

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: June 29, 2006
TO: Shevie B. Brown, Regulatory Analyst III, Division of Competitive Markets & Enforcement
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: **Docket No:** 060004-GU; **Company Name:** Florida Public Utilities
Audit Purpose: Audit Gas Conservation Filings
Audit Control No: 06-076-4-4

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 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 & Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
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Office of Public Counsel

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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

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

Miami District Office

**Florida Public Utilities Company
Gas Energy Conservation Clause Audit**

Twelve Months Ended December 31, 2005

**DOCKET #060002-GU
AUDIT CONTROL NO. 06-076-4-4**

A handwritten signature in cursive script, reading "Ruth K. Young".

***Ruth K. Young
Audit Manager***

A handwritten signature in cursive script, reading "Kathy Welch".

***Kathy Welch
Public Utilities Supervisor***

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

JUNE 24, 2006

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

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Competitive Markets and Enforcement in its audit service request. We have applied these procedures to the attached schedules prepared by Florida Public Utilities in support of its gas energy conservation clause filing for 2005.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES:

Objective: To determine if there were changes in the conservation programs in 2005. Also, to determine if the expenses in 2005 were materially different than in 2004 and to determine if the actual expenses for 2005 were within budget for 2004.

Procedure: The programs in the filing for 2005 were compared to the programs in effect in 2004. Each type of expense in 2005 was compared to the amounts in 2004. The company was asked to explain any anomaly, and we followed up by sampling the expenses involved in the anomaly.

Objective: To determine that the company applied the Commission approved cost recovery factor to actual therm sales.

Procedure: We obtained the company therm sales reports for the year and applied the Commission approved factors to the therm sales. The totals were compared to the reported sales on the company filing. We also recalculated the bills of a random sample of individual customers and verified that the approved rates were used.

Objective: To determine that the actual program expenses are representative of company activity and are properly computed and recorded on the company books. Advertising expenses were excluded from the audit service request. These will be reviewed by the analyst in Tallahassee.

Procedure: The expenses in the filing were tied to the general ledger. A judgmental sample of all expenses was selected and the source documentation was reviewed to make sure the item was a conservation expense and charged to the correct account. Certain promotional expenses not included in the advertising account were also reviewed.

Payroll was compiled from the general ledger. The company organization chart was reviewed to make sure the employees who charged time to gas conservation were on the organization chart as gas conservation employees.

Incentives paid to individuals and builders were compared to the incentives approved in the company's conservation program. Audit Finding No. 1 addresses this subject.

Objective: To determine if the true-up calculation and interest provision as filed was properly calculated.

Procedures: The beginning true-up was agreed to the PSC order. The true-up was recalculated for the year using the Wall Street Journal interest rates.

AUDIT FINDING NO. 1

SUBJECT: REBATE INCENTIVES

SUMMARY: Rebates paid for the Full House Residential New Construction Program are above the amounts allowed in the program for one builder.

STATEMENT OF FACT: The company has an agreement with Transeastern Properties for incentives to be paid for the installation of three gas appliances. They are a gas water heater, gas range and a gas clothes dryer. In 2005, the company paid \$94,495 to Transeastern Properties in incentives for 259 homes. The 2005 invoices showed that 251 homes had the three appliances necessary to get the full rebate. \$370 was paid for each of these homes. There were seven homes that did not receive all three. We could not tell from the invoices the amount of the rebate paid for these.

In 2004 and 2005, the company also charged conservation for 29% of the installation costs paid to Universal Gas Services. This amounted to \$192.27 for piping for three appliances that was charged to conservation. Since appliances cannot be installed without piping, we estimated the piping costs charged to conservation in 2005 and prior years for the 251 homes for which Transeastern received rebates to be \$48,260 (251* \$192.27).

In total it charged \$562.27 for each home where three appliances were installed. The amounts approved for the full House Residential New Construction Program are:

Water Heater	300
Range	85
Dryer	85
	<u>\$470</u>

We calculated that \$24,785 was over the approved conservation program limits as follows:

Actual Payments to Transeastern	\$ 94,495
Calculated Piping for 251 homes with three appliances (251 Times \$192.27)	<u>48,260</u>
Total Charged to Conservation	\$ 142,755
Calculated Conservation Rebate Limit Is \$470 times 251 homes	<u>\$ 117,970</u>
Amount overcharged	<u>\$ 24,785</u>

We prepared a revised true-up schedule reducing the costs per month evenly throughout the year for a total of \$24,785. The schedule follows this finding and shows that the under-recovery should be reduced by \$25,238; from \$64,618 to \$39,379.

