



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: July 29, 2003
TO: Division of Competitive Markets & Enforcement (Brown)
FROM: Division of Auditing and Safety (Vandiver) DV
RE: **Docket No.** 030004-GU; **Company Name:** Florida Public Utilities Co.; **Audit Purpose:** Energy Conservation Cost Recovery Gas;
Audit Control No. 03-037-4-2

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 no 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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FPSC-COMM CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Miami District Office

FLORIDA PUBLIC UTILITIES CO.
ENERGY CONSERVATION COST RECOVERY
GAS

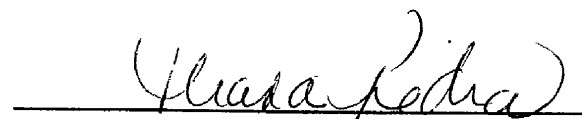
YEAR ENDED DECEMBER 31, 2002

DOCKET NO. 030004-GU

AUDIT CONTROL NO. 03-037-4-2



Kathy L. Welch, Audit Manager



Iliana Piedra
Professional Accountant Specialist

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**DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING**

JUNE 26, 2002

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

We have applied the procedures described later in this report to the attached Conservation Cost Recovery schedules for the period ended December 31, 2002 for Florida Public Utilities Company Gas Division. These schedules were prepared by the utility as part of its petition for Conservation Cost Recovery in Docket 030004-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.

Verified- The item was tested for accuracy, and substantiating documentation was examined.

Conservation Recovery Schedules: Traced the filing to the general ledger. Reconciled revenues to the revenue and rate reports. Recalculated revenues to verify that the correct rate was used.

Examined all expense accounts for unusual entries and reviewed those invoices for compliance with the programs' guidelines and Commission policy. Recalculated payroll and determined how job descriptions relate to conservation.

True-up Calculation- Recalculated the true up provision for the twelve months ended December 31, 2002 to determine the accuracy of the current true-up amount for the period under audit. Traced the interest rates to the Wall Street Journal-30 day Commercial Paper Rate.

AUDIT EXCEPTION NO. 1

SUBJECT: REVENUES-PUBLIC AUTHORITY

STATEMENT OF FACT: The company did not change the conservation rate charged to public authority customers until mid-March. It would have received additional revenue based on therms sold of \$1,490 in January, \$1,446 in February and \$622 in March.

OPINION: Public authority customers were under-billed for three months. However, the filing does represent what was actually billed and should not be changed.

AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: CONTRACT INCENTIVES

STATEMENT OF FACT: Incentives for the company Full House New Residential Program have been established by the Commission. Because the company had existing contracts with several developers and those contracts used incentive amounts less than the approved amounts, the company is paying the contractors based on the contracts and not the established guidelines. Many of those contracts allow an incentive for pool heaters and gas grills that are not in the Commission guidelines. When these incentives are paid, the company debits the incentives for those items to account 186, deferred piping. These costs are then amortized to account 916 which is in base rates as opposed to conservation.

In 2002, two checks were paid to WCI/Palm Beach Division for incentives. One was recorded in April for \$11,085. Of this amount, \$5,290 was charged to conservation and \$5,795 was charged to deferred piping. The second check was recorded in October for \$3,780 and was charged only to conservation. The contract dated May 6, 1999 allowed \$335 for a gas water heater with either a range or dryer or \$420 for all three. There is no mention of gas grills or pool heaters. The April invoice, however, shows that 24 pool heaters and 22 grills had piping installed. Based on the contract, the amount charged to deferred piping could not be re-computed. The October invoice for nine residences had nine pool heaters and nine grills piped however none was charged to deferred piping.

Taylor Woodrow Communities was paid \$5,900 in February, 2002 for incentives that included pool heaters and gas grills. No amount was charged to the deferred piping account.

OPINION: If gas grills and pool heaters are installed, some of the cost of the incentive should be allocated to non-conservation accounts. The treatment of allocating the costs to deferred piping and eventually account 916 will be reviewed in the upcoming rate case.

AUDIT DISCLOSURE NO. 2

SUBJECT: PAYROLL

STATEMENT OF FACT: It was determined that the amounts from the payroll entries did not agree to the payroll amounts in the filing. When preparing the filing, the company has been including travel, training and other payments made to the employees under payroll. One month legal was even included in the payroll number. The filing showed \$107,654 for labor/payroll. According to the journal entries, payroll was \$103,569.46, a difference of \$4,084.54.

