State of Florida

Public Service Commission

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

DATE: March 2, 2004
TO: Division of Economic Regulation (Merta)
FROM: Division of Auditing and Safety (Vandiver) DV
RE: **Docket No.** 030954-GU; **Company Name:** Indiantown Gas Company; **Audit Purpose:** Rate Case Audit; **Audit Control No.** 03-365-4-1

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 no 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

Robert Scheffel Wright, Esq./John LaVia, III, Esq.
Landers Law Firm
P. O. Box 271
Tallahassee, FL 32302

Mr. Brian J. Powers
Indiantown Gas Company
P. O. Box 8
Indiantown, FL 34956

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY

Miami District Office

INDIANTOWN GAS COMPANY

RATE CASE AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2002
FORECAST YEAR ENDED DECEMBER 31, 2004

DOCKET #030954-GU
AUDIT CONTROL NO. 03-365-4-1

Ruth K. Young
Audit Manager

Ray Grant
Audit Staff

Yen Ngo
Audit Staff

Kathy Welch
Audit Supervisor

TABLE OF CONTENTS

I.	**AUDITOR'S REPORT**		**PAGE**
	AUDIT PURPOSE		1
	DISCLAIM PUBLIC USE		1
	SUMMARY OF SIGNIFICANT PROCEDURES		2
II.	**AUDIT EXCEPTIONS**		
	1.	ACCOUNT 376-MAINS	4
	2.	ALLOCATION OF NON-UTILITY COMMON PLANT	7
	3.	WORKING CAPITAL - DEFERRED DEBITS	12
	4.	WORKING CAPITAL - INVENTORY ACCOUNTS	14
	5.	WORKING CAPITAL - CASH	16
	6.	WORKING CAPITAL - ACCOUNT RECEIVABLE	19
	7.	FORECASTED REVENUE FOR 2004	20
	8.	TELEPHONE EXPENSES	22
	9.	PAYROLL FOR METER READER	24
	10.	PENSION FORECAST	25
	11.	CLEARING AND PAYROLL ALLOCATIONS	26
	12.	CLEARING ACCOUNT ADJUSTMENT AND ALLOCATIONS	31
	13.	ACCOUNT 923-OUTSIDE SERVICES	36
	14.	PROPERTY TAXES	38
III.	**AUDIT DISCLOSURES**		
	1.	LAND	40
	2.	DEBT/EQUITY RATIO	41
	3.	LONG TERM DEBT - 2004	42
	4.	NEW PAYROLL POSITIONS AND INCREASES FORECAST FOR 2004	45
	5.	PAYROLL TREND RATE	46
	6.	TRAVEL AND ENTERTAINMENT EXPENSES	47
	7.	RETIREMENT OF CHIEF EXECUTIVE OFFICER	48

TABLE OF CONTENTS

IV. COMPANY EXHIBITS - HISTORICAL 2002; FORECAST 2003 AND 2004

RATE BASE 51

NET OPERATING INCOME 52

COST OF CAPITAL 53

DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT

FEBRUARY 26, 2004

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described in this report to audit the schedules of Rate Base, Net Operating Income and Capital Structure for the historical 12-month period ended December 31, 2002 and forecast 12-month period ended December 31, 2004 for Indiantown Gas Company. These schedules were prepared by the utility as part of its petition for rate increase Docket No. 030954-GU.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must 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.

RATE BASE: Reconstructed utility plant in service from 1964 through 2003. Examined account balances for these years by testing invoices and journal entries. Also, obtained engineering estimates for original distribution plant, and obtained documentation for land. Obtained company estimates for forecasted plant, and reviewed these with staff engineer.

Recalculated accumulated depreciation from 1998 through 2003. Common plant in service allocations were reviewed.

Working capital accounts for 2002 were reconciled to the general ledger. For 2003 working capital accounts were reconciled to the ledger as of October 31, 2003. Tested selected accounts to determine if charges were appropriate and utility related.

COST OF CAPITAL: Compiled components of the capital structure for the year ended December 31, 2002. Examined long term debt instruments for the year ended December 31, 2002. Agreed interest expense to the terms of the notes. The methods for projecting the components for 2003 and 2004 were reviewed.

NET OPERATING INCOME: Compiled the revenues, operating, and maintenance accounts for the year ended December 31, 2002. The therms and number of customers forecast for 2004 were tested by agreeing the data used to appropriate documents. The revenue forecast for 2004 was recalculated using the forecast number of therms and customers. Examined expense account balances for 2002 and 2003 by testing invoices and verified allocations to regulated and non-regulated operations. Reviewed the supporting documentation for the projections not based on trends. Tested the calculation of depreciation expense from 1998 through 2003. Examined support for taxes other than income and income taxes for 2002, and reviewed the projection for 2004.

OTHER: Read board of directors' minutes for the twelve-month period ended December 31, 2002.

AUDIT EXCEPTION NO. 1

SUBJECT: ACCOUNT 376-MAINS

STATEMENT OF FACTS: Prior to 1970, the company recorded the installation of a gas distribution system on the Continuing Property Records (CPRs) at $182,252.35. The company could not provide any invoices supporting the amount recorded on the CPR and included in plant in service. The only documentation supporting the distribution main installed prior to 1970 was capitalized payroll expense of $118,339.51 and Allowance for Funds Used During Construction of $6,110.57.

OPINION: Because the company could not provide any documentation for the gas distribution system recorded on the CPR's and included in plant, the company determined by aerial mapping that 11,689 linear feet(lf) of mains were installed from 1964 through 1969. The amount of services related to the mains were 239.

A staff engineer prepared an approximate original cost estimate for the Indiantown Distribution System installed between 1964 and 1970 using the Handy-Whitman Index of Public Utility Cost Trends. The costs associated with 11,689 lf of 3/4 inch steel main would be approximately $28,923. The installation of 239 3/4 inch service-lines would be $71,982. The total original cost of the distribution system is estimated to be approximately $100,905. The company recorded these costs on the CPR's at $182,252.35 for a difference of $81,347.35

The utility provided evidence that it did not capitalize 4,435 linear feet of mains with 34 services installed in the New Hope Subdivision in Booker Park in 1980. A staff engineer prepared an approximate original cost estimate for the Booker Park Distribution System, using the Handy-Whitman Index of Public Utility Cost Trends. The staff engineer's calculation for the Booker Park Distribution System is estimated to be approximately $30,536. When the $30,536 is subtracted from the difference prior to 1970, of $81,347.35 the net adjustment is $50,811.35. The net adjustment is computed as follows:

Total Distribution System on CPR's	$182,252.35
Less: Engineering Estimate	$100,905.00
Difference	$ 81,347.35
Less : Mains for New Hope Not Capitalized	$ 30,536.00
Difference Plant in Service Overstated	$ 50,811.35

The allowance for funds used during construction was not approved in an order and was removed in this adjustment by the adjustment to the engineer's estimate.

The calculation of accumulated depreciation related to this difference is as follows:

	Plant	Years	Rate	Acc/Dep 2004	Dep. Exp 2004
1969	($81,347.35)	35	2.3%	$ 65,486.61	($1,870.98)
1980	$ 30,536.00	24	2.3%	($16,850.35)	$ 702.32

The entries to record the adjustment to plant and accumulated depreciation follows:

		Debits	**Credits**
1.	Inter-company Receivable	$81,347.35	
	Utility Plant In Service		$81,347.35

To remove from utility plant, the undocumented costs associated with gas distribution system

2.	Plant In Service	$30,536.00	
	Inter-company Receivable		$30,536.00

To include in plant in service, mains installed but were not capitalized.

3.	Accumulated Depreciation	$65,486.61	
	Depreciation Expense		$ 1,870.98
	Retained Earnings		$63,615.63

To adjust accumulated depreciation at 12/31/2004 for undocumented plant of $81,347.35.

4.	Depreciation Expense	$ 702.32	
	Retained Earnings	$16,148.03	
	Accumulated Depreciation		$16,850.35

To adjust accumulated depreciation at 12/31/2004 for mains installed of $30,536 not capitalized.

AUDIT EXCEPTION NO. 2

SUBJECT: ALLOCATION OF NON-UTILITY COMMON PLANT

STATEMENT OF FACTS: On Schedule B-5 page 1 of 3 , G-1 page 15 of 28 and G-1 page18 of 28, the company allocated non-utility common plant for 2002, 2003 and 2004 using a non-utility factor of 6.2%. The 6.2 % was calculated using net non-utility plant to total net plant. On Schedule B-11 page 1 of 1 , G-1 page 21 of 28 and G-1 page22 of 28, the company allocated the non-utility accumulated depreciation for common plant for 2002, 2003 and 2004 using non-utility factor of 6.2%. Schedule C-19 page 1 of 1 , G-2 page 22 of 31 and G-2 page2 of 31, show the company allocated depreciation expense allocated to common plant the same way.

OPINION: Staff determined that using the percentage of total non-utility plant to total plant may not be the most reasonable method to allocate common plant. A three- factor method of 57.07% for utility and 42.93% for non-utility was prepared using 2003 data and is discussed in another disclosure in this report. Tools and power operated equipment were not allocated because they were determined to be 100% utility related. Detailed schedules for common plant, accumulated depreciation and depreciation expense follow. The summary of these schedules is shown below.

	Per Company MFR's	Per Staff	Difference
2002 Common Plant Per B-5 pg 1 of 3	**$ 391,237.00**	**$ 391,237.00**	
Non-Utility Common Plant	**$ 23,247.00**	**$ 161,175.53**	**$137,928.53**
2003 Common Plant Per G-1 pg 15 of 28	**$ 391,470.00**	**$ 391,470.00**	
Non-Utility Common Plant	**$ 23,258.00**	**$ 161,254.52**	**$137,996.52**
2004 Common Plant Per G-1 pg 18 of 28	**$ 439,328.00**	**$439,328.00**	
Non-Utility Common Plant	**$ 24,750.00**	**$ 171,583.91**	**$146,833.91**

	Per Company MFR's	Per Staff	Difference
2002 Acc. Dep. Common Plant B-11 pg 1 of 1	**$ 116,159.00**	**$ 116,159.00**	
Non-utility Acc. Dep. Common Plant	**$ 6,836.00**	**$ 47,398.00**	**$ 40,562.15**
2003 Acc. Dep. Common Plant G-1 pg 21 of 28	**$ 137,416.00**	**$ 137,416.00**	
Non-utility Acc. Dep. Common Plant	**$ 8,095.00**	**$ 56,121.96**	**$ 48,026.96**
2004 Acc. Dep. Common Plant G-1 pg 22 of 28	**$ 131,671.00**	**$ 131,671.00**	
Non-utility Acc. Dep. Common Plant	**$ 7,984.00**	**$ 55,354.37**	**$ 47,370.37**

	Per Company MFR's	Per Staff	Difference
2002 Dep. Exp. Common Plant C-19 pg 1 of 1	$ 33,919.00	$ 33,919.00	
Non-utility Depreciation	$ 2,046.00	$ 14,187.42	$ 12,141.51
2003 Dep. Exp. Common Plant-G-2 pg 22 of 31	$30,132.00	$ 30,133.00	
Non-utility Depreciation	$ 1,805.00	$ 12,519.25	$ 10,714.25
2004 Dep. Exp. Common Plant-G-2 pg 26 of 31	$36,367.00	$36,367.00	
Non utility Depreciation	$ 2,114.00	$ 14,654.58	$ 12,540.58

An adjustment should be made to increase non utility common plant for 2002, 2003 and 2004 by $137,928.53, $137,996.52 and $146,833.91 respectively.

