



ORIGINAL

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION  
CLERK

**DATE:** August 18, 2004

**TO:** Sam Merta, Division of Economic Regulation

**FROM:** Denise N. Vandiver, Chief, Bureau of Auditing  
Division of Regulatory Compliance and Consumer Assistance

**RE:** **Docket No.** 040216-GU ; **Company Name:** Florida Public Utilities Co. ;  
**Audit Purpose:** Rate Case ; **Audit Control No.** 04-168-4-1

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 Regulatory Compliance and Consumer Assistance (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

- CMP \_\_\_\_\_ Messer Law Firm
  - COM \_\_\_\_\_ Norman H. Horton, Jr., Esq.
  - CTR \_\_\_\_\_ P. O. Box 1876
  - ECR \_\_\_\_\_ Tallahassee, FL 32302-1876
  - GCL \_\_\_\_\_ Ms. Cheryl Martin
  - OPC \_\_\_\_\_ Florida Public Utilities Co., Gas Division
  - MMS \_\_\_\_\_ Post Office Box 3395
  - RCA \_\_\_\_\_ West Palm Beach, FL 33402
  - SCR \_\_\_\_\_ Mr. John T. English, President & CEO,
  - SEC   1   \_\_\_\_\_ Florida Public Utilities Co.
  - OTH \_\_\_\_\_ 401 South Dixie Highway
- West Palm Beach, FL 33402

DOCUMENT NUMBER-DATE

09162 AUG 20 04

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
BUREAU OF AUDITING

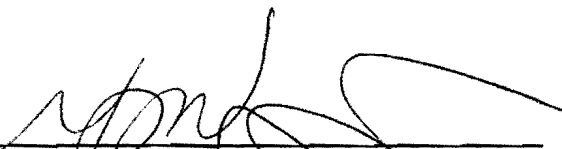
*Miami District Office*

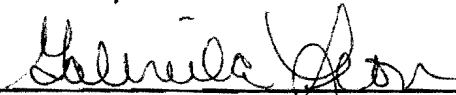
FLORIDA PUBLIC UTILITIES COMPANY

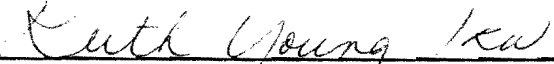
RATE CASE

PROJECTED TEST YEAR END DECEMBER 31, 2005


DOCKET NO. 040216-GU  
AUDIT CONTROL NO. 04-168-4-1

  
\_\_\_\_\_  
*Yen Ngo, Audit Manager*

  
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*Gabriela Leon, Audit Staff*

  
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*Kathy Welch, Public Utilities Supervisor*

## TABLE OF CONTENTS

<b>I.</b>	<b>AUDITOR'S REPORT</b>	<b>PAGE</b>
	AUDIT PURPOSE	1
	DISCLAIM PUBLIC USE	1
	SUMMARY OF SIGNIFICANT PROCEDURES	2
<b>II.</b>	<b>AUDIT EXCEPTIONS</b>	
1.	PLANT ALLOCATIONS	5
2.	WORKING CAPITAL	7
3.	ALLOCATION FACTORS	9
4.	CONSERVATION AD	15
5.	OUT OF PERIOD EXPENSE	16
6.	ACCOUNT 923.3 PROPERTY TAX AUDIT	17
7.	DUPLICATE INCREASE IN BROKERS FEE ACCOUNT 924	18
8.	EMPLOYEE BENEFIT FORECAST ACCOUNT 926.2	19
9.	DUPLICATE OF COSTS IN TEST YEAR	20
10.	<b>TAXES OTHER THAN INCOME - REGULATORY</b>	
	ASSESSMENT FEES	22
11.	<b>TAXES OTHER THAN INCOME - PROPERTY TAXES</b>	23
<b>III.</b>	<b>AUDIT DISCLOSURES</b>	
1.	CONTAMINATED LAND	25
2.	<b>COMPARISON OF ACTUAL VS FORECASTED PLANT</b>	
	IN SERVICE AT JUNE 30, 2004	26
3.	DEFERRED PIPING ALLOWANCE	30
4.	COST OF CAPITAL PRESENTATION	32
5.	COST OF CAPITAL - EQUITY	33
6.	<b>COST OF CAPITAL - 2004 EQUITY OFFERING</b>	34
7.	POSSIBLE NON-RECURRING EXPENSES	35
8.	CO-OPERATIVE ADVERTISING	36

9.	NEW INSURANCE ESTIMATE .....	37
10.	ANNUALIZATION OF CURRENT 2004 .....	38
11.	UNBUNDLING .....	39
12.	ACCOUNT 920 PAYROLL INCREASE .....	40
13.	REQUESTED TRAINING .....	41
14.	NEW POSITIONS REQUESTED IN 2005 FILING OF EXPENSES ...	42
15.	INCREASED ADVERTISING EXPENSES .....	45
16.	LINE LOCATION & BARE STEEL REPLACEMENT REDUCTION ...	46
<b>IV.</b>	<b>EXHIBITS</b>	
	COMPANY FILING .....	47

**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
AUDITOR'S REPORT  
August 10, 2004**

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

We have applied the procedures described in this report to audit the rate base, net operation income, and capital structure schedules for the projected test year ended December 31, 2005 for Florida Public Utilities Company. These schedules were prepared by the utility as part of its petition for rate increase.

