

State of Florida



Public Service Commission

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COMMISSION
CLERK

DATE: July 1, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*
RE: Docket No.: 110004-GU
Company Name: Florida Public Utilities Company
Company Code: GU603
Audit Purpose: Gas Conservation Cost Recovery
Audit Control No: 11-005-4-7

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 were no confidential work papers associated with this audit.

CJP/kby

Attachments: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

04547 JUL -1 =

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

Florida Public Utilities Company
Gas Conservation Cost Recovery Clause

Twelve Months Ended December 31, 2010

Docket No. 110004-GU
Audit Control No. 11-005-4-7

June 29, 2011

A handwritten signature in cursive script, appearing to read "Kathy L. Welch", written over a horizontal line.

Kathy L. Welch
Audit Manager

A handwritten signature in cursive script, appearing to read "Iliana H. Piedra", written over a horizontal line.

Iliana H. Piedra
Reviewer

DOCUMENT NUMBER-DATE

04547 JUL-1 =

FPSC-COMMISSION CLERK

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated January 6, 2011. We have applied these procedures to the attached summary exhibit prepared by Florida Public Utilities Company (FPUC) and to several of its related schedules in support of its filing for the Energy (Gas) Conservation Cost Recovery Clause in Docket 110004-GU (ECCR).

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

Objectives and Procedures

General

Objectives: Our objectives were to verify that FPUC's filing agreed to the general ledger and that FPUC maintains its accounts and records in conformity with the Code of Federal Regulations (C.F.R.).

Procedures: We reconciled the filing to the general ledger and verified that the costs incurred were proper and expensed to the appropriate account.

Revenue

Objectives: Our objective was to verify that FPUC's ECCR revenues are proper and accurately reflected in the filing.

Procedures: We reconciled the monthly revenues in the filing to FPUC's monthly billing system reports. A sample of customer bills was re-calculated and the conservation factor charged to customers was traced to the rate in Order PSC-09-0733-FOF-GU.¹

Expense

Objectives: Our objective was to verify that FPUC's ECCR costs are proper, accurately reflected in the filing, and in compliance with Rule 25-17.015(5), F.A.C.

Procedures: We selected a sample of charges to the ECCR accounts. We traced the sample to supporting documentation. Customer incentives were traced to the conservation program standards and customer invoices. Advertisements were reviewed and determined to meet criteria stated in Rule 25-17.015(5), F.A.C. Cash Vouchers were traced to invoices and contracts. Payroll entries were traced to costs by employee by hour. We reviewed job descriptions to verify that the employees were performing conservation related tasks. We re-calculated the overhead rates and compared them to prior years. We reviewed builder agreements and compared the incentives offered to the Commission approved incentives.

True-up

Objectives: The objective was to verify that the true-up and interest provision amount at December 31, 2010 was properly calculated.

Procedures: We recalculated the true-up and interest provision amount as of December 31, 2010 using the Commission approved beginning balance as of December 31, 2009, the 2010 Commercial paper rates, and the 2010 Energy Conservation Cost Recovery Revenues and Costs.

¹ See Order No. PSC-09-0733-FOF-GU, issued November 4, 2009, Docket No.090004-GU, In Re: Natural gas conservation cost recovery.

Audit Findings

Finding 1: Incentives

Audit Analysis: In October 2010, FPUC began using Parago Promotional Services (Parago) to process its incentive rebates. The invoices from Parago were allocated to electric and gas divisions. The incentives paid, however, can and should be recorded based on whether the actual incentive amount paid is related to an electric program or a gas program. The rebate amounts were agreed to program allowed rebates. In addition, an error in the November 8 to the 14th Parago bill created a credit of \$10,000. The December 6 to the 12th invoice of \$7,573.80 was never paid because of this credit. Therefore, an additional credit of \$2,426.20 remains. The actual differences between the invoices and the ledger amounts are shown below. The total difference is slightly different than the credit amount because of errors in recording other bills. The majority of the difference is because the FPUC allocation charged more incentives to electric than what was actually paid.