An adjustment should be made to increase non utility depreciation expense for 2002. 2003 and 2004 by $40,562.15, $48,026.96 and $47,370.37 respectively.

An adjustment should be made to increase non utility depreciation expense for 2002. 2003 and 2004 by $12,141.51, $10,714.25 and $12,540.58 respectively.

Company: Indiantown Gas Co
Title: Allocation Common Plant
Period: 2002-2004
Date: Feb 26, 2004

Act No	Description	(1) 2002 Per Co	(2) Non Utility Per Company	(3) 2002 Per Co	(4) Three Factor Method	(5) 2002 Per Staff	(6) Difference (5)-(3)
390	Structures & Improvements	$171,895.00	0.062	$10,644.00	0.4293	$73,794.52	$63,150.52
391	Office Furn & Equip	$26,557.00	0.062	$1,644.00	0.4293	$11,400.92	$9,756.92
391	Office Computers	$31,154.00	0.062	$1,929.00	0.4293	$13,374.41	$11,445.41
392	Transportation Equipment	$142,199.00	0.062	$8,805.00	0.4293	$61,046.03	$52,241.03
393	Stores Equipment						$0.00
394	Tools & Work Equip	$5,975.00	0	$0.00	NOTE A	$0.00	$0.00
396	Power Operated Equipment	$9,824.00	0	$0.00	NOTE A	$0.00	$0.00
397	Communication Equip	$3,633.00	0.062	$225.00	0.4293	$1,559.65	$1,334.65
398	Misc. Equip		0.062	$0.00	0.4293	$0.00	$0.00
		$391,237.00		$23,247.00		$161,175.53	$137,928.53

Act No	Description	(1) 2003 Per Co	(2) Non Utility Per Company	(3) 2003 Per Co	(4) Three Factor Method	(5) 2003 Per Staff	(6) Difference (5)-(3)
389	Land & Land Rights	$1,134.00	0.062	$70.00	0.4293	$486.83	$416.83
390	Structures & Improvements	$171,895.00	0.062	$10,644.00	0.4293	$73,794.52	$63,150.52
391	Office Furn & Equip	$27,774.00	0.062	$1,720.00	0.4293	$11,923.38	$10,203.38
391	Office Computers	$30,676.00	0.062	$1,899.00	0.4293	$13,169.21	$11,270.21
392	Transportation Equipment	$140,510.00	0.062	$8,700.00	0.4293	$60,320.94	$51,620.94
393	Stores Equipment						$0.00
394	Tools & Work Equip	$6,024.00	0	$0.00	NOTE A	$0.00	$0.00
396	Power Operated Equipment	$9,824.00	0	$0.00	NOTE A	$0.00	$0.00
397	Communication Equip	$3,633.00	0.062	$225.00	0.4293	$1,559.65	$1,334.65
398	Misc. Equip		0.062	$0.00	0.4293	$0.00	$0.00
		$391,470.00		$23,258.00		$161,254.52	$137,996.52

Act No	Description	2004 Per Co (1)	Non Utility Per Company (2)	2004 Per Co (3)	Three Factor Method (4)	2004 Per Staff (5)	Difference (6)
389	Land & Land Rights	$2,948.00	0.062	$183.00	0.4293	$1,265.58	$1,082.58
390	Structures & Improvements	$171,895.00	0.062	$10,644.00	0.4293	$73,794.52	$63,150.52
391	Office Furn & Equip	$27,774.00	0.062	$1,720.00	0.4293	$11,923.38	$10,203.38
391	Office Computers	$30,468.00	0.062	$1,887.00	0.4293	$13,079.91	$11,192.91
392	Transportation Equipment	$162,965.00	0.062	$10,091.00	0.4293	$69,960.87	$59,869.87
393	Stores Equipment						$0.00
394	Tools & Work Equip	$26,226.00	0	$0.00	NOTE A	$0.00	$0.00
396	Power Operated Equipment	$13,419.00	0	$0.00	NOTE A	$0.00	$0.00
397	Communication Equip	$3,633.00	0.062	$225.00	0.4293	$1,559.65	$1,334.65
398	Misc. Equip		0.062	$0.00	0.4293	$0.00	$0.00
		$439,328.00		$24,750.00		$171,583.91	$146,833.91

NOTE A TOOLS AND WORK EQUIPMENT AND POWEER EQUIPMENT WERE NOT ALLOCATED BECAUSE THEY ARE 100% UTILITY

Company: Indiantown Gas Co
Title: Allocation Acc-dep Common Plant
Period: 2002-2004
Date: Feb 26, 2004

Act No	Description	(1) 2002 Per Co	(2) Non Utility Per Company	(3) 2002 Per Co	(4) Three Factor Method	(5) 2002 Per Staff	(6) Difference (5)-(3)
390	Structures & Improvements	$15,324.00	0.062	$949.00	0.4293	$6,578.59	$5,629.59
391	Office Furn & Equip	$9,259.00	0.062	$573.00	0.4293	$3,974.89	$3,401.89
391	Office Computers	$13,033.00	0.062	$807.00	0.4293	$5,595.07	$4,788.07
392	Transportation Equipment	$74,369.00	0.062	$4,605.00	0.4293	$31,926.61	$27,321.61
393	Stores Equipment						$0.00
394	Tools & Work Equip	$1,779.00	0	$0.00	NOTE A	$0.00	$0.00
396	Power Operated Equipment	$3,972.00	0	$0.00	NOTE A	$0.00	$0.00
397	Communication Equip	($1,577.00)	0.062	($98.00)	0.4293	($677.01)	($579.01)
398	Misc. Equip		0.062	$0.00	0.4293	$0.00	$0.00
		$116,159.00		$6,836.00		$47,398.15	$40,562.15

Act No	Description	(1) 2003 Per Co	(2) Non Utility Per Company	(3) 2003 Per Co	(4) Three Factor Method	(5) 2003 Per Staff	(6) Difference (5)-(3)
390	Structures & Improvements	$20,320.00	0.062	$1,258.50	0.4293	$8,723.38	$7,464.88
391	Office Furn & Equip	$8,499.00	0.062	$526.50	0.4293	$3,648.62	$3,122.12
391	Office Computers	$16,061.00	0.062	$994.50	0.4293	$6,894.99	$5,900.49
392	Transportation Equipment	$86,019.00	0.062	$5,326.50	0.4293	$36,927.96	$31,601.46
393	Stores Equipment						$0.00
394	Tools & Work Equip	$2,079.00	0	$0.00	NOTE A	$0.00	$0.00
396	Power Operated Equipment	$4,608.00	0	$0.00	NOTE A	$0.00	$0.00
397	Communication Equip	($170.00)	0.062	($11.00)	0.4293	($72.98)	($61.98)
398	Misc. Equip		0.062	$0.00	0.4293	$0.00	$0.00
		$137,416.00		$8,095.00		$56,121.96	$48,026.96

Act No	Description	2004 Per Co (1)	Non Utility Per Company (2)	2004 Per Co (3)	Three Factor Method (4)	2004 Per Staff (5)	Difference (6)
390	Structures & Improvements	$24,400.00	0.062	$1,511.00	0.4293	$10,474.92	$8,963.92
391	Office Furn & Equip	$5,554.00	0.062	$344.00	0.4293	$2,384.33	$2,040.33
391	Office Computers	$24,686.00	0.062	$1,529.00	0.4293	$10,597.70	$9,068.70
392	Transportation Equipment	$72,419.00	0.062	$4,484.00	0.4293	$31,089.48	$26,605.48
393	Stores Equipment						$0.00
394	Tools & Work Equip	$2,698.00	0	$0.00	NOTE A	$0.00	$0.00
396	Power Operated Equipment	$32.00	0	$0.00	NOTE A	$0.00	$0.00
397	Communication Equip	$1,882.00	0.062	$116.68	0.4293	$807.94	$691.26
398	Misc. Equip		0.062	$0.00	0.4293	$0.00	$0.00
		$131,671.00		$7,984.68		$55,354.37	$47,369.69

NOTE A TOOLS AND WORK EQUIPMENT AND POWER EQUIPMENT WERE NOT ALLOCATED BECAUSE THEY ARE 100% UTILITY

Company: Indiantown Gas Co
Title: Allocation Deprecaition Expense Plant
Period: 2002-2004
Date: Feb 26, 2004

Act No	Description	(1) 2002 Per Co	(2) Non Utility Per Company	(3) 2002 Per Co	(4) Three Factor Method	(5) 2002 Per Staff	(6) Difference (5)-(3)
390	Structures & Improvements	$5,203.00	0.062	$322.00	0.4293	$2,233.65	$1,911.65
391	Office Furn & Equip	$5,002.00	0.062	$310.00	0.4293	$2,147.36	$1,837.36
391	Office Computers	$339.00	0.062	$21.00	0.4293	$145.53	$124.53
392	Transportation Equipment	$22,003.00	0.062	$1,362.00	0.4293	$9,445.89	$8,083.89
393	Stores Equipment						$0.00
394	Tools & Work Equip	$266.00	0	$0.00	NOTE A	$0.00	$0.00
396	Power Operated Equipment	$605.00	0	$0.00	NOTE A	$0.00	$0.00
397	Communication Equip	$501.00	0.062	$31.00	0.4293	$215.08	$184.08
398	Misc. Equip		0.062	$0.00	0.4293	$0.00	$0.00
		$33,919.00		$2,046.00		$14,187.51	$12,141.51

Act No	Description	(1) 2003 Per Co	(2) Non Utility Per Company	(3) 2003 Per Co	(4) Three Factor Method	(5) 2003 Per Staff	(6) Difference (5)-(3)
390	Structures & Improvements	$4,295.00	0.062	$266.00	0.4293	$1,843.84	$1,577.84
391	Office Furn & Equip	($5,518.00)	0.062	($342.00)	0.4293	($2,368.88)	($2,026.88)
391	Office Computers	$10,860.00	0.062	$672.00	0.4293	$4,662.20	$3,990.20
392	Transportation Equipment	$16,379.00	0.062	$1,014.00	0.4293	$7,031.50	$6,017.50
393	Stores Equipment						$0.00
394	Tools & Work Equip	$326.00	0	$0.00	NOTE A	$0.00	$0.00
396	Power Operated Equipment	$644.00	0	$0.00	NOTE A	$0.00	$0.00
397	Communication Equip	$3,146.00	0.062	$195.00	0.4293	$1,350.58	$1,155.58
398	Misc. Equip		0.062	$0.00	0.4293	$0.00	$0.00
		$30,132.00		$1,805.00		$12,519.25	$10,714.25

Act No	Description	2004 Per Co (1)	Non Utility Per Company (2)	2004 Per Co (3)	Three Factor Method (4)	2004 Per Staff (5)	Difference (6)
390	Structures & Improvements	$4,297.00	0.062	$266.00	0.4293	$1,844.70	$1,578.70
391	Office Furn & Equip	$1,389.00	0.062	$86.00	0.4293	$596.30	$510.30
391	Office Computers	$3,930.00	0.062	$243.00	0.4293	$1,687.15	$1,444.15
392	Transportation Equipment	$24,218.00	0.062	$1,500.00	0.4293	$10,396.79	$8,896.79
393	Stores Equipment						$0.00
394	Tools & Work Equip	$1,344.00	0	$0.00	NOTE A	$0.00	$0.00
396	Power Operated Equipment	$887.00	0	$0.00	NOTE A	$0.00	$0.00
397	Communication Equip	$302.00	0.062	$19.00	0.4293	$129.65	$110.65
398	Misc. Equip		0.062	$0.00	0.4293	$0.00	$0.00
		$36,367.00		$2,114.00		$14,654.58	$12,540.58

NOTE A TOOLS AND POWER EQUIPMENT WERE 100% UTILITY

AUDIT EXCEPTION NO. 3

SUBJECT: **WORKING CAPITAL - DEFERRED DEBITS**

STATEMENT OF FACTS: Included in MFR G-1, page 5 of 28 in the working capital calculation starting October 2003 are deferred debits in the amount of $12,243. The 13 month average for 2003 is $2,612. These deferred debits are the amounts that the company will collect over 24 months from one transportation customer for the Transition Cost Recovery amounts (TCR). The TCR is comprised of costs incurred in transition of its customers to transportation services, approved by the commission in PSC-03-1109-PAA-GU. However, the amount approved by the Commission for this one customer in that order was $22,158, to be billed over 24 months ($923). The company at the end of October already billed this customer for two months. In MFR G-1, page 7 of 28 the deferred debits at year end December 31, 2004 are zero and the 13-month average is $4,911.

