

State of Florida



Public Service Commission

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

DATE: March 28, 2000
 TO: Division of Electric and Gas (Makin)
 FROM: Division of Auditing and Financial Analysis (Vandiver) *W*
 RE: 000003-GU; South Florida Natural Gas
 PGA Audit Report - Period Ended December 31, 1999
 Audit Control No. 00-003-3-3

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, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Auditing and Financial Analysis (Devlin/Causeaux/Harvey/File Folder)
 Orlando District Office (Winston)
 ✓ Division of Records and Reporting
 Division of Legal Services

South Florida Natural Gas
 P. O. Box 248
 New Smyrna Beach, FL 32170-0248

Messer Law Firm
 P. O. Box 1876
 Tallahassee, FL 32302

AFA _____
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FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING SERVICES

Orlando District Office

SOUTH FLORIDA NATURAL GAS COMPANY

PURCHASED GAS ADJUSTMENT AUDIT

TWELVE-MONTH PERIOD ENDED DECEMBER 31, 1999

DOCKET NO. 000003-GU
AUDIT CONTROL NO. 00-003-3-3

Handwritten signature of Jeffery A. Small in cursive script.

Jeffery A. Small, Audit Manager

Handwritten signature of Misty B. Shepherd in cursive script.

Misty B. Shepherd, Audit Staff

Handwritten signature of Charleston J. Winston in cursive script.

Charleston J. Winston, Audit Supervisor

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

MARCH 20, 2000

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Purchased Gas Adjustment schedule for the twelve-month period ended December 31, 1999, for South Florida Natural Gas Company. This schedule was prepared by the company as part of its petition for purchased gas adjustment true-up in Docket No. 000003-GU.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all the financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

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

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Schedules A-1 through A-6 - Compiled and recomputed the company's Schedules A-1 through A-6 for the period January 1999 through December 1999.

PGA Revenues - Traced and recomputed therm sales for the above-mentioned period to the company's monthly billing registers.

Cost of Gas - Verified therms and cost of gas purchased to the company-provided invoices.

True-up - Verified the true-up factor to Commission Order Number PSC-98-1689-FOF-GU. Verified that the correct interest rates were applied to under or over recovered amounts for the twelve months ended December 31, 1999.

Audit Exception No. 1

Subject: Purchased Gas Cost True-Up Calculation

Statement of Facts: The company's Purchased Gas Adjustment (PGA) filing reports the following monthly amounts for its Total Estimated/Actual True-Up in Schedule A-2, Line 11.

<u>MONTH</u>	<u>TRUE-UP</u>	<u>MONTH</u>	<u>TRUE-UP</u>
Jan	\$120,699	Jul	\$167,886
Feb	\$109,516	Aug	\$166,712
Mar	\$149,511	Sep	\$158,544
Apr	\$160,769	Oct	\$145,661
May	\$159,855	Nov	\$92,966
Jun	\$169,039	Dec	\$49,623

Per 18 CFR 201, General Instructions 4 and 11A,

Accounting period. Each utility shall keep its books on a monthly basis so that for each month all transactions applicable thereto, as nearly as may be ascertained, shall be entered in the books of the utility.

Accounting to be on an accrual basis. The utility is required to keep its books on an accrual basis. This requires the inclusion in its accounts of all known transactions of appreciable amount which effect the accounts.

The company's PGA filing indicates that it stopped accruing for unbilled revenues and therm sales after March 1999.

The company provided sufficient documents that allowed audit staff to calculate unbilled revenues and therm sales for the twelve-month period ending December 1999.

Recommendation: The company's PGA filing for Schedule A-2 at December 1999 does not accurately reflect the actual calculation of true-up and interest provision at year end because of the following accounting errors.

- 1) The unbilled revenues and therm sales recorded in January, February, and March in the company PGA filings are wrong because it miscalculated the average total daily therm sales. These averages were used to calculate an estimated amount for unbilled revenues and therm sales for each monthly period.

Audit Exception No. 1, continued

- 2) The unbilled revenues and therm sales which were accrued for March 1999 in the company filing were not reversed in April 1999. Subsequently, the unbilled revenues and therm sales initially accrued and recorded in March 1999 are also recorded as revenues and therm sales in April 1999.
- 3) The company did not record any unbilled revenues and therm sales subsequent to March 1999. This methodology does not properly match monthly gas revenues against monthly gas costs as required in the CFRs cited above.

The errors stated above have an appreciable effect on the monthly true-up and interest provision calculations reported in Schedule A-2 of the filing. Audit staff has determined that the company has over reported its December 1999 Actual/Estimated True-Up by \$28,505. The effects of these errors on the true-up factor for Schedule A-2 Line 11 in the January 1999 and all subsequent months of the company filing are illustrated below.

