

State of Florida



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CLERK

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**DATE:** June 10, 2004  
**TO:** Shevie Brown, Division of Competitive Markets and Enforcement  
**FROM:** Denise N. Vandiver, Chief, Bureau of Auditing *DNV*  
Division of Regulatory Compliance and Consumer Assistance  
**RE:** **Docket No.** 040004-GU ; **Company Name:** City Gas Company of Florida ;  
**Audit Purpose:** Conservation Gas Cost Recovery True-Up for the period  
January 2003 through December 2003 ; **Audit Control No.** 04-057-4-2

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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 no 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

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DOCUMENT NUMBER-DATE

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**FLORIDA PUBLIC SERVICE COMMISSION**

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

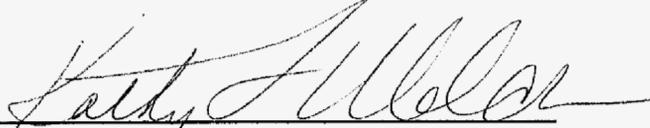
*Miami District Office*

**CITY GAS COMPANY  
ENERGY CONSERVATION COST RECOVERY**

YEAR ENDED DECEMBER 31, 2003

DOCKET NO. 040004-GU

AUDIT CONTROL NO. 04-057-4-2

  
Kathy L. Welch, Audit Manager

  
Iliana Piedra  
Professional Accountant Specialist

## TABLE OF CONTENTS

<b>I.</b>	<b>AUDITOR'S REPORT</b> .....	<b>PAGE</b>
	AUDIT PURPOSE .....	1
	DISCLAIM PUBLIC USE .....	1
	SUMMARY OF SIGNIFICANT PROCEDURES .....	2
 <b>DISCLOSURES</b>		
	1. INCENTIVES .....	3
	2. BENEFITS .....	4
<b>IV.</b>	<b>EXHIBITS</b>	
	SCHEDULE CT .....	5

**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE  
AUDITOR'S REPORT  
May 1, 2004**

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

We have applied the procedures described in this report to audit the Conservation Cost Recovery schedules for the historical 12-month period ended December 31, 2003 for City Gas Company. These schedules were prepared by the utility as part of its petition for Conservation Cost Recovery in Docket No. 040004-GU.

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.

## 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 errors or inconsistency.

**Reviewed** - The exhibit amounts were reconciled with the general ledger, The general account balances were traced to the subsidiary ledgers, and selective analytical review procedures were applied.

**Examined** - The exhibit amounts were reconciled with the general ledger. The general account balances were traced to the 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 substantiating documentation was examined.

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**REVENUES:** Examined the revenues from the general ledger and reconciled them to the Company schedules CT-3. Compiled the terms sold from the company's revenue worksheets and applied the applicable rate factors approved in Commission orders. Reconciled the revenue calculation to the company's CT-3 schedules. Recomputed bills for various rate classes to determine that the applicable factor was actually charged.

**EXPENSES:** Examined expense amounts in the general ledger and reconciled them to the company's CT-3 schedules. Staff tested 100% of all advertising expenses by tracing to the invoices and advertisements. From the company's prepaid printout of incentives, staff pulled a judgmental sample. The incentive expenses were traced to vouchers, invoices, and sales contracts. Benefits, payroll, transportation and common costs were also tested through sample selection.

**TRUE-UP:** Recalculated the true-up and verified the beginning true-up to the orders and the interest rates to the Wall Street Journal.

## II. DISCLOSURES

### AUDIT DISCLOSURE NO. 1

#### SUBJECT: COMMISSIONS

**STATEMENT OF FACT:** Included in common cost in the company conservation filing, is \$37,360 that relates to commissions paid to a consulting firm for selling natural gas service and for surveys to sell gas service prior to the company cutting and capping lines. This commission is in addition to the approved incentives that the customers receive. The consultant receives \$125 per customer and \$7.50 for each survey performed.

## **AUDIT DISCLOSURE NO. 2**

### **SUBJECT: EMPLOYEE BENEFITS**

**STATEMENT OF FACT:** City Gas multiplied total estimated headquarter benefits times 23.2%, which is the three-factor allocation method used to allocate costs from headquarters, to determine the amount of benefits charged to City Gas. These benefits were divided by City Gas payroll to arrive at a factor. The factor was 36.23% and payroll tax of 8% was added for a total of 44.23%. This was multiplied by payroll charged to conservation. The company provided the actual benefit costs for 2003. The percent calculated by the company for actual was 43.82%.