OPINION: The balance in the deferred debit account for October 31 should be $20,432 ($22,158 less 2 months or $1,846), and the 13-month average at December 31, 2003 should be $4,502 .

Balance 10/31/03	20,432.04
Credit for November	(923)
Balance 11/31/03	19,509.04
Credit for December	(923)
Balance 12/31/03	18,586.04
	58,527.04
Divide by	13
13-Month Average at 12/3/103	4,502.00

The deferred charges balance changes each month in 2004. The schedule following this exception details the changes for 2004. The 13-month average for 2004 should be increased by $8,137 (from $4,911 to $13,048). The year end December 31, 2004 should be changed from zero to $7,510.

Since the forecast for the cash balances for October 2003 through December 2004 are the remaining amounts after all the balance sheet accounts are forecast, then the cash 13-month average for 2004 needs to also be adjusted. This is included in Audit Exception No. Five.

COMPANY:	INDIANTOWN GAS CO
TITLE:	DEFERRED DEBITS
PERIOD:	FORECAST 2004

Journal Entry in October to account for PSC order NO.
03-1109-PAA-GU

Calculation of Balances in 186, deferred debits, for 2004.

	Recalculated Balance	MFR Balance	Def. Debit Increase Adjustment
Oct	20,432.04	12,243.00	8,189.04
Nov	19,509.04	11,320.00	8,189.04
December 31	18,586.04	10,397.00	8,189.04
Jan 31 less 923	17,663.04	9,474.00	8,189.04
Feb 28	16,740.04	8,551.00	8,189.04
Mar 31	15,817.04	7,628.00	8,189.04
April 30	14,894.04	6,705.00	8,189.04
May 31	13,971.04	5,782.00	8,189.04
June 30	13,048.04	4,859.00	8,189.04
July 31	12,125.04	3,936.00	8,189.04
Aug 31	11,202.04	3,013.00	8,189.04
Sept 30	10,279.04	2,090.00	8,189.04
Oct 31	9,356.04	1,167.00	8,189.04
Nov 30	8,433.04	244.00	8,189.04
Dec 31	7,510.04	0.00	7,510.04
13 months average for 2004	13,048.04	4,911.23	8,136.81
13 month average per MFR	4,911.00		
Adjustment	8,137.04		

AUDIT EXCEPTION NO. 4

SUBJECT: WORKING CAPITAL - INVENTORY ACCOUNTS

STATEMENT OF FACTS: Included in MFR G-1, page 5 of 28 in the working capital calculation for 2003 and MFR G-1, page 2 of 28 for 2004 are monthly balances for "Plant and Operating Materials and Supplies". This is comprised of company account numbers 154, Inventory and 156, Capital Inventory. An examination of the invoices in 154 indicated that this account was for purchases of appliances and supplies for resale. These items do not relate to the regulated natural gas utility. The account was forecasted for the last three months of 2003 and the same amount used for all of 2004.

	13-Month Average 2003	13-Month Average 2004
Account 154	12,632.00	11,992.50
Account 156	5,107.00	6,009.27
	17,740.00	18,001.77

OPINION: As Account 154 is not related to the regulated utility operations, it should be removed from the working capital calculation. The attached schedule recalculates 2003 using October and November actual, and December forecast. For 2003, the recalculated 13-month average for Account 156 is $5,189. The 13-month average for the combined accounts should be reduced to the regulated amount in Account156 of $5,189.

MFR 156 and 154	17,740
2003 Revised Balance	5,189
Reduction to Plant & Operating Supplies -2003	12,551

The 2004 recalculated 13-month average for Account 156 is $6,009. The 13-month average plant and operating materials and supplied should be reduced from $18,001 to $6,009; a difference of $11,992. The details of this calculation are included in the schedule following this exception.

Since the forecast for the cash balances for October 2003 through December 2004 are the remaining amounts after all the balance sheet accounts are forecast, then the 13-month average for cash for 2004 also needs to be adjusted. This is included in Audit Exception No. Five.

COMPANY: INDIANTOWN GAS CO
TITLE: WORKING CAPITAL - INVENTORY
PERIOD: FORECASTED 2004

RECALCULATION

GENERAL LEDGER	Account 154 Inventory	Account 156 Capital Parts	Total
December 02	12,610	3,745	16,355
January 03	13,261	4,225	17,486
February	13,355	5,052	18,407
March	12,943	5,052	17,995
April	12,294	4,990	17,284
May	13,286	4,990	18,276
June	13,292	4,321	17,613
July	12,373	4,321	16,694
August	12,636	5,664	18,300
September	11,993	6,009	18,002
October	12,628	6,384	19,012
November	14,030	6,699	20,729
December	11,993	6,009	18,002
	166,694	67,461	234,155
13 month average	12,823	5,189	18,012

ACCORDING TO MFR

	Account 154 Inventory	Account 156 Capital Parts	Total
December 02	12,610	3,745	16,355
January 03	13,261	4,225	17,486
February	13,355	5,052	18,407
March	12,943	5,052	17,995
April	12,294	4,990	17,284
May	13,485	4,990	18,475
June	13,292	4,321	17,613
July	12,373	4,321	16,694
August	12,636	5,664	18,300
September	11,993	6,009	18,002
October	11,993	6,009	18,002
November	11,993	6,009	18,002
December	11,993	6,009	18,002
	164,221	66,396	230,617
13 month average	12,632	5,107	17,740

AUDIT EXCEPTION NO. 5

SUBJECT: WORKING CAPITAL - CASH

STATEMENT OF FACTS: The cash included in working capital in MFR G-1, page 5 for the last three months of 2003 and MFR G-1, page 7 for 2004 are the remaining amounts after all the balance sheet accounts are forecast.

Another method of forecasting cash in working capital would be to use an average of prior years 13 month averages. In other cases a five-year average has been used due to a negative cash balance.

Also, in this case the cash balances that were remaining amounts were not reduced for non utility operations. For accounts payable the company removed 6.2% for non utility payables in 2003 and 2004. This percent is the ratio of net utility plant to net non- utility plant for 2002.

OPINION: If the remaining amounts are used in the calculation of working capital, then these amounts need to be adjusted for any changes to the balance sheet accounts. The schedule following this exception details all the staff adjustments that affect the balance sheet accounts. This changes the average cash in working capital for 2004 from $152,740 to $156,795.

If the prior years averages are used, then the offsetting entry would be to an inter-company receivable or payable, or an entry to retained earnings. The schedule following this exception details the averages. This schedule shows that the years 1999 and 2000 have much higher balances than 2001 through 2003. Perhaps a three year average would be more indicative of the trend.

Also, it should be noted that inter-company accounts are usually disallowed in the working capital calculation since these accounts are within the discretionary power of the company. PSC Order No. 12008 (6/6/83).

Five Year Average	104,804.11		104,804.11
MFR	152,740.00	Recalc.	156,795.00
	(47,935.89)		
Three Year Average	56,659.32		56,659.32
MFR	152,740.00	Recalc.	156,795.00
	(96,808.68)		

Whichever amount is used needs to be adjusted for non utility operations.

COMPANY: INDIANTOWN GAS CO
TITLE: RECALCULATION OF CASH TO INCLUDE IN WORKING CAPITAL
PERIOD: YEAR END 2004

The following cash balances were taken from the company's balance sheets.

	1998	1999	2000	2001	2002	2003	
Dec prior		30,163.12	222,418.18	5,326.40	55,310.38	35,094.97	
Janaury	96,624.84	52,334.49	246,154.21	(1,287.97)	102,441.07	55,564.00	Actual
February	50,316.84	98,251.50	276,133.14	(103,908.72)	83,108.91	168,565.00	Actual
March	47,786.26	84,811.88	299,996.29	20,544.01	82,594.03	67,578.00	Actual
April	82,762.40	160,977.55	297,824.85	71,421.99	42,176.99	24,897.00	Actual
May	80,324.58	9,037.87	300,284.75	103,319.49	96,869.57	62,580.00	Actual
June	83,187.12	308,335.71	97,807.19	141,339.33	75,442.94	53,706.00	Actual
July	97,772.07	305,892.67	82,284.82	90,248.68	37,804.66	65,951.00	Actual
August	98,008.85	326,516.11	49,943.97	85,617.89	21,898.65	42,219.00	Actual
September	85,839.65	321,685.39	12,029.77	52,278.55	24,014.08	42,498.00	Actual
October	47,626.71	366,277.66	43,422.34	44,578.15	33,587.84	139,832.01	Actual
November	62,578.21	354,060.15	28,165.33	22,163.48	36,026.94	68,953.00	*
December	30,163.12	222,418.18	5,326.40	55,310.38	35,094.97	68,953.00	*
		203,135.56	150,907.02	45,150.13	55,874.69	68,953.15	

*11 months Average of Dec 02 through October 03.

Five Year average 1999 through 2003	104,804.11
13 months forecasted for 2004	152,740.00
	(47,935.89)
Three Year average 2001 through 2003	56,659.32
13 months forecasted for 2004	152,740.00
	(96,080.68)

Possible journal entries if using prior years averages to forecast cash in working capital. Whichever amount is used needs to be adjusted for non-utility operations.

Five Year Average	Debit	Credit
Intercompany receivable	47,935.89	
Cash		47,935.89
OR		
Retained Earnings	47,935.89	
Cash		47,935.89

To reduce cash in working capital to a five year average.

Three Year Average		
Intercompany reveivable	96,080.68	
Cash		96,080.68
OR		
Retained Earnings	96,080.68	
Cash		96,080.68

To reduce cash in working capital to a three year average.

Intercompany accounts are usually disallowed in the working capital calculation, since these accounts are within the discretionary power of the company. PSC Order No. 12008, (6/6/83).

An entry to retained earnings would effect the cost of capital calculation.

