DOCKET NO. 080366-GU: Rate Case for Florida Public Utilities Company - Gas Division

WITNESS: **Direct Testimony Of Kathy L. Welch,** Appearing On Behalf Of The Staff Of The Florida Public Service Commission

DATE FILED: October 22, 2009

DIRECT TESTIMONY OF KATHY L. WELCH

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

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Florida Public Utilities Company.	DOCKET NO. 080366-GU DATED: OCTOBER 21, 2009

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Direct Testimony of Kathy L. Welch on behalf of the Florida Public Service Commission, has been furnished by U.S. Mail, on this 22nd day October, 2009, to the following:

Florida Public Utilities Company
Mr. John T. English
P.O. Box 3395
West Palm Beach, FL 33402-3395

Messer Law Firm
Norman H. Horton, Jr., Esquire
Post Office Box 15579
Tallahassee, FL 32317

Office of Public Counsel
J.R. Kelly/Patricia Christensen
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400

Ralph R. Jaeger

RALPH R. JAEGER
Senior Attorney
Office of the General Counsel
FLORIDA PUBLIC SERVICE COMMISSION
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
(850) 413-6199

COM 5
ECR
GCL
OPC
RCP
SSC
SGA
ADM
CLK 1

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

Q. Have you presented testimony before this Commission?

A. Yes. I have filed testimony in several cases before the Florida Public Service Commission. Exhibit KLW-1 lists these cases.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor the staff audit report of Florida Public Utilities which addresses the Utility's application for a rate increase. This audit report is filed with my testimony and is identified as Exhibit KLW-2.

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

A. Yes, it was prepared under my direction.

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

A. We performed the following procedures:

<u>RATE BASE:</u>

We reconciled the rate base balances supporting schedules and traced those to the general ledger. We obtained supporting documentation for all adjustments in 2007 and 2009, recalculated them, traced amounts to the ledgers, and reviewed prior orders. We reviewed the board of director's minutes, the internal audit reports and the external audit workpapers.

We sampled plant additions for the period July 1, 2004, through December 31, 2008, to verify plant additions and retirements. We verified that the utility properly recorded retirements when a capital item was removed or replaced. We sampled construction project additions and the corresponding source documentation. We obtained the supporting documentation for the forecasted plant and verified the projects with the staff engineer.

We sampled Customer Advance additions for the period July 1, 2004, through December 31, 2008, and traced them to contracts to verify compliance with Commission rules. We recalculated the forecast amounts for 2008 and 2009. We compared the 2008 forecast to the actual amounts.

We traced the accumulated depreciation schedules to the corresponding plant in service schedules. We verified that the utility used Commission authorized rates to depreciate its plant accounts by calculating a sample of accumulated depreciation account balances to test for calculation errors. We verified that the utility properly recorded retirements to accumulated depreciation when the corresponding plant was removed or replaced. We recalculated a sample of accumulated depreciation account balances as of December 31, 2007.

We traced the working capital accounts to the general ledger, and reviewed any allocations of common accounts. We reviewed Commission rules and prior orders to determine if accounts were properly included in the working capital allowance. We recalculated the utility's working capital balance as of December 31, 2007. We reviewed the transactions in miscellaneous deferred debits, other deferred credits, accrued liabilities and materials and supplies for non-regulated items.

NET OPERATING INCOME:

We reconciled the following individual components of net operating income (NOI) balances to the utility's general ledger for the 12-month period ended December 31,

2007. We recalculated the adjustments, traced the components to the ledger, and compared them with the last rate case.

We traced revenues to the general ledger and utility billing registers and selected a sample of customer bills from each customer rate class on a random basis, and recalculated the bills using the Commission-approved tariff rates. We obtained the December entry for the unbilled revenue calculation and traced the components to source documentation.

We sampled Operation & Maintenance expense items from the general ledger based on auditor judgment. We examined invoices and supporting documentation for the sample selected to determine if they were for the proper utility system, were classified to the correct account, were for the correct amount and period, and were recurring in nature. We obtained the detail for direct and allocated salaries and other expenses. We reviewed the allocation methodology and recomputed clearing amounts. We compared uncollectible expense to the four-year average of uncollectible amounts to revenue. We recalculated the uncollectible factor for 2007 used by the utility and reviewed the 2009 forecast calculation. We reviewed supporting documentation for the 2009 forecast items that were based on direct forecasts as opposed to trended forecasts. We reviewed the "Over and Above" adjustments included in the 2009 forecast for supporting documentation and reasonable calculations. Over and Above adjustments are adjustments the company made that were higher than the adjustments based on trending.

We recalculated regulatory assessment fees and reconciled them to the general ledger. We obtained the property tax bills to determine if the amounts booked reflect the discount amount and were related to utility property. We reviewed the percent of payroll tax to total salaries for reasonableness.

We recalculated depreciation expense for the period using Commission-approved rates.

CAPITAL STRUCTURE:

We reconciled the following individual components of capital structure to balances in the utility's general ledger as of December 31, 2007, and we recalculated the overall weighted cost of capital for the test year ended 2007.

We compared actual long-term debt balances and interest rates to the actual 2007 debt instruments.

We compared actual short-term debt balances and interest rates to the actual 2007 debt instruments.

We compared actual deferred tax balances to supporting documentation. We also reconciled the common equity components and the investment tax credit components and recalculated the investment tax credit rate.

We compared actual customer deposits to supporting documentation.

Q. Please review the audit findings in this audit report, KLW-2, which address the Florida Public Utilities rate case filing.

A. Our report included 12 findings. Eight of these were stipulated to and are summarized below:

Audit Finding No. 1

This finding discusses an error in the 2009 forecast of customer advances and an understatement of 2008 customer advances when compared to actual data.

Audit Finding No. 2

This finding discusses a promotional advertisement that may not meet Commission guidelines.

Audit Finding No. 3

This finding discusses an understatement in Account 903, Customer Records and Collection because a December accrual was not made.

Audit Finding No. 4

This finding discusses an increase to Account 912.1 Selling Expenses for 2009 that did not actually occur to the extent projected.

Audit Finding No. 8

This finding discusses property taxes associated with the common plant located in South Florida being booked to the South Florida natural gas division, even though the common plant is allocated to all divisions. In addition, property taxes for the portion of non-regulated plant located in the natural gas division which were removed in the rate base adjustments were not removed from the property tax expense.

Audit Finding No. 9

This finding discusses operating expenses that were inappropriately allocated between the different companies and divisions.

Audit Finding No. 10

This finding discusses the inclusion of property tax in the 2009 forecast for a building which is not included in the plant forecast.

Audit Finding No. 12

This finding reallocated Electronic Data Processing Equipment using the total equipment including propane. Propane had been excluded from the utility calculation.

Q. Please review the audit findings in this audit report, KLW-2, which have not been agreed to.

A. Of the 12 audit findings, the four findings that have not been agreed to are explained in more detail on the following pages.