**OPINION:** Benefits are based totally on payroll. The payroll factor of City Gas payroll to total payroll is 13.1%. This reduces the amount charged of 44.23% to 36.42% or a difference of 7.81%. Using the payroll amount of \$459,541.52 in the filing, this would reduce benefits and taxes by \$35,890.19. However, the company claims that benefit costs per employee is a more reasonable allocation methodology because the payroll cost per employee may be higher in some divisions causing the percent of payroll to be low. The cost per employee per month is \$654 per month. Using this amount per person, the total benefit rate would be 43.62% or .61% less than the company used. When this is multiplied by the \$459,541.52 of conservation payroll, the benefits would be reduced by \$2,803.20.

### III. EXHIBITS

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION  
SUMMARY OF EXPENSES BY MONTH  
JANUARY 2003 THROUGH DECEMBER 2003

EXPENSES:	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Total
PROGRAM 1:	111,202	110,495	108,894	91,795	146,909	118,079	131,594	130,346	158,155	134,295	135,539	186,229	1,563,532
PROGRAM 2:	1,210	1,622	1,272	1,574	1,158	746	589	744	2,960	593	540	550	13,558
PROGRAM 3:	41,770	25,983	15,995	16,457	24,941	23,626	25,591	20,105	26,021	27,286	13,361	24,390	285,526
PROGRAM 4:													
PROGRAM 5:													
PROGRAM 6:		125			550		300	500			125		1,600
PROGRAM 7:	3,536	3,360	3,001	3,930	9,206	9,715	11,441	7,361	11,083	9,096	9,933	9,168	90,830
PROGRAM 8:	1,606	1,841	2,729	597	2,272	3,444	1,997	3,131	1,683	3,141	1,403	1,024	24,868
PROGRAM 9:	28,198	20,680	24,462	27,183	24,430	25,179	26,331	22,617	26,601	24,555	22,898	21,340	294,474
PROGRAM 10:	1,380	9,767	395	429	547	452	597	405	501	356	278	335	15,442
COMMON COSTS	12,126	12,054	24,443	29,954	24,944	5,322	21,938	23,111	27,576	22,520	22,586	18,469	245,043
TOTAL	201,028	185,927	181,191	171,919	234,957	186,563	220,378	208,320	254,580	221,842	206,663	261,505	2,534,873
LESS AMOUNT INCLUDED IN RATE BASE													
RECOVERABLE CONSERVATION EXPENSES	<u>201,028</u>	<u>185,927</u>	<u>181,191</u>	<u>171,919</u>	<u>234,957</u>	<u>186,563</u>	<u>220,378</u>	<u>208,320</u>	<u>254,580</u>	<u>221,842</u>	<u>206,663</u>	<u>261,505</u>	<u>2,534,873</u>

SCHEDULE CT-2  
PROJECTED CONSERVATION COSTS PER MONTH  
JANUARY 2003 THROUGH DECEMBER 2003  
EIGHT MONTHS ACTUAL AND FOUR MONTHS ESTIMATED

