

State of Florida



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DATE: May 19, 2008
TO: Daniel Q. Lee, Engineering Specialist IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance *DNV*
RE: Docket No: 080003-GU; Company Name: Florida City Gas;
Audit Purpose: PGA for 2007; Company Code: GU602;
Audit Control No: 08-037-4-7:

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 Commission Clerk. There are no confidential work papers associated with this audit.

DNV:sbj
Attachments

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

Mr. Charles A. Rawson, III
Florida city Gas
955 East Street
Hialeah, FL 33013

Akerman Law Firm
Beth Keating
106 E. College Ave., Suite 1200
Tallahassee,, FL 32301

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FLORIDA PUBLIC SERVICE COMMISSION

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

Miami District Office

**Florida City Gas Company
Purchased Gas Adjustment Clause Audit**

Twelve Months Ended December 31, 2007

**DOCKET #080003GU
AUDIT CONTROL NO. 08-037-4-7**

A handwritten signature in cursive script, appearing to read "Kathy L. Welch".

***Kathy L. Welch
Audit Manager***

A handwritten signature in cursive script, appearing to read "Iliana Piedra".

***Iliana Piedra
Professional Accountant Specialist***

DOCUMENT NUMBER-DATE

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

May 13, 2008

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED
PARTIES**

We have performed the 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 attached schedules, prepared by Florida City Gas Company, in support of its purchased gas adjustment filing, Docket 080003-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.

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OBJECTIVES AND PROCEDURES:

Objective: To determine if the revenue recorded in the filing agrees with the ledger reported revenue and to determine if the customers were billed according to the utility billing schedule. And, to determine that the billing schedules were under the cap authorized by the Commission.

Procedure: We were unable to verify the revenues contained in the Company's General Ledger because City Gas records revenues net of other costs in the cost of gas expense account. Because of our recommendation in the last audit, City Gas is changing this procedure in January 2008. We traced the revenue reflected on Schedule A-2 to the margin reports. The margin reports were reconciled to the billing report revenues. The rate schedules were compared to the cap authorized by the Commission. And, a sample of bills were reviewed and traced to the rate schedules. The revenues on the original filing did not agree with the margin reports. Based on our review, City Gas has filed a revised filing on April 23, 2008 which does agree.

Objective: To determine that the cost of gas in the filing agreed with the ledger and could be traced to source documentation.

Procedures: We attempted to verify that the expenses contained in the Company's General Ledger agreed with Schedule A-2. However, the schedule did not agree because the company began recording the cost of gas in the true-up account along with the revenue and interest. Since the revenue and cost of gas were recorded in the true-up account, this did not leave a clear audit trail because every entry had to be reconciled to the filing. Audit finding one in the last audit, Docket 070003-GU, discusses the general ledger balances for revenues and expenses. The utility has changed the way it books PGA costs and revenues as of January 1, 2008. The filing was traced to invoices.

Objective: To determine that the calculation of the true up was correct and calculated using the appropriate interest rates and was properly recorded in the ledger.

Procedures: We recomputed the true-up for the period. We verified that the beginning true-up amount and interest rates as stated by the Company on the original and revised January A-2 filing were approved by the Florida Public Service Commission. The monthly true-up amounts, as recorded on Schedule A-2, were reconciled to the General Ledger. We recomputed the original filing and found errors in the revenue and in the cumulative balances. Based on our review, City Gas filed a revised filing on April 23, 2008.

We recomputed the revised final true-up filing, Schedule A-7. The amounts on A-7 were agreed to the revised December cumulative A-2 and to appropriate Commission orders.

AUDIT FINDING NO. 1

SUBJECT: LATE FEES

AUDIT ANALYSIS: In recording its expenses, the utility has included late fees charged to invoices in the cost of gas. Late fees should be below the line and not included in the cost of gas. The total late fees found were \$1,950. The interest recomputed on this adjustment and the filing costs was \$64.

EFFECT ON THE GENERAL LEDGER: The true up in the ledger should be adjusted to remove the late fees and the associated interest of \$2,014.

EFFECT ON THE FILING: The under-recovery should be reduced to remove the late fees and associated interest of \$2,014.

