

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: August 2, 2005
TO: Shevie Brown; Division of Competitive Markets and Enforcement
FROM: Denise Vandiver; Bureau Chief of Auditing *D*
RE: **Docket No. 050004-GU; Company Name:** Florida Public Utilities
Company; **Audit Purpose:** Natural Gas Conservation Cost Recovery for
2004; **Audit Control No.:** 05-034-4-2

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 the response to the Division of Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

Attachment

cc: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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

Mr. Norman H. Horton, Jr.
Messer Law Firm
P.O. Box 1876
Tallahassee, FL 32302-1876

DOCUMENT NUMBER-DATE

07537 AUG-4 05

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

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

Miami District Office

**FLORIDA PUBLIC UTILITIES
ENERGY CONSERVATION COST RECOVERY CLAUSE AUDIT
GAS DIVISION**

YEAR ENDED DECEMBER 31, 2004

DOCKET NO. 050002-EG

AUDIT CONTROL NO. 05-042-4-2

A handwritten signature in cursive script, reading "Ruth K. Young", written over a horizontal line.

*Ruth K. Young
Audit Manager*

A handwritten signature in cursive script, reading "Kathy Welch", written over a horizontal line.

*Kathy Welch, Public Utilities Supervisor
Miami District Office*

TABLE OF CONTENTS

I	AUDITOR'S REPORT	Page
	Purpose	1
	Disclaim Public Use	1
	Summary of Significant Procedures	2
II	DISCLOSURES	
	1. Prior Period Disallowances	3
	2. Program Accomplishments	4
III	EXHIBITS	5
	Company Filing	6
	Staff Exhibit – Recalculation of True Up (Exhibit 3)	9

**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING
AUDITOR'S REPORT**

JULY 27, 2005

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

We have applied the procedures described later in this report to the attached Energy Conservation schedules for the period ended December 31, 2004 for Florida Public Utilities Company gas division. These schedules were prepared as part of the petition for fuel recovery in Docket No. 050004-GU.

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

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Scanned- The documents or accounts were read quickly looking for obvious errors.

Compiled- The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

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

Examined- The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied and account balances were tested to the extent further described.

Confirmed- Evidential matter supporting an account balance, transaction or other information was obtained directly from an independent third party.

Verified- The item was tested for accuracy, and substantiating documentation was examined.

Conservation Recovery Schedules: Traced the filing to the general ledger. Revenues were reconciled to the Orcom billing system reports. Revenues were recalculated to verify that the correct rate was used.

Examined all expenses accounts, except for advertising accounts, for unusual entries and reviewed those invoices for compliance with the programs' guidelines and Commission policy. Recalculated payroll and determined how job descriptions relate to conservation.

True-up Calculation: Recalculated the true up provision for the twelve months ended December 31, 2004 to determine the accuracy of the current true up amount for the period under audit. The interest rates were traced to the Commission approved Commercial Paper rates for the period.

AUDIT DISCLOSURE NO. 1

SUBJECT: PRIOR PERIOD DISALLOWANCES

STATEMENT OF FACTS: In the 2003 audit the ending true up was an underrecovery of \$29,466. In that audit report (Docket No. 040004-GU, RCA 04-057-4-1) there were many exceptions and disclosures regarding advertising and promotions. In Commission Order Number PSC-04-1179-FOF, the final true up for 2003 was an over-recovery of \$73,072. This amount was calculated as follows:

Expenses Disallowed in 2003	\$102,538
Under-recovery in 2003	<u>29,466</u>
Adjusted True up –Over-recovery	\$ 73,072

The agreement with the company to disallow \$102,538 in expenses did not take place until June 2004. The company made adjustments to its expenses in October, November, and December 2004 in the amount of \$102,060; a difference of \$478.

OPINION: If the beginning balance is changed to reflect the order, then the conservation expenses that were credited for the 2003 audit in 2004, need to be added back in order to recalculate the ending true-up for 2004. This recalculation is included in the exhibit section of this report. The difference between the company's filing for 2004 and our recalculation is a decrease in the under-recovery from \$21,288 to \$19,746; a difference of \$1,542. Of this amount \$1064 is for interest and \$478 is for the difference in the order and the company's adjustment.

AUDIT DISCLOSURE NO. 2

SUBJECT: PROGRAM ACCOMPLISHMENTS

STATEMENT OF FACTS: Schedule CT-6 includes a description of the programs, program accomplishments, and expenditures for the year. For three of the programs, expenses were included; however, zero accomplishments were listed. These programs and expenses are the Residential Conservation Service Program (\$20,593), Commercial Conservation Service Program (\$31,208) and Conservation Education Program (\$119,263).