EFFECT ON GENERAL LEDGER: If this finding is accepted, than the amount overcharged should be credited to the deferred true-up account and deferred piping should be debited.

EFFECT ON FILING: If this finding is accepted, then the program cost on the filing should be reduced by \$24,785 and the under-recovery reduced from \$64,618 to \$39,379.

Company: Florida Public Utilities Company
 Title: Conservation Recovery Recalculated by Staff
 Period: TYE 12/31/05

EFFECT OF AUDIT FINDING 1 - INCENTIVES OVERSTATED BY \$24,785.
ASSUMPTION IS THAT THE INCENTIVES ARE OVERSTATED EVENLY
THROUGHOUT THE 12 MONTHS. THEREFORE, SEVEN MONTHS ARE REDUCED
BY \$2,065 AND FIVE MONTHS ARE REDUCED BY \$2,066.

Interest Rates per Wall Street Journal Commercial Paper

Interest- first day reporting	JANUARY	2.340%	JULY	3.270%
	FEBRUARY	2.500%	AUGUST	3.430%
	MARCH	2.650%	SEPTEMBER	3.640%
	APRIL	2.780%	OCTOBER	3.790%
	MAY	2.980%	NOVEMBER	4.030%
	JUNE	3.060%	DECEMBER	4.210%
Interest- first day reporting of subsequent month	JANUARY NE	4.300%		

INTEREST RATES	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
Beginning	2.340%	2.500%	2.650%	2.780%	2.980%	3.060%	3.270%	3.430%	3.640%	3.790%	4.030%	4.210%
Ending	<u>2,500%</u>	<u>2,650%</u>	<u>2,780%</u>	<u>2,980%</u>	<u>3,060%</u>	<u>3,270%</u>	<u>3,430%</u>	<u>3,640%</u>	<u>3,790%</u>	<u>4,030%</u>	<u>4,210%</u>	<u>4,300%</u>
Total	4.840%	5.150%	5.430%	5.760%	6.040%	6.330%	6.700%	7.070%	7.430%	7.820%	8.240%	8.510%
Average	2.420%	2.575%	2.715%	2.880%	3.020%	3.165%	3.350%	3.535%	3.715%	3.910%	4.120%	4.255%
Monthly Average	0.202%	0.215%	0.226%	0.240%	0.252%	0.264%	0.279%	0.295%	0.310%	0.326%	0.343%	0.355%

CALCULATION OF TRUE-UP	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
Total Conservation Revenues (line 3)	258,345	251,082	238,953	207,717	174,054	141,593	132,614	120,514	129,085	132,737	167,819	215,831	2,170,344
(1/12) of Prior True-U NOTE A	-1,642	-1,642	-1,642	-1,642	-1,642	-1,642	-1,642	-1,642	-1,642	-1,642	-1,642	-1,642	-19,899
Total conservation revenue current period	256,703	249,440	237,311	206,075	172,412	139,951	130,972	118,872	127,443	131,085	166,177	214,189	2,150,645
Conservation Cost	138,989	122,096	209,850	207,822	133,602	195,486	138,062	372,712	240,152	158,678	119,964	155,361	2,192,774
True-up this period	117,714	127,344	27,461	-1,747	38,810	-55,535	-7,090	-253,840	-112,709	-27,583	46,213	58,828	-42,129
Interest provision (line 8)	81	352	551	621	703	721	683	343	-201	-435	-423	-246	2,750
Adj. to interest prov.(a)	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred true-up beginning (9a)	0	0	0	0	0	0	0	0	0	0	0	0	0
True-up & interest beg NOTE A	-19,699	99,738	229,076	258,730	259,246	300,401	247,230	242,464	-9,391	-120,659	-147,055	-99,603	-19,699
Regulatory asses. fee adj (9b)	0	0	0	0	0	0	0	0	0	0	0	0	0
Prior true-up collected ref. (10)	1,642	1,642	1,642	1,642	1,642	1,642	1,642	1,642	1,642	1,642	1,642	1,642	19,699
Total net true-up	98,738	229,076	258,730	259,246	300,401	247,230	242,464	-9,391	-120,659	-147,035	-99,603	-39,379	-39,379
True-up for the month per Filin g	97,671	224,938	252,516	250,949	290,016	234,749	227,881	-26,086	-139,475	-167,982	-122,691	-64,618	-64,618
	2,067	4,138	6,214	8,297	10,385	12,481	14,583	16,695	18,816	20,947	23,068	25,239	25,239