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. There are confidential workpapers associated with this audit.

## 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.

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

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**Rate Base** - Verified adjustments to prior Commission orders and reviewed adjustments for supporting documentation.

**Plant**- Reconciled plant in service from last surveillance report audit forward through actual year end 2003. Compared June 2004 balances to the forecast for 2004. Reconciled transfers out of CWIP to transfers in to utility plant. Determined if there were any unrecorded retirements through interviews and invoice testing.

**Acquisition Adjustment** - Traced beginning balances to the last surveillance audit, tested amortization, and traced dollars to supporting documentation.

**Accumulated Depreciation** - Reviewed accumulated depreciation from last audit forward through actual year end 2003. Reviewed year end depreciation journal entries to determine that the company used the correct rates and methodology.

**Working Capital** - Compared actual data as of June 2004. Determined how 2005 was projected and obtained supporting documentation. Tested assumptions. Verified that no interest bearing accounts were included. Reviewed the company's methodology to allocate plant operating materials and supplies, other accounts receivable and customer accounts

receivable to divisions.

Obtained a schedule at year end for prepayments, miscellaneous deferred debits, miscellaneous deferred credits, other accrued liabilities and verified that they appeared to be gas related.

**Customer Advances for Construction** - Obtained a list of customer advances, randomly selected a sample of large commercial customers and traced to contracts.

**Environmental Adjustment** - Traced to expense, compared to liability, verified the amortization and randomly tested expenses.

**Cost of Capital** - Traced the beginning balance for cost of capital components to appropriate components in the last audit. Determined the split between common equity for Flo-Gas and utility. Tested customer deposits for gas. Verified that no propane deposits are included. Determined how the forecast was prepared and reviewed it for reasonableness.

**Net Operating Income** - Traced 2003 to the general ledger. Verified 2005 Commission and company adjustments were consistent with prior cases.

**Revenue** - Reconciled 2003 to the general ledger. Selected some bills and traced to the tariff. Compared revenue to date for 2004 to the forecast for 2005. Tested 2003 unbilled revenues. Based on an agreement with Tallahassee staff, the scope was limited to 2003 revenues.

**Expenses** - Tested 2003 invoices and journal entries for trended accounts.

For the clearing accounts, sampled the accounts and determined the reasonableness of the allocations.

Annualized June 2004 actuals and compared to 2004 projections. Reviewed the methodology of projected 2005 and tested calculation. For direct forecasts obtained the supporting documentation.

Obtained list of all gas employees, job description, total salary, and amount charged to regulated. Reconciled 2003 payroll from journal entries to the general ledger.

Recalculated depreciation expense for reasonableness. Traced depreciation rate to order and new depreciation study.

Traced projection factors to appropriate support documentation.

**Taxes Other Than Income** - Obtained property tax bills and verified that they are related to gas for 2003. Determined how 2004 and 2005 were forecast. Reviewed the

methodology reasonableness.

Recalculated Federal Insurance Contribution Act (FICA) and Gross Receipt Tax using payroll and revenue forecast.

**Income tax expense** - Reconciled Income Tax to the General Ledger. Inquired about, reviewed, and reconciled all adjustments to historical and projected test year balances.



## **AUDIT EXCEPTIONS**

### **AUDIT EXCEPTION NO. 1**

#### **SUBJECT: PLANT ALLOCATIONS**

**STATEMENT OF FACT:** The company prepares two allocations using plant in service. The first is a common plant allocation which is used to allocate the maintenance of the general plant clearing account (935) and the common plant in the filing. The second is the percent of total plant for each division which is used to allocate corporate payroll (920 and 920.1), and property insurance (924). The calculation is attached to this exception. The allocation that is shown in Consolidated Allocation are the factors used for account 920 and 924. The factors shown in Allocation % next to Total Common are the factors used for common plant and account 935.

For 2004, the allocation factor for common plant was 38% for West Palm Beach and 17% for Central Florida or a total of 55% allocated to natural gas. The allocation factors used for account 920 and 924 were 35% and 17%, respectively, for a total of 52%.

**OPINION:** The company has included in its plant, the Sanford office which was abandoned. Removal of Sanford from gas plant will also reduce the allocation factor.

