

DOCKET NO. 090004-GU: Natural Gas Conservation Cost Recovery Clause for Florida City Gas

WITNESS: Direct Testimony Of Kathy L. Welch, Appearing On Behalf Of Staff

DATE FILED: September 23, 2009

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FPSC-COMMISSION CLERK

DIRECT TESTIMONY OF KATHY L. WELCH

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Q. Please state your name and business address.

A. My name is Kathy L. Welch and my business address is 3625 N.W. 82nd Ave., Suite 400, Miami, Florida 33166.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission as a Public Utilities Supervisor in the Division of Regulatory Compliance.

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission since June 1979.

Q. Briefly review your educational and professional background.

A. I have a Bachelor of Business Administration degree with a major in accounting from Florida Atlantic University and a Masters of Adult Education and Human Resource Development from Florida International University. I have a Certified Public Manager certificate from Florida State University. I am also a Certified Public Accountant licensed in the State of Florida, and I am a member of the American and Florida Institutes of Certified Public Accountants. I was hired as a Public Utilities Analyst I by the Florida Public Service Commission in June of 1979. I was promoted to Public Utilities Supervisor on June 1, 2001.

Q. Please describe your current responsibilities.

A. Currently, I am a Public Utilities Supervisor with the responsibilities of administering the District Office and reviewing work load and allocating resources to

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1 complete field work and issue audit reports when due. I also supervise, plan, and conduct
2 utility audits of manual and automated accounting systems for historical and forecasted
3 data.

4
5 **Q. Have you presented testimony before this Commission?**

6 **A.** Yes. I have testified in several cases before the Florida Public Service
7 Commission. Exhibit KLW-1 lists these cases.

8

9 **Q. What is the purpose of your testimony today?**

10 **A.** The purpose of my testimony is to sponsor the staff audit report of Florida City
11 Gas which addresses the Utility's application for conservation recovery. We issued an
12 audit report in this docket for the 2008 historical test year. This audit report is filed with
13 my testimony and is identified as Exhibit KLW-2.

14

15 **Q. Was this audit prepared by you or under your direction?**

16 **A.** Yes, it was prepared by me.

17

18 **Q. Please describe the work you performed in this audit.**

19 **A.** I performed the following procedures:

20 1. I prepared a trial balance using the general ledger and reconciled all conservation
21 accounts to the filing.

22 2. I compared the beginning true-up provision to the last order and workpapers.

23 3. I prepared a recalculation using the filing and Commission approved interest rates.

24 4. Therms from the statistics report were multiplied by the ordered rates and compared to
25 the ledger and filing.

- 1 5. Some bills were selected and recalculated to determine that the tariff rates were used.
- 2 6. I selected a sample of the vouchers recorded in the general ledger and traced them to
- 3 source documentation.
- 4 7. I verified that the incentives paid by voucher met the program guidelines.
- 5 8. I reviewed contracts with builders to determine if the contracts agreed with the program
- 6 guidelines.
- 7 9. I compared the payroll file to the file from the last audit to determine if new employees
- 8 were added.

9

10 **Q. Please review the audit finding in this audit report, KLW-2, which addresses**

11 **the 2008 Florida City Gas Conservation filing.**

12 **A.** In November 2008, Florida City Gas increased its conservation costs by \$240,532

13 for 2008. The increase is composed of forty percent of the company's postage to mail the

14 bills, billing services, billing insert expenses, and office supplies, and one hundred percent

15 of the legal costs to file the conservation filing.

16 When the audit report was written, I believed that postage, billing services to

17 prepare the bills, printing and design of the billing inserts, office supplies and legal costs

18 were all items that were in base rates during the last rate case. To include these costs in

19 conservation in 2008 would duplicate costs that were allowed in base rates. This results

20 in recovery of the costs both through the conservation clause and base rates.

21 In addition to these costs already being included in base rates, the supplies

22 included in the first Office Supplies category as presented by the company were for

23 acetylene, oxygen, and water for the office, and door hangers that were unrelated to

24 conservation. The costs in the company's second Office Supplies category were for

25 Florida employees and included some expenses incurred by the employees charged to

1 conservation. However, I could not determine if any of these expenses were new or if
2 they were also included in base rates.

3 After receiving the utility's response to the audit report, I performed an extensive
4 review of all conservation audits back to 2001 and the last rate case filing. I determined
5 that the cost of the bill inserts of \$16,152 should be allowed because some printing of bill
6 inserts may have been done by a marketing firm that was charged to conservation in the
7 year of the rate case. Since we did not have all the invoices for this vendor in our
8 conservation audit workpapers, I could not determine if these costs really caused double
9 recovery. Therefore, I agree that \$16,152 of the \$240,532 should be allowed.