COMPANY: INDIANTOWN GAS CO
TITLE: CASH IN WORKING CAPITAL
PERIOD: FORECAST 2004

YEAR END 2003	December02	Janaury	February	March	April	May	June	July	August	September	October	November	December	13 Month Average
2003 Balances in MFR - CASH	35,095	55,564	168,565	67,578	24,897	62,580	53,706	65,951	42,219	42,498	19,251	15,182	343,290	76,644
Adjustments to Balance Sheet Accounts that effect the cash balance														
Decrease to cash for increase in deferred debit	0	0	0	0	0	0	0	0	0	0	(8,189)	(8,189)	(8,189)	(1,890)
Increase to cash for decrease in inventory accounts	12,610	13,261	13,355	12,943	12,294	13,485	13,292	12,373	12,636	11,993	12,628	14,030	11,993	12,838
Increase in cash for decrease in accounts receivable												10	2,586	200
REVISED CASH	47,705	68,825	181,920	80,521	37,191	76,065	66,998	78,324	54,855	54,491	23,690	21,033	349,680	87,792

YEAR END 2004	December03	Janaury	February	March	April	May	June	July	August	September	October	November	December	13 Month Average
2004 Balances in MFR - CASH	343,290	259,884	259,626	273,304	262,167	272,598	121,672	96,658	61,712	38,168	21,306	1,369	(26,130)	152,740
Adjustments to Balance Sheet Accounts that effect the cash balance														
Decrease to cash for increase in deferred debit	(8,189)	(8,189)	(8,189)	(8,189)	(8,189)	(8,189)	(8,189)	(8,189)	(8,189)	(8,189)	(8,189)	(8,189)	(7,510)	(8,137)
Increase to cash for decrease in inventory accounts	11,993	11,993	11,993	11,993	11,993	11,993	11,993	11,993	11,993	11,993	11,993	11,993	11,993	11,993
Increase in cash for decrease in accounts receivable	2,586													199
	349,680	263,688	263,430	277,108	265,971	276,402	125,476	100,462	65,516	41,972	25,110	5,173	(21,647)	156,795

AUDIT EXCEPTION NO. 6

SUBJECT: WORKING CAPITAL - ACCOUNTS RECEIVABLE

STATEMENT OF FACTS: Accounts receivable were forecast for November and December 2003 using the same amounts as included in MFR G-1, page 5 which is a calculation of ten months of actual revenue and two months of forecast revenue. The actual data for November and December was available at the time of audit. Using this data changes the revenue for the last two months of 2003 as follows:

MFR G-1,	November 03	December 03
page 5, Revenue Forecast	22,779	33,396
Actual revenue	22,769	30,810
	10	2,586

OPINION: The change in revenue for 2003 does not affect the forecasted revenue for 2004. However, since the revenue is used to forecast 2003 December accounts receivable, it does affect the forecasted 13-month average accounts receivable in 2004. The 2004 accounts receivable were forecast using the same amounts forecast for revenue in 2004. The 13-month average included the December 2003 balance. If the December 2003 balance changes, then the 13-month calculation for 2004 will change. The difference in 2004 would be an increase to accounts receivable of $199 ($2,586/13).

Since the forecast for the cash balances for October 2003 through December 2004 are the remaining amounts after all the balance sheet accounts are forecast, then the 13-month average for cash for 2004 also needs to be adjusted. This is included in Audit Exception No. Five.

AUDIT EXCEPTION NO. 7

SUBJECT: FORECASTED REVENUE FOR 2004

STATEMENT OF FACTS: The company used a five year average to forecast the number of therms to be used in 2004 on MFR Schedule G-2, page 8. It also forecasted the number of customers based on the year end 2003 customers. The data used by the company was not correct. In some cases the CCF's were used instead of therms and in some cases the incorrect numbers were inadvertently input. Certain customers were either left out of the calculation or in the wrong class. The company prepared a revised schedule with the correct data.

The same amount of revenue forecasted on Schedule G-2 was also used to forecast accounts receivable in the working capital section of the MFRs.

OPINION: Schedule G-2, page 8 should be revised to include the correct data. The schedule following this exception detail the differences by class of service. The total difference is an increase in revenue from $342,917 to $343,170; that is $253. The small difference in accounts receivable would have an immaterial effect (253/13= 19) on the 13 month average of working capital for 2004.

COMPANY: INDIANTOWN GAS CO
TITLE. REVISED REVENUE FORECAST
PERIOD: FOR 2004
DATE: JANUARY 23, 2004

	Janaury 04	February	March	April	May	June	July	August	September	October	November	December	Total
Total TS-1 Revised	8,379	8,281	7,854	7,675	7,750	7,515	7,421	7,532	7,395	7,505	7,892	8,090	93,289
Total TS-1 MFR G-2, p.8	8,175	8,738	7,771	7,350	7,779	7,428	7,561	7,428	7,277	7,464	7,890	7,771	92,632
Increase (Decrease) Revenue TS-1	**204**	**(457)**	**83**	**325**	**(29)**	**87**	**(140)**	**104**	**118**	**41**	**2**	**319**	**657**
Total TS-2 Revised	962	905	922	927	834	887	789	799	800	826	932	934	10,517
Total TS-2 MFR G-2, p.8	1,036	913	986	981	883	945	807	835	877	875	949	963	11,050
Increase (Decrease) Revenue TS-2	**(74)**	**(8)**	**(64)**	**(54)**	**(49)**	**(58)**	**(18)**	**(36)**	**(77)**	**(49)**	**(17)**	**(29)**	**(533)**
Total TS-3 Revised	175	243	174	177	193	174	179	167	151	160	180	230	2,203
Total TS-3 MFR G-2, p.8	170	233	169	171	185	169	172	162	146	160	180	181	2,098
Increase (Decrease) Revenue TS-3	**5**	**10**	**5**	**6**	**8**	**5**	**7**	**5**	**5**	**0**	**0**	**49**	**105**
Total TS-4 Revised	29,841	30,592	20,644	43,543	20,456	8,631	3,188	4,314	12,197	8,256	12,385	22,896	216,943
Total TS-4 MFR G-2, p.8	29,841	30,592	20,644	43,543	20,456	8,631	3,188	4,314	12,197	8,256	12,385	22,896	216,943
Increase (Decrease) Revenue TS-4	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Misc Service Rev Revised	1,674	1,779	2,104	1,624	1,834	1,834	1,559	1,504	1,564	1,749	1,514	1,479	20,218
Misc Service Rev MFR G-2, p.8	1,672	1,777	2,102	1,622	1,832	1,832	1,557	1,502	1,562	1,747	1,512	1,477	20,194
Increase (Decrease) Misc Service Revenue	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**24**
Total Revenue Revised	41,031	41,800	31,698	53,946	31,067	19,041	13,136	14,316	22,107	18,496	22,903	33,629	343,170
Total Rev, MFR G-2, p.8	40,894	42,253	31,672	53,667	31,135	19,005	13,285	14,241	22,059	18,502	22,916	33,288	342,917
Increase (Decrease) Total Revenue	137	(453)	26	279	(68)	36	(149)	75	48	(6)	(13)	341	253

AUDIT EXCEPTION NO. 8

SUBJECT: **TELEPHONE EXPENSES**

STATEMENT OF FACTS: In MFR G-2, page 11, Account 880, Miscellaneous Distribution Expense, includes expenses for a telephone line that was no longer in use as of July, 2002. The company does not plan to replace this line. The total for 2002 is $483.12. The monthly detail is included on the next page. The forecast for 2004 is based on this formula:

	2002	2003	2004
Expense in 2002	438.12	438.12	
Times Inflation	2.5%	10.93	
Expense in 2003		449.05	449.05
Times Inflation		2.5%	11.23
Expense Forecast for 2004			460.28

OPINION: Since the telephone line is not being used, the expense should not be included in 2004.

COMPANY: INDIANTOWN GAS CO
TITLE: TELEPHONE EXPENSE
PERIOD: FORECAST 2004; HISTORICAL 2002

	Charges for on Recurring LIne 772, 597-2339	
	2002	2003
January	36.47	36.56
February	36.47	36.64
March	36.47	36.64
April	36.47	36.84
May	36.50	37.26
June	36.50	37.26
July	36.50	37.29
August	36.50	37.29
September	36.56	37.29
October	36.56	37.31
November	36.56	37.31
December	36.56	37.33
	438.12	445.02

AUDIT EXCEPTION NO. 9

SUBJECT: **PAYROLL FOR METER READER**

STATEMENT OF FACTS: In 2002 there was an employee on the payroll who read the meters. This employee left at the end of October 2003. The company said that it could not find a dependable person to fill the position. Instead, it entered into a contract with a meter reading company to read each meter for 65 cents.

The payroll forecast for 2004 is $2,019 (see below) in Account 902. This is based on 2002 actual which was $1,876. The company forecast approximately 669 meters a month or 8,028 for the year. At a rate of 65 cents for each meter, the total cost would be $5,218.

OPINION: Since the meter reader is no longer on the payroll, his salary should not be forecasted in 2004, however, the cost of the meter reading company should be added.

Cost at 65 cents per meter	$5,218
Amount Forecast for 2004	2,019
Increase in Account 902	$3,199

2002 Base	$1,876
2003 Factor	.025
	47
	$1,876
2003 Forecast	1,923
2004 Factor	.05
	96
	1,923
2004 Forecast	$2,019

AUDIT EXCEPTION NO. 10

SUBJECT: PENSION FORECAST

STATEMENT OF FACT: The company included a $12,400 addition to 2004 expenses for an increase in pension costs. The company has been requested to provide support of this increase and has not provided any information at this time.

AUDIT EXCEPTION NO. 11

SUBJECT: CLEARING AND PAYROLL ALLOCATIONS

STATEMENT OF FACT: The company charges common expenses to clearing accounts and allocates them between regulated and non-regulated operations. In 2002, the company used revenue factors to allocate each month. The average allocated for the year was 62.28% of the expense. These allocated expenses were used to forecast 2004. It should be noted, however, that in 2003, the company changed the percent to a plant allocation factor which averaged 90%. This did not effect the expenses actually charged to the rate case.

Payroll was also allocated between regulated and non-regulated operations. Field employees prepare time sheets and charge their payroll directly. In 2002, direct labor was charged as follows:

Capitalized Regulated Labor	21.25%
Regulated Operation and Maintenance	23.70%
Non-Regulated Operations	55.04%

Office employees salaries were allocated using fixed allocation percentages which recorded 87.61% of these salaries to regulated operations. Job descriptions for each employee were obtained with their estimate of hours worked.

OPINION: Using revenue or plant alone may not be the most reasonable allocation method to allocate common expenses. A three factor method that uses an average the percent of regulated plant to total plant, regulated revenue to total revenue and regulated payroll to total payroll would probably be a more reasonable approach since most costs are not directly related to plant or revenue. A three-factor method allocation was prepared using 2003 data. It was necessary to use 2003 because the company's revenue changed because of the new tariff in 2003.

To prepare this allocation factor we reviewed the payroll charged. If the factor were prepared using only the direct payroll of the field staff, the percent determined using the three factor method would be 46.44%. But, since the office payroll charged to regulated operations was so much higher than the direct labor charged by the field staff and because we do believe some of the office staff perform duties that are specific to regulation and are not directly related to supervising the field employees, we requested detailed job descriptions from the office employees with hours spent each month. These employees put an allocation between regulated and non-regulated on these descriptions. Included in these descriptions are financial reporting and employee related supervision. The company allocations of time to regulated and non-regulated for these two categories do not appear reasonable when looking at direct labor charged to total labor or the amount of revenues generated from non-regulated business.

