AGL Resources
Atlanta Gas Light
Chattanooga Gas
Elizabethtown Gas
Elkton Gas
Florida City Gas
Virginia Natural Gas
AGL Networks
Sequent Energy Management

955 East 25th Street
Hialeah, FL 33013
www.floridacitygas.com

December 18, 2007

Blanca Bayó
Director Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

RE: Docket No. 070003-GU

Dear Ms. Bayó:

By memorandums dated August 1, 2007 and September 13, 2007, the Commission Staff filed an audit report and supplement (Audit Control No. 07-067-4-1) for Florida City Gas in the above referenced docket.

Enclosed for filing, please find the Company's response to the Staff's audit reports.

If you need additional information, please contact me at (305) 835-3607.

Very truly yours,

Rosie Abreu
Regulatory Analyst

Encl.

Florida City Gas

Florida City Gas Company
Purchased Gas Adjustment Clause Audit
Limited Scope Audit

Twelve Months Ended December 31, 2006
DOCKET #070003-GU
AUDIT CONTROL NO. 07-067-4-1

RESPONSE TO:
AUDITOR'S REPORT
July 27, 2007

AUDIT FINDING NO. 1
SUBJECT: LEDGER REPORTING
AUDIT ANALYSIS: In the past, the utility recorded the amount paid for gas in a gas expense account, the revenue in a separate purchased gas revenue account, and the difference and interest in a true-up account. This year the utility changed its recording methodology. The gas expense account reconciles to purchased gas revenues. However, some months include entries booking gas costs, then subsequent revenue entries remove these costs from the amount booked for revenue. The gas invoices and cash out transactions are booked in the true-up account along with a credit for the revenue, and interest.

Commission Rule 25-7.014 (1) requires each natural gas utility to maintain its accounts and records in conformity with the Uniform System of Accounts for Natural Gas Companies (USOA) as found in the Code of Federal Regulations, Title 18, Subchapter F, Part 201. General Instruction 2A from 18 CFR Chapter 1 Part 201 , states each "utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit ready identification, analysis, and verification of all facts relevant thereto." However, the individual line items for gas costs in the ledger could not be traced directly to the invoices or the filing. All entries that could not be directly reconciled had to be added together and reconciled to the cash outs in the filing.

According to 18 CFR Chapter 1 Part 201 , Accounts 800 to 805 record different types of gas purchases as expenses depending on where ownership occurred. All state that the "account shall include the cost, at point of receipt of the utility of natural gas purchased" and requires that records supporting this account shall be so maintained that there shall be readily available for each vendor and for each point of receipt, the quantity of gas, basis of charges, and amount paid for the gas. Recording revenue in the gas expense does not agree with this description.
The net effect on the true-up account is the same, and the filing is correct. However, by recording all costs, and revenues in the true-up account, the audit trail is difficult to follow especially because individual line items in the true-up account could not be

. reconciled to the gas purchases and accruals. The cost of gas and the revenues had to be recomputed and several items in the ledger had to be compared in total in order to verify the accuracy of the ledger and the filing. The audit trail needs to be improved.
EFFECT ON THE GENERAL LEDGER: The ledger should be changed to properly record costs in an expense account and revenues in a revenue account. The difference should be booked in the true-up account with the interest.

EFFECT ON THE FILING: The company is not following required accounting procedures. This failure makes it more difficult for the Commission to verify the accuracy of the utility's filing. The utility should comply with the required accounting procedures.

Company Response: The Company will change the recording of gas costs and true-up adjustment effective January 2008.

AUDIT FINDING NO. 2
SUBJECT: AFFILIATE GAS COSTS
AUDIT ANALYSIS: The utility purchases most of its gas from Sequent Energy Management, an affiliate of Florida City Gas (FCG). The invoice from Sequent is based on an asset management agreement. The base load purchased by FCG is charged based on prices in the Platts "Inside FERC's Gas Market Report for Prices of Spot Gas Delivered to Pipelines" at the first of the month. Spot purchases are charged using the "Gas Daily" prices. Transportation costs and a factor for line losses are added to these costs.

Although there is no Commission rule for affiliate transactions in the natural gas industry, Commission policy regarding affiliate transactions is expressed in the electric rule, 25-6.1351 (3) (c) FAC, as follows:

'When a utility purchases services and products from an affiliate and applies the cost to regulated operations, the utility shall apportion to regulated operations the lesser of fully allocated costs or market price. Except, a utility may apportion to regulated operations more than fully allocated costs if the charge is less than or equal to the market price. If a utility apportions to regulated operations more than fully allocated costs, the utility must maintain documentation to support and justify how doing so benefits regulated operations and would be based on prevailing price valuation."

The utility calculation of costs charged to Florida City Gas is based on market price. Based on the rule, the amount recorded for the cost of gas needs to be the lower of cost or market. We requested the gas costs on June 8, 2007. Several documents were received from the utility but none contained the actual costs paid by Sequent. The information obtained enabled us to determine that all gas was priced at market rates. The utility needs to provide the actual costs paid by Sequent for gas sent to the Florida pipeline for the year and invoices for May, since May is the month we attempted to test to determine that the actual cost of gas is not less than market. The utility has requested more time to obtain this information. We will review this information when provided and issue a supplemental report if an adjustment is needed to the filing.

EFFECT ON THE GENERAL LEDGER: The effect on the ledger will be determined when further information is received.

EFFECT ON THE FILING: The effect on the filing will be determined when further information is received.

Company Response: See supplement audit report.