Company:
Title:
Period:
Interest- first day reporting

Florida City Gas
PURCHASED GAS ADJUSTMENT
TYE 12/31/07
JANUARY 5.2700% JULY 5.2800%
FEBRUARY 5.2600% AUGUST 5.2400%
MARCH 5.2600% SEPTEMBER 5.6200%
APRIL 5.2600% OCTOBER 5.0500%
MAY 5.2600% NOVEMBER 4.7200%
JUNE 5.2600% DECEMBER 4.7500%

Interest- first day reporting
of subsequent month

JANUARY NEX 4.9800%

| | JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER | |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| INTEREST RATES | | | | | | | | | | | | | |
| Beginning | 5.270% | 5.260% | 5.260% | 5.260% | 5.260% | 5.260% | 5.280% | 5.240% | 5.620% | 5.050% | 4.720% | 4.750% | |
| Ending | 5.260% | 5.260% | 5.260% | 5.260% | 5.260% | 5.280% | 5.240% | 5.620% | 5.050% | 4.720% | 4.750% | 4.980% | |
| Total | 10.530% | 10.520% | 10.520% | 10.520% | 10.520% | 10.540% | 10.520% | 10.860% | 10.670% | 9.770% | 9.470% | 9.730% | |
| Average | 5.265% | 5.260% | 5.260% | 5.260% | 5.260% | 5.270% | 5.260% | 5.430% | 5.335% | 4.885% | 4.735% | 4.865% | |
| Monthly Average | 0.439% | 0.438% | 0.438% | 0.438% | 0.438% | 0.439% | 0.438% | 0.453% | 0.445% | 0.407% | 0.395% | 0.405% | |
| CALCULATION OF TRUE-UP | | | | | | | | | | | | | |
| | JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER | TOTAL |
| Total PGA Revenues (G/LI) | 3,108,146 | 3,875,908 | 4,334,732 | 3,547,935 | 3,046,043 | 2,907,082 | 2,370,170 | 1,910,932 | 2,336,453 | 2,043,438 | 2,402,148 | 262,3301 | 34,506,288 |
| (1/12) of Prior True-Up (Note A) | 74,200 | 74,200 | 74,200 | 74,200 | 74,200 | 74,200 | 74,200 | 74,200 | 74,200 | 74,200 | 74,200 | 74,200 | 890,400 |
| Tax Refund | | | | | | | | | | | | | 0 |
| Total PGA revenue current period | 3,182,346 | 3,950,108 | 4,408,932 | 3,622,135 | 3,120,243 | 2,981,282 | 2,444,370 | 1,985,132 | 2,410,653 | 2,117,638 | 2,476,348 | 2,697,501 | 35,396,688 |
| Cost of gas per filing | 3,456,455 | 3,957,176 | 4,113,035 | 2,888,472 | 2,673,194 | 3,130,617 | 2,723,424 | 2,172,485 | 1,791,711 | 2,581,891 | 3,458,806 | 3,551,231 | 36,498,497 |
| Late Fees | | | | | -150 | | -1,292 | | | -398 | | -109 | -1,950 |
| Cost of gas less late fees | 3,456,455 | 3,957,176 | 4,113,035 | 2,888,472 | 2,673,344 | 3,130,617 | 2,724,716 | 2,172,485 | 1,791,711 | 2,582,289 | 3,458,806 | 3,551,340 | 36,500,447 |
| True-up this period | -274,109 | -7,068 | 295,897 | 733,663 | 446,899 | -149,335 | -280,346 | -187,353 | 618,942 | -464,651 | -982,458 | -853,839 | -1,103,759 |
| Interest provision | 9,859 | 8,945 | 9,291 | 11,262 | 14,977 | 16,813 | 15,582 | 14,791 | 15,225 | 13,999 | 10,491 | 6,780 | 148,015 |
| Adj. to interest prov | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred true-up beginning | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| True-up & interest beginning (Note B) | 2,421,264 | 2,082,814 | 2,010,491 | 2,241,479 | 2,912,204 | 3,941,526 | 3,734,803 | 3,395,839 | 3,149,077 | 3,709,044 | 3,184,192 | 2,138,025 | 2,421,264 |
| OSS 50% Margin Adjustment | 0 | 0 | 0 | 0 | 641,646 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 641,646 |
| Prior true-up collected ref. | -74,200 | -74,200 | -74,200 | -74,200 | -74,200 | -74,200 | -74,200 | -74,200 | -74,200 | -74,200 | -74,200 | -74,200 | -890,400 |
| Total net true-up | 2,082,814 | 2,010,491 | 2,241,479 | 2,912,204 | 3,941,526 | 3,734,803 | 3,395,839 | 3,149,077 | 3,709,044 | 3,184,192 | 2,138,025 | 1,216,765 | 1,216,765 |
| True-up for the month per revised filing | 2,082,814 | 2,010,498 | 2,241,494 | 2,912,228 | 3,941,712 | 3,734,997 | 3,397,341 | 3,150,569 | 3,710,529 | 3,186,085 | 2,139,914 | 1,218,779 | 1,218,779 |
| Difference is due to rounding | 0 | -7 | -15 | -24 | -186 | -194 | -1,502 | -1,492 | -1,485 | -1,893 | -1,889 | -2,014 | -2,014 |

| | JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER | |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|
| CALCULATION OF INTEREST | | | | | | | | | | | | | |
| Beginning true up and interest | 2,421,264 | 2,082,814 | 2,010,491 | 2,241,479 | 2,912,204 | 3,941,526 | 3,734,803 | 3,395,839 | 3,149,077 | 3,709,044 | 3,184,192 | 2,138,025 | |
| Ending true-up before int | 2,072,955 | 2,001,546 | 2,232,188 | 2,900,942 | 3,926,549 | 3,717,991 | 3,380,257 | 3,134,286 | 3,693,819 | 3,170,193 | 2,127,534 | 1,209,986 | |
| Total | 4,494,219 | 4,084,360 | 4,242,679 | 5,142,422 | 6,838,753 | 7,659,516 | 7,115,061 | 6,530,125 | 6,842,896 | 6,879,237 | 5,311,726 | 3,348,010 | |
| Average true up | 2,247,110 | 2,042,180 | 2,121,339 | 2,571,211 | 3,419,377 | 3,829,758 | 3,557,530 | 3,265,063 | 3,421,448 | 3,439,619 | 2,655,863 | 1,674,005 | |
| Interest rate per above | 0.439% | 0.438% | 0.438% | 0.438% | 0.438% | 0.439% | 0.438% | 0.453% | 0.445% | 0.407% | 0.395% | 0.405% | |
| Interest per staff | 9,859 | 8,945 | 9,291 | 11,262 | 14,977 | 16,813 | 15,582 | 14,791 | 15,225 | 13,999 | 10,491 | 6,780 | 148,015 |
| Interest per revised filing | 9,859 | 8,952 | 9,299 | 11,271 | 14,989 | 16,820 | 15,598 | 14,781 | 15,218 | 14,009 | 10,487 | 6,795 | 148,078 |
| Difference is due to rounding | 0 | -7 | -8 | -9 | -12 | -7 | -16 | 10 | 7 | -10 | 4 | -15 | -63 |

Source: General Ledger

EXHIBITS

Company Schedule A-2

FOR THE CURRENT PERIOD:

Jan'07 Through Dec'07

| | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC | TOTAL PERIOD |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|
| TRUE-UP CALCULATION | | | | | | | | | | | | | |
| 1 PURCHASED GAS COST | \$2,610,904 | \$3,192,931 | \$3,267,484 | \$2,280,370 | \$2,193,575 | \$2,666,296 | \$2,243,805 | \$1,692,866 | \$1,327,390 | \$2,068,156 | \$2,628,680 | \$2,737,686 | \$28,910,143 |
| 2 TRANSPORTATION COST | \$845,551 | \$704,245 | \$845,551 | \$608,102 | \$479,619 | \$464,321 | \$479,619 | \$479,619 | \$464,321 | \$513,735 | \$830,126 | \$813,545 | \$7,588,354 |
| 3 TOTAL COST | \$3,456,455 | \$3,957,176 | \$4,113,035 | \$2,888,472 | \$2,673,194 | \$3,130,617 | \$2,723,424 | \$2,172,485 | \$1,791,711 | \$2,581,891 | \$3,458,806 | \$3,551,231 | \$36,498,497 |
| 4 FUEL REVENUES (Net of Revenue Tax) | \$3,108,146 | \$3,875,908 | \$4,334,732 | \$3,547,935 | \$3,046,043 | \$2,907,082 | \$2,370,170 | \$1,910,932 | \$2,336,453 | \$2,043,438 | \$2,402,148 | \$2,623,301 | \$34,506,288 |
| 4a Under-recovery | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 4b ADJUSTED NET FUEL REVENUES * | \$3,108,146 | \$3,875,908 | \$4,334,732 | \$3,547,935 | \$3,046,043 | \$2,907,082 | \$2,370,170 | \$1,910,932 | \$2,336,453 | \$2,043,438 | \$2,402,148 | \$2,623,301 | \$34,506,288 |
| 5 TRUE-UP (COLLECTED) OR REFUNDED | \$74,200 | \$74,200 | \$74,200 | \$74,200 | \$74,200 | \$74,200 | \$74,200 | \$74,200 | \$74,200 | \$74,200 | \$74,200 | \$74,147 | \$890,347 |
| 6 FUEL REVENUE APPLICABLE TO PERIOD (LINE 4 (+ or -) LINE 5) | \$3,182,346 | \$3,950,108 | \$4,408,932 | \$3,622,135 | \$3,120,243 | \$2,981,282 | \$2,444,370 | \$1,985,132 | \$2,410,653 | \$2,117,638 | \$2,476,348 | \$2,697,448 | \$35,396,635 |
| 7 TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3) | (\$274,109) | (\$7,068) | \$295,897 | \$733,663 | \$447,049 | (\$149,335) | (\$279,054) | (\$187,353) | \$618,942 | (\$464,253) | (\$982,458) | (\$853,783) | (\$1,101,862) |
| 8 INTEREST PROVISION-THIS PERIOD (21) | \$9,859 | \$8,952 | \$9,299 | \$11,271 | \$14,989 | \$16,820 | \$15,598 | \$14,781 | \$15,218 | \$14,009 | \$10,487 | \$6,795 | \$148,078 |
| 8a ADJUST PRIOR MONTHS' INTEREST | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 9 BEGINNING OF PERIOD TRUE-UP AND INTEREST | \$2,421,264 | \$2,082,814 | \$2,010,498 | \$2,241,494 | \$2,912,228 | \$3,941,712 | \$3,734,997 | \$3,397,341 | \$3,150,569 | \$3,710,529 | \$3,186,085 | \$2,139,914 | \$2,421,264 |
| 10 TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5) | (\$74,200) | (\$74,200) | (\$74,200) | (\$74,200) | (\$74,200) | (\$74,200) | (\$74,200) | (\$74,200) | (\$74,200) | (\$74,200) | (\$74,200) | (\$74,147) | (\$890,347) |
| 10a ADJUSTMENTS (if applicable) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 10b OSS 50% MARGIN SHARING | \$0 | \$0 | \$0 | \$0 | \$641,646 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$641,646 |
| 11 TOTAL ESTIMATED/ACTUAL TRUE-UP (7+8+9+10+10a+10b) | \$2,082,814 | \$2,010,498 | \$2,241,494 | \$2,912,228 | \$3,941,712 | \$3,734,997 | \$3,397,341 | \$3,150,569 | \$3,710,529 | \$3,186,085 | \$2,139,914 | \$1,218,779 | \$1,218,779 |
| INTEREST PROVISION | | | | | | | | | | | | | |
| 12 BEGINNING TRUE-UP AND INTEREST PROVISION (9+10a) | \$2,421,264 | \$2,082,814 | \$2,010,498 | \$2,241,494 | \$2,912,228 | \$3,941,712 | \$3,734,997 | \$3,397,341 | \$3,150,569 | \$3,710,529 | \$3,186,085 | \$2,139,914 | |
| 13 ENDING TRUE-UP BEFORE INTEREST (12+10b+7-5) | \$2,072,955 | \$2,001,546 | \$2,232,195 | \$2,900,957 | \$3,926,723 | \$3,718,177 | \$3,381,743 | \$3,135,788 | \$3,695,311 | \$3,172,076 | \$2,129,427 | \$1,211,984 | |
| 14 TOTAL (12+13) | \$4,494,219 | \$4,084,360 | \$4,242,692 | \$5,142,450 | \$6,838,951 | \$7,659,889 | \$7,116,738 | \$6,533,129 | \$6,845,880 | \$6,882,605 | \$5,315,512 | \$3,351,898 | |
| 15 AVERAGE (50% OF 14) | \$2,247,110 | \$2,042,180 | \$2,121,346 | \$2,571,226 | \$3,419,476 | \$3,829,945 | \$3,558,370 | \$3,266,565 | \$3,422,940 | \$3,441,303 | \$2,657,756 | \$1,675,949 | |
| 16 INTEREST RATE - FIRST DAY OF MONTH | 0.05270 | 0.05260 | 0.05260 | 0.05260 | 0.05260 | 0.05260 | 0.05280 | 0.05240 | 0.05620 | 0.05050 | 0.04720 | 0.04750 | |
| 17 INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH | 0.05260 | 0.05260 | 0.05260 | 0.05260 | 0.05260 | 0.05280 | 0.05240 | 0.05620 | 0.05050 | 0.04720 | 0.04750 | 0.04980 | |
| 18 TOTAL (16+17) | 0.10530 | 0.10520 | 0.10520 | 0.10520 | 0.10520 | 0.10540 | 0.10520 | 0.10860 | 0.10670 | 0.09770 | 0.09470 | 0.09730 | |
| 19 AVERAGE (50% OF 18) | 0.05265 | 0.05260 | 0.05260 | 0.05260 | 0.05260 | 0.05270 | 0.05260 | 0.05430 | 0.05335 | 0.04885 | 0.04735 | 0.04865 | |
| 20 MONTHLY AVERAGE (19/12 Months) | 0.00439 | 0.00438 | 0.00438 | 0.00438 | 0.00438 | 0.00439 | 0.00438 | 0.00453 | 0.00445 | 0.00407 | 0.00395 | 0.00405 | |
| 21 INTEREST PROVISION (15x20) | \$9,859 | \$8,952 | \$9,299 | \$11,271 | \$14,989 | \$16,820 | \$15,598 | \$14,781 | \$15,218 | \$14,009 | \$10,487 | \$6,795 | |