We separated the time based on the descriptions to the following categories:

Indirect General
Indirect Employee Related
Indirect Financial Related
Non-Regulated Duties Specific
Regulated Duties Specific

We allocated the 2003 salary based on the percent of hours by employee in each category. We then allocated the indirect general and the indirect financial related by an average of the percent of regulated plant and regulated revenue of 57.1%. The employee supervision was allocated based on the percent of all payroll except this category. The payroll was then totaled by regulated and non-regulated and found to be 57.02% regulated.

Using these percentages in 2002, the difference between staff allocated salaries and company charged salaries is $37,559.15. Trended up for 2003, the amount would be $38,498.13 based on a 2.5% increase and trended up for 2004, the amount would be $39,460.58 based on an additional 5% increase used in the filing. If the office salaries were reduced to the 2002 percent of field salaries for regulated to total field salaries of 44.85%, the reduction would have been $73,750.42 instead of $39,460.58.

Using the new payroll percent's increases the three factor method from 46.44% to 57.07%. Since the company allocated 62.28% in 2003, the expense allocation also needs to be reduced. Because we had adjustments to several of the clearing accounts, the calculation will be shown with the adjustments in an exception following this one.

INDIANTOWN GAS CO.
ANALYSIS OF INDIRECT PAYROLL
TEST YEAR ENDED DECEMBER 31, 2002 PROJECTED 2004

The company has charged the salanes of the CEO, the President, the Chief Fi ancial Officer and the office manager at predetermined allocation factors. We asked the company to provide detailed descnptions of duties and how much time was spent on each. The company d termined how much time they thought was regulated vs non-regulated. Several of the duties relate to supervision of employees or work on the general ledger. We do not agree with the company llocation for these items. Revenue or direct payroll may be a better allocation methodology for th se duties

	TIME							DOLLARS					
	INDIRECT GENERAL	INDIRECT EMPLOYEE RELATED	INDIRECT FINANCIAL RELATED	NON-REG DUTIES SPECIFIC	REG. DUTIES SPECIFIC	TOTAL HOURS	2003 PAYROLL	INDIRECT GENERAL	INDIRECT EMPLOYEE RELATED	INDIRECT FINANCIAL RELATED	NON-REG DUTIES SPECIFIC	REG. DUTIES SPECIFIC	TOTAL HOURS
CEO-Keddie Granfield	774					**774**							
	100.00%	0 00%	0.00%	0.00%	0.00%	**100.00%**	**43,333**	43,333	0	0	0	0	**43,333**
PRESIDENT-Bnan Powers	283	264	228	24	1,140	**1,939**							
	14.60%	13 62%	11.76%	1.24%	58 79%	**100.00%**	**79,804**	11,648	10,866	9,384	988	46,919	**79,804**
CHIEF FINANCIAL OFFICER		108	652	4	718	**1,482**							
Melisa Powers	0.00%	7.29%	43 99%	0.27%	48.45%	**100.00%**	**29,193**	0	2,127	12,843	79	14,143	**29,193**
OFFICE MANAGER-Kim Beach				32	128	**160**							
	0 00%	0.00%	0.00%	20.00%	80.00%	**100.00%**	**31,344**	0	0	0	6,269	25,075	**31,344**
						4,358	**183,674**	54,981	12,993	22,227	7,335	86,138	**183,674**
ALLOCATE FINANCIAL AND GENERAL DIRECT USING 2 FACTOR								57.10%		57.10%			
								31,394		12,692			

TWO FACTOR METHOD:

REGULATED GROSS PLANT TO TOTAL GROSS PLANT	80 73%			
REGULATED REVENUE TO TOTAL REVENUE	33 47%			
TOTAL OF TWO FACTORS	114 20%			
AVERAGE	57.10%			
	REG	**NON REG**	**TOTAL**	
PAYROLL BEFORE ABOVE EMPLOYEES·	25,907.08	77,209 94	103,117.02	
SPECIFIC DUTY RELATED PAYROLL ABOVE	86,137.66	7,335.36	93,473.02	
FINANCIAL AND OTHER BASED ON TWO FACTOR METHOD	44,085.64	33,122.14	77,207 78	170,681
TOTAL BEFORE PAYROLL RELATED	156,130 38	117,667.44	273,797 82	
	57 02%	42 98%		
TIMES PAYROLL RELATED INDIRECT PAYROLL	7,409 07	5,583.84	12,992 91	
	163,539.46	123,251.27	286,790 73	
PERCENT OF REGULATED TO NON-REGULATED ADJUSTED PAYROLL	57.02%	42.98%		
TOTAL PAYROLL 2002	154,470.32	116,416 34	270,886 66	
RECORDED BY COMPANY CAPITAL AND O&M	192,029 47	78,857.19	270,886.66	
DIFFERENCE RELATED TO O&M	(37,559 15)	37,559.15	0.00	
TRENDED UP FOR 2003 AT 2.5%	(38,498 13)			
TRENDED UP FOR 2004 AT 5%	(39,460.58)			

INDIANTOWN GAS CO.
ANALYSIS OF INDIRECT PAYROLL
TEST YEAR ENDED DECEMBER 31, 2002 PROJECTED 2004

THREE FACTOR METHOD AFTER CORRECTING PAYROLL:

REGULATED GROSS PLANT TO TOTAL GROSS PLANT	80.73%
REGULATED REVENUE TO TOTAL REVENUE	33.47%
PAYROLL REGULATED TO TOTAL PAYROLL	57.02%
TOTAL OF THREE FACTORS	171.22%
AVERAGE	57.07%

COMPANY:	IGCO.
TITLE:	THREE FACTOR ALLOCATION
PERIOD:	HISTORICAL 2002; FORECASTED 2004

The Three factor allocations is the average of three ratios:

1.	Regulated Gross Plant to total Gross	80.73%	
2.	Regulated Direct Payroll to Total Dire	25.12%	**A**
3.	Regulated Revenue to Total Revenue	33.47%	
		46.44%	

A -Direct Regulated Expense and Direct Capitalized Labor

Direct Payroll % calculated below

	2003		
Total Direct Payroll	103,117.02		
Total Regulated Direct	17,893.85		
	17.35%	A	
			25.12%
Total Capitalized Labor	8,013.23		
	7.77%	A	
Total Non Regulated Direct	77,209.94		
	74.88%		
	100.00%		

Regulated Revenue calculated below

	2003
Non Regulated Revenue	755,099.38
Regulated Revenue	379,899.44
Total Regulated and Non Reg.	1,134,998.82
Regulated	33.47%
Non Regulated	66.53%
	100.00%

Gross Plant

	2003
Total Regulated Plant in Service	1,202,690.02
Total Non REgulated Plant in Service	287,122.43
Total Plant	1,489,812.45
Regulated Percent	80.73%
Non Regulated Percent	19.27%
	100.00%

AUDIT EXCEPTION NO. 12

SUBJECT: CLEARING ACCOUNT ADJUSTMENTS AND ALLOCATIONS

STATEMENT OF FACT: The company charged common expenses to clearing accounts and allocated the balances monthly based on revenue in 2002 and plant in 2003. In 2002, the clearing accounts totaled $198,770.93. Of this amount, $123,798.15 was charged to the utility. This includes property taxes which were addressed in a separate disclosure. In 2003, the company changed the accounts that the clearing accounts were allocated to and the factor they are allocated by. In 2003 they used 91% to allocate to the utility which increased expenses causing actual to be higher than what was forecast in the filing. Since the company trended 2002, this should not have effected the 2004 projection.

OPINION: As discussed in an earlier exception, staff has arrived at a three-factor method allocation of 57.07%. We also did not agree with the account allocation used in 2002 and found expenses in the clearing account that were not utility related. We have combined all of these problems into the worksheet following this exception. The worksheet shows the clearing account number, the account number staff used to allocate the account to, the methodology used to allocate, and any adjustments made to the accounts. The balances were compared to the company balances. Staff's allocation to the accounts is $9,771.67 lower than the company's after trending. $6,933.91 of this amount relates to actual adjustments made to the accounts for the following items:

1. The company paid $245.00 ($49.00/individual) of AAA membership fees for Melisa Powers, Keddie Powers, David Powers, Jennifer Powers, and Mary Beth Batchelor.

Only Melissa and Keddie Powers are employed by Indiantown Gas Company, the membership fee for the others total $147.00 ($49.00*3) and should be deducted from account 9612 - Transportation.

2. The company purchased clothes for the employees for the total amount of $171.32 ($40.95+$37.95+$47.95+$44.47). The clothes did not have the company logo or show any indication that they were uniforms.

3. The company made a $250.00 donation to the Indiantown Neighbor for the Fourth of July fireworks. It also donated two water heaters to the YMCA building. The total costs were $1,980.00 ($990.00*2). The nature of the contribution is involuntary by the ratepayers and should not be borne by them. (See Order No.10306 p.25 Docket No. 810002-EU (9/23/81))

Date	Vendor	Amount
6/28/02	Indiantown Neighbor	250.00
7/15/02	Hughes	1,980.00
	Total	2,230.00

The company incorrectly booked interest expense to account 9636 - Miscellaneous expense.

Date	Amount
09/12/02	61.76
10/07/02	148.89
10/17/02	181.87
11/21/02	180.28
12/20/02	138.98
Total	711.78

The interest expense in the amount of $711.78 should be transferred from account 9636 - Misc. Expense to account 431.3 - Interest Expense.

5. Tina Gomez cleans the Indiantown Gas Company office and charges $40.00 once a week. However, the amount booked in account 9637 - Office Supplies included the cleaning charges for four residents (Brian Powers, David Powers, Kevin Powers, and Mary Beth Batchelor) as well. Below is the recalculation of the office cleaning for year ended December 2002.

Year	**Amount Booked**	**Correct Amount**	**Adjustment**
2002			
Jan	260.00	160.00	100.00
Feb	260.00	160.00	100.00
Mar	340.00	160.00	180.00
Apr	420.00	160.00	260.00
May	440.00	200.00	240.00
June	280.00	160.00	120.00
July	520.00	160.00	360.00
Aug	460.00	160.00	300.00
Sept	460.00	*160.00	300.00
Oct	500.00	200.00	300.00
Nov	380.00	120.00	260.00
Dec	400.00	160.00	240.00
Total	4,720.00	1,800.00	2,920.00

*The 9/02 invoice is missing, so an estimate charge of $160.00 (4 weeks * $40.00) was used to calculate the adjustment.

6. The following expenditures from the American Express billing statements were rate case related expenses and recorded in account 964.6 - Travel and Entertainment and 964.7 - Utilities:

	Date	Amount
Account 964.6 - Travel		
American Express		
Palm City Grill - PSC Meeting Restructuring	08/01/02	473.28
Account 9647 - Utilities		
Palm City Grill - Restructuring meeting	06/01/02	280.53
	Total	753.81

The rate case expenses should be recorded in account 186 - Miscellaneous Deferred Debits.

The three-factor method was used to allocate all accounts except property taxes which were allocated using the plant ratio and the warehouse rent which was allocated based on space determined during a tour.

Based on the attached calculation, $9,771.67 should be removed from operating and maintenance expenses.