We asked the company to explain why there were expenses, but no listing of the number of customers participating. The company explained that two of the programs (Residential and Commercial Conservation Service Programs) provide energy surveys and advice "...for the purpose of conserving energy ... These services have traditionally been provided by our residential and commercial marketing staff in the course of their daily activities, and on request by the customer. These activities were not documented or tracked during this reporting period."

The Conservation Education Program "...provides education and conservation information to homeowners, builders, commercial customers, civic organization groups and building trade associations such as local HBA, realtor and architect associations. These services are routinely provided by our residential, commercial and management staff in the course of their daily activities." The education and information also included \$118,633 in advertising costs. "These activities were not documented or tracked during this reporting period."

A company representative explained that its system did not allow for tracking the number of customers nor the different educational programs. This could be compiled manually, but would be very time consuming and labor intensive. The company representative further explained that the company plans to implement a system that would track all these activities. However, the timing of the implementation is not set.

EXHIBITS

COMPANY FILING FOR GAS CONSERVATION

STAFF RECALCULATION OF TRUE-UP

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY

SCHEDULE CT-3
PAGE 1 OF 3

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION
SUMMARY OF EXPENSES BY PROGRAM BY MONTH

FOR MONTHS January-04 THROUGH December-04

A. CONSERVATION EXPENSE BY PROGRAM		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1.	Full House Res. New Construction	34,498	30,030	98,256	73,195	40,908	63,324	94,441	126,976	33,495	22,820	17,794	227,734	863,471
2.	Residential Appliance Replacement	6,866	3,200	5,927	7,952	4,994	4,334	4,728	7,660	23,716	4,251	13,695	23,237	110,560
3.	Conservation Education	8,335	12,842	10,110	7,162	9,841	9,252	12,989	6,581	(60,723)	54,435	23,970	24,469	119,263
4.	Space Conditioning	948	10,135	4,226	465	423	331	470	465	466	5,012	480	28	23,447
5.	Residential Conservation Service	722	944	928	2,200	5,130	1,416	920	858	1,114	3,975	1,348	1,038	20,593
6.	Residential Appliance Retention	34,365	37,885	49,809	33,845	26,436	28,491	30,354	24,238	53,682	23,227	43,285	34,145	419,762
10.	Commercial Conservation Service	2,059	1,827	2,349	2,000	1,843	4,290	4,057	1,216	2,983	3,206	3,358	2,010	31,208
12.	Commercial Equipment Repair					288	(288)							
13.	Residential Service Reactivation	1,135											1,035	2,170
14.	Common	59,413	57,384	33,400	62,348	21,184	21,968	36,606	36,770	84,831	5,549	40,920	76,520	536,893
15.														
16.														
17.														
18.														
19.														
20.														
21.	TOTAL ALL PROGRAMS	148,341	154,247	205,005	189,167	111,047	133,118	184,565	204,764	139,574	122,475	144,850	390,214	2,127,367
22.	LESS AMOUNT INCLUDED IN RATE BASE													
23.	RECOVERABLE CONSERVATION EXPENSES	148,341	154,247	205,005	189,167	111,047	133,118	184,565	204,764	139,574	122,475	144,850	390,214	2,127,367

