

MEMORANDUM

October 15, 1998

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *CV*

RE: DOCKET NO. 980002-EG -- CITY GAS COMPANY OF FLORIDA  
AUDIT REPORT - CONSERVATION AUDIT REPORT  
AUDIT CONTROL NO. 98-162-4-1

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The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

City Gas Company of Florida  
Michael Palecki  
955 East 25th Street  
Hialeah, FL 33013-3498

DNV/sp

Attachment

cc: Chairman Johnson  
Commissioner Clark  
Commissioner Deason  
Commissioner Garcia  
Commissioner Jacobs  
Mary Andrews Bane, Deputy Executive Director/Technical  
Legal Services  
Division of Auditing and Financial Analysis (Devlin/Causseaux/  
File Folder)  
Division of Electric and Gas (Lowery/Brown)  
Miami District Office (Welch)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE

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FPCD RECORDS/REPORTING



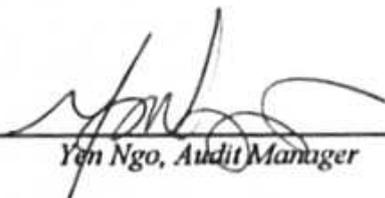
FLORIDA PUBLIC SERVICE COMMISSION  
*DIVISION OF AUDITING AND FINANCIAL ANALYSIS*  
*BUREAU OF AUDITING*  
*MIAMI DISTRICT OFFICE*

CITY GAS COMPANY OF FLORIDA

CONSERVATION CLAUSE

HISTORICAL YEAR ENDED MARCH 31, 1998

DOCKET NO. 980002-EG  
AUDIT CONTROL NO. 98-162-4-1

  
\_\_\_\_\_  
*Yen Ngo, Audit Manager*

  
\_\_\_\_\_  
*Kathy Welch, Audit Supervisor*

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
AUDITOR'S REPORT  
SEPTEMBER 9, 1998**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described in this report to audit the Conservation True-Up schedules for the historical 6-month period ended March 31, 1998 for City Gas Company. These schedules were prepared by the utility as part of its petition for conservation recovery in Docket 980002-EG. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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.

In our opinion, the schedules referred to above present fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

## **SUMMARY OF SIGNIFICANT FINDINGS**

The following subjects were found in this audit: incorrect revenues and overrecovery, and incorrect booking of advertising expenses.

## **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 error or inconsistency.

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

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

**EXPENSES:** Examined expense amounts per the general ledger and reconciled to Company's CT-3 schedules. Staff tested 100% of all advertising expenses by tracing to the invoices and advertisements. From the Company's prepaid printout of incentives, staff pulled a judgmental sample. The incentive expenses were traced to vouchers, invoices, and sales contracts. Recalculated the year end allocation of transportation expenses and agreed them to the general ledger.

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

## EXCEPTIONS

### Exception No. 1

**Subject:** Sample Testing

**Statement of fact:** Staff judgmentally selected a sample of incentive expenses from the General Ledger and requested the company provide the vouchers and sales journals for testing. Sales journals are the company's file of contracts for appliances that show what rebate was given on each contract. The company could not locate 4 sales journals (total of \$4,714.48) listed below:

No.	Date	Sales Journal	Program	Amount
1	1/31/98	Acct 606877-148	3	\$600.00
2	11/30/97	Acc't 606877-345 (See A)	3	\$400.00
3	12/31/97	Acct 606877-345	3	\$2,800.00
4	3/31/98	Acct 606877-346	3	\$914.48
		Total		<u>\$4,714.48</u>

- A. The total amount booked in this account related to sales journal was \$3,600.00. However, only journals related to \$3,200.00 of the items were found.

**Opinion:** Since staff could not determine that these sales journals were related to conservation, these expenses should be disallowed from total expenses. With interest this amounts to \$4,777.67.

**Exception No. 2**

**Subject: True-up and Interest Calculation**

**Statement of Fact:** The company used the following information to calculate true-up and interest:

1. Overrecovery \$89,108 instead of \$95,290 as indicated in Order No. PSC-98-0403-FOF-EG, Docket No. 980002-EG.
2. Interest rates of 5.550% for the month of 3/98 and 5.530% for the month of 4/98 instead of using 5.530% in 3/98 and 5.550% in 4/98, according to the Wall Street Journal, respectively.
3. Revenues for the six months ended 3/31/98 that did not agree with their books.