Audit Finding No. 5

This finding discusses officers' salary increases that did not increase by the rate projected. The forecast for Account 920, Administrative and General Salaries, included an increase of 11.5percent for 2008 and 2009. This was based on a study done during the electric rate case that showed that the officers' salaries were lower than the rest of the industry. However, in 2008, the officers were given an 8 percent increase and in 2009 a 3 percent increase has been authorized. The utility has revised its estimated increase for these three officers from $164,259 to $78,500 for the two years. The difference of this times the 52 percent allocation to natural gas results in a decrease of $44,595. The merger with Chesapeake Utilities is likely to have a significant effect on salary expenses after the 2009 test year.

Audit Finding No. 6

In calculating the increase for 2008 and 2009 for Account 921.4, Office Utility Expense, the utility annualized the actual four months of 2008 that it had available when the forecast was prepared. This expense includes electric expenses, as well as telephones, cell phones, and beepers. Using this annualization, it arrived at a forecast of $143,828 for 2008. The utility then trended this amount up by 7 percent for customer growth and inflation. The 7 percent was for trending from 2007 to 2009. In this instance, 2008 had already been increased; therefore, only a 2.74 percent increase from 2008 to 2009 should have been used. The direct forecast for this account of $153,896 should be revised to $147,769 ($143,828 x 1.0274) or a reduction of $6,127.

Audit Finding No. 7

This finding discusses an error in the utility's calculation of direct medical costs for Account 926.5, Employee Benefits Medical. It also discusses staffs' concerns about whether the utility should be allowed to project its insurance costs to 2012 since all other expenses were projected only through 2009. In its calculation of direct medical costs for Account 926.5, Employee Benefits Medical, the utility included an adjustment for the increase in medical costs it expects to incur between 2010 and 2012. To do this, FPUC projected a 15 percent increase each year over the 2009 balance for each year. The utility wanted to include the average of the three years' increases in addition to the 11.4 percent increase used in 2008 and the 6.5 percent increase used in 2009. The rates used in 2008 and 2009 were based on an e-mail from the utility's insurance company. The e-mail also predicted an annual increase starting in 2010 of 10-15 percent. In its calculation of this increase, the utility made an error in calculating the average increase for 2010 to 2012. In addition, the utility did not allocate the increase to natural gas, but included the entire increase in the filing for this rate case. When this amount is calculated correctly, the direct forecast for 2009 increases from $1,307,212 to $1,341,427. This is an increase of $34,215 to natural gas.

However, staff has concerns whether the utility should be allowed to project its insurance costs to 2012. All other expenses were projected through 2009. We believe that the decision to increase for years after the test year and to use 15 percent should be evaluated in more detail.

If the Commission accepts the three-year additional expense through 2012, the calculation should be increased by $34,215. If the increases for 2010-2012 are disallowed, the filing expense should be reduced by $232,647 (2009 forecast of $1,603,829 times 67% = $1,074,565, less filing of $1,307,212).

Audit Finding No. 11

This finding discusses allocations that may not use the most reasonable allocation methodology for the type of expense. The utility has codes that it uses to allocate expenses using various methodologies. We reviewed the allocation methodologies for these codes. We determined that there were several codes for the Central Florida gas division that did not seem reasonable because they did not allocate any costs to merchandising and jobbing. All the codes in question allocate 87 percent to natural gas and 13 percent to propane. The gas operations office has space dedicated to appliance sales and people in the office who work on merchandising and jobbing.

We obtained a building layout and the employees payroll charges for 2007. We prepared an analysis that shows the amount of space and the payroll allocation for each employee. This schedule shows that based on square footage times the payroll allocation for the employees using the square footage, 71.5 percent of the space would be allocated to gas, 14.54 percent to merchandising and jobbing, 7.35 percent to propane, 4.06 percent to capital accounts, and 2.55 percent to conservation. A utility representative has suggested that adjusted gross profit which allocates 81 percent to natural gas would be a more appropriate method. However, staff does not believe costs should be based on whether or not you are making a profit on your different lines of business. If costs are not allocated correctly, the profit is not accurate. The time and space used is much more representative of the cost of the line of business. Further, the allocations relate to the utilities for the building which would relate more closely to an allocation using square footage. Our initial estimates indicate an overstatement to gas of $11,396. Based on the initial response provided by the utility, there appear to be many more invoices that are allocated using these codes. In addition to these expenses, we believe two other invoices were inappropriately included in the filing. An invoice for a lawn treatment for the propane fill up area of $560 (trended $599) was charged to natural gas. An invoice for landscaping for $2,319.78 (trended $2,481) is not a monthly charge and is probably not re-occurring. The filing should be reduced by at least $14,476 ($11,396+$599+$2,481).

This amount should be increased when the utility provides all of the accounts allocated using these codes.

Q. Does that conclude your testimony?

A. Yes.

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

- In re: Natural Gas Conservation Cost Recovery Clause for Florida City Gas, Docket No. 090004-GU

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING

Miami District Office

FLORIDA PUBLIC UTILITIES COMPANY
GAS DIVISION

RATE CASE

HISTORICAL TEST YEAR ENDED DECEMBER 31, 2007
FORECAST TEST YEAR ENDING DECEMBER 31, 2009

DOCKET NO. 080366-GU
AUDIT CONTROL NO. 08-365-4-1

Yen Ngo, Audit Manager

Iliana Piedra, Audit Staff

Bety Maitre, Audit Staff

Gabriela Leon, Audit Staff

Kathy L. Welch, Public Utilities Supervisor

TABLE OF CONTENTS

DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT

March 4, 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 dated December 31, 2008. We have applied these procedures to the 2009 projected costs on the attached schedules which were prepared by Florida Public Utilities Company-Gas Division in support of its filing for rate relief in Docket No. 080366-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.

I. OBJECTIVES AND PROCEDURES

RATE BASE

A. Objective – General: To determine that the utility's filing represents its recorded results from continuing operations. To verify, for the historical year, that all adjustments are consistent with the prior rate cases and calculated correctly.

1. We reconciled the rate base balances supporting schedules and traced those to the general ledger.
2. We obtained supporting documentation for all adjustments in 2007 and 2009, recalculated them, traced amounts to the ledgers, and reviewed prior orders.
3. We reviewed the board of director's minutes, the internal audit reports and the external audit workpapers.

B. Objective - Utility Plant: To verify plant additions, retirements and adjustments from the last historic year through December 31, 2007 and obtain supporting documentation for the plant forecast for calendar years 2008 and 2009. To review the utility continuing property records and determine if they are in compliance with Commission Rule 25-6.014(3), Florida Administrative Code.

1. We sampled plant additions for the period July 1, 2004 through December 31, 2008 for compliance with the stated objectives above.
2. We verified that the utility properly recorded retirements when a capital item was removed or replaced.
3. We sampled construction project additions and the corresponding source documentation.
4. We obtained the supporting documentation for the forecasted plant and verified the projects with the staff engineer.

C. Objective - Customer Advances: To determine that additions to Customer Advances from July 1, 2004 through December 31, 2008 are properly recorded in compliance with Commission rules.

1. We sampled Customer Advance additions for the period July 1, 2004 through December 31, 2008 for compliance with the stated objectives above and traced them to contracts.
2. We recalculated the forecast amounts for 2008 and 2009.

