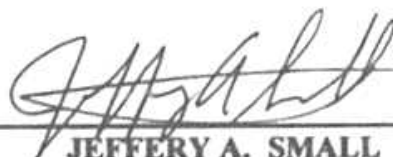


**FLORIDA PUBLIC SERVICE COMMISSION
AUDIT REPORT
12 MONTHS ENDED SEPTEMBER 30, 1997**

**FIELD WORK COMPLETED
NOVEMBER 7, 1997**

**SEBRING GAS SYSTEM, INC.
SEBRING, FLORIDA
HIGHLANDS COUNTY**

**PURCHASED GAS ADJUSTMENT AUDIT
DOCKET NO. 970003-GU
AUDIT CONTROL NO. 97-160-3-2**



**JEFFERY A. SMALL
AUDIT MANAGER**



**IAN J. FORBES
DISTRICT AUDIT SUPERVISOR
ORLANDO**

DOCUMENT NUMBER-DATE

12569 DEC-95

FPSC-RECORDS/REPORTING

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I. EXECUTIVE SUMMARY

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to the company-appended exhibit for the twelve-month period ending September 30, 1997, Purchased Gas Adjustment schedules. These procedures were to determine that the exhibit represents company's books, that the books are maintained in compliance with Commission directives, and that the facts which may influence the Commission decision process are disclosed. The last day of field work was November 7, 1997.

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional audit work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

OPINION: Subject to the procedures described in Section II, the company's books and records for the twelve-month period ending September 30, 1997, are maintained in substantial compliance with Commission directives.

II. AUDIT SCOPE

This report is based on the audit work described below. When **COMPILED** is used in this section of the report, it defines completed audit work as follows:

COMPILED: The audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity or inconsistency; and, except as noted, performed no other audit work.

SCHEDULES A-1 THROUGH A-6: Compiled and recomputed the company's Schedules A-1 through A-6 for the period October 1996 through September 1997.

PGA REVENUES: Traced and recomputed therm sales for the above-mentioned period to company's monthly billing registers.

COST OF GAS: Traced therms and cost of gas purchased to the company-provided invoices.

OTHER: Included documentation concerning the transfer of pipeline and gate facilities from the City of Sebring to TECO Peoples Gas which may have a future impact on Sebring Gas System, Inc. and its customers.

Audit Disclosure No. One

Subject: Purchased Gas Cost Adjustment

Statement of Facts: The company's filing for the month of October 1996 indicates that it paid \$12,117 for gas purchases from Peninsula Energy Service Company.

The company's general ledger and invoices from Peninsula Energy Service Company indicate that the company paid \$12,258 for the gas purchases indicated above.

The above-referenced gas purchases are recorded on Schedule A-1, line 4 and Schedule A-2, line 3 of Commission-required PGA filings.

Opinion/Recommendation: The company has underreported the cost of gas purchases by \$141 for the period of October 1996 for its PGA filing.

The effects of this error on Schedule A-1 in October 1996 are illustrated in attached Schedule 1.

The effect of this error on the true-up factor for Schedule A-2 in October 1996 and all subsequent months for this filing are illustrated in the attached Schedule 2.

No audit adjustment is recommended at this time because of the small dollar amount of the error. However, audit staff has advised company representatives to revise and resubmit PGA filings for the final period of September 1997. The compound effect of this error, including the interest effect, on September 1997 Schedule A-2 is a \$149 reduction to line 11 - PGA true-up adjustment.