EXPENSES:	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Total
PROGRAM 1:	111,202	110,495	108,894	91,795	146,909	118,079	131,594	130,346	148,369	108,759	106,441	108,760	1,421,643
PROGRAM 2:	1,210	1,622	1,272	1,574	1,158	746	589	744	6,273	1,358	1,185	1,358	19,089
PROGRAM 3:	41,770	25,983	15,995	16,457	24,941	23,626	25,591	20,105	46,279	27,717	25,437	27,718	321,619
PROGRAM 4:	-	-	-	-	-	-	-	-	-	-	-	-	-
PROGRAM 5:													
PROGRAM 6:		125	-	-	550	-	300	500	168	357	310	357	2,667
PROGRAM 7:	3,536	3,360	3,001	3,930	9,206	9,715	11,441	7,361	5,697	12,944	12,240	12,944	95,375
PROGRAM 8:	1,606	1,841	2,729	597	2,272	3,444	1,997	3,131	1,726	2,493	2,239	2,493	26,568
PROGRAM 9:	28,198	20,680	24,462	27,183	24,430	25,179	26,331	22,617	26,569	28,150	24,838	28,850	307,487
PROGRAM 10:	1,380	9,767	395	429	547	452	597	405	8,960	5,046	4,915	6,246	39,139
COMMON COSTS	<u>12,126</u>	<u>12,054</u>	<u>24,443</u>	<u>29,954</u>	<u>24,944</u>	<u>5,322</u>	<u>21,938</u>	<u>23,111</u>	<u>19,628</u>	<u>20,056</u>	<u>19,761</u>	<u>20,056</u>	<u>233,393</u>
TOTAL	201,028	185,927	181,191	171,919	234,957	186,563	220,378	208,320	263,669	206,880	197,366	208,782	2,466,980
LESS AMOUNT INCLUDED IN RATE BASE													
RECOVERABLE													
CONSERVATION EXPENSES	<u>201,028</u>	<u>185,927</u>	<u>181,191</u>	<u>171,919</u>	<u>234,957</u>	<u>186,563</u>	<u>220,378</u>	<u>208,320</u>	<u>263,669</u>	<u>206,880</u>	<u>197,366</u>	<u>208,782</u>	<u>2,466,980</u>

SCHEDULE CT-2  
SUMMARY OF EXPENSES BY PROGRAM  
VARIANCE ACTUAL VERSUS PROJECTED  
JANUARY 2003 THROUGH DECEMBER 2003

EXPENSES:	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Total
PROGRAM 1:	-	-	-	-	-	-	-	-	9,786	25,536	29,098	77,469	141,889
PROGRAM 2:	-	-	-	-	-	-	-	-	(3,313)	(765)	(645)	(808)	(5,531)
PROGRAM 3:	-	-	-	-	-	-	-	-	(20,258)	(431)	(12,076)	(3,328)	(36,093)
PROGRAM 4:	-	-	-	-	-	-	-	-	-	-	-	-	-
PROGRAM 5:	-	-	-	-	-	-	-	-	-	-	-	-	-
PROGRAM 6:	-	-	-	-	-	-	-	-	(168)	(357)	(185)	(357)	(1,067)
PROGRAM 7:	-	-	-	-	-	-	-	-	5,386	(3,848)	(2,307)	(3,776)	(4,545)
PROGRAM 8:	-	-	-	-	-	-	-	-	(43)	648	(836)	(1,469)	(1,700)
PROGRAM 9:	-	-	-	-	-	-	-	-	32	(3,595)	(1,940)	(7,510)	(13,013)
PROGRAM 10:	-	-	-	-	-	-	-	-	(8,459)	(4,690)	(4,637)	(5,911)	(23,697)
COMMON COSTS	-	-	-	-	-	-	-	-	7,948	2,464	2,825	(1,587)	11,650
TOTAL	-	-	-	-	-	-	-	-	(9,089)	14,962	9,297	52,723	67,893
LESS AMOUNT INCLUDED IN RATE BASE													
RECOVERABLE CONSERVATION EXPENSES									(9,089)	14,962	9,297	52,723	67,893

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION  
JANUARY 2003 THROUGH DECEMBER 2003