<u>MONTHS</u>	<u>TRUE-UP Per Company</u>	<u>TRUE-UP Per Audit</u>	<u>TRUE-UP Difference</u>
Jan	\$120,699	\$114,531	(\$6,168)
Feb	109,516	114,401	4,885
Mar	149,511	136,826	(12,685)
Apr	160,769	140,989	(19,780)
May	159,855	127,993	(31,862)
Jun	169,039	132,040	(36,999)
Jul	167,886	127,883	(40,003)
Aug	166,712	122,549	(44,163)
Sep	158,544	110,725	(47,819)
Oct	145,661	97,587	(48,074)
Nov	92,966	54,732	(38,234)
Dec	\$49,623	\$21,118	(\$28,505)

The monthly difference represents the cumulative sum of all monthly errors and its effect on the interest provision for all true-up calculations in subsequent months.

Small differences are due to rounding errors.

The company should be required to reduce its December 1999 Actual/Estimated True-Up by \$28,505 to the auditor-determined balance of \$21,118.

COMPANY: SOUTH FLORIDA NAT GAS		COMPARISON OF ACTUAL VERSUS REVISED ESTIMATE OF THE PURCHASED GAS ADJUSTMENT COST RECOVERY FACTOR				SCHEDULE A-1 EXHIBIT NO _____ DOCKET NO. 990003-GU SOUTH FLA NATURAL GAS AK-1 PAGE OF			
ESTIMATED FOR THE PERIOD OF:		JANUARY 99 Through DECEMBER 99							
		CURRENT MONTH: DECEMBER		PERIOD TO DATE					
		ACTUAL	ESTIMATE	DIFFERENCE		ACTUAL	ESTIMATE	DIFFERENCE	
				AMOUNT	%			AMOUNT	%
COST OF GAS PURCHASED									
1	COMMODITY (Pipeline)	1,461	1,362	99	7.27	4,982	5,318	(336)	-6.33
2	NO NOTICE SERVICE	786	0	786	0.00	5,469	5,209	260	4.99
3	OTHER	0	0	0	0.00	(9,721)	(9,721)	(0)	0.00
4	COMMODITY (Other)	85,992	86,338	(346)	-0.40	605,974	620,887	(14,913)	-2.40
5	DEMAND	25,722	24,809	913	3.68	187,058	184,404	2,654	1.44
6	MGMT FEE	1,000	1,000	0	0.00	12,000	12,000	0	0.00
LESS END-USE CONTRACT									
7	COMMODITY (Pipeline)	0	0	0	0.00	0	0	0	0.00
8	DEMAND	0	0	0	0.00	0	0	0	0.00
9		0	0	0	0.00	0	0	0	0.00
10	Second Prior Month Purchase Adj. (OPTIONAL)	0	0	0	0.00	0	0	0	0.00
11	TOTAL COST (1+2+3+4+5+6+10)-(7+8+9)	114,961	113,509	1,452	1.28	805,761	818,097	(12,336)	-1.51
12	NET UNBILLED	0	0	0	0.00	37,116	37,116	0	0.00
13	COMPANY USE	0	0	0	0.00	0	0	0	0.00
14	TOTAL THERM SALES	71,257	116,333	(45,076)	-38.75	739,145	814,919	(75,774)	-9.30
THERMS PURCHASED									
15	COMMODITY (Pipeline) BILLING DETERMINANTS ONLY	368,690	379,280	(10,590)	-2.79	2,686,530	2,769,748	(83,218)	-3.00
16	NO NOTICE SERVICE BILLING DETERMINANTS ONLY	133,300	134,540	(1,240)	-0.92	1,018,200	1,018,640	(440)	-0.04
17	SWING SERVICE COMMODITY	0	0	0	0.00	0	0	0	0.00
18	COMMODITY (Other) COMMODITY	368,690	379,280	(10,590)	-2.79	2,686,530	2,769,748	(83,218)	-3.00
19	DEMAND BILLING DETERMINANTS ONLY	683,550	683,550	0	0.00	3,532,400	3,568,740	(36,340)	-1.02
20	OTHER COMMODITY	0	0	0	0.00	0	0	0	0.00
LESS END-USE CONTRACT									
21	COMMODITY (Pipeline)	0	0	0	0.00	0	0	0	0.00
22	DEMAND	0	0	0	0.00	0	0	0	0.00
23		0	0	0	0.00	0	0	0	0.00
24	TOTAL PURCHASES (+17+18+20)-(21+23)	368,690	379,280	(10,590)	-2.79	2,686,530	2,769,748	(83,218)	-3.00
25	NET UNBILLED	0	0	0	0.00	134,107	134,107	0	0.00
26	COMPANY USE	0	0	0	0.00	0	0	0	0.00
27	TOTAL THERM SALES (24-26 ESTIMATED ONLY)	257,101	379,280	(122,179)	-32.21	2,666,231	2,934,904	(268,673)	-9.15
CENTS PER THERM									
28	COMMODITY (Pipeline) (1/15)	0.396	0.359	0.037	10.35	0.185	0.192	-0.007	-3.424
29	NO NOTICE SERVICE (2/16)	0.590	0.000	0.590	0.00	0.538	0.511	0.027	5.239
30	SWING SERVICE (3/17)	0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.000
31	COMMODITY (Other) (4/18)	23.324	22.764	0.560	2.46	22.558	22.417	0.139	0.621
32	DEMAND (5/19)	3.783	3.629	0.154	3.68	5.295	5.167	0.128	2.483
33	OTHER (6/20)	0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.000
LESS END-USE CONTRACT									
34	COMMODITY Pipeline (7/21)	0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.00
35	DEMAND (8/22)	0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.00
36		0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.00
37	TOTAL COST OF PURCHASES (11/24)	31.181	29.927	1.253	4.19	29.993	29.537	0.456	1.54
38	NET UNBILLED (12/25)	0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.00
39	COMPANY USE (13/26)	0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.00
40	TOTAL COST OF THERMS SOLD (11/27)	44.714	29.927	14.787	49.41	30.221	27.875	2.346	8.42
41	TRUE-UP (E-2)	-3.035	-3.035	0.000	0.00	-3.035	-3.035	0.000	0.00
42	TOTAL COST OF GAS (40+41)	41.679	26.892	14.787	54.99	27.186	24.840	2.346	9.45
43	REVENUE TAX FACTOR	1.005030	1.005030	0.000	0.00	1.005030	1.005030	0.000	0.00
44	PGA FACTOR ADJUSTED FOR TAXES (42x43)	41.889	27.028	14.861	54.99	27.323	24.965	2.358	9.45
45	PGA FACTOR ROUNDED TO NEAREST .001	41.889	27.028	14.861	54.98	27.323	24.965	2.358	9.45

