

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: June 20, 2002
TO: Division of Competitive Markets and Enforcement (Makin)
FROM: Division of Auditing and Safety (Vandiver) CW
RE: Docket No. 020003-GU; **Company Name:** Florida Public Utilities; **Audit Purpose:** Purchased Gas Cost Recovery True-up for the period January 2001 through December 2001; **Audit Control No.** 02-032-4-3

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

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DOCUMENT NUMBER 020003-GU

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Public Service Commission

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

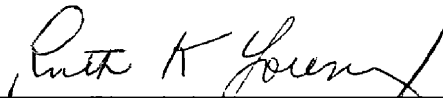
MIAMI DISTRICT OFFICE

FLORIDA PUBLIC UTILITIES
PURCHASED GAS ADJUSTMENT CLAUSE

YEAR ENDED DECEMBER 31, 2001

DOCKET NO. 020003-GU

AUDIT CONTROL NO. 02-032-4-3



Ruth K. Young, Audit Manager



Kathy L. Welch
Miami District Office Audit Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

JUNE 7, 2002

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, 2001. These schedules were prepared by the utility as part of its Purchased Gas Adjustment true-up filings in Docket No. 020003-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.

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.

Verify - The item was tested for accuracy and compared to substantiating documentation.

Revenues: Compiled purchased gas adjustment revenues for the 12-months ending December 31, 2001. Revenues for two months were traced to the company reconciliation sheets and then to the monthly revenue reports. The monthly therm amounts were agreed to the company monthly revenue reports. The conversion factors were verified and the amount used to bill the customers was compared to the cap approved by the Commission for this time period. Off system sales amounts and therms were agreed to the monthly revenue reports and to the invoices sent to the customer.

Expenses: Compiled cost of gas expenses for the 12-months ending December 31, 2001. Examined all invoices for two months.

True-up and Interest: Recalculated the true-up and interest amount for the 12-months ending December 31, 2001. Traced interest rates to the Wall Street Journal.

AUDIT DISCLOSURE 1

SUBJECT: COSTS ASSOCIATED WITH TRANSPORTATION COST RECOVERY FACTOR

STATEMENT OF FACTS: In August 2001, the company started to pass through the purchased gas adjustment clause certain costs associated with the approved transportation cost recovery factors in FPSC Order Numbers PSC-01-1963-TRF-GU and PSC-01-2109-CO-GU.

Rule 25-7.0335, Florida Administrative Code, addresses transportation service. It says that each utility must offer transportation of natural gas to all non-residential customers when it is cost effective to do so. Each gas utility must file a tariff.

The PSC order approving the transportation service tariffs provides for certain fees to be recovered through the transportation cost recovery clause. The order discusses the pool manager fees. The pool manager, according to the Florida Public Utilities tariff, First Revised Sheet No. 10.1, is defined as "any Person who have been engaged by one or more Customer(s) to be responsible for the delivery of natural gas to the Company's Citygate(s) for such Customer(s)."

The charges for the pool manager that are being recovered through the purchased gas adjustment clause are:

(1) Delivery penalty to the pool manager. If the pool manager is short on its delivery to its customer, the pool manager incurs a penalty from FPUC and FPUC charges the pool manager for the shortage. This is considered as part of the purchased gas adjustment revenue by FPUC. FPUC's Third Revised Volume No. 1 tariff, Twelfth Revised Sheet No. 33.1 gives the company the right to assess the pool manager a \$15.00 per million british thermal unit (MMBtu) charge if the delivery to the company by the pool manager differs from the pool managers daily delivery requirement. The tariff does not specifically say that the costs should be run through the purchased gas adjustment clause.

