAGE 3)	(1,102)	(1,073)	(1,067)	(1,037)	(958)	(903)	(817)	(706)	(622)	(530)	(414)	(329)	(9,557)
10 TRUE-UP & INTER PROV BEGINNING OF MONTH	(745,761)	(745,923)	(717,722)	(725,768)	(676,998)	(630,675)	(601,182)	(526,237)	(458,925)	(402,657)	(343,439)	(331,155)	
11 PRIOR PERIOD TRUE UP COLLECTED/(REFUNDED)	62,147	62,147	62,147	62,147	62,147	62,147	62,147	62,147	62,147	62,147	62,147	62,144	
12 TOTAL NET TRUE UP (SUM LINES 8+9+10+11)	(745,923)	(717,722)	(725,768)	(676,998)	(630,675)	(601,182)	(526,237)	(458,925)	(402,657)	(343,439)	(331,155)	(284,671)	(284,671)

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CALCULATION OF TRUE-UP AND INTEREST PROVISION
JANUARY 2002 THROUGH DECEMBER 2002

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	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Total
INTEREST PROVISION													
1. BEGINNING TRUE-UP	(745,761)	(745,923)	(717,722)	(725,768)	(676,998)	(630,675)	(601,182)	(526,237)	(458,925)	(402,657)	(343,439)	(331,155)	
2. ENDING TRUE-UP BEFORE INTEREST	(744,821)	(716,649)	(724,701)	(675,962)	(629,716)	(600,280)	(525,420)	(458,219)	(402,035)	(342,909)	(330,741)	(284,342)	
3. TOTAL BEGINNING & ENDING TRUE-UP	(1,490,582)	(1,462,573)	(1,442,423)	(1,401,730)	(1,306,715)	(1,230,954)	(1,126,603)	(984,456)	(860,959)	(745,586)	(674,180)	(615,497)	
4. AVERAGE TRUE-UP* (LINE 3 TIMES 50%)	(745,291)	(731,286)	(721,211)	(700,865)	(653,357)	(615,477)	(563,301)	(492,228)	(430,480)	(372,783)	(337,090)	(307,749)	
5. INTER. RATE - 1ST DAY OF REPORTING MONTH	1.780%	1.770%	1.750%	1.800%	1.750%	1.770%	1.750%	1.730%	1.710%	1.760%	1.650%	1.300%	
6. INTER. RATE - 1ST DAY OF SUBSEQUENT MONTH	1.770%	1.750%	1.800%	1.750%	1.770%	1.750%	1.730%	1.710%	1.760%	1.650%	1.300%	1.290%	
7. TOTAL (SUM LINES 5 & 6)	3.550%	3.520%	3.550%	3.550%	3.520%	3.520%	3.480%	3.440%	3.470%	3.410%	2.950%	2.590%	
8. AVG INTEREST RATE (LINE 7 TIMES 50%)	1.775%	1.760%	1.775%	1.775%	1.760%	1.760%	1.740%	1.720%	1.735%	1.705%	1.475%	1.295%	
9. MONTHLY AVG INTEREST RATE	0.148%	0.147%	0.148%	0.148%	0.147%	0.147%	0.145%	0.143%	0.145%	0.142%	0.123%	0.108%	
10. INTEREST PROVISION (LINE 4 TIMES LINE 9)	(1,102)	(1,073)	(1,067)	(1,037)	(958)	(903)	(817)	(706)	(622)	(530)	(414)	(329)	(9,557)
10 a INT ADJ													