Date	Revised Revenues	Revenues (Filing)	Difference
10/97	\$82,107.50	\$81,799	\$308.50
11/97	\$94,869.34	\$94,512	\$357.34
12/97	\$119,662.07	\$95,083	\$24,579.07
1/98	\$118,759.76	\$131,890	(\$13,130.24)
2/98	\$107,664.48	\$116,656	(\$8,991.52)
3/98	\$109,680.71	\$111,170	(\$1,489.29)
Total	<u>\$632,743.86</u>	<u>\$631,110</u>	<u>\$1,633.86</u>

**Opinion:** The total revenues were also incorrectly recorded in the Conservation True-Up Filing for the period of October 1997 to March 1998 (Exhibit page 14).

Revised Revenues	\$632,743.86
Prior Period True-up Not Applicable to This Period (7,426*6) Per Exhibit	\$44,556.00
	<u>(\$675,666.00)</u>
Difference	<u>\$1,633.86</u>

The company reported overrecovery is understated by \$8,187.00 as shown on the attached schedule. The revised overrecovery based on these errors is \$226,411.00.

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

October 1997	Month 1	5.530%
November 1997	Month 2	5.530%
December 1997	Month 3	5.600%
January 1998	Month 4	5.750%
February 1998	Month 5	5.500%
March 1998	Month 6	5.530%

Interest- first day reporting of subsequent month April 1997 5.550%

INTEREST RATES

	1997 OCTOBER	1997 NOVEMBER	1997 DECEMBER	1998 JANUARY	1998 FEBRUARY	1998 MARCH
Beginning	5.530%	5.530%	5.600%	5.750%	5.500%	5.530%
Ending	5.530%	5.600%	5.750%	5.500%	5.530%	5.550%
Total	11.060%	11.130%	11.350%	11.250%	11.030%	11.080%
Average	5.530%	5.565%	5.675%	5.625%	5.515%	5.540%
Monthly Average	0.461%	0.464%	0.473%	0.469%	0.460%	0.462%

CALCULATION OF TRUE-UP

Total Revenues-net of tax, (Line 4)	(82,108)	(94,869)	(119,662)	(118,760)	(107,664)	(109,680)
Prior True-up (Line 5)	(7,426)	(7,426)	(7,426)	(7,426)	(7,426)	(7,426)
Total revenue to current period	(89,534)	(102,295)	(127,088)	(126,186)	(115,090)	(117,106)
Conservation Expenses (Line 7)	89,852	69,621	62,659	88,519	78,755	116,704
True-up this period (Line 8)	318	(32,674)	(64,429)	(37,667)	(36,335)	(402)
Interest provision (Line 9)	(421)	(466)	(672)	(874)	(997)	(1,057)
True-up & interest beginning (Line 10)	(95,290)	(87,967)	(113,682)	(171,357)	(202,472)	(232,378)
Prior true-up coll. refunded	7,426	7,426	7,426	7,426	7,426	7,426
FGT PGA TRUE UP ADJ						
Rate Case Refund Balance						
Total net true-up	(87,967)	(113,682)	(171,357)	(202,472)	(232,378)	(226,411)
True-up for the month CO. FILING	(81,447)	(106,774)	(139,779)	(183,907)	(222,742)	(218,224)
Difference	(6,520)	(6,908)	(31,578)	(18,565)	(9,636)	(8,187)

CALCULATION OF INTEREST

Beginning true up and int.	(95,290)	(87,967)	(113,682)	(171,357)	(202,472)	(232,378)
Ending true-up before int	(87,546)	(113,215)	(170,685)	(201,598)	(231,381)	(225,354)
Total	(182,836)	(201,183)	(284,367)	(372,955)	(433,854)	(457,733)
Average true up	(91,418)	(100,591)	(142,183)	(186,476)	(216,927)	(228,866)
Interest rate per above	0.46%	0.46%	0.47%	0.47%	0.46%	0.46%
Interest per staff	(421)	(466)	(672)	(874)	(997)	(1,057)
True-up for the month per (WP 2) Company's Fi	(392)	(435)	(582)	(757)	(934)	(1,016)
Difference	(29)	(31)	(90)	(117)	(63)	(41)

Source: Company prepared schedule A-2

**Exception No. 3**

**Subject: Advertising Expenses**

**Statement of fact:** Staff tested advertising expense and discovered the following:

1. The company recorded \$416.64 related to promotional merchandise (600 Koozies - 250 with NUI print and 350 with Hammond and NUI print) on March 31, 1998. The koozy is a thermal can holder.
2. A newspaper ad congratulating the Cocoa Beach Chamber of Commerce by City Gas for \$324.51 was classified as a conservation expense. The cost of the advertisement, \$324.51, was part of \$5,135.95 advertising expense recorded on February 28, 1998.