(2) Daily Delivery Variance. This variance occurs when the therms are translated into dacatherms. The PSC deals in therms and the pool manager deals in dacatherms. For example, a customer orders 118 therms for transportation. The order goes to the pool manager as dacatherms. $118 \text{ therms} \div 10 = 11.8 \text{ dacatherms}$. This is rounded up to 12 dacatherms, which becomes 120 therms. The pool manager gets credit for 2 dacatherms. According to the company's tariff, Second Revised Sheet No. 35.7, the credit to the pool manager will be calculated using the purchased gas adjustment factor in effect during the month the delivery variance was created. This has the effect of reducing the purchased gas adjustment revenue.

(3) Pool Manager Imbalances. An imbalance occurs when what is delivered to the

customer does not agree with what is consumed. The position could be positive or negative and the pool manager is the one to either get the credit or charge. This is in the company's Third Revised Volume No. 1 tariff, Second Revised sheet No. 35.6.

The amounts for the pool manager fees are either an addition or a reduction of revenue. The months of August through December 2001 are:

	<u>Revenue -Dr. (Cr)</u>
August	\$15,375.04
September	\$28,947.39
October	\$20,537.98
November	<u>\$ 8,916.05</u>
Total Reduction to Revenue	\$73,776.46

AUDIT DISCLOSURE 2

SUBJECT: LOAN ORIGINATION FEES

STATEMENT OF FACTS: In the month of January 2001, the company included \$12,500 in the cost of gas expense on the A-2 for the cost of a loan origination fee. Company personnel explained that it was necessary to obtain a \$5,000,000 loan because of the increase in the cost of gas at that time. This was necessary until the company obtained a mid-course correction.

AUDIT DISCLOSURE 3

SUBJECT: LEGAL FEES

STATEMENT OF FACTS: In the months of September, October November and December 2001, the company included legal fees in the cost passed through to the customer in the purchased gas adjustment clause. The total for the year is \$4,354.94. The legal fees were incurred through the year, but a journal entry including them in the purchased gas adjustment expenses was not booked until October. This is the first year the company has included these costs in its purchased gas adjustment filings. See attached schedule.

EXHIBIT TO AUDIT DISCLOSURE 3

COMPANY: FPUC
 TITLE: LEGAL FEES
 PERIOD: YEAR END 12/31/01
 DATE: MAY 16, 2002

LEGAL FEES

Source: Paid Invoices

RECONCILIATION OF LEGAL FEES

		MONTH BOOKED					
		SEPT	OCT	NOV	DEC		
MONTH INCURRED	AMOUNT						
121	March	91.76		91.76			
123	March	32.24		32.24			
121	March	1,143.44		1,143.44			
123	March	322.51		322.51			
121	April	125.99		125.99			
123	April	44.26		44.26			
121	April	77.70		77.70			
123	April	27.30		27.30			
121	May	130.91		130.91			
123	May	46.00		46.00			
121	June	189.07		189.07			
123	June	66.43		66.43			
121	July	742.96		742.96			
123	July	261.04		261.04			
121	October	208.88		208.88			
123	October	208.88		208.88			
121	November	106.79			106.79		
123	November	106.79			106.79		
121	September	191.48	191.48				
123	September	67.27	67.27				
121	December	81.63				81.63	
123	December	81.63				81.63	
		4,354.96	258.75	3,719.37	213.58	163.26	4,354.96
							TOTAL

AUDIT DISCLOSURE 4

SUBJECT: COST OF GAS AND REVENUES ASSOCIATED WITH SOUTH FLORIDA NATURAL GAS COMPANY

STATEMENT OF FACTS: Florida Public Utilities purchased South Florida Natural Gas Company in December 2001. The date of the transfer was December 15, 2001. Included in the company general ledger for the year ended December 31, 2001 are the transactions for South Florida Natural Gas for December 15 through December 31. These transactions were not included in the A schedules filed for December for Florida Public Utilities Company. These transactions were filed in separate A schedules which follow this disclosure.

The true-up (collected) or refunded (line 5) , and the beginning of period true-up and interest (line 9) were agreed to the audit of South Florida Natural Gas for the 11 and ½ months ending December 14, 2001. This is in audit control no. 02-032-3-4. Any changes in that audit would effect the true-up at December 31, 2001.