The company's inclusion of the acquisition adjustment should be reviewed for reasonableness. If the Commission does not approve the acquisition adjustment it should be removed from this calculation.

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)		
Allocation of Utility Plant	Utility Plant	Acquisition Adjust & GW	Direct Common	Sub-Total	Note 1 Allocation	Remaining Common	Common EDP Equip	Adj. Plant (E+G+H)	Consolidated Allocation %	FPU Allocation %
All Division	(101,106,107)	(114)	Loc & Mer	(A+B+C+D)	%					
<b>Florida Public Utilities</b>										
Northwest Electric	\$26,004,153	\$3,691		\$26,007,844	17%	\$394,874	\$318,283	\$26,721,001	17%	19%
Northeast Electric	34,499,776			34,499,776	22%	511,014	386,486	35,397,276	22%	24%
South FL NG	54,102,594	(29,523)	360,560	54,433,631	35%	812,976	795,706	56,042,313	35%	38%
Central Florida NG	24,790,020	1,846,102		26,636,122	17%	394,874	454,689	27,485,685	17%	19%
Merchandising	0		94,723	94,723	0%		45,469	140,192	0%	
<b>Propane Operations</b>										
South FL Propane	7,257,659		71,766	7,329,425	5%	118,139	159,141	7,604,705	5%	
Central FL Propane	2,756,531			2,756,531	2%	46,456	68,203	2,871,190	2%	
Northeast Propane	1,475,217			1,475,217	1%	23,228	22,734	1,521,179	1%	
Nature Coast (996)	1,423,584			1,423,584	1%	23,228	22,734	1,469,546	1%	
Total	\$152,309,534	\$1,820,270	\$527,049	\$154,656,853	100%	2,322,789	2,273,445	159,253,087	100%	100%

EDP Equipment										
Customers Billed 6/30/2003	Allocation %	Common EDP	FPUC Allocation %	Remaining Common	Direct Common	Remaining Common	Allocation %	Common	Allocation %	
<b>Florida Public Utilities</b>										
Northwest Electric	12,462	14%	318,283	16%	394,874	-	394,874	13%	713,157	13%
Northeast Electric	14,225	17%	386,486	20%	511,014		511,014	18%	897,500	18%
South FL NG	30,281	35%	795,706	41%	812,976	360,560	1,173,536	41%	1,969,242	38%
Central Florida NG	16,851	20%	454,689	23%	394,874	-	394,874	14%	849,563	17%
Merchandising	1,627	2%	45,469		0	94,723	94,723	3%	140,192	3%
<b>Propane Operations</b>										
South FL Propane	6,017	7%	159,141		118,139	71,766	187,905	7%	347,046	7%
Central FL Propane	2,409	3%	68,203		46,456		46,456	2%	114,659	2%
Northeast Propane	901	1%	22,734		23,228		23,228	1%	45,962	1%
Nature Coast (996)	1,109	1%	22,734		23,228		23,228	1%	45,962	1%
Total	85,882	100%	2,273,445	100%	2,322,789	527,049	2,849,838	100%	5,123,283	100%

**Merchandise**

Allocation %	Total M & J Common EDP	Total M & J Remain Comm	Total M & J Comm Plant
South FL	62.0%	28,192	86,919
Central FL	34.0%	15,459	47,665
Northeast	2.0%	909	2,804
Nature Coast (946)	2.0%	909	2,804
Total	100.0%	45,469	140,192

## AUDIT EXCEPTION NO. 2

### SUBJECT: WORKING CAPITAL

**STATEMENT OF FACT:** The company used projected factors to allocate common asset and liability accounts to working capital in its filing, Schedule G-1(B-13). When the company actually arrived at their 2004 factors the allocation rates determined were much lower than what were originally projected. (See audit exception on allocation factors.) In addition, when the company used the revenue factor, they used a factor of 61% which is based on utility only. The consolidated factor, which includes merchandising and jobbing and propane in the factor is 52% for actual 2004. Staff used the consolidated factor for accounts that related to all divisions. The attached schedule shows the calculation of the difference between what the company used and the correct allocation to the Natural Gas Division.

The company has also included in current assets in the working capital allowance, the underrecoveries for Purchased Gas Adjustment and Conservation recovery clauses(accounts 186.21 and 186.61). Accounts 186.21 and 186.61 show a 13-month average total for the two accounts of \$169,685.00 for 2003, \$169,687 for 2004, and \$175,830 for 2005.