10 I have also reviewed the second supplemental response to the audit filed by
11 Florida City Gas on September 3, 2009. In this response the utility determined that they
12 are currently performing a service that was not performed in the test year of the rate case
13 to the same extent it is now. During the rate case test year, the majority of the incentives
14 paid were recorded as credits on the merchandise sales receipts for the non-regulated
15 merchandising and jobbing business run by Florida City Gas. Since that time, the
16 merchandising business has been discontinued. The incentive payments were recorded
17 only through an entry to the sales ledger, but now a paper check is issued for each
18 incentive. Therefore, the new costs of processing and paying the incentive payments by
19 check are incremental and should be allowed. However, the utility did not provide
20 adequate documentation for the costs it determined that relate to this additional service.

21 The utility estimated this new service cost \$109,468 instead of the \$240,532
22 originally requested. The \$109,468 includes the \$16,152 for the bill inserts previously
23 mentioned. It also includes \$821 for postage to mail the incentives, which we agree
24 would be incremental.

25

1 However, the \$109,468 also included one hour of labor at the rate of \$37.08 per
2 hour to process each check. This amounted to \$72,491 for the 1,955 incentive checks.
3 Although the utility may be able to justify that it may take the utility an hour to process,
4 this does not seem like a reasonable amount of time to verify that the customer has service
5 with the utility, review the invoice to determine if it meets the program guidelines, and
6 issue and mail a check. In addition, utility representatives have realized that this process
7 is burdensome and have obtained quotes on using an outside vendor to process these
8 checks. I believe these quotes show that using an outside vendor would result in a
9 substantial cost savings.

10 The utility also included \$20,003 for supplies in the \$109,468. This amount
11 relates to the second category of Office Supplies discussed previously. These costs were
12 for Florida employees. The check processing is done mostly in Atlanta. Therefore, the
13 costs are probably not related to the processing of the checks which is the only service the
14 utility has shown to be incremental. There were also credits to Office Supplies which the
15 utility did not take into account in its second response to the audit. The Office Supplies
16 were also allocated at a forty percent rate which is the percent of the billing insert related
17 to conservation. This percent has no relationship to the preparation of incentive checks
18 that we agree is incremental. I do not believe the \$20,003 should be allowed.

19 I have also reviewed Schedule C-3, page 4 of 5, filed with the Commission on
20 September 11, 2009. In this filing, the utility used a beginning (January 1, 2009) true-up
21 balance of \$954,338. If the utility had taken out the \$240,532 it originally included and
22 put in the \$109,468 it requested in its second supplemental response to the audit report,
23 the beginning true-up with the interest adjustment would be \$971,074, not the \$954,338
24 used. Therefore the September 11 filing does not reflect the utility's response to the audit
25 report.

1 Based on the utility's response to the audit, I believe the appropriate beginning
2 period true up is \$878,445. This was derived using the \$1,102,370 from the May 2009
3 filing less the audit finding of \$240,532, plus the bill inserts cost of \$16,152, the
4 incremental postage of \$851, less interest of \$396. At this time, the utility has not
5 adequately supported the reasonable cost for the payroll or office supplies related to the
6 incremental cost of processing the checks.

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8 **Q. Does that conclude your testimony?**

9 **A. Yes.**

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**History of Testimony
Provided by Kathy L. Welch**

- In re: Application for approval of rate increase in Lee County by Tamiami Village Utility, Inc., Docket No. 910560-WS
- In re: Application for transfer of territory served by Tamiami Village Utility, Inc. in Lee County to North Fort Myers Utility, Inc., cancellation of Certificate No. 332-S and amendment of Certificate 247-S; and for a limited proceeding to impose current rates, charges, classifications, rules and regulations, and service availability policies, Docket No. 940963-SU
- In re: Application for a rate increase by General Development Utilities, Inc. (Port Malabar Division) in Brevard County, Docket No. 911030-WS
- In re: Dade County Circuit Court referral of certain issues in Case No. 92-11654 (Transcall America, Inc. d/b/a ATC Long Distance vs. Telecommunications Services, Inc., and Telecommunications Services, Inc. vs. Transcall America, Inc. d/b/a ATC Long Distance) that are within the Commission's jurisdiction, Docket No. 951232-TI
- In re: Application for transfer of Certificates Nos. 404-W and 341-S in Orange County from Econ Utilities Corporation to Wedgefield Utilities, Inc., Docket No. 960235-WS
- In re: Application for increase in rates and service availability charges in Lee County by Gulf Utility Company, Docket No. 960329-WS
- In re: Fuel and purchased power cost recovery clause and generating performance incentive factor, Docket No. 010001-EI
- In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P., Docket No. 020010-WS
- In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, Docket No. 020071-WS
- In re: Petition for rate increase by Florida Power & Light Company, Docket No. 050045-EI
- In re: Petition for issuance of a storm recovery financing order, by Florida Power & Light Company, Docket No. 060038-EI
- In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp., Docket No. 070293-SU