AUDIT FINDING NO. 3
SUBJECT: Off System Sales
AUDIT ANALYSIS: Commission Order PSC-96-0482-FOF-GU discusses Off System Sales (OSS) for City Gas and states:

"City Gas will determine the Non Gas Energy Charge based on competitive conditions existing at the time of each transaction. City Gas has incorporated a 50/50 sharing mechanism in Rate Schedule OSS, whereby both City Gas and its customers benefit from the non gas revenues generated from the off-system or opportunity sales. That is, City Gas will retain 50% of non-gas revenues above the line, and the firm sales customers will receive 50% through a credit to the costs of purchases in the PGA clause. Because off-system sales will improve City Gas' system load factor and provide additional revenues to meet the company's revenue requirements, we find that the proposed Off-System Rate Schedule should be approved, to become effective March 19, 1996."

In May 2007, the utility booked $442,122 as the 50% share of off system sales revenues for April 2005 to March 2006. The utility only books the revenue once a year.

The support provided for the off system sales is not a calculation of off system sales revenue. The calculation determines aggregate net margin for Florida City Gas in accordance with its asset management agreement.

The computation includes revenues from Sequent's sales to Florida City Gas based on its invoices which include transportation costs and line loss allocations and its off system sales to arrive at total revenues. It then determines total costs for both types of sales based on market costs without transportation or line losses. Transportation costs are added in to determine total costs. The net of the revenue less the cost is considered the net margin. Fifty percent of that number is given back to City Gas.

The revenues for off system sales should be determined based on only off system sales less actual costs for those transactions, which could not be determined. Since Florida City Gas purchases are to be purchased at cost based on the last finding, 100% of any amount over cost for Florida City Gas purchases should be returned to Florida City Gas, not 50%.

The utility should provide corrected calculations of off system sales 50% credit using the correct calculation and costs. We will review these calculations when provided and provide a supplemental report at that time.

EFFECT ON THE GENERAL LEDGER: The effect on the ledger will be determined when further information is received.

EFFECT ON THE FILING: The effect on the filing will be determined when further information is received.

Company Response: See supplement audit report.

AUDIT FINDING NO. 4
SUBJECT: BILLING RATES

AUDIT ANALYSIS: Several bills were tested to determine if the utility used the rates specified in their monthly rate schedules. Some of the bills were found to be billed at the prior month's rate and BTU conversion factor, mainly in July. The prior month was billed at the correct rate as was the month after. An example follows for a bill in rate code 814-830 Commercial and Industrial GS 1.2:

MONTH	TOTAL OF ALL CONSUMPTION RATES PER RATE SCHEDULES	RATE PER BILL	
JANUARY	1.77741	1.77741	
FEBRUARY	1.59524	1.59524	
MARCH	1.44524	1.44524	
APRIL	1.44524	1.44524	
MAY	1.44524	1.44524	
JUNE	1.27524	1.27524	
JULY	1.20524	1.27524	JUNE RATE AND CONVERSION FACTOR USED
AUGUST	1.20524	1.20524	
SEPTEMBER	1.20524	1.20524	AUG RATE AND CONVERSION FACTOR USED
OCTOBER	1.14524	1.14524	
NOVEMBER	1.14524	1.14524	
DECEMBER	1.25524	1.25524	

The rates are under the cap specified in the last purchased gas adjustment order. The revenues in the clause are correct because they reflect what was billed to the customers. However, all customers should be billed the same rates each month. If consistently with the other customers. Several bills tested in July used the June rates. If some billing cycles are not billed each monthly code, then customers are not billed consistently with the other customers. Several bills tested in July used the June rates.

The utility changed its customer billing system in February 2007. As a result of this change, the detailed information such as account notes, itemized transactions and adjustments are not available to determine if bills rendered included prior months adjusted consumption or if the bill rendered is a re-bill from the prior month. The utility representatives believe these differences are caused by adjustments. However, all twelve months were reviewed for each customer and the June bills did not appear to be for prior month's usage.

The utility needs to change rates for each billing cycle monthly to make sure that each customer is billed the same rate each month as all of the other customers.

EFFECT ON THE LEDGER: There is no effect on the ledger. The utility needs to bill consistent rates in the future.

EFFECT ON THE FILING: The filing is not affected because the actual billed revenues were included using the billing registers.

Company Response: **It is the Company's policy to change rates monthly with new rates effective on the 1st of each month. In February 2007, Florida City Gas changed its billing system. As a result of this change, the detail information of the various components of the customer bills was not available during the audit.**

FLORIDA CITY GAS
PURCHASED GAS ADJUSTMENT
SUPPLEMENT
HISTORICAL YEAR ENDED DECEMBER 31,2006
DOCKET NO. 070003-GU
AUDIT CONTROL NO. 07-067-4-1

AUDITOR'S REPORT
September 6, 2007

We have performed these supplemental procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the schedules, prepared by Florida City Gas and attached to the original audit report, in support of its purchased gas adjustment filing, Docket No. 070003-GU.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES:
Objective: To determine that the cost of gas in the filing agreed with the ledger and could be traced to source documentation. And, to determine that affiliate transactions were properly recorded.

Procedures: We obtained a comparison from the utility of the Sequent cost of gas sent to City Gas territory to the market rates for the year. The month of May was tested to invoices and to the published market rates.

We reviewed the program used to create the schedules provided and determined that spot purchases were not included. We obtained substantiation from the utility for its position that base load and spot purchases should be compared separately. Staff agreed with the argument presented.

The program also removed some deal tickets. The deal tickets were reviewed to determine whether they should have been excluded. No errors were found.

We also obtained the utility explanation for its methodology of calculating off-system sales.