**OPINION:** The Company should have used the 2004 allocation factors to project 2004 and 2005 working capital accounts. Since most of the allocated accounts are liabilities, this change would increase working capital by **\$1,217,884.42**

The working capital accounts that were direct instead of trended increase by **\$217,100.56**

See Audit Exception No. 3

Exclude underrecoveries of PGA and Conservation -Order PSC-95-0518-FOF-GU **(\$175,830.00)**

Net Adjustment to Working Capital **\$1,259,154.98**

Schedule G-1(B-13) shows a negative Working Capital balance for 2005 of **(\$1,425,439.00)** but the company used zero

Net effect to Working Capital is **(\$166,284.02)**

The net effect still leaves a negative Working Capital Allowance balance. Therefore, zero should still be used.

TRENDED ACCOUNTS IN WORKING CAPITAL		per general ledger 13 month average		allocated amount		% STAFF	ALLOCATED AMT. STAFF	DIFFERENCE 2003	projection 2004	2004 projected difference	projection 2005	2005 projected difference
ACCOUNT	DESCRIPTION	TOTAL AMOUNT	allocation	AMOUNT PER FILING	TOTAL 'ER GEN. LEDGEI							
186.21 and 186.4	Miscellaneous Deferred Underreco	\$169,685.00	100.00%	\$169,685.00	\$169,685.00	100.00%	\$169,685.00	\$0.00	3.62%	\$0.00	4.10%	\$0.00
186.4	Miscellaneous Deferred Debit	\$3,770,461.00	100.00%	\$3,770,461.00	\$3,770,461.00	100.00%	\$3,770,461.00	\$0.00	3.62%	\$0.00	4.10%	\$0.00
232.21, .11, .99	Accounts payable general	(\$2,341,201.84)	100.00%	(\$2,341,201.84)	(\$2,341,201.84)	100.00%	(\$2,341,201.84)	\$0.00	3.62%	\$0.00	4.10%	\$0.00
232.21, .11, .99	Accounts payable-general, accrued	(\$1,754,887.78)	59.00%	(\$1,035,383.79)	(\$1,035,383.79)	52.00%	(\$538,399.57)	\$496,984.22	3.62%	\$514,975.05	4.10%	\$536,089.03
232.2-232.92	Accounts payables-savings bonds	(\$627,834.00)	71.00% ***	(\$436,297.00)	(\$627,834.00)	47.00%	(\$295,081.98)	\$141,215.02	3.00%	\$145,451.47	3.50%	\$150,542.27
236.1	Accrued property taxes-ad valorem	(\$330,063.00)	100.00%	(\$330,063.00)	(\$330,063.00)	100.00%	(\$330,063.00)	\$0.00	3.62%	\$0.00	4.10%	\$0.00
236.2	State Gross Receipts	(\$181,378.00)	59.00%	(\$107,013.02)	(\$181,378.00)	59.00%	(\$107,013.02)	\$0.00	3.62%	\$0.00	4.10%	\$0.00
236.3	FPSC Assessment	(\$107,193.00)	59.00%	(\$63,243.87)	(\$107,193.00)	59.00%	(\$63,243.87)	\$0.00	3.62%	\$0.00	4.10%	\$0.00
236.5-.7	Federal unemployment	(\$6,447.00)	71.00%	(\$4,577.37)	(\$6,447.00)	47.00%	(\$3,030.09)	\$1,547.28	3.00%	\$1,593.70	3.50%	\$1,649.48
236.8, .9	Federal Income Taxes	(\$2,779,915.00)	59.00%	(\$1,640,149.85)	(\$2,779,915.00)	52.00%	(\$1,445,555.80)	\$194,594.05	3.62%	\$201,638.35	4.10%	\$209,905.53
237.1,237.2	Accrued Interest loan, notes	(\$1,002,472.00)	58.00% ***	(\$592,893.98)	(\$1,002,472.00)	52.00%	(\$521,285.44)	\$71,608.54	3.62%	\$74,200.77	4.10%	\$77,243.00
237.3	Accrued Int. Customer Deposits	(\$106,230.00)	100.00%	(\$106,230.00)	(\$106,230.00)	100.00%	(\$106,230.00)	\$0.00	3.62%	\$0.00	4.10%	\$0.00
241.2, .3, .	Fica, fed w/h, state sales tax	\$27,767.00	71.00%	\$19,714.57	\$27,767.00	47.00%	\$13,050.49	(\$6,664.08)	3.62%	(\$6,905.32)	4.10%	(\$7,188.44)
241.6	State Sales Tax	(\$62,223.00)	100.00%	(\$62,223.00)	(\$62,223.00)	100.00%	(\$62,223.00)	\$0.00	3.62%	\$0.00	4.10%	\$0.00
241.4	Taxes Payable-Franchise Tax'	(\$704,143.00)	100.00%	(\$704,143.00)	(\$704,143.00)	100.00%	(\$704,143.00)	\$0.00	3.62%	\$0.00	4.10%	\$0.00
241.5	Taxes Payable-Municipal	(\$161,444.00)	100.00%	(\$161,444.00)	(\$161,444.00)	100.00%	(\$161,444.00)	\$0.00	3.62%	\$0.00	4.10%	\$0.00
242.7	Corporate office commission	(\$734.00)	100.00%	(\$734.00)	(\$734.00)	100.00%	(\$734.00)	\$0.00	3.62%	\$0.00	4.10%	\$0.00
242.7	Corporate office commission	(\$3,196.00)	100.00%	(\$3,196.00)	(\$3,196.00)	100.00%	(\$3,196.00)	\$0.00	3.62%	\$0.00	4.10%	\$0.00
242.8	Accrued Bank Fees	(\$2,375.00)	100.00%	(\$2,375.00)	(\$2,375.00)	100.00%	(\$2,375.00)	\$0.00	3.62%	\$0.00	4.10%	\$0.00
242.3	Outside Audit and Accounting	(\$126,995.00)	59.00%	(\$74,927.05)	(\$126,995.00)	51.00%	(\$64,767.45)	\$10,159.60	3.62%	\$10,527.38	4.10%	\$10,959.00
242.9	Miscellaneous Current and Accrue	(\$1,731.00)	59.00%	(\$1,021.29)	(\$1,731.00)	52.00%	(\$900.12)	\$121.17	3.62%	\$125.56	4.10%	\$130.70
242.1	Vacation Pay Misc Cu	(\$932,390.00)	71.00%	(\$661,996.90)	(\$932,390.00)	47.00%	(\$438,223.30)	\$223,773.60	3.00%	\$230,486.81	3.50%	\$238,553.85
253.21, 253.61	Overrecoveries conservation+pga	(\$550,896.00)	100.00%	(\$550,896.00)	(\$550,896.00)	100.00%	(\$550,896.00)	\$0.00	3.62%	\$0.00	4.10%	\$0.00
		<b>(\$7,815,835.62)</b>		<b>(\$4,920,149.39)</b>	<b>(\$7,096,331.63)</b>		<b>(\$3,786,809.99)</b>	<b>\$1,133,339.40</b>		<b>\$1,172,093.76</b>		<b>\$1,217,884.42</b>