Invoice Date	Natural Gas	Electric	Total Invoice
10/25/10 - 10/31/10	\$ 6,346.48	\$ 2,201.98	\$ 8,548.46
11/01/10 - 11/07/10	\$ 23,109.95	\$ 6,308.85	\$ 29,418.80
11/08/10 - 11/14/10	\$ 13,675.67	\$ 298.68	\$ 13,974.35
Error in 11/8 bill	\$ (10,000.00)		\$ (10,000.00)
12/06/10 - 12/12/10	\$ 7,573.80	\$ -	\$ 7,573.80
11/15/10 - 11/21/10	\$ 2,054.40	\$ 100.09	\$ 2,154.49
11/22/10 - 11/28/10	\$ 11,400.43	\$ 900.81	\$ 12,301.24
11/29/10 - 12/05/10	\$ 9,901.59	\$ -	\$ 9,901.59
12/13/10 - 12/19/10	\$ 9,419.84	\$ 100.09	\$ 9,519.93
Invoice detail per audit	\$ 73,482.16	\$ 9,910.50	\$ 83,392.66
Per Ledger including accrual	\$ 53,874.19	\$ 31,931.20	\$ 85,805.39
Error in Filing	\$ 19,607.97	\$ (22,020.70)	\$ (2,412.73)

Effect on the General Ledger: The following entry should be made:

Account Number	Account Title	Debit	Credit
FN41-00000-2600-2530	Deferred Over-Recovery Gas	\$ 19,608	
Accounts Payable		\$ 2,413	
FE45-00000-1600-1860	Deferred Under-Recovery Electric		\$ 22,021

Effect on the Filing: Gas conservation expenses should be increased by \$19,607.97.

Finding 2: Propane Advertisement

Audit Analysis: An invoice for \$7,984.13 for postage for a direct mail advertising campaign for propane gas which is a non-regulated service was charged to the natural gas conservation account (Account number FN41-CM710-5070-909V \$5,109.84 and FN43-CM710-5070-909V \$2,874.29) in November 2010. This invoice does not relate to the natural gas conservation program and should be removed. The interest effect is a reduction of an additional two dollars.

Effect on the General Ledger: The following entry should be made to the ledger:

Account Number	Account Title	Debit	Credit
	Propane Advertising Expense	\$ 7,984.13	
	Interest Expense	\$ 2.00	
FN41-00000-2600-2530	Deferred Over-Recovery Gas		\$ 7,986.13

Effect on the Filing: Gas conservation expenses should be reduced by \$7,984.13 plus interest of \$2 for a total of \$7,986.13.

Finding 3: Gas Incentive Charged to Electric

Audit Analysis: A \$350 gas rebate paid in June was charged to electric because of a clerical error. This rebate should be removed from electric conservation costs and added to gas conservation costs. There is an immaterial effect on interest.

Effect on the General Ledger: The following entry should be made:

Account Number	Account Title	Debit	Credit
FN41-00000-2600-2530	Deferred Over-Recovery Gas	\$350.00	
FE45-00000-1600-1860	Deferred Under-Recovery Electric		\$350.00

Effect on the Filing: Gas conservation expense should be increased by \$350.

Finding 4: Charge Not Related to Conservation

Audit Analysis: FPUC charged \$727.43 to gas conservation in July 2010 for dog tennis balls. According to a company representative, the tennis balls did not contain any advertising that related to conservation. Therefore, these costs should be removed. The interest effect is immaterial.

Effect on the General Ledger: The following entry should be made:

Account Number	Account Title	Debit	Credit
	Sales expense	\$727.43	
FN41-00000-2600-2530	Deferred Over-Recovery Gas		\$727.43

Effect on the Filing: Gas conservation expenses should be reduced by \$727.43.

Finding 5: Gas Safety Ad

Audit Analysis: A "Call Before You Dig" ad for \$3,634.80 in the Calhoun Liberty Journal recorded in the October 2010 ledger was charged to conservation. This ad did not meet conservation requirements.² The total of \$3,634.80 should be removed. The interest effect is immaterial.

Effect on the General Ledger: The following entry should be made:

Account Number	Account Title	Debit	Credit
	Safety expense	\$3,634.80	
FN43-00000-2600-2530	Deferred Over-Recovery Gas		\$1,859.24
FN41-00000-2600-2530	Deferred Over-Recovery Gas		\$1,775.56

Effect on the Filing: Gas conservation expenses should be reduced by \$3,634.80.

