

State of Florida



Public Service Commission

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

DATE: July 6, 2001
TO: Division of Competitive Services (Makin)
FROM: Division of Regulatory Oversight (Vandiver) *OV*
RE: Docket No. 010003-GU; City Gas Company of Florida, NUI Corp.; PGA audit;
Audit Control No. 01-066-4-1 and 01-064-4-1

Attached is the final audit report for the utility stated above. The majority of the audit report has been requested by the company to be confidential, even though the company discontinued its requests for confidentiality after the April, 2000 PGA filing. This issue can be addressed further when the company files its formal Request For Confidential Classification.

Audit Exception No. 3 discusses the number of discrepancies between the monthly filings and the general ledger. This same issue has arisen in the last several audits. Each year the company asserts that it will address the problem. Last year, not only did we have a multitude of differences, we also had very little assistance from the company in resolving these differences. This year, staff notes that the cooperation of the accounting staff at the company was very good and what we would expect of a company that we are auditing. The accounting staff were instrumental in helping us to reconcile the differences.

However, while the staff cooperation is improved, the company is still responsible for resolving the problems that are causing these differences to occur. The amount of time that the auditors are spending working on these differences is detrimental to our overall audit plan and indicates an overall lack of internal controls that concerns the Bureau of Auditing Services. If future audit reports continue to find a similar magnitude of problems, I will recommend that we pursue further actions against the company through a penalty or fine.

DOCUMENT NUMBER DATE

08340 JUL-96

FPSC-RECORDS/REPORTING

Memorandum
July 6, 2001
Page 2 of 2

I am sending the utility a copy of this memo and the audit report. If the utility files a response to the audit report, it should send the response to the Division of Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

Attachment

cc: Division of Regulatory Oversight (Hoppe, Harvey, District Offices, File Folder)
Division of Safety and Electric Reliability (Jenkins)
Division of Competitive Services (Bulecza-Banks)
Division of Commission Clerk and Administrative Services (2)
Division of Legal Services (C. Keating, Elias)

Mary Patricia Keefe
City Gas Company of Florida,
NUI Corp.
One Elizabethtown Plaza
PO Box 3175
Union, NJ 07083

Richard Melson
Hopping Law Firm
123 S Calhoun Street
PO Box 6526
Tallahassee, FL 32314

John Kean, Jr., President, NUI Corp.

James Van Horn, General Counsel, NUI Corp.

A. Mark Abramovic, Sr. Vice President
and Chief Financial Officer, NUI Corp.

Patricia Helfer, Controller, NUI Corp.



FLORIDA PUBLIC SERVICE COMMISSION

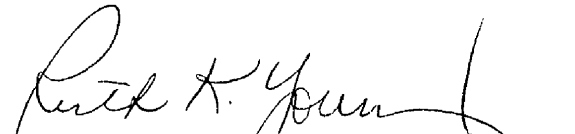
*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*

Miami District Office

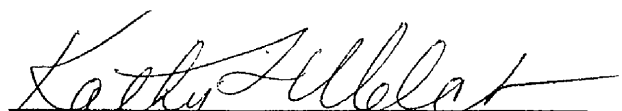
CITY GAS COMPANY OF FLORIDA
PURCHASED GAS ADJUSTMENT AUDIT
PERIOD ENDED DECEMBER 31, 2000

AUDIT CONTROL NOS. 01-064-4-1 and 01-066-4-1

DOCKET NO. 010003-GU



Ruth K. Young, Audit Manager



Kathy Welch, Miami District Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	Purpose	1
	Disclaim Public Use	1
	Summary of Significant Procedures	2
II.	AUDIT EXCEPTIONS	
	1. Adjustments from the last PSC audit for the Year end December 31, 1999	3
	2. Incorrect Recording of Margin Sharing Gains from Off System Sales	4
	3. Cost of Gas	5
	4. Calculation of Margin Share for October	10
III.	AUDIT DISCLOSURES	
	1. Hedging	11
III.	EXHIBITS	
	Company Filing for PGA for 12 months ended December 31, 2000	13
	Staff Recalculation of the A-2 schedules for the 12 months ended December 31, 2000	14

**DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT**

June 30, 2001

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 Schedules for the year ending December 31, 2000. These schedules were prepared by the utility as part of its Purchased Gas Adjustment true-up filings in Docket No. 010003-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 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.

Reviewed - 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.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to 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.