\*\*\* These accounts were plugged to the filing amount because the company inadvertently did not use the correct general ledger balance.

Working Capital should be increased by \$1,217,884.42  
The working capital accounts are were direct instead of trended  
increase by (See Audit Exception No. 3) \$217,100.56  
Working Capital shoould be decreased by (\$175,830.00) to exclude underrecoveries from the PGA and  
Net effect increase to Working Capital \$1,259,154.98 the Conservation Clause

Schedule G-(B-13)  
shows a negative Working Capital balance for 2005 of (\$1,425,439.00)  
but the company used zero  
Net effect to Working Capital is (\$166,284.02)

### **AUDIT EXCEPTION NO. 3**

#### **SUBJECT: ALLOCATION FACTORS**

**STATEMENT OF FACT:** The company allocates costs from its headquarters account that affect all divisions. Several different factors are used based on the account. These factors changed in 2003 because when the water division was sold, more costs had to be allocated to the other divisions. In 2003, the factors changed several times.

The company adjusted the filing for allocations it believed were used from January to March that were changed later in the year using the allocation schedules for January 2003 in the correction. However, the company books had actually allocated costs from January to March using 2002 allocation factors. This caused the adjustment to the filing to be incorrect. In addition, some accounts had changes that the company did not adjust for. Other accounts (923, 924, 925, and 926), included in Schedule G-2 (C-5) of the filing, were adjusted in the 2005 forecast to use the 2004 allocation factors.

The 2004 allocation factors were different than 2003 mainly because of an error in the calculation found in the electric rate case audit. Staff discovered that the company included employees that work at headquarters and perform work for all divisions, in the gas division. Although it did not change the electric allocation, we recommended that the clearing be removed in the computation of the allocation before the gas case was completed.

In addition, the company used 60% to allocate workmen's compensation insurance. This allocation was based on a combination of claims and payroll. However, the claims of headquarters employees who work on all companies and go through the clearing account were included in gas claims.

The company also used allocation factors for direct working capital accounts, related to these expenses, that did not agree with the 2004 allocation rates.

**OPINION:** Total clearing should be allocated using the 2004 allocation factors. Workmen's Compensation Insurance should be allocated using the payroll allocation. The payroll allocation needs to be allocated to merchandising and jobbing. Staff determined the total amounts to be allocated from the clearing accounts. For the expenses that were not trended but shown as direct in the filing, the 2005 projection was used and allocated using the correct rates and compared to the amounts provided by the company in the filing to determine the difference. These corrections reduce expenses for 2005 on G-2 (C-5) by \$134,778.22 as shown on the attached schedule.

