

MEMORANDUM

February 17, 1995

TO: DIVISION RECORDS AND REPORTING (FLYNN)  
FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (PELT)  
RE: DECLASSIFIED PORTIONS OF THE ORIGINAL AUDIT REPORT  
DOCKET NO. 940620-GU - FLORIDA PUBLIC UTILITIES  
AUDIT CONTROL NO. 94-300-4-1

*PELT*

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The attached declassified portions of the original audit report are now public record and should be incorporated into the original audit report in Records and Reporting's custody.

Copies will be merged into the Division of Auditing and Financial Analysis' records.

DV/sp  
Attachment

MEMORANDUM

January 30, 1995

TO: DIVISION OF RECORDS AND REPORTING (FLYNN)  
FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (PELT)  
RE: DOCKET NO. 940620-GU -- FLORIDA PUBLIC UTILITIES  
RATE CASE AUDIT ISSUED UNDER DENISE VANDIVER'S  
JANUARY 30, 1995 TRANSMITTAL LETTER  
AUDIT CONTROL NO. 94-300-4-1

*D. Pelt*

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Confidential pages of the audit report, one diskette, and working papers, Volume 9 of 9 are forwarded, pursuant to Rule 25-22.006, F.A.C. Volumes 1-8 and the administrative section for the working papers have been filed as unclassified in DAFA files.

The audit exit conference was held January 23, 1995.

An attached 1-page index lists all confidential papers and the diskette.

Attachments: Confidential Document Index *01114-95*  
Pages of the Audit Report, Dated January 13, 1995 *01115-95*  
Working Papers, Volume 9 of 9  
*01116-95*

cc: Legal  
Mary Andrews Bane, Deputy Executive Director/Technical

*Katherine Smith*  
RECEIVED BY

*1/30/95*  
DATE

*Declassified*

FPW

940620-GW

94-300-4-1

**CONFIDENTIAL**

*Declassified*  
*2-17-95*

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

AUDIT DISCLOSURE 3

SUBJECT: ENVIRONMENTAL COSTS

I. EXPENSE AMOUNTS

In Docket No. 900151-GU, Order No. 24094, Attachment 2, the Commission allowed \$239,600 in Amortization of Environmental Clean Up Costs on the Income Statement.

Per G. Bachman testimony in this case, the Commission allowed FPUC to recover \$240,000 per year for environmental expenses in the last rate case over a ten year period. This would be a total of \$2,400,000.

There is no statement in the order regarding the ten year period; or the total amount to be amortized. The Company states that this was discussed at prehearing conferences.

A review of the Company's books showed a charge of \$239,604 to Account 405 in 1993 for Environmental costs.

II. DEFERRED AMOUNTS

Per testimony of G. Bachman, the total estimated costs for Environmental Clean Up are \$7.5 million dollars.

The actual expenses incurred are included in Account 186 which is a deferred account. These deferred amounts booked to Account 186 are included in Working Capital and are as follows:

1989	1,600.00
1990	59,300.00
1991	112,900.00
1992	254,300.00
1993	277,300.00
1994	136,800.00 thru July 1994
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	842,200.00

The 13-month average included in Working Capital for historical test year end December 31, 1993 is \$74,850.26.

The yearly amortization of \$239,604 is a credit to Account 186.

## AUDIT DISCLOSURE 3 - Continued

### III. INSURANCE PROCEEDS

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According to the testimony of William Pence, the Company recently ... concluded settlement negotiations with several insurance carriers for environmental costs anticipated for the assessment and remediation of the four former MGP sites...". The testimony states that the terms and conditions with the Insurance Companies prevent FPUC from identifying specific carriers settlement amounts, "... absent an order from the PSC to do so." The settlement negotiations total approximately \$4 million.

Per conversation with George Bachman, the total proceeds received thus far are \$3,110,680.33 and are included in account 1340.2. The first amounts were not received until February 1994; therefore, they are not included in Test Year end 1993 Working Capital; and will not be included in Projected test year 1995 because it is interest earning.

Company representative state that further insurance proceeds are expected March 15, 1995 and December 15, 1995 of \$450,000 each.