3. We compared the 2008 forecast to the actual.

D. Objective - Accumulated Depreciation: To determine that accruals to accumulated depreciation in 2007 are properly recorded in compliance with Commission rules and the NARUC Uniform System of Accounts. To verify that depreciation expense accruals are calculated using the Commission authorized rates and that retirements are properly recorded.

1. We traced the accumulated depreciation schedules to the corresponding plant in service schedules.

2. We verified that the utility used Commission authorized rates to depreciate its plant accounts by calculating a sample of accumulated depreciation account balances to test for calculation errors.

3. We verified that the utility properly recorded retirements to accumulated depreciation when the corresponding plant was removed or replaced.

4. We recalculated a sample of accumulated depreciation account balances as of December 31, 2007.

E. Objective - Working Capital: To determine that the utility's working capital balance is properly calculated in compliance with Commission rules, consistent with the last order. Also, to determine if any interest earning or bearing accounts or any non-utility items were included in the calculation.

1. We traced the working capital accounts to the general ledger, and reviewed any allocations of common accounts.

2. We reviewed Commission rules and prior orders to determine if accounts were properly included in the working capital allowance. We recalculated the utility's working capital balance as of December 31, 2007.

3. We reviewed the transactions in miscellaneous deferred debits, other deferred credits, accrued liabilities and materials and supplies for non-regulated items.

II. NET OPERATING INCOME

A. Objective - General: To determine that the utility's filing represents its results from continuing operations. To determine that the adjustments to the filing were properly calculated, and consistent with prior audits.

1. We reconciled the following individual components of net operating income (NOI) balances to the utility's general ledger for the 12-month

period ended December 31, 2007.

2. We recalculated the adjustments, traced the components to the ledger and reviewed them with the last rate case.

B. Objective - Revenues: To determine that revenues in 2007 are properly recorded in compliance with Commission rules and are based on the utility's Commission approved tariff rates. To verify the calculation of unbilled revenues.

1. We traced revenues to the general ledger and utility billing registers and selected a sample of customer bills from each customer rate class on a random basis, and recalculated the bills using the Commission approved tariff rates.

2. We obtained the December entry for the unbilled revenue calculation and traced the components to source documentation.

C. Objective - Operation and Maintenance Expenses (O&M): To determine that operation and maintenance expenses in 2007 are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations. To determine if any costs related to non-regulated operations were included. To determine if any costs were out of period or non-recurring. To determine if allocated corporate costs were correctly allocated between gas, electric, propane and merchandising and jobbing operations. To determine if advertisements included were image enhancing or should have been included in conservation or fuel cost recovery. To determine if refunds were properly recorded.

1. We sampled O&M expense items from the general ledger based on auditor judgment.

2. We reviewed the sample for the proper utility system, classification, amount, period and recurring nature.

3. We examined invoices and supporting documentation to determine if the above objectives were met.

4. We obtained the detail for direct and allocated salaries and other expenses. We reviewed the allocation methodology and recomputed clearing amounts.

5. We compared uncollectible expense to the four year average of uncollectible amounts to revenue. We recalculated the uncollectible factor for 2007 used by the utility and reviewed the 2009 forecast calculation.

6. We reviewed supporting documentation for the 2009 forecast items that were based on direct forecasts as opposed to trended forecasts. We reviewed the Over and Above adjustments included in the 2009 forecast for supporting documentation and reasonable calculations. (Over and Above adjustments are adjustments the company made that were higher than the adjustments based on trending.)

D. Objective - Taxes-Other-Than-Income: To determine that taxes other than income tax expense in 2007 is properly recorded and in compliance with Commission rules and reasonable and prudent for ongoing utility operations.

1. We recalculated regulatory assessment fees and reconciled them to the general ledger.

2. We obtained the property tax bills to determine if the amounts booked reflect the discount amount and were related to utility property.

3. We reviewed the percent of payroll tax to total salaries for reasonableness.

E. Objective - Depreciation Expense: To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of plant assets.

1. We recalculated depreciation expense for the period using Commission approved rates.

III. CAPITAL STRUCTURE

A. Objective - General: To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules and that the components accurately represent the ongoing utility operations. To verify that non-utility assets supported by the utility's capital structure, are removed from the capital structure, in the rate base/capital structure reconciliation. To verify that the non-utility investments are removed from equity prior to the determination of ratios. To verify that the cost rates are appropriate. To determine how the rate base adjustments are adjusted in the capital structure.

1. We reconciled the following individual components of capital structure to balances in the utility's general ledger as of December 31, 2007.

2. We recalculated the overall weighted cost of capital for the test year ended 2007.

B. Objective - Long-Term-Debt: To determine that long-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

1. We compared actual long-term debt balances and interest rates to the actual 2007 debt.

C. Objective - Short-Term-Debt: To determine that short-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

1. We compared actual short-term debt balances and interest rates to the actual 2007 debt.

D. Objective - Accumulated Deferred Income Taxes: To determine that accumulated deferred income taxes are properly stated and calculated based on the recorded differences between utility book and taxable income.

1. We compared actual deferred tax balances to supporting documentation. We reconciled the common equity components and the investment tax credit components and recalculated the investment tax credit rate.

E. Objective - Customer Deposits: To determine that customer deposit balances represent actual obligations of the utility and are properly recorded in compliance with Commission rules.

1. We compared actual deposits to supporting documentation.

AUDIT FINDING NO. 1

SUBJECT: CUSTOMER ADVANCES

AUDIT ANALYSIS: The utility made an error in the customer advance forecast for 2009. The 2009 forecast was calculated by applying the 2007 historical average amount to the 2009 customer growth and inflation factor of 1.0274. The utility should have used the 2008 forecast average amount and the 2009 customer growth and inflation factor of 1.0274.
The difference indicates an understatement to customer advances of $87,449.

Utility 2009 Forecast Calculation

2007 Historical Average	($1,615,122.00)
2009 Customer Growth and Inflation	1.0274
Utility 2009 Forecast Calculation	($1,659,376.34)

Staff 2009 Forecast Calculation

2007 Historical Average	($1,615,122.00)
2008 Customer Growth and Inflation	1.0527
2008 Forecast Calculation	($1,700,238.93)
2009 Customer Growth and Inflation	1.0274
Staff 2009 Forecast Calculation	($1,746,825.48)
Difference between Utility and Staff Forecast Calculation	($87,449.13)

We compared actual 2008 customer advances to the forecast. Our comparison shows the 2008 actual customer advances were greater than the forecast by $444,840. Since customer advances are a credit, if the actual amount is used, rate base would be reduced. If this amount is trended to 2009, there is an understatement of customer advances of $544,478 for 2009. The calculation follows:

2008 -	
Staff 2008 Actual Customer Advances Average	($2,145,079)
Utility 2008 Forecast per Filing	(1,700,239)
Difference - Understated 2008	($444,840)
2009 -	
2008 Actual per Above	($2,145,079)
2009 Customer Growth and Inflation Factor	1.0274
Staff 2009 Forecast Calculation using 2008 actuals	($2,203,854)
Utility 2009 Forecast per Filing	($1,659,376)
Difference - Understated 2009	($544,478)

EFFECT ON THE GENERAL LEDGER: None.