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COMPANY: FLORIDA PUBLIC UTILITIES COMPANY		CALCULATION OF TRUE-UP AND INTEREST PROVISION								SCHEDULE A-2
Customers of former South Florida Natural Gas		FOR THE PERIOD OF: JANUARY 2001 THROUGH DECEMBER 2001								
Note: This document contains Data for 12/15/01 through 12/31/01.		CURRENT MONTH:				PERIOD TO DATE				
REVISED AS REQUESTED BY MALISSA MARSHALL @ FPSC 2/22/02 & 4/18/02		ACTUAL	ESTIMATE	DIFFERENCE		ACTUAL	ESTIMATE (3)	DIFFERENCE		
				AMOUNT	%			AMOUNT	%	
TRUE-UP CALCULATION										
1	PURCHASED GAS COST (Sch. A-1 Line 4)	52,440	44,200	(8,240)	(18.61)	52,440	44,200	(8,240)	(18.61)	
2	TRANSPORTATION COST (Sch. A-1 Lines 1,2,3,5,6)	16,474	16,013	(461)	(2.88)	16,474	16,013	(461)	(2.88)	
3	TOTAL	68,914	60,213	(8,701)	(14.45)	68,914	60,213	(8,701)	(14.45)	
4	FUEL REVENUES (NET OF REVENUE TAX)	69,030	67,810	(1,220)	(1.80)	69,030	67,810	(1,220)	(1.80)	
5	TRUE-UP (COLLECTED) OR REFUNDED	(7,440)	(7,440)	0	0.00	(7,440)	(7,440)	0	0.00	
6	FUEL REVENUE APPLICABLE TO PERIOD * (LINE 4 (+ or -) LINE 5)	61,590	60,370	(1,220)	(2.02)	61,590	60,370	(1,220)	(2.02)	
7	TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	(7,324)	157	7,481	4,764.97	(7,324)	157	7,481	4,764.97	
8	INTEREST PROVISION-THIS PERIOD (21) (2)	17	(46)	(63)	136.96	17	(46)	(63)	136.96	
9	BEGINNING OF PERIOD TRUE-UP AND INTEREST (1)	10,336	(32,658)	(42,994)	131.65	10,336	(32,658)	(42,994)	131.65	
10	TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	7,440	7,440	0	0.00	7,440	7,440	0	0.00	
10a	FLEX RATE REFUND (if applicable)	0	0	0	0.00	0	0	0	0.00	
11	TOTAL ESTIMATED/ACTUAL TRUE-UP (7+8+9+10+10a)	10,469	(25,107)	(35,576)	141.70	10,469	(25,107)	(35,576)	141.70	
INTEREST PROVISION										
12	BEGINNING TRUE-UP AND INTEREST PROVISION (9)	10,336	(32,658)	(42,994)	131.65	* If line 5 is a refund add to line 4 If line 5 is a collection (-) subtract from line 4				
13	ENDING TRUE-UP BEFORE INTEREST (12+7-5)	10,452	(25,061)	(35,513)	141.71					
14	TOTAL (12+13)	20,788	(57,719)	(78,507)	136.02					
15	AVERAGE (50% OF 14)	10,394	(28,860)	(39,254)	136.02					
16	INTEREST RATE - FIRST DAY OF MONTH	2.04%	2.04%	0.00%	0.00					
17	INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	1.78%	1.78%	0.00%	0.00					
18	TOTAL (15+17)	3.8200%	3.8200%	0.0000%	0.00					
19	AVERAGE (50% OF 18)	1.9100%	1.9100%	0.0000%	0.00					
20	MONTHLY AVERAGE (19/12 Months)	0.159%	0.159%	0.000%	0.00					
21	INTEREST PROVISION (15x20)	17	(46)	(63)	136.96					
Estimated Only.										
(1)	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.									
(2)	For the current period, interest should equal the most recently filed Schedule E-2.									