**Audit Disclosure One, continued
Schedule 1**

SEBRING GAS SYSTEM, INC. SCHEDULE A-1		PER COMPANY OCTOBER 1996	PER AUDIT OCTOBER 1996	DIFFERENCE
COST OF GAS PURCHASED				
1	COMMODITY (Pipeline)	276	276	
2	NO NOTICE SERVICE	0	0	
3	SWING SERVICE	0	0	
4	COMMODITY (Other)	8,515	8,656	(141)
5	DEMAND	1,908	1,908	
6	OTHER - City of Sebring	1,420	1,420	
LESS END-USE CONTRACT				
7	COMMODITY (Pipeline)	0	0	
8	DEMAND	0	0	
9		0	0	
10		0	0	
11	TOTAL COST (1+2+3+4+5+6)-(7+8+9)	12,117	12,256	(141)
12	NET UNBILLED	0	0	
13	COMPANY USE	0	0	
14	TOTAL THERM SALES	12,766	12,766	
THERMS PURCHASED				
15	COMMODITY (Pipeline) Billing Determinants only	43,870	43,870	
16	NO NOTICE SERVICE Billing Determinants only	0	0	
17	SWING SERVICE Commodity	0	0	
18	COMMODITY (Other) Commodity	43,870	43,870	
19	DEMAND Billing Determinants only	43,870	43,870	
20	OTHER - City of Sebring Billing Determinants only	0	0	
LESS END-USE CONTRACT				
21	COMMODITY (Pipeline)	0	0	
22	DEMAND	0	0	
23		0	0	
24	TOTAL PURCHASES (17+18)-(21+23)	43,870	43,870	
25	NET UNBILLED	0	0	
26	COMPANY USE	0	0	
27	TOTAL THERM SALES (Schedule A-5)	42,523	42,523	
CENTS PER THERM				
28	COMMODITY (Pipeline) (1/15)	0.629	0.629	
29	NO NOTICE SERVICE (2/16)	ERR	ERR	
30	SWING SERVICE (3/17)	ERR	ERR	
31	COMMODITY (Other) (4/18)	19.410	19.732	(0.32222)
32	DEMAND (5/19)	4.345	4.345	
33	OTHER - City of Sebring (6/20)	ERR	ERR	
LESS END-USE CONTRACT				
34	COMMODITY (Pipeline) (7/21)	ERR	ERR	
35	DEMAND (8/22)	ERR	ERR	
36				
37	TOTAL COST OF PURCHASES (11/24)	27.62024	27.94247	(0.32222)
38	NET UNBILLED (12/25)	ERR	ERR	
39	COMPANY USE (13/26)	ERR	ERR	
40	TOTAL COST OF THERMS SOLD (11/27)	28.49517	28.82760	(0.33243)
41	TRUE-UP (Schedule E-2)	0.58900	0.58900	
42	TOTAL COST OF GAS (40+41)	29.08417	29.41660	(0.33243)
43	REVENUE TAX FACTOR	1.01911	1.01911	
44	PGA FACTOR ADJUSTED FOR TAXES (42*43)	29.63997	29.97875	(0.33878)
45	PGA FACTOR ROUNDED TO NEAREST .001	29.640	29.979	(0.33878)

Audit Disclosure One, continued
Schedule 2

<u>Month</u>	<u>Per Company True-Up Schedule A-2 Line 11</u>	<u>Per Audit True-Up Schedule A-2 Line 11</u>	<u>Cumulative Difference</u>
OCT 96	18,655	18,514	141
NOV 96	12,915	12,773	142
DEC 96	2,797	2,654	143
JAN 97	(5,690)	(5,834)	144
FEB 97	(6,979)	(7,123)	144
MAR 97	(3,833)	(3,978)	145
APR 97	(4,415)	(4,560)	145
MAY 97	(6,546)	(6,692)	146
JUN 97	(7,589)	(7,736)	147
JUL 97	(7,921)	(8,059)	148
AUG 97	(7,524)	(7,672)	148
SEP 97	(5,544)	(5,693)	149

Audit Disclosure No. Two

Subject: Purchased Gas Cost Estimates

Statement of Facts: The company included in its PGA filings the amounts of \$1,208, \$1,178, and \$ 1,195, in July, August, and September 1997, respectively, for purchased gas costs. These costs represent the transportation and service fees for use of the Avon Park gate and pipe line.

Opinion/Recommendation: The above costs represent transportation and service fees which were normally billed by the City of Sebring through June 1997.

In a letter dated June 16, 1997, TECO Peoples Gas reacquired control of the gate and pipeline. TECO Peoples Gas did not issue a bill for these services until October 1997.

Sebring Gas System, Inc. has written a letter to TECO Peoples Gas disputing the charges and fees in the October bill.

