



Public Service Commission

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DATE: September 3, 2004
TO: Wayne Makin, Division of Competitive Markets and Enforcement
FROM: Denise N. Vandiver, Chief, Bureau of Auditing
Division of Regulatory Compliance and Consumer Assistance
RE: **Docket No.** 040003-GU ; **Company Name:** City Gas Co. ;
Audit Purpose: Purchase Gas Adjustment Audit ;
Audit Control No. 04-043-4-1

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, it should send the response to the Division of the Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

- CMP _____ Rosie Abreu
- COM _____ Regulatory & Business Affairs,
- CTR _____ City Gas Company of Florida
- ECR _____ 955 East 25th Street
- GCL _____ Hialeah, FL 33013
- OPC _____ Mr. Gary V. Perko, Esq.
- MMS _____ Hopping Law Firm
- RCA _____ P. O. Box 6526
- SCR _____ Tallahassee, FL 32314
- SEC 1 Ms. Gloria L. Lopez, Director
- OTH _____ Regulatory & Business Affairs,
- _____ City Gas Company of Florida
- _____ 955 East 25th Street
- _____ Hialeah, FL 33013

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF REGULATORY COMPLIANCE AND
CONSUMER ASSISTANCE***

Miami District Office

City Gas Company
Purchased Gas Adjustment Audit

YEAR ENDED DECEMBER 31, 2003

DOCKET #040003-GU
AUDIT CONTROL NO. 04-043-4-1

A handwritten signature in cursive script, reading "Ruth K. Young".

Ruth K. Young
Audit Manager

A handwritten signature in cursive script, reading "Kathy Welch".

Kathy Welch
Public Utilities Supervisor

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

September 1, 2004

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, 2003. These schedules were prepared by the utility as part of its Purchased Gas Adjustment true-up filings in Docket No. 040003-GU. Because of information supplied during this audit, we applied further procedures to determine if City Gas customers were harmed by activities of its non-regulated affiliate.

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. There is confidential information filed with this report.

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.

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

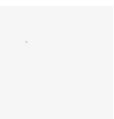
Revenues: The revenue amounts on the A-2 schedules were compared with the company reconciliation schedules. Traced revenues and terms to billing system summaries. Determined if the rates charged were over the cap. Recalculated customer bills for each rate class.

Expenses: Compiled cost of gas expenses for the 12-months ending December 31, 2003. 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, 2003. Traced interest rates to the Wall Street Journal.

Affiliated Transactions: The company was audited by two different firms to look into NUI Energy Brokers trading practices. Because the results showed that harm was caused to the New Jersey rate payers, we reviewed these audits and interviewed the consultants who performed these audits. Liberty Consulting Group was hired by the New Jersey Board of Public Utilities and the Stier Anderson Law Firm was hired by NUI Corporation. We reviewed Liberty Consulting Group's "Focused Audit of NUI Corporation and its Affiliates," Stier Anderson Law Firm investigation into the allegations of inappropriate conduct by employees, NUI's Answer to the NJ Board of Public Utilities, and the NJ Board of Public Utilities Final Order in this matter.

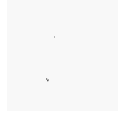
We performed several tests using company data of trades from fiscal year end September 30, 1997 through September 30, 2003 to determine the harm to Florida ratepayers and compared these results to Stier Anderson's results for Florida.



**City Gas Company
Purchased Gas Adjustment Audit**

Pages 4 – 11 are Confidential

EXHIBIT



COMPANY:
CITY GAS COMPANY OF FLORIDA

CALCULATION OF TRUE-UP AND INTEREST PROVISION

SCHEDULE A-2
(REVISED 6/08/94)
PAGE 4 OF 11

FOR THE PERIOD OF: JANUARY 03 Through DECEMBER 03

	CURRENT MONTH: 12/03		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 Fx down line 4+6)	2,124,341	1,317,037	(807,304)	-61.30%	20,456,428	18,014,906	(2,441,522)	-13.55%
2 TRANSP GAS COST (Sch A-1 Fx down line 1+2+3+5)	902,113	895,066	(7,047)	-0.79%	8,217,923	7,977,007	(240,916)	-3.02%
3 TOTAL	3,026,454	2,212,103	(814,351)	-36.81%	28,674,351	25,991,913	(2,682,438)	-10.32%
4 FUEL REVENUES (Sch A-1 Fx down line 14) (NET OF REVENUE TAX)	2,058,302	2,203,718	145,416	6.60%	27,908,160	25,862,343	(2,045,817)	-7.91%
5 TRUE-UP (COLLECTED) OR REFUNDED	52,513	52,513	-	0.00%	630,123	630,123	-	0.00%
6 FUEL REVENUE APPLICABLE TO PERIOD * (LINE 4 (+ or -) LINE 5)	2,110,815	2,256,231	145,416	6.45%	28,538,283	26,492,466	(2,045,817)	-7.72%
7 TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	(915,639)	44,128	959,767	2174.96%	(136,068)		636,621	127.18%
8 INTEREST PROVISION-THIS PERIOD (21)	1,117	(221)	(1,338)	605.43%	14,369	(2,188)	(16,557)	756.72%
9 BEGINNING OF PERIOD TRUE-UP AND INTEREST	1,779,324	(252,335)	(2,031,659)	805.14%	949,959	(129,183)	(1,079,142)	835.36%
10 TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	(52,513)	(52,513)	-	0.00%	(630,123)	(630,123)	-	0.00%
10a ADJUSTMENTS	-	-	-	-	-	-	-	-
10b OSS 50% Margin Sharing (Line 39, Page 11)	6,950	-	(6,950)	-	621,102	-	(621,102)	-
11 TOTAL ESTIMATED/ACTUAL TRUE-UP (7+8+9+10+10a+10b)	819,239	(260,941)	(1,080,180)	413.96%	819,239	(260,941)	(1,080,180)	413.96%
INTEREST PROVISION								
12 BEGINNING TRUE-UP AND INTEREST PROVISION (9+10a)	1,779,324	(252,335)	(2,031,659)	805.14%				
13 ENDING TRUE-UP BEFORE INTEREST (12 + 10a + 10b + 7 - 5)	818,122	(260,720)	(1,078,842)	413.79%				
14 TOTAL (12+13)	2,597,446	(513,055)	(3,110,501)	606.27%				
15 AVERAGE (50% OF 14)	1,298,723	(256,528)	(1,555,251)	606.27%				
16 INTEREST RATE - FIRST DAY OF MONTH	0.01000	0.01000	-	0.00%				
17 INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	0.01060	0.01060	-	0.00%				
18 TOTAL (16+17)	0.02060	0.02060	-	0.00%				
19 AVERAGE (50% OF 18)	0.01030	0.01030	-	0.00%				
20 MONTHLY AVERAGE (19/12 Months)	0.00086	0.00086	-	0.00%				
21 INTEREST PROVISION (15x20)	1,117	(221)	(1,338)	605.43%				

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