- In re: Petition for rate increase by Florida Public Utilities Company, Docket No. 070304-EI
- In re: Natural gas conservation cost recovery, Docket No. 080004-GU
- In re: Nuclear cost recovery clause, Docket No. 080009-EI
- In re: FPL rate case, Docket No. 080677-EI



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE

Miami District Office

FLORIDA CITY GAS

CONSERVATION COST RECOVERY CLAUSE

HISTORICAL YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 090004-GU
AUDIT CONTROL NO. 09-028-4-3

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
Accounting Specialist
Reviewer

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**DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT**

May 8, 2009

**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, in support of its filing for conservation Docket No. 090004-GU.

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

OBJECTIVES AND PROCEDURES:

Objective: The objective of the audit was to reconcile the schedules to each other and to the general ledger.

Procedures: We prepared a trial balance using the general ledger and reconciled all conservation accounts to the filing.

Objective: The objective was to verify that the true-up was calculated correctly.

Procedures: We agreed the beginning true-up provision to the last order and workpapers. We prepared a recalculation using the filing and Commission approved interest rates.

Objective: The objective of the audit was to determine that the company has applied the approved conservation cost recovery factors to actual therm sales and properly calculated revenues.

Procedures: Therms from the statistics report were multiplied by the ordered rates and compared to the ledger and filing. Some bills were selected and recalculated to determine that the tariff rates were used.

Objective: The objective of the audit was to determine that the actual energy conservation program expenses filed by the company agree with source documentation and meet the requirements of the programs.

Procedures: We reconciled the filing to the general ledger detail. We selected a sample of the vouchers recorded in the general ledger and traced them to source documentation. Audit Finding One discusses a journal entry made to conservation expenses for postage, printing for billing inserts and office supplies.

We verified that the incentives paid by voucher met the program guidelines. We verified that the incentives credited to the bills met the program guidelines. We reviewed contracts with builders to determine if the contracts agreed with the program guidelines.

We compared the payroll file to the file from the last audit to determine if new employees were added.

AUDIT FINDING NO. 1

SUBJECT: NEW COSTS ALLOCATED

AUDIT ANALYSIS: Florida City Gas increased its conservation costs by \$240,531.87 in 2008. The detail of the costs follows:

	TOTAL COSTS	ALLOCATION PERCENT	ALLOCATED AMOUNT
POSTAGE TO MAIL BILLS	\$412,400.00	40.00%	\$164,960.00
BILLING SERVICES	102,014.18	40.00%	40,805.67
BILLING INSERT EXPENSES	40,379.75	40.00%	16,151.90
OFFICE SUPPLIES (1)	6,742.70	40.00%	2,697.08
OFFICE SUPPLIES (2)	50,008.38	40.00%	20,003.35
OFFSET TO SUPPLIES	(18,218.17)	40.00%	(7,287.27)
LEGAL	3,201.00	100.00%	3,201.00
	<u>\$596,527.84</u>		<u>\$240,531.74</u>

The billing inserts were reviewed and did include information about conservation. However, printing and design of the billing inserts, postage and billing services to prepare the bills, legal costs and office supplies are all items that were in base rates during the last rate case. To include these costs in conservation this year would duplicate costs that were allowed in base rates and result in double recovery.

In addition, the supplies included in the Office Supplies (1) category above were for acetylene, oxygen, and water for the office and door hangers that are unrelated to conservation.

The costs in the Office Supplies (2) category above did include some expenses incurred by the employees charged to conservation. However, we cannot determine if any of these expenses were new or if they were also included in base rates.

The interest related to these costs is \$427.

EFFECT OF THE FINDING ON THE GENERAL LEDGER: The entry made to book the \$240,531.87 should be reversed.

EFFECT OF THE FINDING ON THE FILING: Conservation expenses should be reduced by \$240,531.87 and the related interest expense of \$427. The total reduction is \$ 240,958.87.