The above-mentioned purchased gas costs are estimates calculated by the company because it did not receive a bill from the City of Sebring or TECO Peoples Gas for the transportation and service fees for the indicated months which are included in this filing.

No audit adjustment is recommended at this time because the company still faces the potential liability for the time periods that it never received a bill. Additionally, the bill it has received from TECO Peoples Gas is currently under dispute.

The company should be required to deposit the revenues collected resulting from these estimations in an escrow account until the matter can be resolved at which time refunds or surcharges can be considered.

Audit Disclosure No. Three

Subject: Purchased Gas Cost Vendor Errors

Statement of Facts: The Peninsula Energy Services Company's invoices for April - July 1997 included bookout imbalance charges of \$8,942, \$5,961, \$5,961, and \$5,961, respectively, for a total charge of \$26,825. Additionally, the invoices for May - July 1997 included interest charges on the unpaid balance of \$121, \$78, and \$36, respectively.

The vendor claims that there was an error in the Florida Gas Transmission (FGT) measurement for gas deliveries.

The company notified the vendor of discrepancies between the amount of gas purchased and the amount of gas sold to customers by letter dated April 4, 1997.

The company included the above bookout imbalance and related interest charges in the respective months' purchased gas cost.

Opinion/Recommendation: The above is provided for informational purposes.

COMPANY: SEBRING GAS SYSTEM, INC.

COMPARISON OF ACTUAL VERSUS ORIGINAL ESTIMATE
OF THE PURCHASED GAS ADJUSTMENT COST RECOVERY FACTORSCHEDULE A-4
(REVISED 05/20/00)

ESTIMATED FOR THE PERIOD OF:

APRIL 97

Through

MARCH 98

COST OF GAS PURCHASED	CURRENT MONTH				PERIOD TO DATE			
	ACTUAL	REVISED ESTIMATE	DIFFERENCE		ACTUAL	REVISED ESTIMATE	DIFFERENCE	
			AMOUNT	%			AMOUNT	%
1 COMMODITY (Pipeline)	\$107	\$115	(\$8)	(33.81)	\$851	\$897	(\$146)	(14.84)
2 NO NOTICE SERVICE	0	0	0	0.00	0	0	0	0.00
3 SWING SERVICE	0	0	0	0.00	0	0	0	0.00
4 COMMODITY (Clear)	10,059	12,250	(2,191)	(17.89)	54,233	75,675	(21,442)	(28.33)
5 DEMAND	1,621	1,741	(120)	(8.89)	10,655	10,208	447	4.38
6 OTHER - TECO and Peninsula Energy Service Co. Box out instances/October 1996	1,195	1,320	(125)	(9.47)	38,422	7,656	1,482	19.38
LEAS BIRDAIRLINE CONTRACT								
7 COMMODITY (Pipeline)	0	0	0	0.00	0	0	0	0.00
8 DEMAND	0	0	0	0.00	0	0	0	0.00
9	0	0	0	0.00	0	0	0	0.00
10	0	0	0	0.00	0	0	0	0.00
11 TOTAL COST (1-2-3+4-5-6-10-7-8-9)	\$12,982	\$15,426	(\$2,444)	(15.84)	\$102,181	\$94,536	\$7,625	8.07
12 NET UNBILLED	0	0	0	0.00	0	0	0	0.00
13 COMPANY USE	0	0	0	0.00	0	0	0	0.00
14 TOTAL THERM SALES	\$14,992	\$15,426	(\$434)	(2.81)	\$100,630	\$94,536	\$8,084	8.45
THERMS PURCHASED								
15 COMMODITY (Pipeline) BILLING DETERMINANTS ONLY	37,250	40,000	(2,750)	(8.88)	238,160	232,000	6,160	2.68
16 NO NOTICE SERVICE BILLING DETERMINANTS ONLY	0	0	0	0.00	0	0	0	0.00
17 SWING SERVICE COMMODITY	0	0	0	0.00	0	0	0	0.00
18 COMMODITY (Clear) COMMODITY	37,250	40,000	(2,750)	(8.88)	238,160	232,000	6,160	2.68
19 DEMAND BILLING DETERMINANTS ONLY	37,250	40,000	(2,750)	(8.88)	238,160	232,000	6,160	2.68
20 OTHER - SEBRING TRANSPORT CHARGE BILLING DETERMINANTS ONLY	37,250	40,000	(2,750)	(8.88)	242,515	232,000	10,515	4.53
LEAS BIRDAIRLINE CONTRACT								
21 COMMODITY (Pipeline)	0	0	0	0.00	0	0	0	0.00
22 DEMAND	0	0	0	0.00	0	0	0	0.00
23	0	0	0	0.00	0	0	0	0.00
24 TOTAL PURCHASES (1-17+18-19-21+23)	37,250	40,000	(2,750)	(8.88)	238,160	232,000	6,160	2.68
25 NET UNBILLED	0	0	0	0.00	0	0	0	0.00
26 COMPANY USE	0	0	0	0.00	0	0	0	0.00
27 TOTAL THERM SALES (24-25 Estimated Only) FROM SCHEDULE A-5 FOR ACTUAL	39,012	40,000	(988)	(2.47)	243,324	232,000	11,324	4.88
CENTS PER THERM								
28 COMMODITY (Pipeline) (1/15)	0.287	0.288	(0.000)	(0.08)	0.357	0.430	(0.072)	(18.85)
29 NO NOTICE SERVICE (2/18)	0.000	0.000	0.000	0.00	\$0.00000	0.000	\$0.00000	0.00
30 SWING SERVICE (3/17)	0.000	0.00000	0.00000	0.00	\$0.00000	\$0.00000	\$0.00000	0.00
31 COMMODITY (Clear) (4/18)	27.004	30.825	(3.821)	(11.82)	22.772	32.818	(9.847)	(30.19)
32 DEMAND (5/18)	4.352	4.353	(0.001)	(0.02)	4.474	4.400	0.074	1.68
33 OTHER (6/29)	3.208	3.500	(0.082)	(2.79)	15.018	3.300	11.718	355.10
LEAS BIRDAIRLINE CONTRACT								
34 COMMODITY Pipeline (7/21)	0.00000	0.00000	0.00000	0.00	0.00000	0.00000	\$0.00000	0.00
35 DEMAND (8/22)	0.00000	0.00000	0.00000	0.00	0.00000	0.00000	\$0.00000	0.00
36 (9/23)	0.00000	0.00000	0.00000	0.00	0.00000	0.00000	\$0.00000	0.00
37 TOTAL COST OF PURCHASES (11/24)	34.851	38.585	(3.714)	(9.83)	42.898	40.748	2.148	5.27
38 NET UNBILLED (12/25)	0.00000	0.00000	0.00000	0.00	\$0.00000	\$0.00000	\$0.00000	0.00
39 COMPANY USE (13/28)	0.00000	0.00000	0.00000	0.00	\$0.00000	\$0.00000	\$0.00000	0.00
40 TOTAL COST OF THERM SOLD (11/27)	33.277	38.585	(5.288)	(13.71)	41.898	40.748	1.238	3.04
41 TRUE-UP (6-2)	(0.85889)	(0.85889)	0.00000	0.00	(0.85889)	(0.85889)	0.00000	0.00
42 TOTAL COST OF GAS (40-41)	32.418	37.708	(5.290)	(14.03)	41.127	39.889	1.238	3.10
43 REVENUE TAX FACTOR	1.01911	1.01911	0.00000	0.00	1.01911	1.01911	0.00000	0.00
44 PGA FACTOR ADJUSTED FOR TAXES (42-43)	33.038	38.429	(5.391)	(14.03)	41.913	40.652	1.261	3.10
45 PGA FACTOR ROUNDED TO NEAREST .001	33.038	38.429	(5.391)	(14.03)	41.913	40.652	1.261	3.10

EXHIBIT I (Page 1 of 2)

COMPANY: SEBRING GAS SYSTEM, INC.

