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ORIGINAL FILE COPY

February 17, 1995

Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0850

**HAND DELIVERY**

Re: Docket No. 940620-GU
Application for a rate increase by FLORIDA PUBLIC UTILITIES COMPANY.

Dear Ms. Bayo:

Enclosed for filing in the above docket are an original and 15 copies of Florida Public Utilities Company's Response to Audit Report.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention. Thank you for your assistance.

Sincerely,

Wayne L. Schiefelbein

Wayne L. Schiefelbein

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Enclosures

cc:w/encl.: Vicki D. Johnson, Esq.
Denise Vandiver

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FPSC-RECORDS/REPORTING

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FLORIDA PUBLIC UTILITIES COMPANY
GAS OPERATIONS
DOCKET NO. 940620-GU - APPLICATION FOR
A RATE INCREASE BY FLORIDA PUBLIC UTILITIES COMPANY
RESPONSE TO AUDIT REPORT

Audit Exception No. 1
Subject: Advertising Expenses

Company Response: The Company is in Agreement with the audit recommendation.

Audit Exception No. 2

Subject: Selling Expenses Not Amortized

Company Response: The Company is in Agreement with the audit recommendation.

Audit Disclosure No. 1

Subject: Inactive Service Lines

Company Response: The Company Service Line Location Program to update Engineering's service records and to survey, discover and retire inactive service lines does not require physical retirement of known inactive service lines at time of discovery. The physical retirement of inactive services and corresponding book retirement will take place within five years and six months of the date of the survey unless a more advance retirement date is required by the Company's procedure dated December 15, 1994 and entitled INACTIVE SERVICES/METERS. This is the case with the 1,321 inactive service lines on record as of July 31, 1994. The 202 inactive services located during the period July 1, 1989 through September 20, 1990 are scheduled to be physically retired no later than the period January 1, 1995 through March 20, 1996 or approximately 160 retirements during calendar year 1995. These services are on the books at approximately $18.43 each or $2,949 total plant value. The additional book entry to retire these services on the books would be a credit to Utility Plant in Service and a debit to the Accumulated Reserve for Depreciation in the amount of $2,949.

Currently, the MFR's 1995 projection year service retirements reflect $52,200 or approximately 614 normal service retirements due to demolition, replacement, customer going electric, etc. The $52,200 was based on a three-year average of historic service retirements (see MFR Schedule G-1 (b-7a) p. 3 of 3, lines 60 and 61).

Audit Disclosure No. 2

Subject: Allowance for Funds Used During Construction (AFUDC)

Company Response: As shown below, the change in the annual AFUDC rate has not been material.

| | 12/31/77 | 12/31/93 |
|---|---|---|
| Equity Portion | .0524 | .0358 |
| Debt Portion | .0343 | .0455 |
| TOTAL | .0867 | .0813 |

Also, the application of the AFUDC is very limited due to few construction projects meeting dollar and time criteria for application. The total AFUDC charges for 1993 and 1994 were $1,525 and 8,019, respectively.

Audit Disclosure No. 3
Subject: Environmental Costs

Company Response: In our last gas rate case, Docket No. 900151-GU, the Company requested recovery of environmental costs of approximately $2.4 million over an amortization period of ten years or $239,600 per year. This request was included on page 10 of the direct testimony of Company witness, Darryl L. Troy, and on MFR Schedule G-2, page 24 of 31.

This was followed by Issue No. 17 in the Prehearing Order No. 23987 which stated, "17. Issue: Are the annual charges proposed by FPU for an allowance for environmental matters justified?

Positions:

| | |
|---|---|
| FPUC: | Yes |
| City of Lake Worth: | Not at issue |
| Staff: | Yes." |

The final order in that Docket also listed $239,600 as an approved line item in the income statement substantiating the rate relief. (Docket No. 900151-GU, Order No. 24094, page 10)

Audit Disclosure No. 4
Subject: Projected Environmental Charges

Company Response: The Company has no comment.

Audit Disclosure No. 5
Subject: Projected Common Stock in Cost of Capital

Company Response: The Company has no comment.

Audit Disclosure No. 6

Subject: Adjustments for Plant in Service and Related Depreciation.

Company Response: The Company agrees in principle that an adjustment should be made to include merchandising and jobbing customers in the customer ratio calculations to determine the allocations to non-utility plant in service. However, the non-utility percentage for plant account 374, Distribution Land, should be expressed on the account value in total, not just the West Palm Beach portion. This would change the FPSC staff engineer's adjusted rate of 21% to a weighted average of 12% for account 374.

Audit Disclosure No. 7
Subject: Depreciation Study

Company Response: Company agrees with audit disclosure.

Audit Disclosure No. 8

Subject: Forecast of Conservation Expenses

Company Response: Company agrees to work with FPSC staff analyst to pursue recovery of all applicable program costs in base rates.

Audit Disclosure No. 9
Subject: Forecast of Demonstration Expenses

Company Response: Company agrees to work with FPSC staff analyst to pursue recovery of all applicable program costs in base rates.

Audit Disclosure No. 10
Subject: Forecast of Marketing Expenses

Company Response: Company agrees to work with FPSC staff analyst to pursue recovery of all applicable marketing position salaries and equipment costs in base rates. Please refer to the Company response to Interrogatory No. 96 for information related to new marketing positions. In addition, the Company notes that the $3,000 annual cost for cellular telephone usage was understated. At the time of the filing, the Company was beginning its implementation of cellular telephones by marketing representatives. Since the implementation, the Company is experiencing an average monthly cost of $45. Due to the cellular telephone use being extended to ten additional marketing representatives, annual expenses will be $5,400 rather than $3,000.

Audit Disclosure No. 11

Subject: Blanket Construction Missing from 1995 Projections

Company Response: Company is in agreement with the staff auditor. The addition to 1995 projected rate base in the amount of $515,050 and decrease in net operating income in the amount of $10,437 should be allowed by FPSC staff analyst.

Audit Disclosure No. 12

Subject: Post Retirement FASB 106/Expenses Not Paid

Company Response: The $25,604 is an appropriate expense and represents a liability to our consolidated gas division. This expense was supplied by our actuary, Buck Consultants.

Audit Disclosure No. 13

Subject: Expenses Related to Conversion of LP to Natural Gas

Company Response: For further insight into the methodology used to clear the Gun Club conversion costs, see Company response to Interrogatory No. 108. Company agrees to work with FPSC analyst to resolve any further questoins regarding the Gun Club Estates conversion costs.

Audit Disclosure No. 14
Subject: Revenues

Company Response: Company is in agreement with the calculated revenue loss due to customers transferring from one rate schedule to another. Company also agrees to work with FPSC staff analyst to determine how the issue affects 1995 projected revenues.

Audit Disclosure No. 15
Subject: Projected Expenses

Company Repsonse: Company is in agreement with auditor recommendation. We have recently been placing help-wanted ads in local newspapers for the service technician position. The position will be filled as soon as a qualified applicant applies.