EXHIBIT NO. _____
DOCKET NO. 050004-GU
FLORIDA PUBLIC UTILITIES COMPANY
(MSS-1)
PAGE 5 OF 18

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY

CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-04 THROUGH December-04

B. CONSERVATION REVENUES	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. RESIDENTIAL CONSERVATION													
2. CONSERVATION ADJ. REVENUES	272,369	241,096	237,457	210,065	163,939	138,433	123,859	123,333	114,504	128,763	155,146	224,263	2,133,227
3. TOTAL REVENUES	272,369	241,096	237,457	210,065	163,939	138,433	123,859	123,333	114,504	128,763	155,146	224,263	2,133,227
4. PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	(2,450)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(2,456)	(29,466)
5. CONSERVATION REVENUE APPLICABLE	269,919	238,640	235,001	207,609	161,483	135,977	121,403	120,877	112,048	126,307	152,690	221,807	2,103,761
6. CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	148,341	154,247	205,005	189,167	111,047	133,118	184,585	204,764	139,574	122,475	144,850	390,214	2,127,367
7. TRUE-UP THIS PERIOD (LINE 5 - 6)	121,578	84,393	29,996	18,442	50,436	2,859	(83,162)	(83,887)	(27,526)	3,832	7,840	(168,407)	(23,606)
8. INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	28	116	162	188	226	287	308	247	196	202	241	117	2,318
9. TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	(29,466)	94,580	181,555	214,169	235,255	288,373	293,975	233,577	152,393	127,519	134,009	144,546	(29,466)
9A. DEFERRED TRUE-UP BEGINNING OF PERIOD													
10. PRIOR TRUE-UP COLLECTED (REFUNDED)	2,450	2,456	2,456	2,456	2,456	2,456	2,456	2,456	2,456	2,456	2,456	2,456	29,466
11. TOTAL NET TRUE-UP (LINES 7+8+9+9A+10)	94,590	181,555	214,169	235,255	288,373	293,975	233,577	152,393	127,519	134,009	144,546	(21,288)	(21,288)

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY

CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-04 THROUGH December-04

C.	INTEREST PROVISION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1.	BEGINNING TRUE-UP (LINE B-9)	(29,466)	94,590	181,555	214,169	235,255	288,373	293,975	233,577	152,393	127,519	134,009	144,546	(29,466)
2.	ENDING TRUE-UP BEFORE INTEREST (LINES B7+B9+B9A+B10)	94,562	181,439	214,007	235,067	288,147	293,688	233,269	152,146	127,323	133,807	144,305	(21,405)	(23,606)
3.	TOTAL BEG. AND ENDING TRUE-UP	65,096	276,029	395,562	449,236	523,402	582,061	527,244	385,723	279,716	261,326	278,314	123,141	(53,072)
4.	AVERAGE TRUE-UP (LINE C-3 X 50%)	32,548	138,015	197,781	224,618	261,701	291,031	263,622	192,862	139,858	130,663	139,157	61,571	(26,536)
5.	INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	1.06%	1.03%	0.98%	0.98%	1.03%	1.04%	1.33%	1.47%	1.60%	1.77%	1.94%	2.22%	
6.	INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	1.03%	0.98%	0.98%	1.03%	1.04%	1.33%	1.47%	1.60%	1.77%	1.94%	2.22%	2.34%	
7.	TOTAL (LINE C-5 + C-6)	2.09%	2.01%	1.96%	2.01%	2.07%	2.37%	2.80%	3.07%	3.37%	3.71%	4.16%	4.56%	
8.	AVG. INTEREST RATE (C-7 X 50%)	1.05%	1.01%	0.98%	1.01%	1.04%	1.19%	1.40%	1.54%	1.69%	1.86%	2.08%	2.28%	
9.	MONTHLY AVERAGE INTEREST RATE	0.087%	0.084%	0.082%	0.084%	0.086%	0.099%	0.117%	0.128%	0.140%	0.155%	0.173%	0.190%	
10.	INTEREST PROVISION (LINE C-4 X C-9)	28	116	162	188	226	287	308	247	196	202	241	117	2,318

Company: Florida Public Utilities Company
 Title: Conservation Recovery Recalculated by Staff
 Period: TYE 12/31/04

REVISED TO INCLUDE BEGINNING TRUE-UP PER PSC ORDER AND EXCLUDE ADJUSTMENTS BOOKED IN 2004 FOR 2003

Interest Rates per Wall Street Journal Commercial Paper

Interest- first day reporting	JANUARY	1.060%	JULY	1.330%
	FEBRUARY	1.030%	AUGUST	1.470%
	MARCH	0.980%	SEPTEMBER	1.600%
	APRIL	0.980%	OCTOBER	1.770%
	MAY	1.030%	NOVEMBER	1.940%
	JUNE	1.040%	DECEMBER	2.220%

Interest- first day reporting of subsequent month	JANUARY †	2.340%
--	-----------	--------

INTEREST RATES	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
Beginning	1.060%	1.030%	0.980%	0.980%	1.030%	1.040%	1.330%	1.470%	1.600%	1.770%	1.940%	2.220%
Ending	1.030%	0.980%	0.980%	1.030%	1.040%	1.330%	1.470%	1.600%	1.770%	1.940%	2.220%	2.340%
Total	2.090%	2.010%	1.960%	2.010%	2.070%	2.370%	2.800%	3.070%	3.370%	3.710%	4.160%	4.560%
Average	1.045%	1.005%	0.980%	1.005%	1.035%	1.185%	1.400%	1.535%	1.685%	1.855%	2.080%	2.280%
Monthly Average	0.087%	0.084%	0.082%	0.084%	0.086%	0.089%	0.117%	0.128%	0.140%	0.155%	0.173%	0.190%