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COMPANY: SFNG CALCULATION OF TRUE-UP AND INTEREST PROVISION
 FOR THE PERIOD OF: JANUARY 99 Through DECEMBER 99

SCHEDULE A-2
 EXHIBIT NO _____
 DOCKET NO. 990003-GU
 SOUTH FLORIDA NATURAL GAS
 AK-1
 PAGE ____ OF ____

	CURRENT MONTH: DECEMBER				PERIOD TO DATE			
	ACTUAL	ESTIMATE	DIFFERENCE		ACTUAL	ESTIMATE	DIFFERENCE	
			AMOUNT	%			AMOUNT	%
TRUE-UP CALCULATION								
1 PURCHASED GAS COST	86,992	87,338	346	0.396%	617,857	632,770	14,913	2.357%
2 TRANSPORTATION COST	27,969	26,171	(1,798)	-6.870%	187,904	185,327	(2,577)	-1.391%
3 TOTAL	114,961	113,509	(1,452)	-1.279%	805,761	818,097	12,336	1.508%
4 FUEL REVENUES (NET OF REVENUE TAX)	71,257	116,333	45,076	38.747%	739,145	814,918	75,773	9.298%
5 TRUE-UP (COLLECTED) OR REFUNDED	6,843	6,843	0	0.000%	82,116	82,116	0	0.000%
6 FUEL REVENUE APPLICABLE TO PERIOD * (LINE 4 (+ or -) LINE 5)	78,100	123,176	45,076	36.595%	821,261	897,034	75,773	8.447%
7 TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	(36,861)	9,667	46,528	481.308%	15,500	78,937	63,437	80.364%
8 INTEREST PROVISION-THIS PERIOD (21)	331	518	187	36.131%	7,088	7,351	263	3.578%
9 BEGINNING OF PERIOD TRUE-UP AND INTEREST	92,996	109,979	16,983	15.442%	109,150	109,150	0	0.000%
10 TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	(6,843)	(6,843)	0	0.000%	(82,116)	(82,116)	0	0.000%
10a FLEX RATE REFUND (if applicable)	0	0	0	0.000%	0	0	0	0.000%
11 TOTAL ESTIMATED/ACTUAL TRUE-UP (7+8+9+10+10a)	49,623	113,321	63,698	56.210%	49,622	113,322	63,700	56.212%
INTEREST PROVISION								
12 BEGINNING TRUE-UP AND INTEREST PROVISION (9)	92,996	109,979	16,983	15.442%				
13 ENDING TRUE-UP BEFORE INTEREST (12+7-5)	49,292	112,803	63,511	56.303%				
14 TOTAL (12+13)	142,288	222,782	80,494	36.131%				
15 AVERAGE (50% OF 14)	71,144	111,391	40,247	36.131%				
16 INTEREST RATE - FIRST DAY OF MONTH	5.550%	5.550%	0.0000	0.000%				
17 INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	5.600%	5.600%	0	0.000%				
18 TOTAL (16+17)	11.150%	11.150%	0.00000	0.000%				
19 AVERAGE (50% OF 18)	5.575%	5.575%	0.00000	0.000%				
20 MONTHLY AVERAGE (19/12 Months)	0.465%	0.465%	0.00000	0.000%				
21 INTEREST PROVISION (15x20)	331	518	187	36.131%				

* If line 5 is a refund add to line 4
 If line 5 is a collection () subtract from line 4