OPINION: The error in recording the amount of payroll in the filing does not affect total expenses because all costs are recoverable. However, the payroll is separately identified in the filing and should only include actual payroll and benefits such as insurance and pension costs, not reimbursements made to the employees.

AUDIT DISCLOSURE NO. 3

SUBJECT: STATIONARY AND BUSINESS CARDS

STATEMENT OF FACT: The company paid E.W. Bullock Associates for stationary and business cards for the office that contained the Good Cents logo in February 2002. The stationary and business cards were not necessarily for conservation employees but were charged to conservation because the logo was on them. Even the accountants in West Palm Beach have the logo on their cards. The dollars related to gas are \$1,457.58.

OPINION: This does not appear to be advertising cost but office supply cost that relates to all divisions and not specifically conservation.

AUDIT DISCLOSURE NO. 4

SUBJECT: COMPUTER LEASES

STATEMENT OF FACT: The company charges the lease for eight computers to conservation. The total lease amount is \$1,113.47 per month.

The following employees use the computers according to the Director of Marketing:

Rob Long
William Hurley
Bob Smith
Jim McKenna
Barbara Ziegler
Mike Papadeas
Lynn Reck
Laura Scaffer

OPINION: The employees provided with computers were not charged 100% to conservation. The computers should be allocated based on salary allocations. Gas employees use a standard allocation factor to charge conservation unless their work week is significantly different than the standard. For the month reviewed, the employees were allocated as follows:

Rob Long	New employees, not in payroll sample
William Hurley	30% conservation
Bob Smith	8% conservation
Jim McKenna	24% conservation
Barbara Ziegler	22% conservation
Mike Papadeas	30% conservation
Lynn Reck	24% conservation
Laura Scaffer	New employees, not in payroll sample

EXHIBITS

COMPANY PREPARED SCHEDULES

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY

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

FOR MONTHS January-02 THROUGH December-02

A. CONSERVATION EXPENSE BY PROGRAM		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1	Full House Res. New Construction	38,123	57,427	98,692	35,768	128,387	108,366	44,569	29,968	105,341	76,916	60,517	121,362	905,436
2	Residential Appliance Replacement	7,429	3,560	8,660	6,770	5,520	2,130	4,091	7,430	7,139	6,489	6,359	7,621	73,198
3	Conservation Education	900	4,914	294	206	521	206	577	686	206	206	1,210	906	10,832
4	Space Conditioning	25,000	350			1,200		1,200	830	350	279	393	618	30,220
5	Residential Conservation Service	2,040	3,834	2,190	360	62	2,155	76	480		1,734	3,955	1,177	18,063
6	Residential Appliance Retention	42,480	35,723	30,060	32,200	25,137	22,050	30,986	26,380	27,300	31,356	39,710	34,088	377,470
10.	Commercial Conservation Service	1,203	1,203	1,203	1,202	1,203	2,273	1,203	1,200	1,203	2,468	3,915	1,973	20,249
13.	Residential Service Reactivation	900	913											1,813
14	Common	12,220	27,429	14,466	25,715	37,703	18,885	24,027	19,244	12,383	41,878	60,460	55,497	349,907
15														
16														
17														
18														
19.														
20.														
21	TOTAL ALL PROGRAMS	130,295	135,353	155,565	102,221	199,733	156,065	106,729	86,218	153,922	161,326	176,519	223,242	1,787,188
22.	LESS AMOUNT INCLUDED IN RATE BASE													
23	RECOVERABLE CONSERVATION EXPENSES	130,295	135,353	155,565	102,221	199,733	156,065	106,729	86,218	153,922	161,326	176,519	223,242	1,787,188

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY

SCHEDULE CT-3
PAGE 2 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-02 THROUGH December-02

