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November 16, 2004

COMMISSION CLERK

BY HAND DELIVERY

Blanca Bayó
Director, Division of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Re: Docket No. 040003-GU
Request for Confidential Treatment of Audit Workpapers

Dear Ms. Bayó:

Enclosed for filing, on behalf of City Gas Company of Florida ("City Gas") are the original and seven copies of a redacted version of the Staff Audit Report in the above docket, along with a table providing the reasons for which City Gas seeks confidential treatment of the redacted material. The Audit Report was inadvertently omitted from the confidentiality request filed by City Gas in the above docket (Doc. No. 10225-04). As discussed with Staff, the confidential portions of Audit Report correspond with other confidential workpapers which were included within the original confidentiality request. Thus, the redacted material has remained confidential.

By a separate envelope labeled "CONFIDENTIAL," I also am providing a copy of the report with the confidential portions highlighted.

If you have any questions regarding this filing, please give me a call at 425-2359.

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FPSC-BUREAU OF RECORDS

Very truly yours,

[Handwritten signature of Gary V. Perko]

Gary V. Perko
Attorneys for City Gas Company of Florida

GVP/mee
cc: All Counsel/Parties of Record

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

AUDIT REPORT			
Description	Page No(s).	Line No(s).	Justification*
Audit Disclosure 2 (corresponds to WP 60)	6	1-9	E, G
	7	1-10	G
	7	11-19	E
Audit Disclosure 3 (corresponds to W P 61)	8	1-9	E, G
	9	1-3	
Audit Disclosure 5 (corresponds to WP 63)	11	1-8	C

* The lettering for the justifications corresponds to those set forth in the Legend included with the original confidentiality request (Doc. No. 10225-04).



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. 04-043-4-2

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.

AUDIT DISCLOSURE 1

57

SUBJECT: BACKGROUND

STATEMENT OF FACTS: NUI Energy Brokers, a non-regulated affiliate of NUI Utilities, performed the gas trading function for NUI Utilities. These utilities are: Elizabethtown Gas of New Jersey, City Gas of Florida, Elkton Gas and Virginia Gas. NUI Energy Brokers (NUIEB) also performed the gas trading function for itself as a non-regulated company.

Two audits were performed of NUI Energy Brokers activities which resulted in an approximation of harm to Elizabethtown Gas Company customers. The first audit report was by Liberty Consulting Group hired by the New Jersey Board of Public Utilities. The second was performed by Stier Anderson Law Firm which was hired by NUI Board of Directors after receiving a preliminary report from Liberty Consulting Group.

Both reports showed activities at NUI Energy Brokers that harmed the Elizabethtown Gas company ratepayers. The Stier Anderson report also included harm to City Gas of Florida ratepayers for certain activities. The New Jersey Board of Public Utilities in its order Dated April 13, 2004 ordered a refund to Elizabethtown Gas Customers of \$28 million plus interest, and a payment of \$2 million for penalties and monitoring the operation of the Company.

Because these activities at NUI Energy Brokers affected the New Jersey ratepayers, we investigated if these same activities affected the Florida ratepayers. The scope of this report addresses only those findings that affect City Gas of Florida Purchased Gas Adjustment Clause.

There are four types of transactions that affect the Purchased Gas Adjustment. A comparison of Liberty's and Stier Anderson's calculations of harm, and the New Jersey Board of Public Utilities order follows below.

* This page is included in Confidential workpapers



57p2

Calculation of Harm to Customers

<u>Type of Transaction</u>	<u>Liberty For ETG</u>	<u>Stier for ETG</u>	<u>Stier For City</u>	<u>PSC Staff For City</u>
1. Off System Sales and Purchases, Gas Supply Purchasers Disclosure 2	\$14,600,000	\$6,417,464	\$2,610,844(3)	\$2,610,844
2. Co-op Transactions Disclosure 3	1,159,000	268,357	132,101	308,115
3. Deferred Payment Contracts Disclosure 4	3,157,333	416,427(2) 486,202(2)	0	0
4. Enron Settlement Disclosure 5	2,400,000 <u>699,091</u>	1,353,000 <u>0</u>	72,500 <u>0</u>	72,500 <u>0</u>
Total of Items detailed in report	<u>\$22,015,424(1)</u>	<u>\$8,941,450</u>	<u>\$2,815,445</u>	<u>\$2,991,459</u>
<u>Amount Ordered by the New Jersey Board of Public Utilities</u>	<u>\$28,000,000</u>			
Difference between Liberty Report and Order	\$ 5,984,000(1)			

The rest of the disclosures in this report address each type of transaction, and the effects on City Gas customers. These disclosures include a summary of the activity that produced the harm, a description of the methods used by both consultants, the methods used by us, and the calculations.