EFFECT ON THE FILING: Customer Advances need to be increased by $87,449 for 2009 due to an error in the 2009 forecast calculation. The Commission should review the difference between the actual 2008 customer advances and the forecasted amount in the filing.

AUDIT FINDING NO. 2

SUBJECT: ADVERTISING

AUDIT ANALYSIS: FPUC paid $13,000 a quarter or $52,000 in 2007 for a contract with St. Joe Arvida homes. The contract with the developer states:

"The Company and the Owner agree that it shall be in the best interest of each that the Owner conduct a program of promoting the use of natural gas appliances in the Project. To aid Owner's promotions, the Company shall supply to the Owner support for sales of natural gas appliances including, but not limited to, personnel being available to answer questions from home buyers and collateral marketing and sales brochures and materials and shall pay to the Owner for cooperative advertising the following sums…"

"Owner acknowledges that the Cooperative Advertising Payment is being made to Owner to promote the Company and the use of natural gas by residents and businesses in the Project. Newspaper advertisements of a size equal to or greater than one-half page prepared by or for Owner for the sale of residential or commercial units in the Project shall include the Company's logo in the Advertising Material. Owner will display in Owner's sales center and will include in information packets a reasonable amount of the Company's promotional materials."

Because the advertisement only includes the FPUC logo, it does not meet the requirements of Commission rule 25-17.015(5) for recovery through the conservation clause. Similar contracts between FPUC and the developers now contain requirements that the advertisements meet the rule requirements and are included in the conservation clause. The contract expires in December 2010. The company states that if it decides to pursue a future contract with the developer, it will make sure that the advertising qualifies for recovery in the conservation clause.

Since it does not currently qualify for recovery through the conservation clause, the utility has charged this contract to base rates through account 913.1, Promotional Advertising. The amount was trended to $56,238 in the 2009 forecast. However, the contract did escalate in 2008 to $92,000. The Commission should consider whether the advertising benefits the ratepayers and should be recovered through base rates.

EFFECT ON THE GENERAL LEDGER: There is no effect since the ledger for 2007 expenses is already closed.

EFFECT ON THE FILING: If the Commission determines that these costs should not be included in base rates, $56,238 should be removed from the expenses for 2009.

AUDIT FINDING NO. 3

SUBJECT: ACCOUNTS PAYABLE NOT RECORDED

AUDIT ANALYSIS: Review of the clearing accounts for 903, Customer Records and Collection, showed charges from the company that prepares and mails the bills for only 11 months. The December bill was paid in January 2008 and was not accrued when the utility did its journal entry to record its payables. The December invoice totaled $42,018.21 that was charged to the clearing account and $162.52 charged directly to the West Palm Beach Gas division account 913.3. The clearing account was allocated at 54% to gas or $22,689.83. The clearing amounts were trended up by 8.15% for 2009 to $24,539.05.

EFFECT ON THE GENERAL LEDGER: There is no effect since the ledger for 2007 expenses is already closed and the problem will be eliminated by 2009.

EFFECT ON THE FILING: The gas expenses should be increased by $24,701.57 to reflect the allocation of the clearing account amount of $24,539.05 and the $162.52 of direct costs.

AUDIT FINDING NO. 4

SUBJECT: MERCHANDISING AND JOBBING ALLOCATION

AUDIT ANALYSIS: FPUC found an error in allocating non-regulated payroll based on customer counts and time studies. When preparing the MFRs, FPUC estimated the impact of the error and increased account 912.1 Selling Expenses by $100,000 for 2009. Subsequent to the filing, FPUC calculated the full effect and prepared two journal entries in December 2008 which increased gas expenses by $24,881. The utility trended the payroll costs in this account at 5.5% from 2008 to 2009. The actual increase trended is $26,249. This is $73,751 less than projected.

EFFECT ON THE GENERAL LEDGER: Since this is a forecast item, it does not affect the general ledger.

EFFECT ON THE FILING: 2009 gas expenses should be reduced by $73,751.

AUDIT FINDING NO. 5

SUBJECT: OFFICERS PAYROLL

AUDIT ANALYSIS: The forecast for account 920, Administrative and General Salaries, included an increase of 11.5% for 2008 and 2009. This was based on a study done during the electric rate case that showed that the officers' salaries were lower than the rest of the industry. However, in 2008, the officers were given a 8% increase and in 2009 a 3% increase has been authorized. The utility has revised its estimated increase for these three employees from $164,259 to $78,500 for the two years. The difference of this times the 52% allocation to natural gas results in a decrease of $44,594.68.

EFFECT ON THE GENERAL LEDGER: Since this is a forecast item, it does not affect the general ledger.

EFFECT ON THE FILING: 2009 expenses should be reduced by $44,594.68.

AUDIT FINDING NO. 6

SUBJECT: FORECAST FOR OFFICE UTILITY EXPENSE

AUDIT ANALYSIS: In calculating the increase for 2008 and 2009 for account 921.4, Office Utility Expense, the utility annualized the actual four months of 2008 that it had available when the forecast was prepared. This expense includes electric expenses, as well as telephones, cell phones, and beepers. Using this annualization, it arrived at a forecast of $143,828 for 2008. The utility then trended this amount up by 7% for customer growth and inflation. The 7% was for trending from 2007 to 2009. In this instance, 2008 had already been increased and a 2.74% increase from 2008 to 2009 should have been used. The direct forecast for this account of $153,896 should be revised to $147,768.89 ($143,828 x 1.0274) or a reduction of $6,127.11.

EFFECT ON THE GENERAL LEDGER: Since this is a forecast item, it does not affect the general ledger.

EFFECT ON THE FILING: 2009 expenses should be reduced by $6,127.11.

AUDIT FINDING NO. 7

SUBJECT: MEDICAL EXPENSE FORECAST

AUDIT ANALYSIS: In its calculation of direct medical costs for account 926.5, Employee Benefits Medical, the utility included an adjustment for the increase in medical costs it expects to incur between 2010 and 2012. To do this, FPUC projected a 15% increase over the 2009 balance for each year. The utility wanted to include the average of the three years' increases in addition to the 11.4% increase used in 2008 and the 6.5% increase used in 2009. The rates used in 2008 and 2009 were based on an e-mail from the utility's insurance company. The e-mail also predicted an increase starting in 2010 of 10-15%.

In its calculation of this increase, the utility made an error in calculating the average increase for 2010 to 2012. In addition, the utility did not allocate the increase to natural gas, but included the entire increase in the filing for this rate case. When this amount is calculated correctly, the direct forecast for 2009 increases from $1,307,212 to $1,341,427. This is an increase of $34,215 to natural gas.

	Consolidated
2009	$ 1,603,829
2010	$ 1,844,404
2011	$ 2,121,064
2012	$ 2,439,224
Avg Expense	$ 2,002,130
Natural Gas %	67%
Increase to Gas	$1,341,427
Per Filing	$ 1,307,212
Difference	$34,215

However, staff has concerns whether the utility should be allowed to project its insurance costs to 2012. All other expenses were projected through 2009. In addition, the utility based its projection on an e-mail from the insurance company that provided a range of 10-15%. We believe that the decision to increase for years after the test year and to use 15% should be evaluated in more detail.