### IV. PROCEEDS FROM OTHER UTILITY COMPANIES.

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There are four sites that need to be cleaned up. They are West Palm Beach, Sanford, Key West and Pensacola. FPUC is the current owner of WPB and Sanford, and owned Pensacola and Key West at a prior time.

FPUC is being held responsible for the Pensacola site clean up by the Florida Department of Environmental Protection in the Northern area as a previous owner along with the present owner and two other prior owners.

FPUC is voluntarily participating in the Key West clean up as a previous owner along with the present owner.

FPUC currently owns the Sanford Property. As explained by company personnel, FPUC was able to identify previous owners. FPUC told the State DEP, but the State said they were not going to compel former owners to do work at site.

This is completely opposite of the Pensacola site in which FPUC is a prior owner, but still is compelled by the State to participate in the remediation.

As explained by Chuck Stein; there are two different offices of the DEP who are telling them what they should be doing.

FPUC's attorney, Bill Pence, explained that FPUC filed suit against the four former owners of the Sanford site. They are Florida Power and Light, Florida Power Corp., Atlantic Gas Light and City of Sanford. FPUC wants the four prior owners to participate in the on-site and ground water assessment and remediation of the property. Once the lawsuit was filed, the four companies said that they were willing to sit down and discuss funding the contamination assessment report. No agreement was made regarding the liability of the remediation of the on-site and ground water remediation.

**AUDIT DISCLOSURE 3 - Continued**

Presently the parties are waiting for a response to the Contamination Assessment Report from the Florida Department of Environmental Protection. The response would either accept the contamination assessment or ask for further assessment. At that time it might be three to four years before remediation is started on the Sanford site.

The Company has included \$2.75 million in their estimate for the Sanford site remediation.

**V. Sanford Off-Site remediation.**

Not included in the projection of \$7.5 million for environmental costs is any cost for the Sanford off-site remediation. FPUC is taking the position with the Florida Department of Environmental Protection that whatever occurred before FPUC bought the property should not be FPUC's liability. Should FPUC be responsible for off-site remediation, Bill Pence, FPUC's attorney, states that the amount could be upwards of \$40 million.

**CONCLUSIONS:**

I. Records should be reviewed to determine if the Commission in fact allowed \$2,400,000 costs recovered over 10 years.

II. and III. The Company is estimating total clean up costs at \$7.5 million; and insurance proceeds at \$4 million. This results in a Company cost of \$3.5 million.

Presently the Company appears to be authorized to recover \$2,400,000. Even though there is a difference of \$1.0 million in the company's net estimated cost and the amount they are now recovering, they are not asking for more recovery. They state in Mr. Bachman's testimony, that "...It is far more appropriate to review the actual expenses and insurance collections in the Company's next rate case,..."

IV. Should the four parties decide to participate in the remediation as they have in the assessment of the Sanford site, then the remediation of the on-site and ground water estimate of \$2.75 million should be allocated to all five parties; not just FPUC.

**AUDIT DISCLOSURE 4**

**SUBJECT: PROJECTED ENVIRONMENTAL CHARGES**  
**I. PROJECTED ACCRUED INCOME TAXES (ENVIRONMENTAL)**  
**II. PROJECTED INCOME TAX EXPENSE (ENVIRONMENTAL)**  
**III. PROJECTED ENVIRONMENTAL DEFERRED ACCOUNT**  
**IV. PROJECTED ENVIRONMENTAL EXPENSE**

**STATEMENT OF FACTS:**

**I. PROJECTED ACCRUED INCOME TAXES INCLUDED IN WORKING CAPITAL**

In MFR G-1(B-13), Line 6, the Company Projected 13-month average Accrued Taxes as follows:

Historical TYE 12/31/93	Projected TYE 12/31/94	Projected TYE 12/31/95
15,293.00	137,011.00	141,164.00

The Company projected 13-month average 1994 based on January thru April 1994 Actual Taxes Accrued Accounts; and the Revenue with fuel factor of 1.1926 applied to the rest of 1993 monthly balances in the Taxes Accrued Accounts to determine May through December 1994 Projected Accrued Taxes monthly balances.