INDIANTOWN GAS COMPANY
CORRECTED ALLOCATIONS FROM CLEARING 2002
TEST YEAR ENDED DECEMBER 31, 2002 PROJECTED 2004

COMMON ACCOUNTS	AMOUNT ALLOCATED TO		2002 TOTAL	STAFF ADJUSTMENTS TO TOTAL	ADJUSTMENT NUMBER	STAFF ADJUSTED TOTAL	STAFF ALLOCATION PERCENT	STAFF ALLOCATION METHODOLOGY	STAFF ALLOCATION AMOUNT	COMPANY ALLOCATION AMOUNT	DIFFERENCE	TRENDED FOR 2,003.00	TRENDED FOR 2004	
961.10	913.00		2,329.07			2,329.07	57.07%	3-FACTOR	1,329.20		1,329.20			
961.20	932.00		14,345.48	(147.00)	ADJ 1	14,198.48	57.07%	3-FACTOR	8,103.07		8,103.07			
961.30	930.20		215.65			215.65	57.07%	3-FACTOR	123.07		123.07			
963.00	930.10		484.27			484.27	57.07%	3-FACTOR	276.37		276.37			
963.10	926.00		86,483.27			86,483.27	57.07%	3 FACTOR	49,356.00		49,356.00			
963.30	924.00		19,812.51			19,812.51	80.73%	PROPERT	15,994.64		15,994.64			
963.40	930.20		0.00			0.00			0.00		0.00			
963.50	930.20		158.75			158.75	57.07%	3-FACTOR	90.60		90.60			
963.60	930.20		5,601.09	(3,113.10)	ADJ 2/3/4	2,487.99	57.07%	3-FACTOR	1,419.90		1,419.90			
963.70	921/905		20,085.46	(2,920.00)	ADJ 6	17,165.46	57.07%	3-FACTOR	9,796.33		9,796.33			
		921.00		(1,460.00)										
		905.00		(1,460.00)										
963.80	931.00		6,486.00			6,486.00	33.00%	SPACE	2,140.38		2,140.38			
964.00	932.00		220.48			220.48	57.07%	3-FACTOR	125.83		125.83			
964.10	874/878		736.35			736.35	57.07%	3-FACTOR	420.23		420.23			
		874.00		0.00										
		878.00		0.00										
964.20	408.10		0.00			0.00			0.00		0.00			
964.30	408.20		8,790.05			8,790.05	ASK RUTH		0.00		0.00			
964.40	408.70		0.00			0.00			0.00		0.00			
964.50	905/921		16,409.81			16,409.81	57.07%	3-FACTOR	9,365.08		9,365.08			
		905.00		0.00										
		921.00		0.00										
964.60	921.00		11,290.85	(753.81)	ADJ 6	10,537.04	57.07%	3-FACTOR	6,013.49		6,013.49			
964.70	921.00		5,321.84			5,321.84	57.07%	3-FACTOR	3,037.17		3,037.17			
			198,770.93	(6,933.91)		191,837.02			107,591.37	0.00	107,591.37			
	408.20		8,790.05	0.00	0.00	8,790.05	ASK RUTH	0.00	0.00	7,119.94	(7,119.94)			
	874.00		368.18	0.00	0.00	368.18	57.07%	3 FACTOR	210.12	6,073.26	(5,863.14)	(6,009.72)	(6,252.51)	FACTOR 2
	878.00		368.18	0.00	0.00	368.18	57.07%	3 FACTOR	210.12	6,073.26	(5,863.14)	(6,009.72)	(6,252.51)	FACTOR 2
	880.00									1,766.65	(1,766.65)	(1,810.82)	(1,856.09)	FACTOR 3
	881.00									2,043.68	(2,043.68)	(2,094.77)	(2,147.14)	FACTOR 3
	894.00									68.58	(68.58)	(70.29)	(73.13)	FACTOR 2
	905.00		18,247.64	(1,460.00)	ADJ 5	16,787.64	57.07%	3 FACTOR	9,580.70	11,202.82	(1,622.12)	(1,662.67)	(1,729.84)	FACTOR 2
	913.00		2,329.07	0.00	0.00	2,329.07	57.07%	3 FACTOR	1,329.20	0.00	1,329.20	1,362.43	1,396.49	FACTOR 3
	921.00		34,860.33	(2,213.81)	ADJ 5 & 6	32,646.52	57.07%	3 FACTOR	18,631.37	19,455.98	(824.61)	(845.23)	(879.38)	FACTOR 2
	924.00		19,812.51	0.00	0.00	19,812.51	80.73%	PROPERT	15,994.64	0.00	15,994.64	16,394.51	16,804.37	FACTOR 3
	926.00		86,483.27	0.00	0.00	86,483.27	57.07%	3 FACTOR	49,356.00	53,611.83	(4,255.83)	(4,362.22)	(4,471.28)	FACTOR 3
	930.00									4,760.97	(4,760.97)	(4,879.99)	(5,001.99)	FACTOR 3
	930.10		484.27	0.00	0.00	484.27	57.07%	3 FACTOR	276.37	0.00	276.37	283.28	290.36	FACTOR 3
	930.20		5,975.49	(3,113.10)	ADJ 2/3/4	2,862.39	57.07%	3 FACTOR	1,633.57	0.00	1,633.57	1,674.41	1,716.27	FACTOR 3
	931.00		6,486.00	0.00	0.00	6,486.00	33.00%	SPACE	2,140.38	2,043.68	96.70	99.12	101.60	FACTOR 3
	932.00		14,565.96	(147.00)	ADJ 1	14,418.96	57.07%	3 FACTOR	8,228.90	0.00	8,228.90	8,434.62	8,645.49	FACTOR 3
	933.00									9,508.92	(9,508.92)	(9,746.64)	(9,990.31)	FACTOR 3
	935.00									68.58	(68.58)	(70.29)	(72.05)	FACTOR 3
TOTAL WITHOUT TAXES			189,980.88	(6,933.91)		183,046.97			107,591.37	116,678.21	(9,086.84)	(9,314.02)	(9,771.67)	

Adjustment 1

A/R Family	147.00	
961.2-Clearing Transportation		147.00

To remove AAA membership for non-employees

Adjustment 2

Accounts Receivable	171.32	
963.6-Miscellaneous Expenses-Clearing		171.32

Remove non-uniform clothes

Adjustment 3

Investor Expense	2,230.00	
963.6-Miscellaneous Expenses-Clearing		2,230.00

Remove contribution

Adjustment 4

Interest Expense	711.78	
963.6-Miscellaneous Expenses-Clearing		711.78

Remove Interest

Adjustment 5

Accounts Receivable Family	2,920.00	
963.7-Clearing Office Supplies		2,920.00

Remove house cleaning for family members (4 houses)

Adjustment 6

186 - Miscellaneous Deferred Debits	753.81	
964.6-Travel and Entertainment-Clearing		473.28
964.7-Utilities		280.53

Remove rate case expense.

AUDIT EXCEPTION NO. 13

SUBJECT: ACCOUNT 923-OUTSIDE SERVICES

STATEMENT OF FACT: The company included $24,988 in 2002 expenses for account 923 in the filing schedule G-2 page 17. They reduced this account by $982 for costs removed in the unbundling docket and then trended the account for inflation of 2.5% a year. A total of $25,221 was included in 2004 expenses.

OPINION: The invoices in 2002 expenses included invoices for both the 2000 and the 2001 tax returns. The charge for the 2000 tax return was $1,890.

In addition, the company included $12,902.38 of costs for the unbundling docket, $12,029 of which were recovered in the last purchased gas recovery docket. The company attempted to remove them by adjusting for the $982 but that was the approximate amount that should have been left in instead of the amount that should have been removed. The actual amount of the costs originally reported in that docket that were removed from 2002, were $873.32. The account should be adjusted for $11,047 which is the difference between the costs of $12,029 included in the purchased gas recovery less the $982 adjusted by the company.

The costs related to computer repairs which were left in the expense account of $873.32 should have been allocated to non-regulated operations since the computers are used for both. Using the 3-factor method, this allocation would be $374.92.
The three adjustments shown here were trended for 2003 and 2004 using 2.5% a year and the schedule follows. The total adjustment is $13,198.10.

INDIANTOWN GAS COMPANY
ANALYSIS OF ACCOUNT 923
TEST YEAR ENDED DECEMBER 31, 2002 PROJECTED 2004

REMOVE CHARGE FOR 2000 INCOME TAX		1,890.00	
COSTS RELATED TO UNBUNDLING IN PGA		12,029.06	
2002 COSTS	12,902.38		
INCLUDED IN 6306.60	(178.88)		COMPUTER COSTS NOT RELATED TO UNBUNDLING
INCLUDED IN 6306.60	(245.00)		COMPUTER COSTS NOT RELATED TO UNBUNDLING
INCLUDED IN 6306.60	(21.25)		COMPUTER COSTS NOT RELATED TO UNBUNDLING
INCLUDED IN 6306.60	(73.75)		COMPUTER COSTS NOT RELATED TO UNBUNDLING
INCLUDED IN 6306.60	(354.44)		COMPUTER COSTS NOT RELATED TO UNBUNDLING
		13,919.06	
LESS 982 ADJUSTED-CO. TRIED TO REMOVE		(982.00)	
THE UNBUNDLING BUT MADE A MISTAKE		12,937.06	
REMOVE NON-UTILITY PORTION	873.32	374.92	
OF COMPUTER COSTS LEFT IN 923	42.93%		3-FACTOR METHOD
	374.92		
NET OF ALL ADJUSTMENTS		12,562.14	
TRENDED FOR INFLATION 2003 2.5%		12,876.20	
TRENDED FOR INFLATION 2004 2.5%		13,198.10	

AUDIT EXCEPTION NO. 14

SUBJECT: PROPERTY TAXES

STATEMENT OF FACTS: In MFR G-2 page 5, the company forecast $23,199 for taxes other than income. Part of this is property tax in the amount of $7,480. See the schedule following this exception for the details. The company forecast 2004 property tax by applying 5% to the actual tax in 2002 of $7,120. Included in historical 2002 is a tax bill that was paid in error. The company received a refund check from Martin County Tax Assessor in February 2003. Therefore, the base used to forecast 2004 is overstated as follows:

	Total Company	%Allocated * Based on Revenue	Amount
Property Tax in 2002	$8,790	81%	$7,120
Less Amount Paid in Error	$2,141	81%	($1,734)
Taxes for 2002 should be	$6,649		$5,386
Forecast Increase			105.00%
			5,655
Amount Forecast in MFR 2004 for Property Taxes			7,480
Reduction to Forecast 2004 Property Taxes			(1,825)

*The allocation is based on revenue.

OPINION: The property tax forecast of $7,480 should be reduced for the refund. Also we believe that it would be more appropriate to allocate this account based on gross plant. The schedule following this account shows the detail for the gross plant allocation. This reduces the expense by another $19 or a total of $1,844 instead of $1,825.

	INDIANTOWN GAS CO
TITLE:	TAXES OTHER THAN INCOME TAXES
PERIOD:	FORECAST 2004

TYPE OF TAX	RATE	2004 TAX BASIS $	2004 TOTAL AMOUNT
Federal Unemployment	0.008	183,845	1,471
State Unemployment	0.001	183,845	184
FICA	0.0765	183,845	14,064
		Est 2003	
Property Taxes	1.025	7,298	7,480
Amount Included in 2004 Forecast on MfR G-2, page 5.			23,199
Reg Assessment Fee	0.00503	342,918	1,725
Amount Included in 2004 Forecast on MfR G-2, page 5.			1,725
	Total Included		24,924
Adjustment to account for 2002 credit - and adjustment for gross plant allocation factor -See below			(1,844)
Adjusted Taxes Other Than Income			23,080

	Total Company	Gross Plant 2003 Allocation	Amount
Property Tax in 2002	8,790	80.73%	7,096
Less Refunded Amount	2,141	80.73%	1,728
Taxes for 2002 should be	6,649		5,368
			105.00%
Forecst 2004 with correct base			5,636
Forecast 2004 in MFR			7,480
Reduction to Forecast 2004 Property Taxes			(1,844)

AUDIT DISCLOSURE NO 1

SUBJECT: LAND

STATEMENT OF FACTS: In August 2003, the company transferred it's Operational Center Land (Lot 6) of $2,948 from Non-Utility Operations to Utility Plant. The company could not provide documentation supporting how the utility land value of $2,948 was calculated.