However, if the Commission decides to accept the three year additional expense through 2012, the calculation should be increased by $34,215. If the projections for 2010-2012 are disallowed, the filing expense should be reduced by $232,647 (2009 forecast of $1,603,829 times 67%=$1,074,565 less filing of $1,307,212).

EFFECT ON THE GENERAL LEDGER: Since this is a forecast item, it does not affect the general ledger.

EFFECT ON THE FILING: If it is determined that an increase of 15% a year and an adjustment to increase costs for the average increase from 2010 to 2012 is reasonable, the 2009 expenses should be increased by $34,215. If the projections for 2010-2012 are disallowed, the expense in the filing should be decreased to $1,074,565. The net adjustment is a decrease of $232,647.

AUDIT FINDING NO. 8

SUBJECT: PROPERTY TAX ADJUSTMENT FOR NON REGULATED AND COMMON

AUDIT ANALYSIS: The property taxes associated with the common plant located in South Florida were all booked to the South Florida natural gas division, even though the common plant is allocated to all divisions. In addition, property taxes for the portion of non-regulated plant located in the natural gas division which were removed in the rate base adjustments were not removed in the property tax expenses.

The estimated common plant that is not natural gas is 46% in 2007. The estimated portion of the natural gas division that is non-regulated is 1.9% in 2007.

Since 2007 taxes were trended up for 2009 by 6.97%, we have also trended our adjustments up by 1.0697. However, the company also added in an "over and above" adjustment for the increase in property tax in 2008. We allocated this increase to natural gas and common on the following schedule and then allocated the increase using the same methodology used in 2007 to non-natural gas and non-regulated.

The schedules on the following pages detail the estimate property tax adjustments for 2007 and 2009.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: There is no effect on the general ledger.

EFFECT ON THE FILING IF FINDING IS ACCEPTED: The 2007 historical and 2009 forecasted years should be reduced by $68,824 and $77,852, respectively.

Calculations of Common Plant Property Tax Adjustment (Division 100)

Description	Personal Property		Real Property	
South Florida Before Allocation	$	661,691		
% of Common That is Taxable Note A		3.63%		
Common Property Taxes	$	24,019	$	80,899
Percentage Not Natural Gas		46.00%		46.00%
Common - Not Natural Gas Portion	$	**11,049**	$	**37,213**

Calculation of Non-Regulated Plant Property Tax in Natural Gas (Divisions 121 & 123)

South Florida Before Allocation	$	661,691	
Less : Common Personal Property Taxes	$	24,019	
South Florida Personal Property Taxes	$	637,672	$78,555
Cental Florida		334,577	31,359
Total		$972,249	$109,914
Percentage Not regulated		1.90%	1.90%
Non-regulated Portion		**$18,473**	**$2,088**

Summary of 2007 Property Tax Adjustments

Common - Non Natural Gas Portion Personal Property	$	11,049
Common - Non Natural Gas Portion - Real Property	$	37,213
Non-regulated Portion - Personal Property	$	18,473
Common Non Natural Gas - Real Property	$	2,088
2007 Total Adjusments	**$**	**68,824**

Note A: This is the ratio of South Florida common plant to total South Florida Plant

2009 Property Tax Adjustments

Trend Adjustments

Description	**2009**
2007 Trend %	106.97%
2007 Property Tax Adjustment	$68,824
Trend Adjustments	**$73,621**

Calculation of Common Plant Property Tax Related to Utility Over & Above Adjustment 2009

Total Property Tax for 2007

Description	**Amounts**	**Percentage of Total Taxes**	**Over & Above 2009 Allocation**
South Florida Before Allocation - Personal Property	$661,691	56%	$40,689
Cental Florida - Personal Property	334,577	28%	20,574
Common Property Taxes - Real Property	80,899	7%	4,975
South Florida - Real Property	78,555	7%	4,830
Cental Florida - Real Property	31,359	3%	1,928
Total Taxes	**$1,187,081**	**100%**	**$72,996**

Calculation of Common Plant Property Tax (Division 100)

Description	**Personal Property**	**Real Property**
South Florida Before Allocation	$ 40,689	
% of Common That is Taxable	3.63%	
Common Property Taxes	$ 1,477	$ 4,975
Percentage Not Natural Gas	46.00%	46.00%
Common - Not Natural Gas Portion	**$ 679**	**$ 2,288**

Calculation of Non-regulated Plant Property Tax in Natural Gas (Division 121 & 123)

South Florida Before Allocation	$ 40,689	
Less : Common Personal Property Taxes	$ 1,477	
South Florida Property Taxes	$ 39,212	4,830
Cental Florida	20,574	1,928
Total	59,786	6,759
Percentage Not regulated	1.90%	1.90%
Non-regulated Portion	**$1,135.93**	**$128.42**

Summary of 2009 Property Tax Adjustments

Trend Adjustments	$73,621
Common - Not Natural Gas Portion Personal Property Over and Above	$679
Common - Not Natural Gas Portion - Real Property Over and Above	$2,288
Non-regulated Portion - Personal Property Over and Above	$1,136
Common Not Natural Gas - Real Property Over and Above	$128
2009 Total Adjustments	**$77,852**

AUDIT FINDING NO. 9

SUBJECT: MISCLASSIFIED OPERATING EXPENSE ALLOCATION

AUDIT ANALYSIS: Our analysis of the operating expenses revealed that there were transactions inappropriately allocated between the different companies and divisions.

The utility allocates the expense of the director of marketing based on his salary. However, almost all of his travel we examined relates to electric because his home base is in West Palm Beach. The following invoices were found in 2007 expenses that were allocated 75% to natural gas.

Date	Description	Amount
9/30/2007	Petty Cash	$304
10/18/2007	American Express	$1,162
9/28/2007	American Express	$1,140
	Total	$2,610
	% of Natural Gas	.75
	2007 Total Adjustment	**$1,957**

The director salary may not be an appropriate methodology for allocation of his travel. His total travel costs were $8,224 in 2008 and $6,168 were charged to gas operations. We did not review all of the invoices and some may relate to only gas operations. The company used a projection factor of 6.97% to increase from 2007 to 2009. Staff has recalculated the actual invoices above using the projection factor for the 2009 forecast year as follow:

Description	Amount
2007 Total Adjustment	$1,957
Projection Factor	1.0697
Total 2009 Adjustment	**$2,093**

EFFECT ON GENERAL LEDGER: There is no effect on the general ledger.

EFFECT ON FILING: The 2007 historical and 2009 forecasted years operating expenses should be reduced by $1,957 and $2,093 respectively. The analyst should review the other expenses related to the director's travel.

AUDIT FINDING NO. 10

SUBJECT: PROPERTY TAX ADJUSTMENT TO 2009 FORECAST

AUDIT ANALYSIS: The utility is constructing a building for the South Florida Operations Facility that is not scheduled to be placed in service until mid 2010. The company did not include an adjustment to plant for the building and plans to seek recovery at a later date. However, the associated property taxes for this building in the sum of $114,079 were expensed to the 2009 forecasted year.