COMPANY FILED EXHIBIT

REVISED
2-25-02, MM

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY		CALCULATION OF TRUE-UP AND INTEREST PROVISION						SCHEDULE A-2	
REVISED AS REQUESTED BY MALISSA MARSHALL @ FPSC 2/22/02		FOR THE PERIOD OF: JANUARY 2001 THROUGH DECEMBER 2001							
		CURRENT MONTH: DECEMBER				PERIOD TO DATE			
		ACTUAL	ESTIMATE	DIFFERENCE		ACTUAL	ESTIMATE	DIFFERENCE	
		AMOUNT	%		(3)	AMOUNT	%		
TRUE-UP CALCULATION									
1	PURCHASED GAS COST (Sch. A-1 Line 4)	917,562	3,743,448	2,825,886	75.49	20,298,917	41,924,246	21,625,329	51.58
2	TRANSPORTATION COST (Sch. A-1 Lines 1,2,3,5,6)	450,673	(2,156,539)	(2,607,212)	120.90	3,966,681	(13,124,752)	(17,091,433)	130.22
3	TOTAL	1,368,235	1,586,909	218,674	13.78	24,265,598	28,799,494	4,533,896	15.74
4	FUEL REVENUES (NET OF REVENUE TAX)	1,358,191	3,878,002	2,519,811	64.98	27,522,732	40,837,575	13,314,843	32.60
5	TRUE-UP (COLLECTED) OR REFUNDED	(2,774)	(2,774)	0	0.00	(33,288)	(33,288)	0	0.00
6	FUEL REVENUE APPLICABLE TO PERIOD * (LINE 4 (+ or -) LINE 5)	1,355,417	3,875,228	2,519,811	85.02	27,489,444	40,804,287	13,314,843	32.63
7	TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	(12,818)	2,288,319	2,301,137	100.56	3,223,846	12,004,793	8,780,947	73.15
8	INTEREST PROVISION-THIS PERIOD (21) (2)	2,903	19,113	16,210	84.81	(5,320)	135,531	140,850	103.93
9	BEGINNING OF PERIOD TRUE-UP AND INTEREST (1)	1,830,638	10,874,933	9,044,294	83.17	(1,428,307)	1,011,527	2,439,834	241.20
10	TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	2,774	2,774	0	0.00	33,288	33,288	0	0.00
10a	FLEX RATE REFUND (if applicable)	0	0	0	0.00	0	0	0	0.00
11	TOTAL ESTIMATED/ACTUAL TRUE-UP (7+8+9+10+10a)	1,823,498	13,185,139	11,361,641	86.17	1,823,498	13,185,139	11,361,641	86.17
INTEREST PROVISION									
12	BEGINNING TRUE-UP AND INTEREST PROVISION (9)	1,830,638	10,874,933	9,044,294	83.17				
13	ENDING TRUE-UP BEFORE INTEREST (12+7-5)	1,820,595	13,166,026	11,345,431	86.17				
14	TOTAL (12+13)	3,651,234	24,040,959	20,389,725	84.81				
15	AVERAGE (50% OF 14)	1,825,617	12,020,480	10,194,863	84.81				
16	INTEREST RATE - FIRST DAY OF MONTH	2.04%		0.00%	0.00				
17	INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	1.78%		0.00%	0.00				
18	TOTAL (16+17)	3.8200%		0.0000%	0.00				
19	AVERAGE (50% OF 18)	1.9100%		0.0000%	0.00				
20	MONTHLY AVERAGE (19/12 Months)	0.159%		0.000%	0.00				
21	INTEREST PROVISION (15x20)	2,903	19,113	16,210	84.81				

* If line 6 is a refund add to line 4
If line 6 is a collection (subtract from line 4)

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Estimated Only:

- (1) 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.
- (2) For the current period, interest should equal the most recently filed Schedule E-2.