Verify - The item was tested for accuracy and compared to substantiating documentation.

Revenues: The revenue amounts on the A-2 schedules were compared with the company reconciliation schedules. Traced revenues and terms to billing system summaries. Determined if the rates charged were over the cap. Recalculated customer bills for each rate class.

Expenses: Compiled cost of gas expenses for the 12-months ending December 31, 2000. Compared the cost of gas according to the A-2 schedules to the documentation supporting the A-2 schedules and the general ledger for all months. Examined on a judgmental basis invoices for the purchase of gas. Where the parent company allocated a portion of the gas invoice to City Gas, the allocation percents were traced to appropriate documentation. Off-system sales were examined on a judgmental basis to determine if the correct amounts were deducted from the cost of gas. Margin sharing for off-system sales was recalculated on a random basis.

True-up and Interest: Recalculated the true-up and interest amount for the 12-months ending December 31, 2000. Traced interest rates to the Wall Street Journal.

AUDIT EXCEPTION 1

**SUBJECT: ADJUSTMENTS FROM THE LAST PSC AUDIT FOR THE
YEAR END DECEMBER 31, 1999**

STATEMENT OF FACTS: The last audit report for the PGA for the 12 months ended December 31, 1999, dated September 5, 2000, included adjustments to the ending period true-up. There were three exceptions which impacted the final true-up. One adjustment was for revenues, the second for cost of gas and the third for prior audit period errors. The net effect of the audit report increased the company's over recovery from \$753,665 to \$860,977; a total difference of \$107,312. This adjustment was not made in the year 2000.

Also, it was reported in the last audit that a cost of gas expense in December 1999 included \$366,710.80 on the A-2 schedule which was not booked until January 2000. The company explained at that time that the A-2 was changed in December without recording the adjustment on the books until the month of January 2000. There was no adjustment made by staff to remove this expense from the true up.

In January 2000, the general ledger included the adjustment, but the amount was also included again on the January 2000 A-2 schedule as a cost of gas.

OPINION: It was pointed out in the last audit report that changing the filing and not the general ledger until the next month could lead to reporting the same expenses in two months. This is what occurred.

RECOMMENDATION: The beginning over recovery true-up should be increased for the adjustments made in the last audit in the amount of \$107,312. The cost of gas on the January 2000 A-2 schedule should be reduced by \$366,710.80.

This adjustment along with all other audit exceptions are included in a revised A-2 true up schedule in the Exhibit section of this report.

AUDIT EXCEPTION 2

CONFIDENTIAL

AUDIT EXCEPTION 3

SUBJECT: COST OF GAS

STATEMENT OF FACTS: When comparing the cost of gas on the A-2 schedules submitted to the Commission for the year end December 31, 2000 with the general ledger, it was determined that there were discrepancies in 11 of the 12 months. Because of all the differences, the A-2 schedules were disregarded and the amounts in the general ledger were used as a starting point to audit. When the amounts in the general ledger were verified, an adjustment was made to the A-2 cost of gas to agree with the general ledger when appropriate.

The differences determined are detailed on the schedule following this exception. The detail shows that the cost of gas for the year end should be increased in the amount of \$100,273.63.

The types of differences are:

1. Accruals on the A-2 that do not agree with the amounts in the general ledger (both higher and lower).
2. Reversal of prior months accruals incorrect on the A-2 (reversals are different than the prior month accruals).
3. Formula errors on the A-2 .
4. Company use amounts reported on both the general ledger and the A-2 are incorrect.
5. Certain transactions recorded in the general ledger were inadvertently left off of the A-2.
6. Accounts included on the A-2 that should not be part of cost of gas.
7. Typographical errors on the A-2.

OPINION: The cost of gas amounts included on the A-2 schedules should not be relied upon.

RECOMMENDATION: The cost of gas on the A-2 schedules submitted to the Commission should be increased from \$31,145,562.00 to \$31,245,835.53; a difference of \$100,273.63. (This amount includes the adjustments in Audit Exception 2.) A revised schedule A-2 is included in the exhibit section in this report. This revised schedule also includes all other audit exceptions.

The Company should calculate the A-2 schedules according to the general ledger. The accruals and payments should be the same in both. Also, procedures should be instituted to make sure that items are not omitted and formulas calculate the correct amounts when preparing the A-2 schedules.