Given that the building has yet to be completed and put in service for the fulfillment of current customers of the company, the adjustment should be removed from the 2009 forecast year and combined with the special recovery of the plant at a later date.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: There is no effect on the general ledger.

EFFECT ON THE FILING IF FINDING IS ACCEPTED: 2009 projected property taxes should be decreased by $114,079.

AUDIT FINDING NO. 11

SUBJECT: ALLOCATIONS AT THE CENTRAL FLORIDA OFFICE

AUDIT ANALYSIS: The utility has codes that they use to allocate expenses using various methodologies. We reviewed the allocation methodologies for these codes. We determined that there were several codes for the Central Florida gas division that did not seem reasonable because they did not allocate any costs to merchandising and jobbing. All of the codes in question, allocate 87% to natural gas and 13% to propane. The gas operations office has space dedicated to appliance sales and people in the office that work on merchandising and jobbing.

We obtained a building layout and the employees payroll charges for 2007. We prepared an analysis that shows the amount of space and the payroll allocation for each employee. This schedule shows that based on square footage times the payroll allocation for the employees using the square footage, 71.5% of the space would be allocated to gas, 14.54% to merchandising and jobbing, 7.35% to propane, 4.06% to capital accounts, and 2.55% to conservation. A utility representative has suggested that adjusted gross profit which allocates 81% to natural gas would be a more appropriate method. However, staff does not believe costs should be based on whether or not you are making a profit on your different lines of business. If costs are not allocated correctly, the profit is not accurate. The time and space used is much more representative of the cost of the line of business. Further, the allocations relate to the utilities for the building which would relate more closely to an allocation using square footage.

The following are the codes that we believe should be re-allocated.

COMCF	Communications Line Central Florida
FPCP	FPL Sanford Office
OFCLF	Office Supplies Central Office
SBTCF	Telephone Central Office
WSGCF	Water, Sewer and Garbage Central Office

We have asked the utility to prepare a report of all invoices charged using these codes. The original response provided inaccurate data. The utility personnel have been attempting to prepare a corrected response but at the time this report was completed we did not have the information available.

While we do not have a listing of all the expenses, we know some of the expenses because they were included in the samples we reviewed. We have annualized some of these items to estimate the costs. These estimates follow:

Account	Vendor	Amount	Annualized	Utility Allocation 87/13	Staff Allocation 71.5/28.5	Difference	Trend Factor	Trended Difference
4020.888	Landpro	$1,465.00	$17,580.00	$15,294.60	$12,569.70	$2,724.90	1.0697	$2,914.83
4010.9162	Cleaning	$1,495.00	$17,940.00	$15,607.80	$12,827.10	$2,780.70	1.0815	$3,007.33
4010.xxx	Volusia Cty.	$742.87	$8,914.38	$7,755.51	$6,373.78	$1,381.73	1.0815	$1,494.34
4010.xxx	FPL	$1,978.21	$23,738.52	$20,652.51	$16,973.04	$3,679.47	1.0815	$3,979.35
		$5,681.08	$68,172.90	$59,310.42	$48,743.62	$10,566.80		$11,395.84

Based on the initial response provided by the utility, there appear to be many more invoices that are allocated using these codes.

In addition to these expenses, we believe two other invoices were inappropriately included in the filing. An invoice for a lawn treatment for the propane fill up area of $560 (trended $599.03) was charged to natural gas. An invoice for landscaping for $2,319.78 (trended $2,481.47) is not a monthly charge and is probably not re-occurring.

EFFECT ON THE GENERAL LEDGER: Since 2007 is already closed, the general ledger should not be adjusted. However, the allocation methodology in 2009 should be adjusted.

EFFECT ON THE FILING: The filing should be reduced by at least $14,476.34 ($11,395.84+599.03+2481.47). This amount should be increased when the utility provides all of the accounts allocated using these codes.

AUDIT FINDING NO. 12

SUBJECT: EDP COMMON ALLOCATION

AUDIT ANALYSIS: In the "Allocation of Common Plant Schedule", the utility used Florida Public Utilities (FPU) Electronic Data Processing (EDP) equipment instead of the total of FPU and Propane amounts to calculate the allocation of the common EDP for the Northwest Electric, Northeast Electric, South Florida Natural Gas, and Central Florida Natural Gas divisions. As a result, these allocations were understated while the allocations to the propane divisions were overstated for 2007 and 2008. Since the company used the 2008 allocation in forecasting the 2009 common plant, the 2009 EDP equipment allocation to South Florida Natural Gas and Central Florida Natural Gas were understated as well. Also, the accumulated depreciation and depreciation expense related to the EDP equipment were understated for both divisions.

Below is the recalculation of the allocation that should have been used to allocate common EDP equipment, accumulated depreciation and depreciation expense.

Recalculation of 2007 EDP Allocation

Division	No. of Customers Billed	2007 Allocation %	Based on 6/06 Common EDP
FPU			
Northwest Electric	12,708	13%	$ 363,479
Northeast Electric	14,755	16%	$ 447,360
South Fla NG	32,102	35%	$ 978,600
Central Fla NG	18,243	20%	$ 559,200
West Fla NG	-	0%	$ -
Merchandising	2,184	2%	$ 55,920
Propane		0%	$ -
South Fla Propane	6,216	7%	$ 195,720
Central Fla Propane	2,779	3%	$ 83,880
Northeast Fla Propane	1,569	2%	$ 55,920
West Fla Propane	2,134	2%	$ 55,920

The following schedule takes the total EDP equipment from the filing for each of the three years and allocates them using the 52% used by the utility and then by the 55% determined above (35%+20% natural gas). The difference is the adjustment needed to the filing by year.

Total Common		2007		2008		2009
Plant						
391.3	$	658,174	$	752,151	$	996,010
391.305	$	1,748,710	$	1,839,120	$	2,031,290
Accumulated Depreciation						
391.3	$	(153,159)	$	(165,347)	$	(151,304)
391.305	$	(1,208,694)	$	(1,400,544)	$	(1,584,278)
Depreciation Exp.						
391.3	$	72,451	$	82,804	$	103,207
391.305	$	193,984	$	203,408	$	217,319

Allocated by Utility at 52%

Total Common		2007		2008		2009
Plant						
391.3	$	342,250	$	391,119	$	517,925
391.305	$	909,329	$	956,342	$	1,056,271
Accumulated Depreciation						
391.3	$	(79,643)	$	(85,980)	$	(78,078)
391.305	$	(628,521)	$	(728,283)	$	(823,825)
Depreciation Exp.						
391.3	$	37,675	$	43,058	$	53,668
391.305	$	100,872	$	105,772	$	113,006

Allocated by Staff at 55%

Total Common		2007		2008		2009
Plant						
391.3	$	361,996	$	413,683	$	547,806
391.305	$	961,791	$	1,011,516	$	1,117,210
Accumulated Depreciation						
391.3	$	(84,237)	$	(90,941)	$	(83,217)
391.305	$	(664,782)	$	(770,299)	$	(871,353)
Depreciation Exp.						
391.3	$	39,848	$	45,542	$	56,764
391.305	$	106,691	$	111,874	$	119,525

Difference

Total Common		2007		2008		2009
Plant						
391.3	$	19,745	$	22,565	$	29,880
391.305	$	52,461	$	55,174	$	60,939
	$	72,207	$	77,738	$	90,819
Accumulated Depreciation						
391.3	$	(4,595)	$	(4,960)	$	(4,539)
391.305	$	(36,261)	$	(42,016)	$	(47,528)
	$	(40,856)	$	(46,977)	$	(52,067)
Depreciation Exp.						
391.3	$	2,174	$	2,484	$	3,096
391.305	$	5,820	$	6,102	$	6,520
	$	7,993	$	8,586	$	9,616

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:
The utility does not allocate common plant in its ledger. It is only done in the filing.