EXHIBITS

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION
JANUARY 2008 THROUGH DECEMBER 2008

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Total
1 RCS AUDIT FEES													
2 OTHER PROGRAM REVS													
3 CONSERV. ADJ REVS	(145,334)	(140,700)	(136,555)	(129,671)	(115,100)	(106,568)	(102,569)	(95,892)	(107,659)	(103,963)	(127,436)	(147,575)	(1,459,022)
4 TOTAL REVENUES	(145,334)	(140,700)	(136,555)	(129,671)	(115,100)	(106,568)	(102,569)	(95,892)	(107,659)	(103,963)	(127,436)	(147,575)	(1,459,022)
5 PRIOR PERIOD TRUE UP NOT APPLICABLE TO THIS PERIOD CONSERVATION REVENUES	(10,529)	(10,529)	(10,529)	(10,529)	(10,529)	(10,529)	(10,529)	(10,529)	(10,529)	(10,528)	(10,527)	(10,526)	(126,342)
6 APPLICABLE TO THE PERIOD	(155,863)	(151,229)	(147,084)	(140,200)	(125,629)	(117,097)	(113,098)	(106,421)	(118,188)	(114,491)	(137,963)	(158,101)	(1,585,364)
CONSERVATION EXPENSES (FROM CT-3, PAGE 1)	142,275	242,317	169,971	232,517	175,692	223,886	373,015	108,313	190,596	214,370	420,139	185,559	2,678,650
8 TRUE-UP THIS PERIOD	(13,588)	91,088	22,887	92,317	50,063	106,789	259,917	1,892	72,408	99,879	282,176	27,458	1,093,286
9 INTEREST PROVISION THIS PERIOD (FROM CT-3 PAGE 3)	(429)	(203)	(28)	129	304	463	860	1,149	1,890	2,342	1,694	916	9,064
10 TRUE-UP & INTER. PROV. BEGINNING OF MONTH	(126,342)	(129,830)	(28,417)	4,972	107,946	168,842	286,622	557,928	571,498	656,325	769,074	1,063,471	
11 PRIOR PERIOD TRUE UP													
COLLECTED/(REFUNDED)	10,529	10,529	10,529	10,529	10,529	10,529	10,529	10,529	10,529	10,528	10,527	10,526	
12 TOTAL NET TRUE UP (SUM LINES 8+9+10+11)	(129,830)	(28,417)	4,972	107,946	168,842	286,622	557,928	571,498	656,325	769,074	1,063,471	1,102,370	1,102,370

CALCULATION OF TRUE-UP AND INTEREST PROVISION
JANUARY 2008 THROUGH DECEMBER 2008

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Total
1. INTEREST PROVISION BEGINNING TRUE-UP	(126,342)	(129,830)	(28,417)	4,972	107,946	168,842	286,622	557,928	571,498	656,325	769,074	1,063,471	
2. ENDING TRUE-UP BEFORE INTEREST	(129,401)	(28,213)	4,999	107,818	168,538	286,160	557,068	570,349	654,435	766,732	1,061,777	1,101,455	
3. TOTAL BEGINNING & ENDING TRUE-UP	(255,743)	(158,044)	(23,417)	112,789	276,484	455,001	843,690	1,128,276	1,225,933	1,423,057	1,830,651	2,164,926	
4. AVERAGE TRUE-UP (LINE 3 TIMES 50%)	(127,872)	(79,022)	(11,709)	56,395	138,242	227,501	421,845	564,138	612,967	711,529	915,426	1,082,463	
5. INTER. RATE - 1ST DAY OF REPORTING MONTH	4.980%	3.080%	3.090%	2.630%	2.840%	2.430%	2.450%	2.440%	2.450%	4.950%	2.950%	1.490%	
6. INTER. RATE - 1ST DAY OF SUBSEQUENT MONTH	3.080%	3.090%	2.630%	2.840%	2.430%	2.450%	2.440%	2.450%	4.950%	2.950%	1.490%	0.540%	
7. TOTAL (SUM LINES 5 & 6)	8.060%	6.170%	5.720%	5.470%	5.270%	4.880%	4.890%	4.890%	7.400%	7.900%	4.440%	2.030%	
8. AVG INTEREST RATE (LINE 7 TIMES 50%)	4.030%	3.085%	2.860%	2.735%	2.635%	2.440%	2.445%	2.445%	3.700%	3.950%	2.220%	1.015%	
9. MONTHLY AVG INTEREST RATE	0.336%	0.257%	0.238%	0.228%	0.220%	0.203%	0.204%	0.204%	0.308%	0.329%	0.185%	0.085%	
10. INTEREST PROVISION (LINE 4 TIMES LINE 9)	(429)	(203)	(28)	129	304	463	860	1,149	1,890	2,342	1,694	916	9,084
10. a. INT. ADJ													