

State of Florida



Public Service Commission

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COMMISSION
CLERK

DATE: July 12, 2012

TO: Office of Commission Clerk

FROM: Clarence J. Prestwood, ^{CJP} Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 120004-GU
 Company Name: Florida Public Utilities Company – Indiantown Division
 Company Code: GU606
 Audit Purpose: A3e: Gas Conservation Cost Recovery
 Audit Control No: 12-010-4-8

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/lmd

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

04642 JUL 12 2012

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-Indiantown Division
Gas Conservation Cost Recovery

Twelve Months Ended December 31, 2011

Docket No. 120004-GU
Audit Control No. 12-010-4-8
July 10, 2012

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

04642 JUL 12 02

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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 10, 2012. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Florida Public Utilities Company-Indiantown Division in support of its 2011 filing for the Gas Conservation Cost Recovery in Docket No. 120004-GU.

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

Definition

Utility refers to the Florida Public Utilities Company-Indiantown Division.
GCCR refers to the Gas Conservation Cost Recovery.

Revenue

Operating Revenues

Objectives: The objectives were to determine the actual therms sold for the period January 1, 2011, through December 31, 2011, and whether the Utility applied the Commission approved cost recovery factor to actual therm sales for the GCCR.

Procedures: We reconciled the 2011 filing to the Utility's monthly ledger revenues. We computed the factors by rate code and compared them to the last Commission Order No. PSC 10-0705-FOF-GU. We selected a random sample of residential and commercial customers' bills and recalculated each to verify the use of the correct tariff rate. Audit Finding 1 discusses the incorrect billing rate used.

Expense

Operation and Maintenance Expense

Objectives: The objectives were to verify that Operation and Maintenance (O&M) Expense listed on the Utility's CT-3 filing was supported by adequate documentation and that the expenses are appropriately recoverable through the GCCR.

Procedures: We traced expenses in the filing to the general ledger. We judgmentally selected a sample of O&M Expenses for testing. The source documentation for selected items was reviewed to ensure the expense was related to the GCCR and that the expense was charged to the correct accounts. No exceptions were noted.

True-up

Objective: The objective was to determine if the True-Up and Interest Provision as filed on Schedule CT-3 was properly calculated.

Procedures: We traced the December 31, 2010, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2011, using the

Commission approved beginning balance as of December 31, 2010, the Financial Commercial Paper rates, and the 2011 GCCR revenues and costs. No exceptions were noted.

Audit Findings

Finding 1: Ordered Conservation Rates Were Not Used

Audit Analysis: Commission Order PSC-10-0705-FOF-GU established conservation rates that were to be used during the 2011 calendar year. The Utility did not use these rates to bill but continued to use the rates established for the 2009 calendar year in Commission Order PSC-08-0785-FOF-GU. After the sale of the Utility, the prior owners of the Utility continued to bill the customers for Florida Public Utilities (FPUC) until November 2011. The 2009 rates were higher than the ordered 2011 rates. Therefore, the customers were over-billed. This error should correct through the true-up process. FPUC billed at the correct rates in November and December 2011.

The filing was correctly prepared using the revenues that were actually billed to the customers. Therefore, the error does not affect the true-up schedules. However, the customers should be billed using the ordered rates.

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: There is no effect on the filing.

Exhibit

Exhibit 1: True Up

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY - INDIANTOWN DIVISION

SCHEDULE CT-3
PAGE 1 OF 3

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND DETERMINED PROVISION
SUMMARY OF EXPENSES BY PROGRAM BY MONTH

FOR MONTHS January-11 THROUGH December-11

A. CONSERVATION EXPENSE BY PROGRAM	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. Residential New Construction Program													
2. Residential Appliance Replacement Program	400		400		700	100	100						1,600
3. Conservation Education Program										1,525	182	83	1,790
4.													
6 Residential Appliance Retention													
14 Common			3,000		220					2,500		1,170	7,790
5. TOTAL ALL PROGRAMS	400		4,200		920	100	100			4,114	182	1,282	11,357
6. LESS AMOUNT INCLUDED ON RATE BASE													
7. RECOVERABLE CONSERVATION EXPENSES	400		4,200		920	100	100			4,114	182	1,282	11,357

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CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-11 THROUGH December-11

