

State of Florida



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Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

COMMISSION
CLERK

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

DATE: January 23, 2008
TO: George J. Slemkewicz, Public Utilities Supervisor, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance *DNV*
RE: **Company Name:** Florida Public Utilities Company;
Audit Purpose: 2006 Earning Surveillance Audit;
Audit Control No: 07-240-4-1 **Undocketed**

Attached is the utility's response to the staff audit stated above. There are confidential work papers associated with this audit.

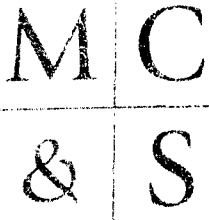
DNV:bj
Attachments

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

DOCUMENT NUMBER-DATE

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MESSER CAPARELLO & SELF, P.A.

Attorneys At Law

www.lawfla.com

January 22, 2008

BY HAND DELIVERY

Ms. Denise N. Vandiver
Chief of Auditing
Division of Regulatory Compliance and Consumer Assistance
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Florida Public Utilities Company
2006 Earning Surveillance Audit
Audit Control No. 07-240-4-1

Dear Denise:

Enclosed is Florida Public Utilities Company response to the audit findings in the above referenced audit conducted by Staff.

Please do not hesitate to contact me if you have any questions.

Sincerely,

Norman H. Horton, Jr.

NHH/amb

Enclosures

cc: Martha Brown, Esq.

DOCUMENT NUMBER-DATE

2006 Earning Surveillance Audit Responses
Audit Control No. 07-240-4-1

Audit Finding No. 1

Subject: Non-Utility Plant

Company Response: The company agrees with the opinion of the auditor to adjust the amounts for "Non-Utility Plant" and "Non-Utility Reserve" on the year-end rate base schedule and the 13-month average rate base schedule thereby further reducing the "Plant" and "Accumulated Depreciation" on these same schedules.

Audit Finding No. 2

Subject: Working Capital

Company Response: The company agrees with the opinion of the auditor that the working capital on the year-end rate base schedule was erroneously increased by the unamortized rate case expense adjustment instead of decreased. Therefore the resulting year-end working capital should be decreased by twice the unamortized rate case expense adjustment in order to correct the working capital calculation.

Audit Finding No. 3

Subject Allocation of Clearing

Company Response: The company disagrees with the opinion of the auditor regarding the allocations for payroll related expenses. It is our belief that the auditor did not have all the information necessary to properly analyze the allocation of the expense. The payroll journal entry is complex, and some of the allocations are done within the journal entry itself. The payroll program is designed and written to do the allocation within the program, and the program uses actual payroll by account number to allocate certain benefits including those covered by this audit finding. Expenses related to payroll benefits including pension and medical, should and do directly follow how the payroll dollars are actually charged. We take the actual benefit expense amount and divide it by total payroll to get the overhead rate factor. We use that factor to apply these costs directly to capital and non-regulated operations. The remaining expense is appropriately expensed to regulated operations. This method applies these expenditures to the appropriate utility and account number based on actual payroll and matches the benefit related expense to payroll on a real-time basis. This approach is the best method and the most appropriate as a basis for allocating payroll related benefits. Since these costs follow actual payroll it is a better method to allocate costs than a simple allocation done at a higher level.

Audit Finding No. 4

Subject: Payroll Overhead

Company Response: The company agrees with the opinion of the auditor that taxes and other benefit expenses should be decreased in the surveillance report by the amount re-allocated to conservation.

DOCUMENT NUMBER-DATE

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