The above amounts are the gas division only. These are 48.40% of FPUC Consolidated total.

Included in actual March 1994 FPUC consolidated is accrued tax on insurance proceeds for the environmental clean up. Insurance proceeds from environmental clean up are explained in Audit Disclosure 3. Per Company personnel the proceeds in March 1994 were \$2,612,032. The federal and state income taxes increased \$839,246 and \$142,662, respectively for consolidated. The increase for gas was \$406,195 and \$69,048 respectively.

Company prepared projected schedules show the amounts as follows:

AUDIT DISCLOSURE 4 – Continued

Accrued Income Taxes

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	Federal Income tax	48.40% Gas	State Income Tax	48.40% Gas	Total Gas
March 1994	1,265,801.00	612,648.00	216,398.00	104,737.00	717,385.00
March 1995	1,297,446.00	627,964.00	221,808.00	107,355.00	735,319.00
% Increase	2.5000%	2.5000%	2.5000%	2.4996%	2.4999%

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II. PROJECTED INCOME TAX EXPENSE

Theoretically, an accrual in March 1994 would create a debit to expense. However, the projected tax expense for environmental in 1994 and 1995 in MFR G-2 (c-21) does not include expense for the added environmental accrued taxes.

The Company calculated their projected expense as follows:

1. The Company determined the difference between Projected Deferred Environmental Expenses December 93 to December 94 and December 94 to December 95.
2. The Projected Deferred expenses were deducted from the Projected Taxable Income (before Taxes, Depreciation and Amortization) to arrive at Taxable Income. (Deductions do not include effects of insurance proceeds.
3. The current tax calculated is based on the taxable income in 2 above.

III. PROJECTED ENVIRONMENTAL DEFERRED ACCOUNT

The deferred environmental expense account (1860.0) projection included in working capital projects expenses and a credit to the account of \$240,000 per year as explained in Disclosure 3.

IV. PROJECTED ENVIRONMENTAL EXPENSES

Projected Environmental expense is included in MFR G-2 (c-18) in the amount of \$240,000 per year as explained in Disclosure 3.

**AUDIT DISCLOSURE 4 – Continued  
OPINION:**

I. The Projection for March 1995 accrued income taxes should be based on the March 1994 income taxes accrued without the effect of the environmental insurance proceeds as the environmental proceeds are a nonrecurring item as explained in Audit Disclosure 3.

The PSC staff calculation of March 1994 accrued income taxes for Environmental proceeds is as follows:

**Accrued Income Taxes**

	Federal Income tax	48.40% Gas	State Income Tax	48.40% Gas	Total Gas
March 1994	1,265,801.00	612,648.00	216,398.00	104,737.00	717,385.00
Taxes for Environmental	839,246.00	406,195.06	142,662.00	69,048.41	475,243.47
Accrued Income Taxes without Environmental March 1994	426,555.00	206,452.94	73,736.00	35,688.59	242,141.53
times % Increase	1.025	1.025	1.025	1.025	
March 1995	437,218.88	211,614.26	75,579.40	36,580.81	248,195.07
Taxes per Co Prep Sch.	1,297,446.00	627,964.00	221,808.00	107,355.00	735,319.00
Difference	(860,227.13)	(416,349.74)	(146,228.60)	(70,774.19)	(487,123.93)

Staff recalculated the 13 month averages for 1994 and 1995 (see next page). The adjustment to the Working Capital balance for Income Tax Accrued would reduce Accrued Income Tax liability in the amount of \$36,556.61 for 1994 and \$37,470.62 for 1995.

II. It appears that the projected tax expense did not include the insurance proceeds liability because the deductions from taxable income to calculate projected income tax expense do not include the effects of the insurance proceeds (MFR G-2 (C-21).)