CALCULATION OF TRUE-UP AND INTEREST PROVISION

SCHEDULE A-2
(REVISED 8/08/24)

FOR THE PERIOD OF:

APRIL 97 Through MARCH 98

	CURRENT MONTH: SEP 97				PERIOD TO DATE			
	ACTUAL	REVISED ESTIMATE	DIFFERENCE		ACTUAL	REVISED ESTIMATE	DIFFERENCE	
			AMOUNT	%			AMOUNT	%
TRUE-UP CALCULATION								
1 PURCHASED GAS COST (A-1, LINES 1, 4 & 10)	\$10,168	\$12,365	\$2,199	17.78	\$55,084	\$78,672	\$21,588	28.18
2 TRANSPORTATION COST (A-1, LINES 2, 3, 5 & 6)	2,816	3,061	245	8.00	47,077	17,864	(29,213)	(183.53)
3 TOTAL (A-1, LINE 11)	12,982	15,426	2,444	15.84	102,161	94,536	(7,625)	(8.07)
4 FUEL REVENUES (A-1, LINE 14) (NET OF REVENUE TAX)	14,992	15,426	434	2.81	100,630	94,536	(6,094)	(6.45)
5 TRUE-UP (COLLECTED) OR REFUNDED	457	457	0	0.00	2,742	2,742	0	0.00
6 FUEL REVENUE APPLICABLE TO PERIOD * (LINE 4 (+ or -) LINE 5)	15,449	15,883	434	2.73	103,372	97,278	(6,094)	(8.25)
7 TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	2,467	457	(2,010)	(439.81)	1,211	2,742	1,531	55.84
8 INTEREST PROVISION - THIS PERIOD (21)	(30)	0	30	100.00	(180)	0	180	100.00
9 BEGINNING OF PERIOD TRUE-UP AND INTEREST	(7,525)	12,915	20,440	158.27	(3,834)	12,915	16,749	129.69
10 TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	(457)	(457)	0	0.00	(2,742)	(2,742)	0	0.00
10a FLEX RATE REFUND (if applicable)	0	0	0	0.00	0	0	0	0.00
11 TOTAL ESTIMATED/ACTUAL TRUE-UP (7+8+9+10+10a)	(\$5,545)	\$12,915	\$18,460	142.64	(\$5,545)	\$12,915	\$18,460	142.83
INTEREST PROVISION								
12 BEGINNING TRUE-UP AND INTEREST PROVISION (9)	(\$7,525)	\$12,915	\$20,440	158.27				
13 ENDING TRUE-UP BEFORE INTEREST (12+7-5)	(5,515)	12,915	18,430	142.70				
14 TOTAL (12+13)	(13,040)	25,830	38,870	150.48				
15 AVERAGE (50% OF 14)	(6,520)	12,915	19,435	150.48				
16 INTEREST RATE - FIRST DAY OF MONTH	5.56000%	0.00000%	-5.56000%	(100.00)				
17 INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	5.53000%	0.00000%	-5.53000%	(100.00)				
18 TOTAL (16+17)	11.0900%	0.00000%	-11.0900%	(100.00)				
19 AVERAGE (50% OF 18)	5.54500%	0.00000%	-5.54500%	(100.00)				
20 MONTHLY AVERAGE (19/12 Months)	0.46208%	0.00000%	-0.46208%	(100.00)				
21 INTEREST PROVISION (15x20)	(\$30)	\$0	\$30.13	(100.00)				

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

EXHIBIT I (Page 2 of 2)

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
DIANE K. KIESLING
JOE GARCIA



DIVISION OF RECORDS & REPORTING
BLANCA S. BAYÓ
DIRECTOR
(850) 413-6770

Public Service Commission

December 10, 1997

Mr. Jerry H. Melendy, Sr.
Sebring Gas Systems, Inc.
3515 Highway 27, South
Sebring, Florida 33870-5452

Re: Docket No. 970003 -GU- Sebring Gas Systems, Inc.
PGA Audit Report - Period Ended September 30, 1997
Audit Control # 97-160-3-2

Dear Mr. Melendy:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,


Blanca S. Bayó

BSB/clc
Enclosure
cc: Public Counsel
Messer Law Firm