² Rule 25-17.015(5), F.A.C.

Finding 6: Retention Incentive

Audit Analysis: FPUC's most recent appliance incentives were approved in Commission Order PSC-10-0551-PAA-EG.³ In that docket, a "Gas Service Reactivation" incentive was requested and denied. FPUC gave some customers this incentive anyway and usually charged it to a non-conservation account. However, \$2,100 of these incentives did get charged to conservation. These incentives should be removed from conservation. The interest effect is immaterial.

Effect on the General Ledger: The following entry should be made:

Account Number	Account Title	Debit	Credit
	Sales expense	\$2,100.00	
FN41-00000-2600-2530	Deferred Over-Recovery Gas		\$2,100.00

Effect on the Filing: Gas conservation expenses should be reduced by \$2,100.

³ See Order No. PSC-10-0551-PAA-EF, issued September 2, 2010, Docket No. 100186-EG, In Re: Petition for approval of natural gas residential energy conservation programs by Associated Gas Distributors.

Finding 7: Materials and Supplies

Audit Analysis: FPUC charged \$606 to conservation for a materials and supply entry of PVC parts. This entry was made in error and should be removed. The interest effect is immaterial.

Effect on the General Ledger: The following entry should be made:

Account Number	Account Title	Debit	Credit
	Miscellaneous Expense	\$606.00	
FN41-00000-2600-2530	Deferred Over-Recovery Gas		\$606.00

Effect on the Filing: Gas conservation expenses should be reduced by \$606.

Finding 8: Builder Incentive

Audit Analysis: FPUC paid \$63,985 to Equus Properties LLC in March of 2010 for gas builder incentives for 96 lots that had water heaters, ranges and dryers installed. The allowed incentive for these homes was \$550 at that time. The total that should have been charged to conservation was \$52,800 (96 lots x \$550). FPUC charged the entire \$63,985 to conservation. The difference related to piping and venting allowances which get deferred and non-recoverable incentives for pool heaters, fireplaces and barbeque grills. Therefore, \$11,185 should be removed from gas conservation expenses for the invoice error. The interest on the adjustment is \$24 for a total adjustment of \$11,209.

Effect on the General Ledger: The following entry should be made to the ledger:

<i>Account Number</i>	<i>Account Title</i>	<i>Debit</i>	<i>Credit</i>
	Deferred Piping and Merchandising and Jobbing	\$ 11,185.00	
	Interest Expense	\$ 24.00	
FN41-00000-2600-2530	Deferred Over-Recovery Gas		\$ 11,209.00

Effect on the Filing: Gas conservation expense should be reduced by \$11,510.

Exhibits

Exhibit 1: Energy Conservation True-Up CT-3

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY
 CALCULATION OF TRUE-UP AND INTEREST PROVISION
 FOR MONTHS January-10 THROUGH December-10