**Opinion:** Rule 25-17.015 states that in determining whether an advertisement is "directly related to an approved conservation program", the Commission shall consider, but is not limited to, whether the advertisement or advertisement or advertising campaign:

1. Identifies a specific problem.
2. States how to correct the problem.
3. Provides direction concerning how to obtain help to alleviate the problem.

These advertisement expenses do not meet the rule requirements. With interest they amount to \$744.

**Exception No. 4**

**Subject:     Transportation Expense**

**Statement of Fact:** The transportation expenses for the company were allocated to individual conservation programs based on the percentage of conservation labor to total labor. Staff scanned account 618.614 transportation expense and discovered two account payable entries were recorded in the account for 10/97 and 11/97. The company could not locate the vouchers for the following entries:

<b>No.</b>	<b>Date</b>	<b>Vendor</b>	<b>Amount</b>
1	11/30/97	Fairway Plumb-Perm, Lab & Mat	\$350.00
2	10/31/97	Dial Plumbing	\$233.00
		Total	<u>\$583.00</u>

**Opinion:** These vouchers did not relate to transportation. The company thought that these were incentives that were misclassified but the invoices did not appear to be conservation related. With interest, \$596 should be removed from expenses.

**Exception No. 5**

**Subject: Incentives**

**Statement of Fact:** The company booked the following incentive expenses in account 606.087 - Ecp3-Electricity Replacement Incentive:

1.	Check No. 49386	2/28/98	Dial Plumbing of Brevard	\$5,613.50
2.	Check No. 53488	3/31/98	Dial Plumbing	<u>\$1,180.00</u>
			Total	<u>\$6,793.50</u>

When examining the backup for the above entries, Sue Warner, the company's representative, informed staff that the above entries were not part of the conservation expenses.

**Opinion:** \$6,793.50 should be removed from expenses. With interest this amounts to \$6,835.

CITY GAS COMPANY OF FLORIDA  
NUI SOUTHERN DIVISIONCONSERVATION TRUE-UP FILING  
OCTOBER 1997 THROUGH MARCH 1998

Actual Conservation Revenue applicable to the period:	\$ 675,666
Actual Conservation Expense	<u>505,738</u>
Actual True-up for this period	\$ 169,928
Original Projected True-up:	
(from C-3, page 4 of 5, Line 8, Column 1-6)	<u>\$ 90,335</u>
Difference between Actual True-up this period and Original Projected True-up:	<u>\$ 79,593</u>

CITY GAS COMPANY OF FLORIDA  
ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION  
FOR MONTHS: OCTOBER 1997 THROUGH SEPTEMBER 1998

	Actual Oct-97	Actual Nov-97	Actual Dec-97	Actual Jan-98	Actual Feb-98	Actual Mar-98	Projected Apr-98	Projected May-98	Projected Jun-98	Projected Jul-98	Projected Aug-98	Projected Sep-98	Total
1 RCS AUDIT FEES													
2 OTHER PROGRAM REVS													
3 CONSERV. ADJ REVS	(81,799)	(94,512)	(95,083)	(131,890)	(116,656)	(111,170)	(98,398)	(87,377)	(82,662)	(83,785)	(80,326)	(80,080)	(1,143,938)
4 TOTAL REVENUES	(81,799)	(94,512)	(95,083)	(131,890)	(116,656)	(111,170)	(98,398)	(87,377)	(82,662)	(83,785)	(80,326)	(80,080)	(1,143,938)
5 PRIOR PERIOD TRUE UP NOT APPLICABLE TO THIS PERIOD	(7,426)	(7,426)	(7,426)	(7,426)	(7,426)	(7,426)	(7,426)	(7,426)	(7,426)	(7,426)	(7,426)	(7,426)	(89,108)
CONSERVATION REVENUES													
6 APPLICABLE TO THE PERIOD	(89,225)	(101,938)	(102,509)	(139,316)	(124,082)	(118,596)	(105,824)	(94,803)	(90,288)	(91,211)	(87,752)	(87,502)	(1,233,046)
CONSERVATION EXPENSES													
7 (FROM CT-3, PAGE 1)	89,852	69,621	62,659	88,519	76,755	116,704	199,467	189,232	189,907	189,107	186,832	190,203	1,650,858
8 TRUE-UP THIS PERIOD	627	(32,317)	(39,650)	(50,797)	(45,327)	(1,892)	93,643	94,429	99,619	97,896	99,080	102,701	417,812
9 INTEREST PROVISION													
THIS PERIOD	(392)	(435)	(582)	(757)	(934)	(1,016)	(773)	(309)	171	661	1,152	1,657	(1,555)
(FROM CT-3 PAGE 3)													
10 TRUE-UP & INTER. PROV. BEGINNING OF MONTH	(89,108)	(81,447)	(106,774)	(139,779)	(183,907)	(222,742)	(218,224)	(117,927)	(16,381)	90,835	196,818	304,477	
11 PRIOR PERIOD TRUE UP COLLECTED/(REFUNDED)	7,426	7,426	7,426	7,426	7,426	7,426	7,426	7,426	7,426	7,426	7,426	7,426	
12 TOTAL NET TRUE UP (SUM LINES 8 + 9 + 10 + 11)	(81,447)	(106,774)	(139,779)	(183,907)	(222,742)	(218,224)	(117,927)	(16,381)	90,835	196,818	304,477	416,257	416,257