EFFECT ON FILING IF FINDING IS ACCEPTED: Plant, Depreciation Expense, and Accumulated Depreciation should be increased as followed

	2007	2008	2009
Plant	$ 72,207	$ 77,738	$ 90,819
Accumulated Depreciation	$ (40,856)	$ (46,977)	$ (52,067)
Depreciation Expense	$ 7,993	$ 8,586	$ 9,616

SCHEDULE G-1(1) (B-2)	CALCULATION OF THE PROJECTED TEST YEAR RATE BASE	PAGE 1 OF 28

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED NATURAL GAS DIVISION

DOCKET NO: 080366-GU

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13-MONTH AVERAGE RATE BASE FOR THE HISTORIC BASE YEAR, THE HISTORIC BASE YEAR PLUS ONE, AND THE PROJECTED TEST YEAR.

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA: 12/31/07
PROJECTED YEAR: 12/31/08
PROJECTED TEST YEAR: 12/31/09
WITNESS: Mesite

L/N	ACCT (1)	DESCRIPTION (2)	(3) BASE YEAR 12/31/07 (PER BOOKS)	(4) 12/31/07 ADJUSTMENTS (See B-2)	(5) HISTORIC BASE 12/31/07 ADJUSTED AVERAGE YEAR	(6) HISTORIC BASE YR +1 12/31/08 UNADJUSTED	(7) 12/31/08 ADJUSTMENTS	(8) HISTORIC BASE YR + 1 12/31/08 ADJUSTED AVERAGE YEAR	(9) PROJECTED TEST YEAR 12/31/09 UNADJUSTED	(10) 12/31/09 ADJUSTMENTS	(11) PROJECTED TEST YEAR 12/31/09 ADJUSTED AVERAGE YEAR
1		UTILITY PLANT									
2	1010	Plant In Service - Utility	97,425,925	(3,753,653)	93,672,272	106,914,293	(3,753,653)	103,160,640	114,125,907	(1,320,850)	112,805,057
3	1070	CWIP - Utility	2,835,239		2,835,239	826,026		826,026	324,942		324,942
4	1070	CWIP - Allocated Common	121,454		121,454	44,579		44,579	34,485		34,485
5	1140	Acquisition Adjustment	1,816,579	(552,803)	1,263,776	1,816,579	(552,803)	1,263,776	1,816,579	(552,803)	1,263,776
6	1180	Plant In Service - Allocated Common	2,888,025		2,888,025	3,081,654		3,081,654	3,494,938		3,494,938
7		TOTAL PLANT	105,087,222	(4,306,456)	100,780,766	112,683,131	(4,306,456)	108,376,675	119,796,851	(1,873,653)	117,923,198
8											
9											
10		DEDUCTIONS									
11	1080	Accumulated Reserve - Utility	(31,977,603)	466,889	(31,510,714)	(34,149,602)	466,889	(33,682,713)	(36,271,398)	435,315	(35,836,083)
12	1150.1	Accumulated Amortization - Acquisition Adjustment	(390,238)	(92,214)	(482,452)	(421,275)	(92,214)	(513,489)	(452,331)	(92,214)	(544,545)
13	1190	Accumulated Reserve - Allocated Common	(1,004,274)		(1,004,274)	(1,149,531)		(1,149,531)	(1,269,018)		(1,269,018)
14	2520	Customer Advances for Construction	(1,615,122)		(1,615,122)	(1,700,239)		(1,700,239)	(1,659,376)		(1,659,376)
15		TOTAL DEDUCTIONS	(34,987,237)	374,675	(34,612,562)	(37,420,647)	374,675	(37,045,972)	(39,652,123)	343,101	(39,309,022)
16											
17		PLANT - NET	70,099,985	(3,931,781)	66,168,204	75,262,484	(3,931,781)	71,330,703	80,144,728	(1,530,552)	78,614,176
18											
19											
20		ALLOWANCE FOR WORKING CAPITAL									
21		BALANCE SHEET METHOD	(3,069,725)	(3,579,507)	(6,649,232)	(2,046,013)	(4,281,375)	(6,327,388)	(196,500)	(4,670,456)	(4,866,956)
22											
23											
24		TOTAL RATE BASE	67,030,260	(7,511,288)	59,518,972	73,216,471	(8,213,156)	65,003,315	79,948,228	(6,201,008)	73,747,220
25											
26											
27		NET OPERATING INCOME	3,902,175	48,642	3,950,817	2,484,320	255,671	2,739,991	849,244	(513,323)	335,922
28											
29											
30		RATE OF RETURN	5.82%		6.64%	3.39%		4.22%	1.06%		0.46%

Docket No. 080366-GU
Exhibit KLW-2 (Page 28 of 30)
Audit Report FPUC-Gas Rate Case

SUPPORTING SCHEDULES: B-1, B-2, B-3, G-1 (4-8)

RECAP SCHEDULES: G-2 (C-1), G-3 (D-1)

SCHEDULE C-22	INTEREST IN TAX EXPENSE CALCULATION	PAGE 1 OF 1
FLORIDA PUBLIC SERVICE COMMISSION COMPANY: FLORIDA PUBLIC UTILITIES COMPANY CONSOLIDATED NATURAL GAS DIVISION DOCKET NO.: 080366-GU	EXPLANATION: PROVIDE THE AMOUNT OF INTEREST EXPENSE USED TO CALCULATE NET OPERATING INCOME TAXES ON SCHEDULE NO. C-21. EXPLAIN ANY ADJUSTMENTS TO INTEREST EXPENSE IN DETAIL GIVING AMOUNT OF CHANGE AND REASON FOR CHANGE. IF THE BASIS FOR ALLOCATING INTEREST USED IN TAX CALCULATION DIFFERS FROM THE BASIS USED IN ALLOCATING CURRENT INCOME TAXES PAYABLE, THE DIFFERING BASIS SHOULD BE CLEARLY IDENTIFIED.	TYPE OF DATA SHOWN: HISTORIC YEAR ENDED: 12/31/2007 WITNESS: CAMFIELD, COX