B.	CONSERVATION REVENUES	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1	RESIDENTIAL CONSERVATION													
2	CONSERVATION ADJ REVENUES	248,662	197,855	204,749	164,108	131,766	129,043	123,033	107,306	125,806	125,240	151,825	239,180	1,948,573
3	TOTAL REVENUES	248,662	197,855	204,749	164,108	131,766	129,043	123,033	107,306	125,806	125,240	151,825	239,180	1,948,573
4	PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	(23,594)	(23,599)	(23,599)	(23,599)	(23,599)	(23,599)	(23,599)	(23,599)	(23,599)	(23,599)	(23,599)	(23,599)	(283,183)
5	CONSERVATION REVENUE APPLICABLE	225,068	174,256	181,150	140,509	108,167	105,444	99,434	83,707	102,207	101,641	128,226	215,581	1,665,390
6	CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	130,295	135,353	155,565	102,221	199,733	156,065	106,729	86,218	153,922	161,326	176,519	223,242	1,787,188
7	TRUE-UP THIS PERIOD (LINE 5 - 6)	94,773	38,903	25,585	38,288	(91,566)	(50,621)	(7,295)	(2,511)	(51,715)	(59,685)	(48,293)	(7,661)	(121,798)
8	INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	(331)	(196)	(116)	(34)	(38)	(108)	(114)	(86)	(92)	(137)	(156)	(142)	(1,550)
9	TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	(283,183)	(165,147)	(102,841)	(53,773)	8,080	(59,925)	(87,055)	(70,865)	(49,863)	(78,071)	(114,294)	(139,144)	(283,183)
9A.	DEFERRED TRUE-UP BEGINNING OF PERIOD													
10	PRIOR TRUE-UP COLLECTED (REFUNDED)	23,594	23,599	23,599	23,599	23,599	23,599	23,599	23,599	23,599	23,599	23,599	23,599	283,183
11.	TOTAL NET TRUE-UP (LINES 7+8+9+9A+10)	(165,147)	(102,841)	(53,773)	8,080	(59,925)	(87,055)	(70,865)	(49,863)	(78,071)	(114,294)	(139,144)	(123,348)	(123,348)

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EXHIBIT NO. _____
DOCKET NO. 030004-GU
FLORIDA PUBLIC UTILITIES COMPANY
(RLS-1)
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COMPANY: FLORIDA PUBLIC UTILITIES COMPANY

CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-02 THROUGH December-02

C. INTEREST PROVISION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. BEGINNING TRUE-UP (LINE B-0)	(283,183)	(165,147)	(102,841)	(53,773)	8,080	(59,925)	(87,055)	(70,865)	(49,863)	(78,071)	(114,294)	(139,144)	(283,183)
2. ENDING TRUE-UP BEFORE INTEREST (LINES B7+B9+B9A+B10)	(164,818)	(102,645)	(53,657)	8,114	(59,887)	(86,947)	(70,751)	(49,777)	(77,979)	(114,157)	(138,988)	(123,206)	(121,798)
3. TOTAL BEG. AND ENDING TRUE-UP	(447,999)	(267,792)	(156,498)	(45,659)	(51,807)	(146,872)	(157,806)	(120,642)	(127,842)	(192,228)	(253,282)	(262,350)	(404,981)
4. AVERAGE TRUE-UP (LINE C-3 X 50%)	(224,000)	(133,896)	(78,249)	(22,830)	(25,904)	(73,436)	(78,903)	(60,321)	(63,921)	(96,114)	(128,641)	(131,175)	(202,491)
5. INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	1.78%	1.77%	1.75%	1.80%	1.75%	1.77%	1.75%	1.73%	1.71%	1.76%	1.65%	1.30%	
6. INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	1.77%	1.75%	1.80%	1.75%	1.77%	1.75%	1.73%	1.71%	1.76%	1.65%	1.30%	1.29%	
7. TOTAL (LINE C-5 + C-6)	3.55%	3.52%	3.55%	3.56%	3.52%	3.52%	3.48%	3.44%	3.47%	3.41%	2.95%	2.59%	
8. AVG. INTEREST RATE (C-7 X 50%)	1.78%	1.76%	1.78%	1.78%	1.76%	1.76%	1.74%	1.72%	1.74%	1.71%	1.48%	1.30%	
9. MONTHLY AVERAGE INTEREST RATE	0.148%	0.147%	0.148%	0.148%	0.147%	0.147%	0.145%	0.143%	0.145%	0.142%	0.123%	0.108%	
10. INTEREST PROVISION (LINE C-4 X C-9)	(331)	(196)	(116)	(34)	(38)	(106)	(114)	(86)	(92)	(137)	(156)	(142)	(1,550)

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