For the 2003 expenses that were trended up, the total 2003 clearing was determined and allocated using the 2004 rates. This amount was compared to the amount in the filing after the adjustment in the filing. The attached schedule shows this adjustment reduces expenses on G-2 (C-5) by \$72,130.65. After trending these numbers up to 2005, the amount is \$74,438.67, which should be removed from the filing.

Working capital should be increased by \$217,100.56 for the change in allocation factors as shown on the attached schedule.

Florida Public Utilities-Gas Division  
Adjustment to Allocation Methodology Using Payroll  
Test Year Ended December 31, 2005

ACCOUNT NUMBER	(a) TOTAL 2005 AMOUNT ALLOCATED	(b) PERCENT USED BY COMPANY	(c) (a x b) AMOUNT CHARGED BY COMPANY	(d) PERCENT PER STAFF	(e) (a x d) AMOUNT PER STAFF	(f) (e-c) DIFFERENCE
925.10	83,069.50	51.00%	42,365.45	47.00%	39,042.67	(3,322.78)
925.10	59,850.00	51.00%	30,523.50	47.00%	28,129.50	(2,394.00)
925.10	10,000.00	51.00%	5,100.00	47.00%	4,700.00	(400.00)
<b>Total 925.1</b>	<b>152,919.50</b>		<b>77,988.95</b>		<b>71,872.17</b>	<b>(6,116.78)</b>
926.10	1,201,072.00	51.00%	612,546.72	47.00%	564,503.84	(48,042.88)
926.30	226,050.00	51.00%	115,285.50	47.00%	106,243.50	(9,042.00)
926.20	1,789,414.00	51.00%	912,601.14	47.00%	841,024.58	(71,576.56)
<b>Total 926</b>	<b>3,216,536.00</b>		<b>1,640,433.36</b>		<b>1,511,771.92</b>	<b>(128,661.44)</b>
<b>Total All Accounts</b>	<b>3,369,455.50</b>		<b>1,718,422.31</b>		<b>1,583,644.09</b>	<b>(134,778.22)</b>

FLORIDA PUBLIC UTILITIES  
ANALYSIS OF CHANGE IN PAYROLL FACTOR ALLOCATION  
TEST YEAR ENDED DECEMBER 31, 2003

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	
ACCOUNT NUMBER	CLEARING BALANCE	CURRENT ALLOCATION RATE DIV. 121	CURRENT ALLOCATION RATE DIV. 123	AMOUNT TO BE ALLOCATED TO 121 (a x b)	AMOUNT TO BE ALLOCATED TO 123 (a x c)	TOTAL (d + e)	AMOUNT CHARGED TO ACCT.	ADJUSTMENT MADE BY COMPANY	TOTAL IN MFR'S (g + h)	DIFFERENCE RELATED TO REVISED RATES ALL MONTHS (j-i)	TREND RATES	TRENDED AMOUNT (j x k)
901 1849	121,859.25	34.00%	20.00%	41,432.15	24,371.85	65,804.00	60,118.91	2,505.00	62,623.91	3,180.09	6.60%	3,389.97
903 1840	61,886.12	41.00%	23.00%	25,373.31	14,233.81							
903 1849	608,352.73	34.00%	20.00%	206,839.93	121,670.55	368,117.59	338,730.50	12,083.00	350,813.50	17,304.09	3.30%	17,875.13
920 1840	(1,485.00)	39.00%	19.00%	(579.15)	(282.15)							
920 1849	2,169,263.10	35.00%	17.00%	759,242.09	368,774.73	1,127,155.51	1,104,350.50	23,794.00	1,128,144.50	(988.99)	6.60%	(1,054.26)
921.1 1849	40,295.61	32.00%	15.00%	12,894.60	6,044.34	18,938.94	23,954.59	137.00	24,091.59	(5,152.65)	3.30%	(5,322.69)
921.2 1849	22,907.52	32.00%	15.00%	7,330.41	3,436.13	10,766.53	13,516.29	144.00	13,660.29	(2,893.76)	3.30%	(2,989.25)
921.3 1840	163.30	44.00%	20.00%	71.85	32.66							
921.3 1849	315,915.67	32.00%	15.00%	101,093.01	47,387.35	148,584.88	187,693.74	1,237.00	188,930.74	(40,345.86)	3.30%	(41,677.28)
921.4 1849	63,771.01	32.00%	15.00%	20,406.72	9,565.65	29,972.37	37,884.88	231.00	38,115.88	(8,143.51)	3.30%	(8,412.24)
921.5 1840	240.17	44.00%	20.00%	105.67	48.03							
921.5 1849	248,118.19	32.00%	15.00%	79,397.82	37,217.73	116,769.26	147,709.48	809.00	148,518.48	(31,749.22)	3.30%	(32,796.95)
921.6 1849	10,594.93	32.00%	15.00%	3,390.38	1,589.24	4,979.62	6,351.66	3.00	6,354.66	(1,375.04)	3.30%	(1,420.42)
930.2 1840	100,623.37	42.00%	19.00%	42,261.82	19,118.44							
930.2 1849	72,491.05	35.00%	16.00%	25,371.87	11,598.57	98,350.69	95,150.61	2,454.00	97,604.61	746.08	3.30%	770.70
935 1840	132.63	45.00%	19.00%	59.68	25.20							
935 1849	141,566.87	37.00%	17.00%	52,379.74	24,066.37	76,530.99	78,708.88	534.00	79,242.88	(2,711.89)	3.30%	(2,801.38)
	<b>3,976,696.52</b>			<b>1,377,071.89</b>	<b>688,898.49</b>	<b>2,065,970.38</b>	<b>2,094,170.04</b>	<b>43,931.00</b>	<b>2,138,101.04</b>	<b>(72,130.66)</b>		<b>(74,438.67)</b>