- (1) The order is not detailed, therefore, we cannot tell where the differences may be.
- (2) These items were not calculated by Stier Anderson. NUI agreed with these amounts calculated by Liberty in its response to the New Jersey Board of Public Utilities dated March 26, 2004.
- (3) The total calculation by Stier Anderson is \$4,627,081. Of that total, Off System transactions are \$4,032,474.05. One-half of the Off System transactions is \$2,016,237. The system purchases of \$594,607.11 added to that equals \$2,610,844.

* This page is
Included in
Confidential
work papers

AUDIT DISCLOSURE 2

SUBJECT: OFF SYSTEM SALES AND PURCHASES, GAS SUPPLY PURCHASES

STATEMENT OF FACTS:

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Activity

NUI Energy Brokers (NUIEB), a non-regulated affiliate was purchasing and selling for itself, and at the same time purchasing and selling for all companies in NUI Utilities, including City Gas. Both Liberty and Stier Anderson found that NUI Energy Brokers was maximizing its profits at the expense of NUI Utilities. If NUI Energy Brokers made sales for itself, it kept 100% of the profit. In New Jersey, if Elizabethtown Gas (ETG) made off system sales, 85% of the profit went back to the customers and 15% stayed with the company. In Florida, if City Gas made off system sales, 50% of the profit went back to the customers and 50% stayed with the company. One of the methods used by NUI Energy Brokers to maximize its profit was to enter into sleeve transactions. These consisted of the practice where NUIEB arranged to sell utility gas to a counterparty, and then buy it back essentially immediately at a small mark-up from that same party in NUIEB's own name, and then sell the gas to a third party at a higher price. For example,

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1. NUIEB on behalf of City Gas sold gas to a counter party at [REDACTED]
2. NUIEB purchased the same gas from the same first counter party at [REDACTED]
3. NUIEB would sell the same gas to a third counter party at a higher rate than [REDACTED] for example, \$2.915.

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Instead of City selling directly to the third party at the higher price, NUIEB would get the higher profit. The counter party would make a small .05 cent profit, City Gas would make a small profit and NUIEB would make the higher profit.

stier
int v.

Another method NUI Energy Brokers used was to switch the deals at the end of the day and change the deal tickets. For example, for similar quantities and delivery points, NUIEB would set up the deal tickets so that NUIEB would have the better deal. Since it was trading on behalf of itself and of NUI Utilities, it had the ability to manipulate the deals.

Methodology

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* this page included in Confidential work papers

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Stier Anderson: [Redacted]

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Measure of Harm

Liberty did not address City Gas transactions in its report.

60-2 Stier described its results in its report. The margin transferred as a result of off system transaction was \$4,032,474.05. Of that amount, the company was entitled to \$2,016,237.03. Therefore, the maximum amount of lost margin to City Gas is \$2,016,237.03 (off system transactions) plus \$594, 607.11 which was for system transactions. The total harm found by Stier Anderson was \$2,610,844.12.

OPINION: City Gas customers were harmed by NUIEB's activities. We reviewed the methods used by both Liberty and Stier Anderson. We believe that Stier Anderson's method fairly represents the harm caused to City Gas customers. It took into account all the sleeve deals described above, and at the same time probably captured those deals that were made on the same day for similar quantities that might have been changed to give the better profit to NUIEB.