OPINION: Staff reviewed the warranty deed which indicated that lot 6 was purchased in 1967 and that Florida documentary stamp tax of $37.50 was paid. Using the documentary stamp rate of 30 cents per $100. The value of lot 6 is $12,500.

Staff calculated the allocation factor of 57.07% engineer measured and analyzed the land to determine the actual percentage of land that was used for utility operation. Staff engineer stated that 36% of the land was used for utility and 64% was use for non-utility operations. This information is included in Staff engineer's report.

Land Value Per Doc. Stamps Calculation	$12,500.00
Utility Percentage Per Staff Engineer	36.0%
Land Value Per Staff	$ 4,500.00
Land value Per Company	$ 2,948.00
Difference	$ 1,552.00

The staff engineers allocation percentage includes an allocation of the land under the office to non-regulated operations.

The land recorded on the utility's books is understated by $1,552.00.

AUDIT DISCLOSURE NO. 2

SUBJECT: DEBT/EQUITY RATIO

STATEMENT OF FACTS: In the 2004 forecast for cost of capital on MFR G-3, page 2, the company made a pro rata adjustment removing $342,500 from long term debt and increasing common equity in the same amount. This increased the common equity ratio to 59.93%. The company's reason for changing the common equity ratio and the long term debt is because in order PSC-02-1666-PAA-GU, the Commission said that it was "...prudent and reasonable to limit Indiantown's ratio of common equity as a percentage of investor sources of capital to 60%." The order did not say increase to 60%, but to limit to 60%. The ratios in G-3 are:

	Amount	% of Total
Common Equity	452,592	59.93%
Long Term Debt	258,692	37.80%
Customer Deposits	17,164	2.27%
	755,812	100.00%

OPINION: The ratios without the adjustment to increase common equity would be:

Common Equity	110,452	14.61%
Long Term Debt	628,196	83.12%
Customer Deposits	17,164	2.27%
	755,812	100.00%

AUDIT DISCLOSURE NO. 3

SUBJECT: LONG TERM DEBT - 2004

STATEMENT OF FACTS: On MFR G-3, page 2, the total 13-month average of long term debt forecast for December 2004 is $628,126. Included in that amount is the 13-month average forecast for the third line of credit from First Bank of Indiantown (FBI) for $507,354. This forecast is based on a note payable at December 31, 2003 of $525,000. The actual amount of the note which was taken out at December 22, 2003 was $210,000. At this time there is no note or documentation for the difference of $315,000 in this forecasted note payable ($525,000 less $210,000.) The $210,000 note was used to pay off certain loans:

Powers	$ 72,608
Stockholders-Powers	$ 25,620
(Paid off in January 04)	
First Line of Credit-FBI	$ 46,749
Second Line of Credit-FBI	
(Paid off in December 03)	$ 46,896
Total paid off	191,873

The company explained that the difference was for the capital improvements forecast for 2004 in the amount of $222,123, and to cover the revenue shortfalls if no rate relief was forthcoming.

Also, on MFR G-3, page 3 is a note forecast to GMAC in the principal amount of $42,000 at 7% interest. This was for a new truck. The actual loan taken out in January 2004 for a Ford F-250 was for $22,967 at 7.75% interest.

OPINION: A recalculation of Long Term Debt using the actual Ford note and actual $210,000 note shows that the 13-month average for long term debt at December 31, 2004 is $304,626 instead of $628,195. The schedules following this disclosure detail these amounts.

COMPANY: INDIANTOWN GAS CO
TITLE: LONG TERM DEBT
PEROD: FORECAST 2004
DATE: FEB 17,2004

STAFF RECALCULATION COMPARED WITH COMPANY CALCULATION

	First Bank of Indiantown Ford -450 NOTE A 8%	First National Bank Construction NOTE B 8.25%	First Bank of Indiantown Consolidate Notes NOTE C 7.00%	Advantage Ford F-250 NOTE D 7.75%	Total Notes Pay
Principal Balance	*Principal*				*Total*
at 12/31/03	26,656	70,799	210,000	22,967	330,422
January	662	1,677		410	
	25,994	69,122	210,000	22,557	327,673
February	667	1,689	1,750	412	
	25,327	67,433	208,250	22,145	323,155
March	671	1,701	1,750	415	
	24,656	65,732	206,500	21,730	318,618
April	675	1,712	1,750	418	
	23,981	64,020	204,750	21,312	314,063
May	680	1,724	1,750	420	
	23,301	62,296	203,000	20,892	309,489
June	685	1,736	1,750	423	
	22,616	60,560	201,250	20,469	304,895
July	689	1,748	1,750	426	
	21,927	58,812	199,500	20,043	300,282
August	694	1,760	1,750	429	
	21,233	57,052	197,750	19,615	295,650
September	698	1,772	1,750	431	
	20,535	55,280	196,000	19,183	290,998
October	703	1,784	1,750	434	
	19,832	53,496	194,250	18,749	286,327
November	708	1,796	1,750	437	
	19,124	51,700	192,500	18,312	281,636
December	712	1,809	1,750	440	
	18,412	49,891	190,750	17,873	276,926
	293,594	786,193	2,614,500	265,848	3,960,135

[redacted]

Note A - Four year note at 8%, due 12/2/06
Note B - Seven year note at 8.25% due 12/1/06
Note C - Loan document calls for 59 principal payments of $1,750 a month and one payment on 1/15/09 of $107,387.47.
Note C - Four year note at 7.75%, due 3/15/08

COMPANY: INDIANTOWN GAS CO
TITLE: LONG TERM DEBT
PEROD: FORECAST 2004
DATE: FEB 17,2004

COMPANY CALCULATION

	First Bank of Indiantown Ford -450	First National Bank Construction	First Bank of Indiantown Consolidate Notes	Advantage For F-250	Total
	8%	8.25%	8.00%	7.00%	
Principal Balance	*Principal*				*Total*
at 12/31/03	26,656	70,799	525,000	42,500	664,955
January	662	1,677	2,870	770	5,979
	25,994	69,122	522,130	41,730	658,976
February	667	1,689	2,889	774	6,019
	25,327	67,433	519,241	40,956	652,957
March	671	1,701	2,908	779	6,059
	24,656	65,732	516,333	40,177	646,898
April	675	1,712	2,927	783	6,097
	23,981	64,020	513,406	39,394	640,801
May	680	1,724	2,947	788	6,139
	23,301	62,296	510,459	38,606	634,662
June	685	1,736	2,967	793	6,181
	22,616	60,560	507,492	37,813	628,481
July	689	1,748	2,986	797	6,220
	21,927	58,812	504,506	37,016	622,261
August	694	1,760	3,006	802	6,262
	21,233	57,052	501,500	36,214	615,999
September	698	1,772	3,026	806	6,302
	20,535	55,280	498,474	35,408	609,697
October	703	1,784	3,047	811	6,345
	19,832	53,496	495,427	34,597	603,352
November	708	1,796	3,067	816	6,387
	19,124	51,700	492,360	33,781	596,965
December 04	712	1,809	3,087	821	6,429
	18,412	49,891	489,273	32,960	590,536
	293,594	786,193	6,595,601	491,152	8,166,540
13-MO Average	22,584	60,476	507,354	37,781	628,195

AUDIT DISCLOSURE NO. 4

SUBJECT: NEW PAYROLL POSITIONS AND INCREASES FORECAST FOR 2004

STATEMENT OF FACTS: The 2003 and 2004 payroll is trended based on historical 2002. The factors are 2.5% for 2003 and 5% for 2004. Over and above the trended amounts are specific additions to payroll. They are:

Account 874 $13,498 Service Technician
50% of salary charged to expense and the other 50% goes to capital labor for a total of $26,996. The job description and reason for need is explained on the attached narrative prepared by the company. The back up from the U.S. Works.com web site, Workforce Development Board of the Treasure Coast, shows that this salary is based on a median range of $13.00 an hour for an experienced person.

Account 880 $9,380 Customer Service Representative
50% of $18,760
The back up from the above web site shows that this salary is based on the median salary of $9.00 an hour.

Account 889 $9,380 Customer Service Representative
50% of $18,760
The same as Account 880.

Account 920 $14,000 Increase in Chief Financial Officer work Schedule from ½ to 3/4 time.
The back up from the above web site shows that the mean annual wage for a CFO would be $59,820 and the median is $54,940. An analysis of the CFO salary follows:

	For ½ Time	Plus Forecast =	For 3/4 Time	If Full Time
Total Salary for 2002	$27,000	$14,000	$41,000	$54,667

Question 4: Provide reasons for hiring new maintenance and new customer service person and how salary was determined. Provide support for accounting increases (duties and time)

Response: The following are justification concerning three positions at IGC:

Service Technician

This position is charged 50% to capital because half of this position involves the bare steel replacement program. This program has been recommended by engineering staff for the past few years and requires this position part time at a minimum to complete this task. The remainder of the time allocated to this position includes primarily the accelerated meter change out program (25-7.064) recommended by the Commission safety staff on May 16, 2003. Secondary functions will include valve maintenance (25-12.022) and damage prevention/line location(192.614).

Compensation for this position was compared by job description to other jobs as listed by the local workforce development board and US Dept. of Labor statistics

Customer Service Representative

This position is being charged 50% to account 889 due to the increased record keeping required for compliance with Commission rule 25-7.064 and staff recommendation date May 16, 2003. This recommendation has IGC committed to changing out almost half of its existing meters over a three year period. While we are confident that this can be accomplished, the recordkeeping requirements cannot be met with existing staff. In addition to this task, the position would be responsible for assisting with other O&M functions such as OQ recordkeeping (192.805), Public Awareness (192.616 & DOT RP 1162) and Contractor Notification.

Compensation for this position was compared by job description to other jobs as listed by the local workforce development board and US Dept. of Labor statistics

Chief Financial Officer (Increase in Duties)

When the company petitioned to convert all sales customers to transportation (Order No. PSC-02-1655-TRF-GU) IGC indicated that there would be both recurring and non-recurring costs. Because this was an experimental program the company agreed to address the recurring costs at a later date when a more accurate assessment of those costs could be determined. While the Aggregated Transportation Service (ATS) has produced a net fuel savings for our customers, the company has incurred increases in staff time almost exclusively from this position to record the activity of this program for both our customers, the commission and our Third Party Supplier (TPS). The result of these activities has been to add approximately forty hours per month in staff time to account for these items.

The following is a breakdown of these activities and approximate time required to complete each:

Reconcile TPS Bill (scheduled volumes) with actual throughput	(8 hours)
Reconcile TPS Fuel Balances	(8 hours)
Validate Customer Payment Records by month	(8 hours)
True up TPS Collection of Taxes	(5 hours)
Partial Payment Reconciliation	(4 hours)
Prepare Statement of Charges for Marketer	(2 hours)
Administration of Fixed Price Program	(2 hours)
TPS Audit (Annual)	(1 hour)

AUDIT DISCLOSURE NO. 5

SUBJECT: PAYROLL TREND RATE

STATEMENT OF FACT: The company increased payroll by 2.5% in the 2003 forecast and an additional 5% in the 2004 forecast. This increased payroll in the filing that was charged to operation and maintenance expense by $4,271 in 2003 and $12,992 in 2004.