SCHEDULE TO AUDIT EXCEPTION 3

CONFIDENTIAL

Pages 6, 7, 8 and 9

Pages 6, 7, 8 and 9

AUDIT EXCEPTION 4

CONFIDENTIAL

AUDIT DISCLOSURE 1

CONFIDENTIAL

PAGES 11 AND 12

COMPANY:		CALCULATION OF TRUE-UP AND INTEREST PROVISION				SCHEDULE A-2 (REVISED 6/08/94) PAGE 4 OF 11			
CITY GAS COMPANY OF FLORIDA		FOR THE PERIOD OF:		JANUARY 00 Through DECEMBER 00					
		CURRENT MONTH: 12/00		DIFFERENCE		PERIOD TO DATE		DIFFERENCE	
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
		ACTUAL	ESTIMATE	AMOUNT	%	ACTUAL	ESTIMATE	AMOUNT	%
TRUE-UP CALCULATION									
1	PURCHASED GAS COST (Sch A-1 Flx down line 4+6)	4,127,703	3,302,539	(825,164)	-24.99%	20,389,328	26,585,724	6,196,396	23.31%
2	TRANSP GAS COST (Sch A-1 Flx down line 1+2+3+5)	1,145,277	953,700	(191,577)	-20.09%	10,756,234	11,028,309	272,075	2.47%
3	TOTAL	5,272,980	4,256,239	(1,016,741)	-23.89%	31,145,568	37,614,033	6,468,465	17.20%
4	FUEL REVENUES (Sch A-1 Flx down line 14) (NET OF REVENUE TAX)	2,616,803	4,243,335	1,626,532	38.33%	25,018,532	37,503,863	12,485,331	33.29%
5	TRUE-UP (COLLECTED) OR REFUNDED	4,019	4,019	-	0.00%	48,228	48,228	-	0.00%
6	FUEL REVENUE APPLICABLE TO PERIOD * (LINE 4 (+ or -) LINE 5)	2,620,822	4,247,354	1,626,532	38.30%	25,066,760	37,552,091	12,485,331	33.25%
7	TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	(2,652,158)	(8,885)	2,643,273	-29749.84%	(6,078,802)	(61,942)	6,016,860	-9713.70%
8	INTEREST PROVISION-THIS PERIOD (21)	(22,511)	13,101	35,612	271.83%	(85,139)	52,635	137,774	261.75%
9	BEGINNING OF PERIOD TRUE-UP AND INTEREST	(2,779,811)	2,066,098	4,845,909	234.54%	753,670	1,739,913	986,243	56.68%
9A	ADJUST BEGINNING ESTIMATE	-	331,084	331,084	100.00%	-	715,001	715,001	100.00%
9B	BEGINNING OF PERIOD TRUE-UP AND INTEREST	(2,779,811)	2,397,182	5,176,993	215.96%	753,670	2,454,914	1,701,244	69.30%
10	TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	(4,019)	(4,019)	-	0.00%	(48,228)	(48,228)	-	0.00%
10a	Refund (if applicable)	-	-	-	---	-	-	-	---
10b	Refund of interim rate increase	-	-	-	---	-	-	-	---
11	TOTAL ESTIMATED/ACTUAL TRUE-UP (7+8+9b+10+10a)	(5,458,499)	2,397,379	7,855,878	327.69%	(5,458,499)	2,397,379	7,855,878	327.69%
INTEREST PROVISION									
12	BEGINNING TRUE-UP AND INTEREST PROVISION (9b)	(2,779,811)	2,397,182	5,176,993	215.96%				
13	ENDING TRUE-UP BEFORE INTEREST (12 + 10a + 10b + 7 - 5)	(5,435,988)	2,384,278	7,820,266	327.99%				
14	TOTAL (12+13)	(8,215,798)	4,781,460	12,997,258	271.83%				
15	AVERAGE (50% OF 14)	(4,107,899)	2,390,730	6,498,629	271.83%				
16	INTEREST RATE - FIRST DAY OF MONTH	0.06650	0.06650	-	0.00%				
17	INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	0.06500	0.06500	-	0.00%				
18	TOTAL (16+17)	0.13150	0.13150	-	0.00%				
19	AVERAGE (50% OF 18)	0.06575	0.06575	-	0.00%				
20	MONTHLY AVERAGE (19/12 Months)	0.00548	0.00548	-	0.00%				
21	INTEREST PROVISION (15x20)	(22,511)	13,101	35,612	271.83%				

