

FLORIDA PUBLIC SERVICE COMMISSION
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MEMORANDUM

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FPSC - Records/Reporting

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC & GAS (BULECZA-BANKS, MILLS) *COOP*
DIVISION OF AUDITING & FINANCIAL ANALYSIS (REVELL, SAUNDERS) *SAUNDERS*
DIVISION OF LEGAL SERVICES (ELIAS) *RUE*
DIVISION OF RESEARCH AND REGULATORY REVIEW (KNAPP, VINSON, HALLENSTEIN) *And*

RE: DOCKET NO. 960502-SU - CITY GAS COMPANY OF FLORIDA -
APPLICATION FOR A RATE INCREASE BY CITY GAS COMPANY OF FLORIDA *JOS*

AGENDA: 08/05/97 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\960502.RCM

CASE BACKGROUND

This proceeding commenced on June 18, 1996, with the filing of a petition for a permanent rate increase by City Gas Company of Florida, an operating division of NUI Corporation, (City Gas or the company). City Gas requested an increase of approximately \$5,300,000 in additional revenues, using a projected test year of September 30, 1997. On October 29, 1996, the Commission granted City Gas an increase of \$3,752,678, but ordered that the docket remain open to allow the staff to further analyze two issues (Issue 2 and Issue 9, addressed in the rate case).

Issue 2 dealt with whether City Gas had proper controls in effect to insure that leak surveys and meter inspections were conducted in accordance with Commission rules. Issue 9 ought to determine whether City Gas overpaid for construction projects due to the lack of competitive bidding on these projects.

The findings of the investigations are addressed in this recommendation.

DOCUMENT NO.
080502-77
27/21/97

DOCKET NO. 960502-GU
DATE: August 1, 1996

DISCUSSION OF ISSUES

ISSUE 2: Does City Gas have proper controls in place to ensure that leak surveys and valve maintenance inspections are conducted in accordance with Commission Rules 25-12.022 and 25-12.040?

RECOMMENDATION: Yes, City Gas has implemented the proper controls to ensure leak surveys and valve maintenance inspections are conducted in accordance with Commission Rules 25-12.022 and 25-12.040. (Bulecza-Banks, Mills, Vinson, Hallenstein)

STAFF ANALYSIS: In June 1996, the Division of Research's Bureau of Regulatory Review conducted an operational audit to examine the allegations concerning the falsification of City Gas leak survey and valve maintenance inspection records. The purpose of the investigation was to determine whether City Gas had adequate staffing and management controls to ensure that leak surveys and valve maintenance inspections were conducted as required by state and federal law.

As a result of the investigation and at the October 29, 1996 agenda, Commission staff recommended that City Gas develop, implement, and file with the FPSC, the following:

An annual workload and staffing plan with the dedicated appropriate resources to accomplish the responsibilities of its Distribution Department.

A system of internal controls which includes workload objectives, progress reports, spot checks, on-site monitoring and internal audits to insure that leak surveys and valve maintenance are completed as required.

FPSC staff monitored the company's implementation of these recommended actions through correspondence and on-site visits. Specifically, staff requested City Gas provide monthly progress reports and supporting documentation reflecting the status towards completion of these two audit recommendations. Additionally, staff met with company officers on-site and reviewed records to verify that appropriate actions were taken.

Through this implementation program, City Gas has complied with each of the audit recommendations. Since December 1996, the company has developed and implemented an annual workload and staffing plan. The plan evaluates the responsibilities and hourly physical capabilities to determine the proper allocation of manpower within the company's Distribution Department. Additionally, the plan includes the following new positions: a

DOCKET NO. 960502-GU
DATE: August 1, 1996

Miami Division Manager, a Senior Project Engineer, and; an Engineer Auditor responsible for reviewing all aspects of the company's operations including compliance requirements and emergency procedures.

Additionally, the company has since developed a system of internal controls which ensure that leak surveys and valve maintenance inspections are completed as required. Examples include: tracking progress through monthly O&M Budget reports; performance measurements reported from department heads; development of a computerized system to monitor all related compliance issues of leak surveys and valve maintenance, and; segregation of duties among the Distribution Department.

In conclusion, it is staff's opinion that City Gas has provided sufficient evidence and has complied in good faith with the two audit recommendations to strengthen their management controls and leak survey and valve maintenance programs.

DOCKET NO. 960502-GU
DATE: August 1, 1996

ISSUE 9: Should an adjustment be made for the Medley Contracts?

RECOMMENDATION: No adjustment needs to be made for the Medley Contracts. The auditors found no evidence that City Gas' contract payments to Medley Construction were excessive. (Revell, Salak)

STAFF ANALYSIS: The Division of Auditing and Financial Analysis' Bureau of Auditing and the Division of Research and Regulatory Review's Bureau of Regulatory Review conducted an investigation of the contract prices paid to Medley Construction by City Gas. The purpose of the investigation was to determine whether the lack of a competitive bidding process combined with a less than arms' length relationship with Medley Construction Company resulted in an excessive City Gas rate base.

The Bureau of Auditing and Bureau of Regulatory Review took multiple approaches to investigate this issue. Staff reviewed City Gas construction accounting records, of plant additions built by Medley Construction Company, for a four year period (September 1989 to September 1993). In addition, staff performed field verifications by obtaining as-built maps and conducting visual confirmations of City Gas facilities. Finally, as part of the audit procedure staff drew a random sample of voucher payments City Gas paid to Medley during the four year period in Brevard and St. Lucie areas. Staff then compared the contract prices of Peoples Gas System, Inc. (Peoples) and Florida Public Utilities Company (FPUC) to the actual installation work performed by Medley Construction Company in the sample.

City Gas had Medley Construction contract rates in excess of the rates paid by Peoples and FPUC; however, the contract prices City Gas paid to Medley also included all engineering expenses (initial design, as-builts, permitting, and maps for the projects). The contract rates paid by Peoples and FPUC did not include those engineering expenses. Staff believes the contract prices appear reasonable given the differences in services provided.

DOCKET NO. 960502-GU
DATE: August 1, 1996

ISSUE 76: Should this docket be closed?

RECOMMENDATION: Yes. If no substantially affected person files a protest to the proposed agency action within 21 days of the issuance of this order, the docket should be closed. (Elias)

STAFF ANALYSIS: At the conclusion of this docket on the October 29, 1996 agenda, the Commission voted to keep it open pending resolution of two issues. Those two issues addressed the concerns whether City Gas had proper controls in place to ensure that leak surveys and valve maintenance inspections were conducted in accordance with Commission rules, and the other issue concerned City Gas' contracts with Medley Construction Company. Those two issues have been resolved, thus staff recommends this docket be closed if no substantially affected person files a protest within the 21-day protest period.