OPINION: In 2003, the company did not appear to increase salaries by 2-1/2%.

AUDIT DISCLOSURE NO. 6

SUBJECT: TRAVEL AND ENTERTAINMENT EXPENSES

STATEMENT OF FACT: It appears that some of the entertainment charges may be excessive or non-utility related. After the adjustment made by staff, only 57.07% of this expense was included in Net Operating Income (NOI).

Test Year 2002
Account 9646 - Travel & Entertainment

American Express	Date	Amount	Comment
Speckled Perch Steakokee	02/01/02	326.93	Employee appreciation dinner
Chuck & Harold's Rest.	03/02/02	367.05	Brian's award dinner
Pano's & Paul Rest.	05/02/02	1,088.64	NPGA Southeastern
City Grill Rest.	05/02/02	337.34	NPGA Southeastern
Juno Bch Fishhouse & Kee Grill	07/01/02	637.72	IGC Director Meeting
Crabhouse	08/01/02	155.53	Personal
Ticketmaster		473.28	Florida Marlin Tickets
Ocean Reef Club	09/01/02	564.17	Lodging
Outback Restaurant	10/02/02	210.50	Company Outing
Outback Restaurant	11/02/02	121.21	Company Outing
Carrabba's Restaurant	11/02/02	153.22	Company Outing
Roxy Bar & Grill	12/02/02	24.94	Personal
Total		4,460.53	

AUDIT DISCLOSURE NO. 7

SUBJECT: RETIREMENT OF CHIEF EXECUTIVE OFFICER

STATEMENT OF FACT: Colette Powers, the chief executive officer, will be at the age of retirement in January 2005. The possibility exists that she may retire. If she does retire, it would reduce some of the company expenses in the future. The charges related to Mrs. Powers are on the following page.

OPINION: If the company included these charges in the 2004 forecast when these expenses were eliminated in 2005, the company would be overearning. Mrs. Powers does not work out of the company office. The duties she performs have been provided by the company and are as follows:

Management of President
Direction in Strategic Planning
Policies and Procedures Administration

Colette Powers Expenses 2002

Description	Account No.	Amount	Reference	Three Factor Allocation	Staff Allocated @	(43-1/1) 2003 Trended @	(43-1/1) 2004 Trended @
						102.50%	102.50%
Lexus Repair	961.2	571.31		57.07%	326.05	334.20	342.55
Life Insurance (Glades Co)	963.1	583.20	Annual	57.07%	332.83	341.15	349.68
Medical Insurance	963.1	8,163.36	Annual	57.07%	4,658.83	4,775.30	4,894.68
Life Insurance (Conseco)	963.1	412.48	Annual	57.07%	235.40	241.29	247.32
Life Insurance (Lincoln)	963.1	4,459.52	4 Quarters	57.07%	2,545.05	2,608.67	2,673.89
Defined Pension Plan	963.1	11,314.08	Annual	57.07%	6,456.95	6,618.37	6,783.83
Total		25,503.95			14,555.10	14,918.98	15,291.96
Salary 2002		36,667.00		57.07%	20,925.86	21,449.00	22,521.45
Total		62,170.95			35,480.96	36,367.99	37,813.41

EXHIBITS

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: INDIANTOWN GAS COMPANY

DOCKET NO: 030954-GU

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13-MONTH AVERAGE RATE BASE FOR THE HISTORIC BASE YEAR, THE HISTORIC BASE YEAR PLUS ONE, AND THE PROJECTED TEST YEAR.

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA: 12/31/02
HISTORIC BASE YEAR + 1: 12/31/03
PROJECTED TEST YEAR: 12/31/04
WITNESS: M POWERS

LINE NO.	DESCRIPTION	BASE YEAR 12/31/02 (PER BOOKS)	COMPANY ADJUSTMENT	BASE YEAR ADJUSTED AVERAGE YEAR	BASE YR + 1 12/31/03 AVERAGE YEAR	PROJECTED TEST YEAR UNADJUSTED AVERAGE YR.	PROJECTED TEST YEAR ADJUSTMENTS	PROJECTED TEST YEAR AS ADJUSTED
	UTILITY PLANT							
1	PLANT IN SERVICE	$1,205,273	$0	$1,205,273	$1,241,527	$1,341,330	$0	$1,341,330
2	COMMON PLANT ALLOCATED	$0	($23,247)	($23,247)	$0	$0	($24,749)	($24,749)
3	ACQUISITION ADJUSTMENT	$0	$0	$0	$0	$0	$0	$0
4	PROPERTY HELD FOR FUTURE USE	$0	$0	$0	$0	$0	$0	$0
5	CONSTRUCTION WORK IN PROGRESS	$15,142	$0	$15,142	$3,898	$0	$0	$0
6	TOTAL	$1,220,415	($23,247)	$1,197,168	$1,245,424	$1,341,330	($24,749)	$1,316,581
	DEDUCTIONS							
7	CUSTOMER ADVANCES FOR CONST.	$0	$0	$0	$0	$0	$0	$0
8	ACCUM. DEPR. - UTILITY PLANT	($639,362)	$6,836	($632,526)	($676,986)	($693,558)	$7,984	($685,574)
9	TOTAL DEDUCTIONS	($639,362)	$6,836	($632,526)	($676,986)	($693,558)	$7,984	($685,574)
10	PLANT NET	$581,053	($16,411)	$564,642	$568,438	$647,772	($16,765)	$631,007
	ALLOWANCE FOR WORKING CAPITAL							
11	BALANCE SHEET METHOD	$183,828	($105,880)	$77,947	$175,059	$279,336	($154,532)	$124,804
12	TOTAL RATE BASE	$764,881	($122,291)	$642,589	$743,497	$927,108	($171,296)	$755,812
13	NET OPERATING INCOME	($55,427)	$28,154	($27,273)	($1,889)	($105,465)	($8,639)	($114,103)
14	RATE OF RETURN	-7 25%		-4.24%		-11 38%		-15.10%

53

SUPPORTING SCHEDULES. B-2, G-1 p.4-8, G-1 p.15, G-2, p 18, G-2 p.21
G-2 p.22, G-2 p.1-3, G-6 p.1-2

12/9/2003
7.59 AM

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY INDIANTOWN GAS COMPANY

DOCKET NO 030954-GU

EXPLANATION PROVIDE THE CALCULATION OF NET OPERATING INCOME PER BOOKS FOR THE HISTORIC BASE YEAR, THE PROJECTED NET OPERATING INCOME FOR THE HISTORIC BASE YEAR + 1, AND THE PROJECTED TEST YEAR.

TYPE OF DATA SHOWN
HISTORIC BASE YEAR DATA: 12/31/02
HISTORIC BASE YEAR + 1: 12/31/03
PROJECTED TEST YEAR. 12/31/04
WITNESS· M POWERS

LINE NO		HISTORIC BASE YEAR PER BOOKS	COMPANY ADJUSTMENTS	HISTORIC BASE YEAR ADJUSTED	HISTORIC BASE YEAR + 1 2003	PROJECTED TEST YEAR 2004	PROJECTED TEST YEAR ADJUSTMENTS	PROJECTED TEST YEAR AS ADJUSTED
	OPERATING REVENUE							
1	OPERATING REVENUES	$1,446,128	$0	$1,446,128	$393,803	$342,918	$0	$342,918
2	REVENUE RELIEF	$0	$0	$0	$0	$0	$0	$0
3	CHANGE IN UNBILLED REVENUES	$0	$0	$0	$0	$0	$0	$0
4	REVENUES DUE TO GROWTH	$0	$0	$0	$0	$0	$0	$0
5	TOTAL REVENUES	$1,446,128	$0	$1,446,128	$393,803	$342,918	$0	$342,918
	OPERATING EXPENSES							
6	COST OF GAS	$1,057,122	$0	$1,057,122	$0	$0	$0	$0
7	OPERATION & MAINTENANCE	$325,094	$0	$325,094	$332,215	$447,301	$0	$447,301
8	DEPRECIATION & AMORTIZATION	$50,404	($2,046)	$48,358	$57,553	$70,362	($2,114)	$68,248
9	AMORTIZATION - OTHER	$0	$0	$0	$0	$0	$0	$0
10	TAXES OTHER THAN INCOME	$67,305	$0	$67,305	$24,249	$24,924	$0	$24,924
11	TAXES OTHER THAN INCOME - GRWTH	$0	$0	$0	$0	$0	$0	$0
12	INCOME TAXES FEDERAL	$1,384	($22,284)	($20,900)	($15,647)	($80,435)	$9,181	($71,254)
13	INCOME TAXES - STATE	$246	($3,824)	($3,578)	($2,678)	($13,769)	$1,572	($12,197)
14	INCOME TAXES - GROWTH - FEDERAL	$0	$0	$0	$0	$0	$0	$0
15	INCOME TAXES - GROWTH - STATE	$0	$0	$0	$0	$0	$0	$0
16	INTEREST SYNCHRONIZATION	$0	$0	$0	$0	$0	$0	$0
17	DEFERRED TAXES - FEDERAL	$0	$0	$0	$0	$0	$0	$0
18	DEFERRED TAXES - STATE	$0	$0	$0	$0	$0	$0	$0
19	INVESTMENT TAX CREDITS	$0	$0	$0	$0	$0	$0	$0
20	TOTAL OPERATING EXPENSES	$1,501,555	($28,154)	$1,473,401	$395,692	$448,383	$8,639	$457,022
21	OPERATING INCOME	($55,427)	$28,154	($27,273)	($1,889)	($105,465)	($8,639)	($114,103)

54

SUPPORTING SCHEDULES G-2, p 2-5, G-6 p 2-3

RECAP SCHEDULES. A-1, A-4

12/9/2003
3.36 PM

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY. INDIANTOWN GAS COMPANY

DOCKET NO 030954-GU

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13 MONTH AVERAGE COST OF CAPITAL FOR THE PROJECTED TEST YEAR

TYPE OF DATA SHOWN:
PROJECTED TEST YEAR. 12/31/04
WITNESS. M. POWERS

			ADJUSTMENTS					
LINE NO	DESCRIPTION	PER BOOKS	SPECIFIC	PRO RATA	ADJUSTED	RATIO	COST RATE	WEIGHTED COST
1	COMMON EQUITY	305,224	(194,772)	342,500	452,952	59.93%	11.50%	6.89%
2	LONG TERM DEBT	628,196	0	(342,500)	285,696	37.80%	8.10%	3.06%
3	SHORT TERM DEBT	0	0	0	0	0.00%	0.00%	0.00%
4	CUSTOMER DEPOSITS	17,164	0	0	17,164	2.27%	6.22%	0.14%
5	DEFERRED TAXES	0	0	0	0	0 00%	0.00%	0.00%
6	FLEX RATE LIABILITY	0	0	0	0	0.00%	0.00%	0.00%
7	TAX CREDIT	0	0	0	0	0.00%	0 00%	0.00%
8	TOTAL	950,584	(194,772)	0	755,812	100.00%		10.09%

55

SUPPORTING SCHEDULES. G-1 p.5-6, G-6 p 1