6 CALCULATION OF TRUE-UP	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
Total Conservation Revenues G/L	272,369	241,096	237,458	210,065	163,938	138,433	123,859	123,334	114,504	128,764	155,146	224,286	2,133,230
(1/12) of Prior True-Up (NOTE A)	6,089	6,089	6,089	6,089	6,089	6,089	6,089	6,089	6,089	6,089	6,089	6,089	73,072
Total conservation revenue current period	278,458	247,185	243,547	216,154	170,027	144,522	129,948	129,423	120,594	134,853	161,235	230,355	2,206,302
Conservation Cost G/L	148,341	154,246	205,005	189,167	111,046	133,119	184,566	204,764	139,575	200,931	164,953	393,718	2,229,430
True-up this period	130,117	92,939	38,542	26,987	58,981	11,403	-54,618	-75,340	-18,981	-66,077	-3,717	-163,363	-23,128
Interest provision	118	202	245	274	314	389	428	379	341	301	267	123	3,382
Adj. to interest prov.	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred true-up beginning	0	0	0	0	0	0	0	0	0	0	0	0	0
True-up & interest beginning (NOTE A)	73,072	197,217	284,269	316,967	338,138	391,345	397,048	336,768	255,717	230,988	159,123	149,583	73,072
Regulatory asses. fee adj	0	0	0	0	0	0	0	0	0	0	0	0	0
Prior true-up collected ref.	-6,089	-6,089	-6,089	-6,089	-6,089	-6,089	-6,089	-6,089	-6,089	-6,089	-6,089	-6,089	-73,072
Total net true-up	197,217	284,269	316,967	338,138	391,345	397,048	336,768	255,717	230,988	159,123	149,583	-19,746	-19,746
True-up for the month per filing	94,590	181,555	214,169	235,255	288,373	293,975	233,577	152,393	127,519	134,009	144,546	-21,288	-21,288
	102,627	102,714	102,798	102,883	102,972	103,073	103,191	103,324	103,469	25,114	5,037	1,542	1,542

Company: Florida Public Utilities Company
 Title: Conservation Recovery Recalculated by Staff
 Period: TYE 12/31/04

REVISED TO INCLUDE BEGINNING TRUE-UP PER PSC ORDER AND EXCLUDE ADJUSTMENTS BOOKED IN 2004 FOR 2003

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
CALCULATION OF INTEREST													
Beginning true up and interest	73,072	197,217	284,269	316,967	338,138	391,345	397,048	336,768	255,717	230,988	159,123	149,583	
Ending true-up before int	197,100	284,067	316,721	337,864	391,030	396,659	336,340	255,339	230,647	158,821	149,316	-19,869	
Total	270,172	481,285	600,990	654,831	729,169	788,003	733,388	592,107	486,364	389,809	308,439	129,714	
Average true up	135,086	240,642	300,495	327,415	364,584	394,002	366,694	296,053	243,182	194,905	154,219	64,857	
Interest rate per above	0.087%	0.084%	0.082%	0.084%	0.086%	0.099%	0.117%	0.128%	0.140%	0.155%	0.173%	0.190%	
Interest per staff	118	202	245	274	314	389	428	379	341	301	267	123	3,382
Interest per filing	28	116	162	188	226	287	308	247	196	202	\$241	\$117	2,318
	90	86	83	86	88	102	120	132	145	99	26	6	1,064

NOTE A The ending balance for 2003 was an underrecovery of \$29,466. In that audit report, Docket No. 040004-GU, RCA 04-057-4-1 there were many exceptions and disclosures regarding advertising and promotions. The Commission analyst in Tallahassee revised the 2003 filings to reflect the disallowance of the advertising expenses. He sent this revision to the company showing an overrecovery of \$73,072. This is the amount shown in PSC order 04-11-79-FOF -GU.

102,538.00	Expenses Disallowed
29,466.00	Underrecovery
<u>73,072.00</u>	Revised 2003 ending True-up per Order 04-11-79-FOF-GU.

As an agreement with the company and Tallahassee analyst did not take place until June 04, the company made an adjustment to its books at that time to reflect the amounts disallowed by the Tallahassee staff. In order to include the beginning true-up that is in the order, the company adjustments need to be removed from the 2004 conservation expenses.