

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: February 3, 2020

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, RD Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20190156-EI
Company Name: Florida Public Utilities Company
Company Code: EI803
Audit Purpose: A1d: Limited Scope
Audit Control No.: 2019-329-1-2

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 a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File.

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Florida Public Utilities Company
Storm Recovery Cost Audit – Hurricane Michael

As of December 31, 2019

Docket No. 20190156-EI
Audit Control No. 2019-329-1-2
January 24, 2020

Handwritten signature of Debra M. Dobiac in black ink.

Debra M. Dobiac
Audit Manager

Handwritten signature of George Simmons in blue ink.

George Simmons
Audit Staff

Handwritten signature of Marisa N. Glover in blue ink.

Marisa N. Glover
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated November 21, 2019. We have applied these procedures to the attached schedules prepared by Florida Public Utilities Company in support of its filing for storm recovery costs in Docket No.20190156-EI.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

FPUC or Utility refers to Florida Public Utilities Company.

Background

On August 7, 2019, the Utility filed a petition for a limited proceeding to record costs associated with Hurricane Michael as a regulatory asset, which would be amortized over 30 years and recovered through working capital and amortization expense. This methodology of cost recovery will not use a surcharge nor have any effect on the storm reserve. The regulatory asset would be comprised of the incremental storm restoration costs related to Hurricane Michael as per Rule 25-6.0143, Florida Administrative Code (F.A.C.) for costs incurred with proforma adjustments from October 1, 2018 through December 31, 2019. This audit's scope was limited to the regulatory asset of \$39,172,503 as shown in Exhibit MDN-4, page 1 of 1, filed with the petition.

Expense

Payroll, Overhead, and Related Costs

Objectives: The objectives were to determine whether payroll, overtime, and related costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

Procedures: We scheduled payroll, overhead, and related costs by storm, capital, and cost of removal cost types. We selected a judgmental sample of costs for detail testing and traced the amounts to the payroll register and allocation schedules. No exceptions were noted.

Fuel

Objectives: The objectives were to determine whether fuel costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

Procedures: We scheduled fuel costs by storm, capital, and cost of removal cost types. We selected a judgmental sample of costs for detail testing and traced the amounts to the payroll allocation schedules, employee expense reports, or supporting invoices. No exceptions were noted.

Contractors

Objectives: The objectives were to determine whether contractors costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

Procedures: We scheduled contractors' costs by storm, capital, and cost of removal cost types. We selected a judgmental sample of costs for detail testing and traced the amounts to the payroll

allocation schedules, employee expense reports, or supporting invoices with cost allocation by work order schedules. No exceptions were noted.

Materials

Objectives: The objectives were to determine whether materials were properly stated, recorded in the period incurred, and related to Hurricane Michael.

Procedures: We scheduled material by storm, capital, and cost of removal cost types. We selected a judgmental sample of costs for detail testing and traced the items to the payroll allocation schedules, employee expense reports, inventory system printouts, or supporting invoices. No exceptions were noted.

Logistics

Objectives: The objectives were to determine whether logistics costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

Procedures: We scheduled logistics costs by storm, capital, and cost of removal cost types. We selected a judgmental sample of costs for detail testing and traced the items to the payroll allocation schedules, employee expense reports, or supporting invoices. No exceptions were noted.

Other Costs

Objectives: The objectives were to determine whether other costs were properly stated, recorded in the period incurred, and related to Hurricane Michael.

Procedures: We scheduled other costs by storm, capital, and cost of removal cost types. We selected a judgmental sample of costs for detail testing and traced the items to the supporting invoices. No exceptions were noted.

Other

Non-Incremental Costs

Objectives: The objective was to determine whether the non-incremental costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143, Florida Administrative Code (F.A.C.).

Procedures: We scheduled payroll and overhead costs by storm, capital, and cost of removal cost types. We traced the amounts to the payroll schedule, supporting documentation, and removed the capitalized payroll costs. We reviewed the Utility provided schedule comparing base rate payroll per the last rate case with 2017 and 2018 payroll costs. No exceptions were noted.

Capitalizable Costs

Objectives: The objectives were to determine whether the capitalizable costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143(1) (d), F.A.C.