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
0. CONSERVATION REVENUES													
1. RESIDENTIAL CONSERVATION													
2. CONSERVATION ADJ. REVENUES	1059	(704)	(638)	(725)	(882)	(853)	(217)	(218)	(872)	(708)	(1,087)	(1,122)	(7,856)
3. TOTAL REVENUES	(968)	(704)	(938)	(725)	(882)	(883)	(217)	(218)	(872)	(708)	(1,087)	(1,122)	(7,956)
4. PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	(1,413)	(1,417)	(1,417)	(1,417)	(1,417)	(1,417)	(1,417)	(1,417)	(1,417)	(1,417)	(1,417)	(1,417)	(17,000)
5. CONSERVATION REVENUE APPLICABLE	(2,381)	(2,121)	(2,195)	(2,142)	(2,079)	(2,089)	(1,834)	(1,827)	(1,989)	(1,817)	(2,504)	(2,539)	(24,995)
6. CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	450		4,250		899	100	100			4,114	182	1,282	11,357
7. TRUE-UP THIS PERIOD (LINE 5 - 6)	(1,918)	(2,121)	1,988	(2,142)	(1,180)	(1,989)	(1,834)	(1,827)	(1,989)	2,407	(2,352)	(1,277)	(13,888)
8. INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	(4)	(4)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(24)
9. TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	(17,000)	(17,500)	(18,217)	(14,800)	(18,535)	(18,270)	(18,838)	(18,854)	(18,168)	(18,738)	(12,825)	(13,781)	(17,000)
9A. DEFERRED TRUE-UP BEGINNING OF PERIOD													
10. PRIOR TRUE-UP COLLECTED (REFUNDED)	1,413	1,417	1,417	1,417	1,417	1,417	1,417	1,417	1,417	1,417	1,417	1,417	17,000
11. TOTAL NET TRUE-UP (LINES 7+8-9A+10)	(17,809)	(18,217)	(14,808)	(18,536)	(18,270)	(18,835)	(18,954)	(18,185)	(18,738)	(12,825)	(13,781)	(13,823)	(13,823)

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CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-11 THROUGH December-11

C. INTEREST PROVISION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. BEGINNING TRUE-UP (LINE B-9)	(17,000)	(17,500)	(18,217)	(14,800)	(15,535)	(15,270)	(15,530)	(16,054)	(16,166)	(16,738)	(12,825)	(13,781)	(17,000)
2. ENDING TRUE-UP BEFORE INTEREST (LINES B7-B9+D8+B10)	(17,500)	(18,213)	(14,800)	(15,535)	(15,265)	(15,533)	(15,952)	(16,164)	(16,737)	(12,826)	(13,780)	(13,821)	(13,990)
3. TOTAL BEG. AND ENDING TRUE-UP	(34,500)	(35,722)	(33,022)	(30,341)	(30,803)	(31,103)	(31,787)	(32,118)	(32,902)	(29,562)	(26,605)	(27,602)	(30,990)
4. AVERAGE TRUE-UP (LINE C-3 X 50%)	(17,250)	(17,861)	(16,511)	(15,171)	(15,402)	(15,552)	(15,894)	(16,059)	(16,451)	(14,781)	(13,303)	(13,801)	(15,285)
5. INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	0.25%	0.25%	0.25%	0.20%	0.19%	0.18%	0.18%	0.12%	0.07%	0.04%	0.00%	0.00%	
6. INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	0.26%	0.25%	0.20%	0.18%	0.18%	0.16%	0.12%	0.07%	0.04%	0.00%	0.00%	0.07%	
7. TOTAL (LINE C-4 + C-6)	0.50%	0.50%	0.45%	0.38%	0.37%	0.32%	0.29%	0.19%	0.11%	0.04%	0.00%	0.07%	
8. AVG. INTEREST RATE (C-7 X 50%)	0.25%	0.25%	0.23%	0.20%	0.19%	0.16%	0.14%	0.10%	0.06%	0.02%	0.00%	0.04%	
9. MONTHLY AVERAGE INTEREST RATE	0.021%	0.021%	0.019%	0.016%	0.016%	0.013%	0.012%	0.008%	0.005%	0.002%	0.000%	0.007%	
10. INTEREST PROVISION (LINE C-4 X C-9)	(4)	(4)	(3)	(3)	(3)	(3)	(3)	(1)	(1)	(1)	(1)	(1)	(2)