Included in
* Confidential *
work papers

AUDIT DISCLOSURE 3

***SUBJECT: GO-OP SALES**

STATEMENT OF FACTS: (61)

Activity

NUI Utilities was a founding member the East Coast Natural Gas Cooperative that was formed to pool gas resources. The co-op members put its supply needs together and put out for bid their supply needs to qualified suppliers (sellers). NUI Energy Brokers (NUIEB) did not become a qualified supplier until the co-op went on line with "blind" bids (cannot tell who was bidding to supply the gas).

b1-1

It was Liberty's contention that NUIEB should not have sold gas to Elizabethtown Gas (ETG) through the co-op because it was a conflict of interest. The margin earned by NUIEB should be refunded to Elizabethtown Gas Company. Liberty also found that it was possible for the suppliers to determine who was purchasing because the transfer point information was on the bid package, and that it was not blind as it was supposed to be.

Stier Anderson did not express an opinion on whether NUIEB should have been selling gas to ETG or City. It said that NUIEB had a contract to purchase and sell on behalf of ETG, and NUIEB treated City the same way. However, Stier Anderson calculated a dollar amount for Elizabethtown Gas and included it in its report. Subsequently, at our request, Stier calculated an amount for City Gas.

Methodology

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[REDACTED]

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Measure of Harm

We compiled the volumes of all gas purchased for City Gas from NUIEB through the co-op using data supplied by Stier Anderson. The volume was 1,647,675 for deals from 12/1/00 through 3/23/03. [REDACTED]

61-2 Stier Anderson's calculation did not include those co-op deals and volumes where NUIEB lost money on the deal. The possibility exists that NUIEB might have purchased a hedge contract that would offset the loss. It only included those deals and volumes where NUIEB profited on the deals. Its measure of harm to City Gas is \$132,101.

OPINION: Because the possibility exists that NUIEB might have purchased a hedge contract for its co-op deals with City, we cannot be sure that NUIEB actually lost money on the deals that Stier Anderson did not include in its calculation. The scope of this audit did not include a review of NUIEB's system where hedges are recorded. For this reason, we recommend that \$308,115 rather than \$132,101 be refunded to City Gas customers.

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AUDIT DISCLOSURE 4

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SUBJECT: DEFERRED PAYMENT CONTRACTS

STATEMENT OF FACTS: Deferred payment contracts are used to purchase gas at the present time and pay at a later date. These are sometimes entered into because of liquidity problems, and sometimes cost more than if the gas had been paid for at the time of purchase. In our interviews with Liberty Consulting and Stier Anderson we asked if either one had found any evidence of deferred payment contracts with City Gas. Both said that they did not find any. Also, we submitted a request to City Gas to detail any deferred payment contracts in 2002 and 2003. It replied that there were none.

OPINION: We do not believe that City Gas used this type of transaction or that the ratepayers were harmed by this type of transaction.

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AUDIT DISCLOSURE 5

SUBJECT: ██████████ TRANSACTION

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STATEMENT OF FACTS: Elizabethtown Gas Company was involved in a deferred payment agreement with ██████████ in 2001. Elizabethtown Gas was asked by ██████████ to advance payments before their due date because of ██████████ need for cash. In November 2001 a settlement was negotiated with ██████████. According to information from Stier Anderson, Elizabethtown owed ██████████ \$49,792,664 in deferred payments. ██████████ owed NUI Utilities and NUIEB a total of \$5,539,277 for a net balance of \$44,253,387. The amount actually paid to ██████████ was \$42,900,000, resulting in a profit to NUIEB of \$1,353,387. Part of the \$5,539,277 was \$72,500 owed to City Gas.

In our interviews with Liberty Consulting and Stier Anderson, we asked if either found any references to City Gas in their analysis of the ██████████ deferred payment agreement transaction with Elizabethtown Gas Company. Both said that City Gas was not a part of the transaction. However, as stated above, City Gas was involved in the settlement. At the time of the settlement, ██████████ owed City Gas \$72,500. According to Stier Anderson, this was never credited to City Gas.

OPINION: City Gas should be given credit for the \$72,500 and that amount returned to the customers.

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EXHIBIT

COMPANY:		CALCULATION OF TRUE-UP AND INTEREST PROVISION				SCHEDULE A-2			
CITY GAS COMPANY OF FLORIDA		FOR THE PERIOD OF: JANUARY 03 Through DECEMBER 03				(REVISED 6/08/94)			
		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)	500,553	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%	* If line 5 is a refund add to line 4 If line 5 is a collection () subtract from line 4			
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%				