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Public Service Commission

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COMMISSION
CLERK

DATE: May 11, 2004
TO: Wayne Makin, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing *DNV*
Division of Regulatory Compliance and Consumer Assistance
RE: **Docket No.** 040003-GU ; **Company Name:** Florida Public Utilities Co. ;
Audit Purpose: Purchased Gas Adjustment; **Audit Control No.** 04-043-4-2

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 the Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Mr. John T. English, President & CEO,
Florida Public Utilities Co.
401 South Dixie Highway
West Palm Beach, FL 33402

- CMP _____ Mr. Christopher Snyder
 - COM _____ Florida Public Utilities Co., Gas Division
 - CTR _____ 401 South Dixie Highway
 - ECR _____ West Palm Beach, FL 33402
 - GCL _____ Messer Law Firm
 - OPC _____ Norman H. Horton, Jr., Esq.
 - MMS _____ P. O. Box 1876
 - RCA _____ Tallahassee, FL 32302-1876
 - SCR _____ Cheryl Martin
 - SEC 1 _____ Florida Public Utilities Company
 - OTH _____ 401 South Dixie Highway
- West Palm Beach, FL 33401

DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

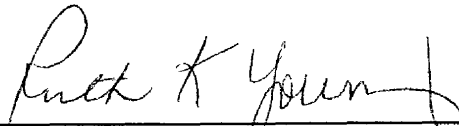
*DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING*

Miami District Office


**FLORIDA PUBLIC UTILITIES
PURCHASED GAS ADJUSTMENT CLAUSE**

YEAR ENDED DECEMBER 31, 2003

**DOCKET NO. 040003-GU
AUDIT CONTROL NO. 04-043-4-2**



Ruth K. Young, Audit Manager



*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. Discontinuance of Off System Sales	3
III.	EXHIBITS	
	Company Filing for PGA for 12 months ended December 31, 2003	4

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

MAY 4, 2004

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Purchased Gas Adjustment Schedules for the year ending December 31, 2003. These schedules were prepared by the utility as part of its Purchased Gas Adjustment true-up filings in Docket No. 040003-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 the 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. There is confidential information associated with this report.

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 compared to substantiating documentation.

Revenues: Compiled purchased gas adjustment revenues for the 12-months ending December 31, 2003. Revenues for 10 months were recalculated using the appropriate flex-down factor, and compared to the general ledger and A-2 schedules filed with the Commission. The PGA factor approved by the Commission was verified and included in the amount used to bill the customers. The rate was compared to the cap approved by the Commission for this time period. Off system sales amounts and terms were agreed to the monthly revenue reports and to the invoices sent to the customer. Pool manager revenues were recalculated.

Expenses: Compiled cost of gas expenses for the 12-months ending December 31, 2003
Examined all invoices for two months.

True-up and Interest: Recalculated the true-up and interest amount for the 12-months ending December 31, 2003. Traced interest rates to the Wall Street Journal.

AUDIT DISCLOSURE 1

SUBJECT: DISCONTINUANCE OF OFF SYSTEM SALES

STATEMENT OF FACTS: The company discontinued its off system sales program as of October 31, 2003. The profit included in PGA revenue for off system sales for 2002 was \$30,634.59, and for the 10 months of 2003 was \$15,361.57.

The company explained that it ceased this activity "due to the risk associated with servicing these customers. The natural gas market is in a period of increased price volatility thus causing general price level increases above what has been historically experienced. The return on these types of transactions was not justified by the risk associated with carrying significantly higher customer account balances and the potential for bad debt. The company continues to maintain the Off-Systems Sales Service rate schedule in its tariff and would explore opportunities should they arise."

COMPANY EXHIBIT

6

FOR THE PERIOD OF: JANUARY 2003 THROUGH DECEMBER 2003

			CURRENT MONTH: DECEMBER				PERIOD TO DATE			
			ACTUAL	ESTIMATE	DIFFERENCE		ACTUAL	ESTIMATE	DIFFERENCE	
					AMOUNT	%			AMOUNT	%
TRUE-UP CALCULATION										
1	PURCHASED GAS COST	Sch. A-1 Line 4, Estimate include Sch. A-1 Line 10	2,752,649	2,434,481	(318,168)	(13.07)	23,133,160	28,636,276	5,503,116	19.22
2	TRANSPORTATION COST	Sch A-1 Lines 1, 2, 3, 5, 6	508,778	495,897	(12,881)	(2.60)	4,704,502	3,777,235	(927,267)	(24.55)
3	TOTAL		3,261,427	2,930,378	(331,049)	(11.30)	27,837,661	32,413,511	4,575,850	14.12
4	FUEL REVENUES (NET OF REVENUE TAX)		2,841,009	2,926,198	85,189	2.91	27,648,497	32,369,816	4,721,319	14.59
5	TRUE-UP - (COLLECTED) OR REFUNDED *		19,423	19,423	0	0.00	233,069	233,069	0	0.00
6	FUEL REVENUE APPLICABLE TO PERIOD	Add Lines 4 + 5	2,860,432	2,945,621	85,189	2.89	27,881,566	32,602,885	4,721,319	14.48
7	TRUE-UP - OVER(UNDER) - THIS PERIOD	Line 6 - Line 3	(400,995)	15,243	416,238	2,730.68	43,905	189,374	145,469	76.82
8	INTEREST PROVISION -THIS PERIOD	Line 21	632	11,538	10,906	94.52	2,655	150,584	147,929	98.24
9	BEGINNING OF PERIOD TRUE-UP AND INTEREST		946,079	13,443,919	12,497,840	92.96	712,802	13,344,388	12,631,586	94.66
10	TRUE-UP COLLECTED OR (REFUNDED)	Reverse of Line 5	(19,423)	(19,423)	0	0.00	(233,069)	(233,069)	0	0.00
10a	FLEX RATE REFUND (if applicable)		0	0	0	0.00	-	0	0	0.00
11	TOTAL ESTIMATED/ACTUAL TRUE-UP	Add Lines 7 + 8 + 9 + 10 + 10a	526,293	13,451,277	12,924,984	96.09	526,293	13,451,277	12,924,984	96.09
INTEREST PROVISION										
12	BEGINNING TRUE-UP AND	Line 9	946,079	13,443,919	12,497,840	92.96	* NOTE If Line 5 is a refund enter as a positive number. If Line 5 is a collection, enter as a negative number.			
13	ENDING TRUE-UP BEFORE INTEREST	Add Lines 12 + 7 + 5	525,661	13,439,739	12,914,078	96.09				
14	TOTAL (12+13)	Add Lines 12 + 13	1,471,740	26,883,658	25,411,918	94.53				
15	AVERAGE	50% of Line 14	735,870	13,441,829	12,705,959	94.53				
16	INTEREST RATE - FIRST DAY OF MONTH		1.00%	1.00%	0	0.00				
17	INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH		1.06%	1.06%	0	0.00				
18	TOTAL	Add Lines 16 + 17	2.06%	2.06%	0	0.00				
19	AVERAGE	50% of Line 18	1.03%	1.03%	0	0.00				
20	MONTHLY AVERAGE	Line 19 / 12 mos	0.08583%	0.08583%	0	0.00				
21	INTEREST PROVISION	Line 15 x Line 20	632	11,538	10,906	94.52				

Beginning of period True-up & Interest (Line 9) comes from the most recently filed E-4 if we do not flex down. If we flex down, the beginning of the period True-up & Interest (Line 9) comes from the prior periods end of period net true-up.
 The prior period write-off will be the estimated over/under recovery estimated on Schedule E-4 regardless if we flex down.