NOTE A Agrees with PSC Order NO -05-1176-FOF-GU, DOCKET NO. 050004-GU
 =19699/12 = 1642

Company: Florida Public Utilities Company
 Title: Conservation Recovery Recalculated by Staff
 Period: TYE 12/31/05

CALCULATION OF INTEREST	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
Beginning true up and interest	-19,699	99,738	229,076	258,730	259,246	300,401	247,230	242,464	-9,391	-120,859	-147,035	-99,603	
Ending true-up before int	99,657	228,724	258,179	258,625	299,698	246,506	241,782	-9,734	-120,458	-146,600	-99,180	-39,133	
Total	79,958	328,461	487,255	517,355	558,944	546,910	489,011	232,730	-129,849	-267,259	-246,216	-138,736	
Average true up	39,979	164,231	243,628	258,678	279,472	273,455	244,506	116,365	-64,924	-133,629	-123,103	-69,368	
Interest rate per above	0.202%	0.215%	0.226%	0.240%	0.252%	0.264%	0.279%	0.295%	0.310%	0.326%	0.343%	0.355%	
Interest per staff	81	352	551	621	703	721	683	343	-201	-435	-423	-246	2,750
Interest per WP 2	79	346	540	603	680	691	645	297	-256	-500	-\$498	-\$331	2,296
	2	6	11	18	23	30	38	46	55	65	75	85	454

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-05 THROUGH December-05 - revised May 13, 2006

A. CONSERVATION EXPENSE BY PROGRAM		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1.	Full House Residential New Construction Program	39,512	36,744	100,648	71,170	54,246	77,404	63,731	139,825	118,900	64,807	20,402	71,181	858,570
2.	Residential Appliance Replacement Program	11,611	10,692	16,255	18,648	9,767	19,898	11,389	56,896	16,698	8,578	8,618	5,965	195,015
3.	Conservation Education Program	11,604	8,093	8,590	16,321	6,455	19,789	10,091	54,730	27,867	20,116	18,842	13,815	216,313
4.	Space Conditioning Program	1,227	37	576	2,959	499	1,401	3,055	1,574	37	901	661	454	13,381
5.	Residential Conservation Service Program	4,820	2,201	1,147	4,259	2,016	2,504	1,246	4,474	2,913	9,667	3,553	5,780	44,580
6.	Residential Appliance Retention Program	35,524	32,640	30,900	34,327	24,168	34,928	21,417	78,236	33,955	26,722	37,399	35,452	425,668
7.														
10.	Commercial Conservation Service Program	4,624	1,944	2,923	3,226	2,566	2,644	2,764	2,827	2,780	2,363	1,981	3,947	34,589
12.														
13.	Residential Service Reractivation Program		1,100		268	501								1,869
14.	Common	32,132	30,710	50,876	58,709	35,449	38,983	26,434	36,216	39,068	27,590	30,574	20,833	427,574
15.														
16.														
17.														
18.														
19.														
20.														
21.	TOTAL ALL PROGRAMS	141,054	124,161	211,915	209,887	135,667	197,551	140,127	374,778	242,218	160,744	122,030	157,427	2,217,559
22.	LESS AMOUNT INCLUDED IN RATE BASE													
23.	RECOVERABLE CONSERVATION EXPENSES	141,054	124,161	211,915	209,887	135,667	197,551	140,127	374,778	242,218	160,744	122,030	157,427	2,217,559

EXHIBIT NO. _____
DOCKET NO. 060004-GU
FLORIDA PUBLIC UTILITIES COMPANY
(MSS-1)

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY
 CALCULATION OF TRUE-UP AND INTEREST PROVISION
 FOR MONTHS January-05 THROUGH December-05 - revised May 13, 2006