CITY GAS COMPANY OF FLORIDA  
 CALCULATION OF TRUE-UP AND INTEREST PROVISION  
 FOR MONTHS: OCTOBER 1987 THROUGH SEPTEMBER 1988

	Actual Oct-87	Actual Nov-87	Actual Dec-87	Actual Jan-88	Actual Feb-88	Actual Mar-88	Projected Apr-88	Projected May-88	Projected Jun-88	Projected Jul-88	Projected Aug-88	Projected Sep-88	Total
1. INTEREST PROVISION BEGINNING TRUE-UP	(89,108)	(81,447)	(106,774)	(139,779)	(183,907)	(222,742)	(218,224)	(117,927)	(16,381)	90,835	196,818	304,477	
2. ENDING TRUE-UP BEFORE INTEREST	(81,055)	(106,338)	(139,198)	(183,150)	(221,808)	(217,708)	(117,155)	(16,072)	90,684	195,157	303,324	414,600	
3. TOTAL BEGINNING & ENDING TRUE-UP	(170,163)	(187,785)	(245,971)	(322,929)	(405,715)	(433,950)	(335,378)	(134,000)	74,283	286,992	500,143	719,077	
4. AVERAGE TRUE-UP (LINE 3 TIMES 50%)	(85,082)	(93,893)	(122,986)	(161,465)	(202,857)	(219,975)	(167,689)	(67,000)	37,141	143,496	250,071	359,538	
5. INTER. RATE - 1ST DAY OF REPORTING MONTH	5.530%	5.530%	5.600%	5.750%	5.500%	5.550%	5.530%	5.530%	5.530%	5.530%	5.530%	5.530%	
6. INTER. RATE - 1ST DAY OF SUBSEQUENT MONTH	5.530%	5.600%	5.750%	5.500%	5.550%	5.530%	5.530%	5.530%	5.530%	5.530%	5.530%	5.530%	
7. TOTAL (SUM LINES 5 & 6)	11.060%	11.130%	11.350%	11.250%	11.050%	11.080%	11.060%	11.060%	11.060%	11.060%	11.060%	11.060%	
8. AVG INTEREST RATE (LINE 7 TIMES 50%)	5.530%	5.565%	5.675%	5.625%	5.525%	5.540%	5.530%	5.530%	5.530%	5.530%	5.530%	5.530%	
9. MONTHLY AVG INTEREST RATE	0.481%	0.484%	0.473%	0.469%	0.460%	0.463%	0.461%	0.461%	0.461%	0.461%	0.461%	0.461%	
10. INTEREST PROVISION (LINE 4 TIMES LINE 9)	(392)	(435)	(582)	(757)	(934)	(1,016)	(773)	(309)	171	661	1,152	1,657	(1,555)
10. a. INT. ADJ													

STATE OF FLORIDA

Commissioners:  
JULIA L. JOHNSON, CHAIRMAN  
J. TERRY DEASON  
SUSAN F. CLARK  
JOE GARCIA  
E. LEON JACOBS, JR.



DIVISION OF RECORDS & REPORTING  
BLANCA S. BAYO  
DIRECTOR  
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**Public Service Commission**

October 21, 1998

Michael Palecki  
City Gas Company of Florida  
955 East 25th Street  
Hialeah, Florida 33013-3498

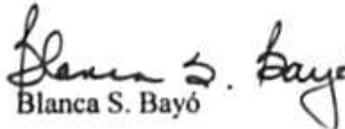
Re: Docket No. 980002 - EG - City Gas Company of Florida  
Audit Report - Conservation - Year Ended March 31, 1998  
Audit Control # 98-162-4-1

Dear Mr. Palecki:

The enclosed audit report is forwarded for your review. Any company response file with this office within ten (10) work days of the above case will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

  
Blanca S. Bayo

BSB/abf  
Enclosure  
cc: Division of Audit and Financial Analysis  
Ansley Watson, Esquire