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

COMPANY EXHIBIT

13

Company CITY GAS CO.
 Title True-up & Interest Calculations
 Period Year Ended 12/31/00
 Date MAY 4, 2001

REVISED FOR AUDIT EXCEPTIONS

Interest Rates per Wall Street Journal Commercial Paper			Interest Rates per Wall Street Journal Commercial Paper		
Interest- first day reporting	January	5 6000%	Interest- first day reporting	July	6 5800%
	February	5 8000%		August	6 5000%
	March	5 8000%		September	6 4800%
	April	6 0700%		October	6 5000%
	May	6 1800%		November	6 4900%
	June	6 5700%		December	6 6500%
Interest- first day reporting of subsequent month		6 5800%	Interest- first day reporting of subsequent month		6 5000%

	January	February	March	April	May	June	July	August	September	October	November	December	Total
Beginning	5 600%	5 800%	5 800%	6 070%	6 180%	6 570%	6 58%	6 50%	6 48%	6 50%	6 49%	6 65%	
Ending	5 800%	5 800%	6 070%	6 180%	6 570%	6 580%	6 50%	6 48%	6 50%	6 49%	6 65%	6 50%	
Total	11 400%	11 600%	11 870%	12 250%	12 750%	13 150%	13 080%	12 980%	12 980%	12 990%	13 140%	13 150%	
Average	5 700%	5 800%	5 935%	6 125%	6 375%	6 575%	6 540%	6 490%	6 490%	6 495%	6 570%	6 575%	
Monthly Average	0 475%	0 483%	0 495%	0 510%	0 531%	0 548%	0 545%	0 541%	0 541%	0 541%	0 548%	0 548%	
CALCULATION OF TRUE-UP													
Total Gas revenues	2,209,943	2,400,700	2,306,747	1,960,021	1,856,082	1,760,545	1,870,966	1,924,456	1,898,386	2,147,738	2,066,125	2,616,803	25,018,532
	0	0	0	0	0	0	0	0	0	0	0	0	0
Prior True-up - Note (a)	4,019	4,019	4,019	4,019	4,019	4,019	4,019	4,019	4,019	4,019	4,019	4,019	48,229
Adj Total gas revenue to current	2,213,962	2,404,719	2,310,766	1,964,040	1,860,101	1,764,564	1,875,005	1,928,475	1,902,405	2,151,757	2,070,144	2,620,822	25,066,761
Gas Cost	3,178,238	2,654,306	2,520,203	2,135,200	1,714,930	2,108,208	2,101,764	2,164,141	2,050,667	2,422,104	2,822,821	5,272,980	31,145,562
AUDIT EXCEPTION 1	(366,710)	0	0	0	0	0	0	0	0	0	0	0	(366,710)
AUDIT EXCEPTION 2	48	(391,728)	391,687	0	14,446	(182,269)	154,040	47,697	(1,087,771)	1,113,886	32,270	7,967	100,273
AUDIT EXCEPTION 4	0	0	0	0	0	0	0	0	0	2,000	0	0	2,000
Adjusted Total Gas Cost current	2,811,576	2,262,578	2,911,890	2,135,200	1,729,376	1,925,939	2,255,804	2,211,838	962,896	3,537,990	2,855,091	5,280,947	30,881,125
True-up this period	(597,614)	142,141	(601,124)	(171,160)	130,725	(161,375)	(380,799)	(283,363)	939,509	(1,366,233)	(784,947)	(2,660,125)	(5,814,364)
Interest provision	2,661	1,600	490	(1,483)	(1,680)	(1,848)	(3,347)	(5,158)	(3,433)	(4,685)	(10,730)	(20,257)	(47,870)
True-up & Interest beginning Note (b)	753,665	262,005	401,727	(202,926)	(379,588)	(254,562)	(421,804)	(809,969)	(1,102,509)	(170,452)	(1,565,388)	(2,365,085)	753,665
AUDIT EXCEPTION 1	107,312												107,312
Adj True-up Interest Beginning	860,977	262,005	401,727	(202,926)	(379,588)	(254,562)	421,804	(809,969)	(1,102,509)	(170,452)	(1,565,388)	(2,365,085)	860,977
Prior True-up coll refunded	(4,019)	(4,019)	(4,019)	(4,019)	(4,019)	(4,019)	(4,019)	(4,019)	(4,019)	(4,019)	(4,019)	(4,019)	(48,229)
FGT PGA TRUE UP ADJ													
Rate Case Refund Balance													Underrecovery
Total net true-up	262,005	401,727	(202,926)	(379,588)	(254,562)	(421,804)	(809,969)	(1,102,509)	(170,452)	(1,565,388)	(2,365,085)	(5,049,486)	(5,049,486)
True-up for the month CO FILING	(213,345)	(468,594)	(684,896)	(864,017)	(727,078)	(1,079,678)	(1,316,969)	(1,564,427)	(1,725,583)	(2,010,027)	(2,779,811)	(5,458,499)	(5,458,499)
Difference	475,350	870,321	481,972	484,429	472,516	657,874	507,000	461,918	1,555,131	444,639	414,726	409,013	409,013
CALCULATION OF INTEREST													
Beginning true up and int	860,977	262,005	401,727	(202,926)	(379,588)	(254,562)	(421,804)	(809,969)	(1,102,509)	(170,452)	(1,565,388)	(2,365,085)	
Ending true-up before int	259,344	400,127	(203,416)	(378,105)	(252,882)	(419,956)	(806,622)	(1,097,351)	(1,167,019)	(1,560,704)	(2,354,354)	(5,029,229)	
Total	1,120,321	662,131	198,311	(581,031)	(632,469)	(674,517)	(1,228,425)	(1,907,320)	(1,269,527)	(1,731,155)	(3,919,743)	(7,394,314)	
Average true up	560,160	331,066	99,155	(290,515)	(316,235)	(337,259)	(614,213)	(953,660)	(634,764)	(865,578)	(1,959,871)	(3,697,157)	
Interest rate per above	0 48%	0 48%	0 49%	0 51%	0 53%	0 55%	0 55%	0 54%	0 54%	0 54%	0 55%	0 55%	
Interest per staff	2,661	1,600	490	(1,483)	(1,680)	(1,848)	(3,347)	(5,158)	(3,433)	(4,685)	(10,730)	(20,257)	(47,870)
True-up for the month per Company	1,260	(1,643)	(2,848)	(3,940)	(4,213)	(4,937)	(6,513)	(7,773)	(8,875)	(10,078)	(13,088)	(22,511)	(85,139)
	1,381	3,243	3,338	2,457	2,533	3,089	3,166	2,615	5,442	5,393	2,358	2,254	37,269