Procedures: We scheduled capitalizable costs by capital, and cost of removal cost types. We tested the capitalizable costs to determine if the Utility included for recovery only those costs that are allowed by the applicable Rule by tracing a judgmental sample of capitalized costs to the supporting documentation. No exceptions were noted.

Proforma Adjustments

Objectives: The objective is to review storm costs that were recorded subsequent to December 31, 2019.

Procedures: Included in the storm costs were proforma adjustments based on estimates for costs incurred but not completed as of June 30, 2019. We reviewed the supporting documentation for these costs, which included recorded final amounts from June 30, 2019 through December 31, 2019. We noted that the proforma storm cost estimates were \$487,450 as compared to the actual costs of \$406,730. Storm costs will be decreased by \$80,720 (\$487,450 - \$406,730) in a revised filing. We noted that the estimated capitalized costs were \$1,253,189 as compared to actual costs of \$1,203,235. Capitalized costs will be decreased by \$49,954 (\$1,253,189 - \$1,203,235). We also noted that the cost of removal cost estimates were \$83,920 and agreed with the actual costs. The Utility expects to file a revised filing regarding the proformas.

The estimated capitalized costs included an amount of \$1,000,000, which was supported by a vendor contract. The project has not been completed. The Utility also used a cost rate of 4 percent for calculating interest on the unamortized reserve deficiency balance. Audit staff did not recalculate interest nor determine the source of the rate. No further work performed.

Audit Findings

None

Exhibits

Exhibit 1: Storm Cost Recovery for Incremental Expenses

**Florida Public Utilities Company
Storm Cost Recovery for Incremental Expenses**

MDN-4 Page 1 of 1
Docket No.: 0

Line No.	Description	Reference	Total	Storm Reserve Balance
1	Pre-Storm Reserve Balance			N/A
2	Estimated Storm Related Restoration Costs			
3	Regular Payroll		\$ 566,555	
4	Overtime Payroll		\$ 481,430	
5	Payroll Overhead Allocations		\$ 345,472	
6	Department Cost Allocation on Capital		\$ 40,433	
7	Employee Expenses		\$ 67,980	
8	Contractor Costs		\$ 54,526,703	
9	Logistics		\$ 1,437,895	
10	Fuel		\$ 1,441,964	
11	Equipment Rental		\$ 232,334	
12	Materials		\$ 6,612,654	
13	Call Center Costs		\$ 26,516	
14	Uncollectible Account Expense		\$ 120,321	
15	Other		\$ 129,542	
16	Subtotal-Storm Related Restoration Costs	Lines 3:15	\$ 66,029,798	
17	Less: Estimated Non-Incremental Costs			
18	Regular Payroll		\$ (113,316)	
19	Overtime Payroll		\$ (11,827)	
20	Payroll Overhead Allocations		\$ (60,039)	
21	Subtotal-Estimated Non-Incremental Costs	Lines 17:20	\$ (185,182)	
22	Less: Capitalizable Costs		\$ (28,218,969)	
23	Total Recoverable Restoration Costs - System	lines (16+21+22)	\$ 37,625,647	
24	Jurisdictional Factor		100%	
25	Total Recoverable Restoration Costs-Retail	lines (23x24)	\$ 37,625,647	\$ 37,625,647
26	Net Recoverable Retail Restoration Costs	line 25 -line 1		\$ 37,625,647
27	Bond Issuance Costs			
28	Beginning Balance for Recovery	line 26-line 27		\$ 37,625,647
29	Plus: Interest on Unamortized Reserve Deficiency Balance thru 12/19			\$ 1,546,856
30	Plus: Amount to Replenish Reserve			
31	Retail Storm Recovery Amount before Regulatory Assessment Fee	lines 28:30		\$ 39,172,503

- (a) Docket 20180061-EI addressed recovery of the recovery of a \$1.5M reserve balance. No additional reserve is requested here.
- (b) Non-Incremental storm costs were never recorded in Storm Work Orders. Estimated costs from 10-10-18 to 12-2-18 for the NW division are included in restoration costs and removed in non-incremental costs. Additional non-incremental costs were incurred in other months but could not be estimated since we do not recorded non-incremental as storm.