

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate
increase by City Gas Company of
Florida.

DOCKET NO. 960502-GU
ORDER NO. PSC-97-1011-FOF-GU
ISSUED: August 25, 1997

The following Commissioners participated in the disposition of
this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
DIANE K. KIESLING
JOE GARCIA

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING CONTROLS FOR LEAK SURVEYS AND VALVE INSPECTIONS;
AND FINDING NO FURTHER ADJUSTMENT NECESSARY

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service
Commission that the action discussed herein is preliminary in
nature and will become final unless a person whose interests are
substantially affected files a petition for a formal proceeding,
pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

On June 18, 1996, City Gas Company of Florida, an operating
division of NUI Corporation, (City Gas or the company) filed a
petition for a permanent rate increase. City Gas requested an
increase of approximately \$5,300,000 in additional revenues, using
a projected test year ending September 30, 1997. By Order No. PSC-
96-1404-FOF-GU, issued November 20, 1996, we granted City Gas an
increase of \$3,752,678, but required further consideration of two
issues:

**Does City Gas have proper controls in place to ensure
that leak surveys and valve maintenance inspections are**

DOCUMENT NUMBER-DATE

08553 AUG 25 97

FPSO-RECORDS/REPORTING

**conducted in accordance with Commission Rules 25-12.022
and 25-12.040?**

Should an adjustment be made for the Medley Contracts?

Having conducted additional investigation, we now address these pending issues.

ADEQUACY OF CONTROLS FOR LEAK SURVEYS AND VALVE INSPECTIONS

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 we ordered City Gas to develop, implement, and file 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.

The Company's implementation of these actions was monitored through correspondence and on-site visits. Specifically, City Gas provided monthly progress reports and supporting documentation reflecting the company's progress in implementing these two audit recommendations. Additionally, Commission 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 Miami Division Manager, a Senior Project Engineer, and; an Engineer Auditor responsible for reviewing all aspects of the company's

ORDER NO. PSC-97-1011-FOF-GU
DOCKET NO. 960502-GU
PAGE 3

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.

Based on these facts, we find that City Gas has implemented the proper controls to ensure leak surveys and valve maintenance inspections are conducted in accordance with Rules 25-12.022 and 25-12.040, Florida Administrative Code.

ADJUSTMENTS RELATING TO CONTRACT WITH MEDLEY CONSTRUCTION COMPANY, INC.

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 Company, Inc. 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. City Gas's construction accounting records, of plant additions built by Medley Construction Company, for a four year period (September 1989 to September 1993) were reviewed. In addition, field verifications were performed by obtaining as-built maps and conducting visual confirmations of City Gas facilities. Finally, as part of the audit procedure, a random sample of voucher payments City Gas paid to Medley during the four year period in Brevard and St. Lucie areas were reviewed. The contract prices of Peoples Gas System, Inc. (Peoples) and Florida Public Utilities Company (FPUC) to the were compared 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

ORDER NO. PSC-97-1011-FOF-GU
DOCKET NO. 960502-GU
PAGE 4

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. The contract prices appear reasonable, given the differences in services provided.

Based on these facts, we find that no adjustment needs to be made for the Medley Contracts. No evidence indicates that City Gas' contract payments to Medley Construction were excessive.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that City Gas has implemented the proper controls to ensure leak surveys and valve maintenance inspections are conducted in accordance with Rules 25-12.022 and 25-12.040, Florida Administrative Code. It is further

ORDERED that no adjustment is necessary relating to the contract prices paid by City Gas Company relating to its contracts with Medley Construction Company, Inc. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket shall be closed.

ORDER NO. PSC-97-1011-FOF-GU
DOCKET NO. 960502-GU
PAGE 5

By ORDER of the Florida Public Service Commission this 25th
day of August, 1997.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

(S E A L)

RVE

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 15, 1997.

ORDER NO. PSC-97-1011-FOF-GU
DOCKET NO. 960502-GU
PAGE 6

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.