EXHIBIT TO AUDIT DISCLOURE 4

PROJECTED ACCRUED INCOME TAXES

	REVISED, MARCH 1994		REVISED, MARCH 1994		TOTAL GAS
	REV FED I/T	GAS	REV STATE I/T	GAS	
DEC 1993	99,801.00	48,303.68	16,798.00	8,130.23	56,433.92
JAN 1994	247,301.00	119,693.68	41,998.00	20,327.03	140,020.72
FEB 1994	362,901.00	175,644.08	61,798.00	29,910.23	205,554.32
MARCH 1994	426,555.00	206,452.62	73,736.00	35,688.22	242,140.84
APRIL 1994	129,901.00	62,872.08	21,898.00	10,598.63	73,470.72
MAY 1994	384,999.00	186,339.52	20,164.00	9,759.38	196,098.89
JUNE 1994	203,724.00	98,602.42	(11,559.00)	(5,594.56)	93,007.86
JULY 1994	268,160.00	139,469.44	2,872.00	1,390.05	140,859.49
AUG 1994	222,090.00	107,491.56	(8,458.00)	(4,093.67)	103,397.89
SEPT 1994	(3,008.00)	(1,455.87)	(62,922.00)	(30,454.25)	(31,910.12)
OCT 1994	40,919.00	19,804.80	(55,050.00)	(26,644.20)	(6,839.40)
NOV 1994	99,156.00	47,991.50	(44,675.00)	(21,622.70)	26,368.80
DEC 1994	119,023.00	57,607.13	20,033.00	9,695.97	67,303.10
<b>TOTAL</b>	<b>2,621,522.00</b>	<b>1,268,816.65</b>	<b>76,633.00</b>	<b>37,090.37</b>	<b>1,305,907.02</b>
13-MOS AVG.	201,655.54	97,601.28	5,894.85	2,853.11	100,454.39
13-MOS AVG. PER CO	266,213.00	128,847.00	16,869.00	8,164.00	137,011.00
ADJ TO 94	(64,557.46)	(31,245.72)	(10,974.15)	(5,310.89)	(36,556.61)
TOTAL FEDERAL AND STATE GAS =			36,556.61		

EXHIBIT TO AUDIT DISCLOURE 4

PROJECTED ACCRUED INCOME TAXES

	REVISED, MARCH, 1995		REVISED, MARCH 1995		Total Gas
	REV FED I/T	GAS	REV STATE I/T	GAS	
DEC 1994	119,023.00	57,607.13	20,033.00	9,695.97	67,303.10
JAN 1995	253,484.00	122,686.26	43,048.00	20,835.23	143,521.49
FEB 1995	371,974.00	180,035.42	63,343.00	30,658.01	210,693.43
MARCH 1995	437,219.00	211,614.00	75,579.00	36,580.24	248,194.23
APRIL 1995	133,149.00	64,444.12	22,445.00	10,863.38	75,307.50
MAY 1995	394,624.00	190,998.02	20,668.00	10,003.31	201,001.33
JUNE 1995	208,817.00	101,067.43	(11,848.00)	(5,734.43)	95,333.00
JULY 1995	295,364.00	142,956.18	2,944.00	1,424.90	144,381.07
AUG 1995	227,642.00	110,178.73	(8,669.00)	(4,195.80)	105,982.93
SEPT 1995	(3,083.00)	(1,492.17)	(64,495.00)	(31,215.58)	(32,707.75)
OCT 1995	41,942.00	20,299.93	(56,426.00)	(27,310.18)	(7,010.26)
NOV 1995	101,635.00	49,191.34	(45,792.00)	(22,163.33)	27,028.01
DEC 1995	121,999.00	59,047.52	20,534.00	9,938.46	68,985.97
<b>TOTAL</b>	<b>2,703,789.00</b>	<b>1,308,633.88</b>	<b>81,364.00</b>	<b>39,380.18</b>	<b>1,348,014.05</b>
13-MOS AVG.	207,983.77	100,664.14	6,258.77	3,029.24	103,693.39
13-MOS AVG. PER CO	274,155.00	132,691.00	17,507.00	8,473.00	141,164.00
ADJ TO 95	(66,171.23)	(32,026.86)	(11,248.23)	(5,443.76)	(37,470.61)
<b>TOTAL FEDERAL AND STATE GAS =</b>			<b>37,470.62</b>		