Source: Company prepared schedule A-2

NOTE A THE PRIOR TRUE UP AMOUNT SHOWN ABOVE WAS TRACED TO THE LAST 12 month period
 Order No. 99-2443-FOF-GU Overrecovery of \$48,229 divide by 12 = 4,019

NOTE B THE TRUE UP AND INTEREST BEGINNING TOTAL AMOUNT OF WAS TRACED
 TO LAST SIX MONTH PERIOD FILING - ENDING TRUE UP DOCKET 990003-GU
 AFAD NO 00-003-4-3

COMPANY: CITY GAS CO
TITLE: ADJUSTMENTS TO PURCHASED GAS
ADJUSTMENT SCHEDULES FILED WITH
THE COMMISSION
PERIOD: YEAR END DECEMBER 31, 2000
DATE: JUNE 11, 2000

Detail of Staff Revised True up Schedule
--

	AUDIT EXCEPTION 1 Cost of Gas on A-2 Dr (Cr)	AUDIT EXCEPTION 2 Cost of Gas on A-2 Dr (Cr)	AUDIT EXCEPTION 3 Cost of Gas on A-2 Dr (Cr)	AUDIT EXCEPTION 4 Cost of Gas on A-2 Dr (Cr)	TOTAL
January	(366,710.00)		48.20		(366,661.80)
February			(391,728.15)		(391,728.15)
March			391,687.13		391,687.13
April			0		0.00
May			14,445.92		14,445.92
June			(182,268.88)		(182,268.88)
July			154,040.49		154,040.49
August		**	47,696.84		47,696.84
September		**	(1,087,771.09)		(1,087,771.09)
October			1,113,886.17	2,000.00	1,115,886.17
November			32,269.80		32,269.80
December			7,967.20		7,967.20
	(366,710.00)	0.00	100,273.63	2,000.00	(264,436.37)
Increase to prior period true up which was an over recovery	(107,312.00)				(107,312.00)
Interest					(371,748.37)
					(37,269.00)
					(409,017.37)

** Included in Audit Exception 3