0.75

15,000

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	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Total
1 RCS AUDIT FEES	-	-	-	-	-	-	-	-	-	-	-	-	-
2 OTHER PROGRAM REVS	-	-	-	-	-	-	-	-	-	-	-	-	-
3 CONSERV. ADJ REVS	(339,822)	(343,953)	(257,236)	(217,277)	(201,889)	(203,912)	(190,584)	(189,152)	(190,460)	(195,953)	(210,904)	(255,223)	(2,796,365)
4 TOTAL REVENUES	(339,822)	(343,953)	(257,236)	(217,277)	(201,889)	(203,912)	(190,584)	(189,152)	(190,460)	(195,953)	(210,904)	(255,223)	(2,796,365)
5 PRIOR PERIOD TRUE UP NOT APPLICABLE TO THIS PERIOD CONSERVATION REVENUES	(23,723)	(23,723)	(23,723)	(23,723)	(23,723)	(23,723)	(23,723)	(23,723)	(23,723)	(23,723)	(23,721)	(23,720)	(284,671)
6 APPLICABLE TO THE PERIOD	(363,545)	(367,676)	(280,959)	(241,000)	(225,612)	(227,635)	(214,307)	(212,875)	(214,183)	(219,676)	(234,625)	(278,943)	(3,081,036)
7 CONSERVATION EXPENSES (FROM CT-3, PAGE 1)	201,028	185,927	181,191	171,919	234,957	186,563	220,378	208,320	254,580	221,842	206,663	261,505	2,534,873
8 TRUE-UP THIS PERIOD	(162,517)	(181,749)	(99,768)	(69,081)	9,345	(41,072)	6,071	(4,555)	40,397	2,166	(27,962)	(17,438)	(546,163)
9 INTEREST PROVISION THIS PERIOD (FROM CT-3 PAGE 3)	(378)	(528)	(628)	(673)	(689)	(627)	(577)	(573)	(540)	(498)	(475)	(477)	(6,663)
10 TRUE-UP & INTER. PROV. BEGINNING OF MONTH	(284,671)	(423,843)	(582,397)	(659,070)	(705,101)	(672,722)	(690,698)	(661,481)	(642,886)	(579,306)	(553,915)	(558,631)	
11 PRIOR PERIOD TRUE UP													
COLLECTED/(REFUNDED)	23,723	23,723	23,723	23,723	23,723	23,723	23,723	23,723	23,723	23,723	23,721	23,720	
12 TOTAL NET TRUE UP (SUM LINES 8+9+10+11)	(423,843)	(582,397)	(659,070)	(705,101)	(672,722)	(690,698)	(661,481)	(642,886)	(579,306)	(553,915)	(558,631)	(552,826)	(552,826)

CALCULATION OF TRUE-UP AND INTEREST PROVISION  
JANUARY 2003 THROUGH DECEMBER 2003

	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Total
INTEREST PROVISION													
1. BEGINNING TRUE-UP	(284,671)	(423,843)	(582,397)	(659,070)	(705,101)	(672,722)	(690,698)	(661,481)	(642,886)	(579,306)	(553,915)	(558,631)	
2. ENDING TRUE-UP BEFORE INTEREST	(423,465)	(581,869)	(658,442)	(704,428)	(672,033)	(690,071)	(660,904)	(642,313)	(578,766)	(553,417)	(558,156)	(552,349)	
3. TOTAL BEGINNING & ENDING TRUE-UP	(708,136)	(1,005,711)	(1,240,838)	(1,363,498)	(1,377,134)	(1,362,792)	(1,351,602)	(1,303,795)	(1,221,653)	(1,132,723)	(1,112,071)	(1,110,980)	
4. AVERAGE TRUE-UP (LINE 3 TIMES 50%)	(354,068)	(502,856)	(620,419)	(681,749)	(688,567)	(681,396)	(675,801)	(651,897)	(610,826)	(566,362)	(556,035)	(555,490)	
5. INTER. RATE - 1ST DAY OF REPORTING MONTH	1.290%	1.270%	1.250%	1.180%	1.190%	1.210%	1.000%	1.050%	1.060%	1.060%	1.050%	1.000%	
6. INTER. RATE - 1ST DAY OF SUBSEQUENT MONTH	1.270%	1.250%	1.180%	1.190%	1.210%	1.000%	1.050%	1.060%	1.060%	1.050%	1.000%	1.060%	
7. TOTAL (SUM LINES 5 & 6)	2.560%	2.520%	2.430%	2.370%	2.400%	2.210%	2.050%	2.110%	2.120%	2.110%	2.050%	2.060%	
8. AVG INTEREST RATE (LINE 7 TIMES 50%)	1.280%	1.260%	1.215%	1.185%	1.200%	1.105%	1.025%	1.055%	1.060%	1.055%	1.025%	1.030%	
9. MONTHLY AVG INTEREST RATE	0.107%	0.105%	0.101%	0.099%	0.100%	0.092%	0.085%	0.088%	0.088%	0.088%	0.085%	0.086%	
10. INTEREST PROVISION (LINE 4 TIMES LINE 9)	(378)	(528)	(628)	(673)	(689)	(627)	(577)	(573)	(540)	(498)	(475)	(477)	(6,663)
10. a. INT. ADJ													

10