Florida Public Utilities-Gas Division  
 Corrected Payroll Allocation  
 Test Year Ended December 31, 2005

	PAYROLL FROM JE 9 FOR 12-MTHS 06/30/2003	1840 ALLOCATION BASIS	1849 ALLOCATION BASIS	TOTAL GAS
SOUTH FLORIDA-GAS	4,169,710	45.00%	32.00%	
CENTRAL FLORIDA-GAS	1,862,899	20.00%	15.00%	47.00%
NORTHWEST FL-ELECTRIC	1,636,004	18.00%	13.00%	
NORTHEAST FL-ELECTRIC	1,588,533	17.00%	12.00%	
UTILITY PAYROLL ONLY	<b>9,257,146</b>	<b>100.00%</b>	<b>72.00%</b>	
PROPANE SOUTH	1,622,840		13.00%	
PROPANE CENTRAL	651,221		5.00%	
PROPANE NATURE COAST	165,248		1.00%	
PROPANE NORTHEAST	381,598		3.00%	
MERCHANDISING AND JOBBING SOUTH	644,351		5.00%	
MERCHANDISING AND JOBBING CENTRAL	154,562		1.00%	
MERCHANDISING AND JOBBING NATURE	14,155		0.00%	
MERCHANDISING AND JOBBING NE	38,796		0.00%	
<b>TOTAL DIRECT PAYROLL</b>	<b>12,929,917</b>		<b>100.00%</b>	
CLEARING PAYROLL 1840	(290,387)			
CLEARING PAYROLL 1849	2,297,196			
<b>TOTAL INDIRECT PAYROLL</b>	<b>2,006,809</b>			
<b>TOTAL PAYROLL</b>	<b>14,936,726</b>			

NOTE: The company allocated each year based on the year ended June 30 for the prior year. 1840 allocations are used for accounts that affect the utility company only and 1849 allocations are used for accounts that affect all companies.

FLORIDA PUBLIC UTILITIES  
ANALYSIS OF WORKING CAPITAL ALLOCATIONS  
TEST YEAR ENDED DECEMBER 31, 2005

ACCOUNT NUMBER	ACCOUNT TITLE	TOTAL COMPANY 2005 13-MONTH AVG. AMOUNT	COMPANY ALLOCATION FACTOR	COMPANY ALLOCATED AMOUNT	STAFF ALLOCATION FACTOR	STAFF ALLOCATED AMOUNT	DIFFERENCE
1650.2000	PREPAID INSURANCE	371,213.00	61.00%	226,439.93	47.00%	174,470.11	(51,969.82)
1650.2000	PREPAID PROPERTY INSURANCE	53,878.00	61.00%	32,865.58	52.00%	28,016.56	(4,849.02)
1650.5000	WORKMEN'S COMP INSURANCE	125,460.00	61.00%	76,530.60	47.00%	58,966.20	(17,564.40)
2280.3200	MEDICAL INS. RESERVE	(1,761,655.00)	61.00%	(1,074,609.55)	47.00%	(827,977.85)	246,631.70
2280.2010	ACCRUED LIABILITY INSURANCE	(500,235.00)	61.00%	(305,143.35)	47.00%	(235,110.45)	70,032.90
		<u>(1,606,419.00)</u>		<u>(969,423.59)</u>		<u>(752,323.03)</u>	217,100.56

Note: Staff allocated using the same factors that the expense accounts associated with these accounts were allocated.

**AUDIT EXCEPTION NO. 4**

**SUBJECT: CONSERVATION AD**

**STATEMENT OF FACT:** The company charged \$2,475 to gas account 912.2 in 2003 in filing G-2 (C-5). The invoice was paid to Builder's Publishing. The ad relates to the Conservation Builders program and to the propane operations.