INTEREST IN TAX EXPENSE CALCULATION

LINE NUMBER	DESCRIPTION		2007 13-MO AVERAGE TOTAL COMPANY	ALLOCATED TO GAS	2007 13-MO AVERAGE CONSOLIDATED GAS	2007 COST RATE (%)	2007 INTEREST EXPENSE CONSOLIDATED GAS
1	Long Term Debt		50,535,952	45.8%	23,161,901	8.01%	1,854,224
2	Short-Term Debt		4,500,154	45.8%	2,062,534	4.15%	85,574
3	Preferred Stock		600,000	45.8%	274,995	4.75%	
4	Common Equity		47,816,182	45.8%	21,915,362	11.25%	
5	Customer Deposits	*	5,627,676	100%	5,627,676	6.09%	342,848
6	Deferred Taxes	*	6,286,004	100%	6,286,004	0.00%	
7	ITC at Zero Cost	*	-	100%	-	0.00%	
8	ITC at Overall Cost	*	190,499	100%	190,499	9.32%	17,749
	TOTAL CAPITALIZATION		115,556,468		59,518,973		2,300,395
	CONVENTIONAL CAPITALIZATION (1)-(4)		103,452,288				
	GAS RATE BASE		59,518,973				
	GAS-SPECIFIC CAPITAL ITEMS (5)-(8)		12,104,180				
	GAS RATE BASE LESS GAS-SPECIFIC ITEMS		47,414,793				
	CAPITALIZATION ALLOCATED TO GAS		45.8%				

* GAS SPECIFIC CAPITAL ITEMS

SUPPORTING SCHEDULES:

RECAP SCHEDULES: C-20

Docket No. 080366-GU
Exhibit KLW-2 (Page 29 of 30)
Audit Report FPUC-Gas Rate Case

SCHEDULE G-2 (C-1) ADJUSTED JURISDICTIONAL NET OPERATING INCOME PAGE 1 OF 4

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE THE CALCULATION OF JURISDICTIONAL NET OPERATING INCOME FOR THE PROJECTED TEST YEAR AND THE PROJECTED YEAR.

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED NATURAL GAS DIVISION
DOCKET NO.: 080366-GU

TYPE OF DATA SHOWN:
HISTORIC YEAR ENDED: 12/31/2007
PROJECTED YEAR ENDED: 12/31/2008
PROJECTED TEST YEAR ENDED: 12/31/2009
WITNESS: LUNDGREN

Line No.		(1) 2007 Total Company Per Books	(2) 2007 Commission Adjustments (C-2)	(3) 2007 Company Adjustments (C-2)	(4) 2007 Adjusted Amount (1)+(2)+(3)	(5) 2008 Total Company Per Books	(6) 2008 Commission Adjustments (C-2)	(7) 2008 Company Adjustments (C-2)	(8) 2008 Adjusted Amount (5)+(6)+(7)	(9) 2009 Total Company Per Books	(10) 2009 Commission Adjustments (C-2)	(11) 2009 Company Adjustments (C-2)	(12) 2009 Adjusted Amount (9)+(10)+(11)
1	**OPERATING REVENUES**												
2	BASE REVENUES	23,744,849	-	-	23,744,849	22,838,116	-	-	22,838,116	22,225,975	-	-	22,225,975
3	FUEL	30,017,462	(30,017,462)	-	-	47,211,588	(47,211,588)	-	-	71,338,462	(71,338,462)	-	-
4	CONSERVATION	2,393,460	(2,393,460)	-	-	2,519,483	(2,519,483)	-	-	2,577,059	(2,577,059)	-	-
5	UNBUNDLING	-	-	-	-	-	-	-	-	-	-	-	-
6	GROSS RECEIPTS TAX	2,106,338	-	-	2,106,338	2,010,549	-	-	2,010,549	1,936,054	-	-	1,936,054
7	FRANCHISE TAX	1,533,487	-	-	1,533,487	1,485,253	-	-	1,485,253	1,441,002	-	-	1,441,002
8	OTHER OPERATING REVENUES	5,054,830	(2,707,492)	-	2,347,138	2,868,919	(536,154)	-	2,332,765	2,897,600	(581,714)	-	2,315,886
9													
10	TOTAL OPERATING REVENUES	64,850,026	(35,118,414)	-	29,731,612	78,933,908	(50,267,226)	-	28,666,682	102,416,152	(74,497,235)	-	27,918,917
11													
12	**OPERATING EXPENSES**												
13	OPERATION	14,217,572	24,621	-	14,242,193	15,315,594	-	(271,227)	15,044,367	17,033,929	-	826,639	17,860,568
14	MAINTENANCE	1,082,821	-	-	1,082,821	1,143,174	-	(28,491)	1,114,683	1,192,395	-	150,841	1,343,236
15	COST OF GAS	32,319,861	(32,319,861)	-	-	46,964,487	(46,964,487)	-	-	70,965,083	(70,965,083)	-	-
16	CONSERVATION	2,292,190	(2,292,190)	-	-	2,506,886	(2,506,886)	-	-	2,564,174	(2,564,174)		(0)
17	STORAGE & UNBUNDLING	6,070	-	-	6,070	-	-	-	-	-	-	-	-
18	DEPRECIATION	2,998,939	(108,001)	-	2,890,938	3,219,198	(112,821)	-	3,106,377	3,438,481	(112,821)	62,830	3,388,490
19	AMORTIZATION	1,568,494	(514,774)	-	1,053,720	1,595,623	(541,903)	-	1,053,720	1,610,471	(556,751)	56,798	1,110,518
20	NO DECOMMISIONING	-	-	-	-	-	-	-	-	-	-		-
20	TAXES OTHER THAN INCOME	5,716,755	(144,333)	-	5,572,422	5,800,767	(251,336)	-	5,549,431	5,982,350	(372,486)	-	5,609,864
21	INCOME TAX - FEDERAL & STATE	1,279,509	187,482	-	1,466,991	1,628,432	41,471	112,784	1,782,687	587,119	27,876	(337,581)	277,413
22		-	-	-	-				-		-		-
22	DEFERRED I/T- FEDERAL & STATE	(494,988)	-	-	(494,988)	(1,687,732)	-	-	(1,687,732)	(1,772,431)	-	-	(1,772,431)
23		-	-	-	-				-		-		-
23	INVESTMENT TAX CREDIT	(39,372)	-	-	(39,372)	(36,841)	-	-	(36,841)	(34,663)	-	-	(34,663)
24	GAIN/LOSS ON DISPOSAL OF PLANT	-	-	-	-								
24									-		-		-
25	TOTAL OPERATING EXPENSES	60,947,851	(35,167,056)	-	25,780,795	76,449,588	(50,335,962)	(186,934)	25,926,691	101,566,908	(74,543,439)	559,527	27,582,995
26													
27	NET OPERATING INCOME	3,902,175	48,642	-	3,950,817	2,484,320	68,737	186,934	2,739,991	849,244	46,204	(559,527)	335,922
28													
29													
30	RATE BASE				59,518,973				65,003,315				73,747,220
31	RETURN ON RATE BASE				6.64%				4.22%				0.46%

SUPPORTING SCHEDULES: G-1 (B-2) G-2(C-2,C-3,C-5,C-17,C-18,C-19,C-22,C-20,C-30)

RECAP SCHEDULES: A-1

Docket No. 080366-GU
Exhibit KLW-2 (Page 30 of 30)
Audit Report FPUC-Gas Rate Case