SCHEDULE CT-3
 PAGE 2 OF 3

B. CONSERVATION REVENUES	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. RESIDENTIAL CONSERVATION													0
2. CONSERVATION ADJ. REVENUES	(222,455)	(199,880)	(212,627)	(174,250)	(137,726)	(109,344)	(101,034)	(105,857)	(98,991)	(110,892)	(132,668)	(203,925)	(1,809,649)
3. TOTAL REVENUES	(222,455)	(199,880)	(212,627)	(174,250)	(137,726)	(109,344)	(101,034)	(105,857)	(98,991)	(110,892)	(132,668)	(203,925)	(1,809,649)
4. PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	(37,353)	(37,358)	(37,358)	(37,358)	(37,358)	(37,358)	(37,358)	(37,358)	(37,358)	(37,358)	(37,358)	(37,358)	(448,291)
5. CONSERVATION REVENUE APPLICABLE	(259,808)	(237,238)	(249,985)	(211,608)	(175,084)	(146,702)	(138,392)	(143,215)	(136,349)	(148,250)	(170,026)	(241,283)	(2,257,940)
6. CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	112,401	96,039	221,009	144,394	148,303	142,531	150,150	117,012	243,000	135,886	251,678	322,321	2,084,724
7. TRUE-UP THIS PERIOD (LINE 5 - 6)	(147,407)	(141,199)	(28,976)	(67,214)	(26,781)	(4,171)	11,758	(26,203)	106,651	(12,364)	81,652	81,038	(173,216)
8. INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	(84)	(108)	(117)	(125)	(162)	(190)	(165)	(140)	(112)	(88)	(74)	(49)	(1,414)
9. TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	(448,291)	(558,429)	(662,378)	(654,113)	(684,094)	(673,679)	(640,682)	(591,731)	(580,716)	(436,819)	(411,913)	(292,977)	(448,291)
9A. DEFERRED TRUE-UP BEGINNING OF PERIOD													
10. PRIOR TRUE-UP COLLECTED (REFUNDED)	37,353	37,358	37,358	37,358	37,358	37,358	37,358	37,358	37,358	37,358	37,358	37,358	448,291
11. TOTAL NET TRUE-UP (LINES 7+8+9+9A+10)	(558,429)	(662,378)	(654,113)	(684,094)	(673,679)	(640,682)	(591,731)	(580,716)	(436,819)	(411,913)	(292,977)	(174,630)	(174,630)

EXHIBIT NO. _____
 DOCKET NO. 110004-GU
 FLORIDA PUBLIC UTILITIES COMPANY
 (JVH-1)
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COMPANY: FLORIDA PUBLIC UTILITIES COMPANY
 CALCULATION OF TRUE-UP AND INTEREST PROVISION
 FOR MONTHS January-10 THROUGH December-10

SCHEDULE CT-3
 PAGE 3 OF 3

C. INTEREST PROVISION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. BEGINNING TRUE-UP (LINE B-9)	(448,291)	(558,429)	(662,378)	(654,113)	(684,094)	(673,679)	(640,682)	(591,731)	(580,716)	(436,819)	(411,913)	(292,977)	(448,291)
2. ENDING TRUE-UP BEFORE INTEREST (LINES B7+B9+B9A+B10)	(558,345)	(662,270)	(653,996)	(683,969)	(673,517)	(640,492)	(591,566)	(580,576)	(436,707)	(411,825)	(292,903)	(174,581)	(173,216)
3. TOTAL BEG. AND ENDING TRUE-UP	(1,006,636)	(1,220,699)	(1,316,374)	(1,338,082)	(1,357,611)	(1,314,171)	(1,232,248)	(1,172,307)	(1,017,423)	(848,644)	(704,816)	(467,558)	(621,507)
4. AVERAGE TRUE-UP (LINE C-3 X 50%)	(503,318)	(610,350)	(658,187)	(669,041)	(678,806)	(657,086)	(616,124)	(586,154)	(508,712)	(424,322)	(352,408)	(233,779)	(310,754)
5. INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	0.20%	0.20%	0.21%	0.21%	0.23%	0.34%	0.35%	0.28%	0.28%	0.25%	0.25%	0.25%	
6. INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	0.20%	0.21%	0.21%	0.23%	0.34%	0.35%	0.28%	0.28%	0.25%	0.25%	0.25%	0.25%	
7. TOTAL (LINE C-5 + C-6)	0.40%	0.41%	0.42%	0.44%	0.57%	0.69%	0.63%	0.56%	0.53%	0.50%	0.50%	0.50%	
8. AVG. INTEREST RATE (C-7 X 50%)	0.20%	0.21%	0.21%	0.22%	0.29%	0.35%	0.32%	0.28%	0.27%	0.25%	0.25%	0.25%	
9. MONTHLY AVERAGE INTEREST RATE	0.017%	0.017%	0.018%	0.018%	0.024%	0.029%	0.026%	0.023%	0.022%	0.021%	0.021%	0.021%	
10. INTEREST PROVISION (LINE C-4 X C-9)	(84)	(108)	(117)	(125)	(162)	(190)	(165)	(140)	(112)	(88)	(74)	(49)	(1,414)

EXHIBIT NO. _____
 DOCKET NO. 110004-GU
 FLORIDA PUBLIC UTILITIES COMPANY
 (JVH-1)
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