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													
2. CONSERVATION ADJ. REVENUES	(258,345)	(251,082)	(238,953)	(207,717)	(174,054)	(141,593)	(132,614)	(120,514)	(129,085)	(132,737)	(167,819)	(215,831)	(2,170,344)
3. TOTAL REVENUES	(258,345)	(251,082)	(238,953)	(207,717)	(174,054)	(141,593)	(132,614)	(120,514)	(129,085)	(132,737)	(167,819)	(215,831)	(2,170,344)
4. PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	1,637	1,642	1,642	1,642	1,642	1,642	1,642	1,642	1,642	1,642	1,642	1,642	19,699
5. CONSERVATION REVENUE APPLICABLE	(256,708)	(249,440)	(237,311)	(206,075)	(172,412)	(139,951)	(130,972)	(118,872)	(127,443)	(131,095)	(166,177)	(214,189)	(2,150,645)
6. CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	141,054	124,161	211,915	209,887	135,667	197,551	140,127	374,778	242,218	160,744	122,030	157,427	2,217,559
7. TRUE-UP THIS PERIOD (LINE 5 - 6)	(115,654)	(125,279)	(25,396)	3,812	(36,745)	57,600	9,155	255,906	114,775	29,649	(44,147)	(56,762)	66,914
8. INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	(79)	(346)	(540)	(603)	(680)	(691)	(645)	(297)	256	500	498	331	(2,296)
9. TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	19,699	(97,671)	(224,938)	(252,516)	(250,949)	(290,016)	(234,749)	(227,881)	26,086	139,475	167,982	122,691	19,699
9A. DEFERRED TRUE-UP BEGINNING OF PERIOD													
10. PRIOR TRUE-UP COLLECTED (REFUNDED)	(1,637)	(1,642)	(1,642)	(1,642)	(1,642)	(1,642)	(1,642)	(1,642)	(1,642)	(1,642)	(1,642)	(1,642)	(19,699)
11. TOTAL NET TRUE-UP (LINES 7+8+9+9A+10)	(97,671)	(224,938)	(252,516)	(250,949)	(290,016)	(234,749)	(227,881)	26,086	139,475	167,982	122,691	64,618	64,618

EXHIBIT NO. _____
 DOCKET NO. 060004-GU
 FLORIDA PUBLIC UTILITIES COMPANY
 (MSS-1)

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY
 CALCULATION OF TRUE-UP AND INTEREST PROVISION
 FOR MONTHS January-05 THROUGH December-05 - revised May 13, 2006

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)	19,699	(97,671)	(224,938)	(252,516)	(250,949)	(290,016)	(234,749)	(227,881)	26,086	139,475	167,982	122,691	19,699
2. ENDING TRUE-UP BEFORE INTEREST (LINES B7+B9+B9A+B10)	(97,592)	(224,592)	(251,976)	(250,346)	(289,336)	(234,058)	(227,236)	26,383	139,219	167,482	122,193	64,287	66,914
3. TOTAL BEG. AND ENDING TRUE-UP	(77,893)	(322,263)	(476,914)	(502,862)	(540,285)	(524,074)	(461,985)	(201,498)	165,305	306,957	290,175	186,978	86,613
4. AVERAGE TRUE-UP (LINE C-3 X 50%)	(38,947)	(161,132)	(238,457)	(251,431)	(270,143)	(262,037)	(230,993)	(100,749)	82,653	153,479	145,088	93,489	43,307
5. INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	2.34%	2.50%	2.65%	2.78%	2.98%	3.06%	3.27%	3.43%	3.64%	3.79%	4.03%	4.21%	
6. INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	2.50%	2.65%	2.78%	2.98%	3.06%	3.27%	3.43%	3.64%	3.79%	4.03%	4.21%	4.30%	
7. TOTAL (LINE C-5 + C-6)	4.84%	5.15%	5.43%	5.76%	6.04%	6.33%	6.70%	7.07%	7.43%	7.82%	8.24%	8.51%	
8. AVG. INTEREST RATE (C-7 X 50%)	2.42%	2.58%	2.72%	2.88%	3.02%	3.17%	3.35%	3.54%	3.72%	3.91%	4.12%	4.26%	
9. MONTHLY AVERAGE INTEREST RATE	0.202%	0.215%	0.226%	0.240%	0.252%	0.264%	0.279%	0.295%	0.310%	0.326%	0.343%	0.355%	
10. INTEREST PROVISION (LINE C-4 X C-9)	(79)	(346)	(540)	(603)	(680)	(691)	(645)	(297)	256	500	498	331	(2,296)

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