**OPINION:** The ad should be included in the conservation program and propane expense and not in base rates. The company trended this amount up using 7.9%. Therefore, \$2,670.52 should be removed from expenses in 2005.

**AUDIT EXCEPTION NO. 5**

**SUBJECT: OUT OF PERIOD EXPENSES**

**STATEMENT OF FACT:** The company increased account 913.2 by \$20,148 and account 913.4 by \$11,411 in March 2003 journal entry 5.33 for adjustments for 2000 and 2001 conservation. The amounts were transferred from conservation to the regular rate recoverable accounts. These accounts were both trended up by 7.9% for 2005 to \$21,739.69 and \$12,312.47 respectively in Schedule G-2(C-5).

**OPINION:** These adjustments were for items outside of the test period and should not be included in these accounts.

**AUDIT EXCEPTION NO. 6**

**SUBJECT: ACCOUNT 923.3 PROPERTY TAX AUDIT**

**STATEMENT OF FACT:** The company included \$20,000 for a property tax audit in its forecast of 2005 expenses for account 923.3, outside services on Schedule G-2 (C-5). The company does not pay the tax auditors unless they produce a savings. This amount was based on a year when Florida Public did pay the tax auditors. However, at the same time its tax bill was reduced by more than this amount.

**OPINION:** The \$20,000 is a contingent expense and if paid, taxes would also be reduced by at least the same amount. Therefore, it should be removed from the expense forecast. This account was allocated to the gas division using a percent of gross profit which was 51%. Therefore, \$10,200 should be removed from gas expenses for 2005.

**AUDIT EXCEPTION NO. 7**

**SUBJECT: DUPLICATE INCREASE IN BROKERS FEE ACCOUNT 924**

**STATEMENT OF FACT:** In its forecast of expenses for 2005 on Schedule C-2 (G-5), the company included \$11,115.75 in account 924 expenses and \$41,384.25 in account 925.2 for the insurance brokers fee. This totals \$52,500. The estimate from the broker was \$47,500.

**OPINION:** The company overestimated the broker fee in account 924 by \$5,000. Account 924 was allocated to the gas division at 51% which was the plant allocation. Therefore, the account was overstated by \$2,250.

## **AUDIT EXCEPTION NO. 8**

### **SUBJECT: EMPLOYEE BENEFIT FORECAST ACCOUNT 926.2**

**STATEMENT OF FACT:** To forecast account 926.2, employee benefits, on Schedule G-2 (C-5) for 2005, the company obtained an estimate of health insurance costs from its insurance company and reduced it by 25% for the portion the employees pay and for the amount related to retirees. This amount was then further reduced by capitalized payroll which was calculated using ten months of actual 2003 data and two months of 2002 data and trending it up by 3%. It was then increased for other miscellaneous payments made in 2002 which were trended up 3% for two years and decreased for the John Alden stop loss policy which has been eliminated and trended the same way.

Capitalized payroll for November and December of 2003 was \$26,194 higher than the capitalized payroll used which was for 2002. If the actual 2003 amounts had been used in the calculation, the \$26,194 would have been trended up to \$27,789.21. This would have been a reduction to the expense since capitalized wages are removed.

If the 2003 miscellaneous payment amounts were used instead of the 2002 payments, the account would be reduced by \$3,139.75. Trended up for two years at three percent, the reduction would be \$3,330.96.

**OPINION:** The company used an actual test year of 2003. Projections that use trending should have been based on the 2003 amounts. Since a portion of these forecasts used trended amounts and those amounts included 2002 data, the base should be changed to the 2003 amounts and trended up. This account should be reduced by \$31,120.17 and allocated to gas at 47% or \$14,626.48. The company used 51% but that allocation was adjusted in a separate exception.

## **AUDIT EXCEPTION NO. 9**

### **SUBJECT: DUPLICATION OF COSTS IN TEST YEAR**

**STATEMENT OF FACT:** The company recorded costs during the year for the legal fees associated with its Securities and Exchange Commission filing and design and printing of its annual report. These costs were recorded in clearing accounts shown on the following page. The accounts were allocated to the gas division and included in the accounts on Schedule G-5(C-5). At the end of 2003, the company decided to start an accrual account for these types of expenses and began accruing for them. It estimated the annual cost for the legal related to the security filing at \$20,000 a year and accrued \$10,000 in December of 2003 to account 1849.923.2. The company could not provide any documentation to show that the account projection of \$20,000 is reasonable. The company estimated the costs associated with its annual report were \$15,000 and amortized these costs over November and December 2003. However, in addition to the newly created accruals, the company had also recorded actuals for the year in the accounts.

**OPINION:** Recording both actual and the accrual created duplication of the charges. The attached schedule details the total amounts billed to the accounts, the amounts allocated out to natural gas, and the trending for the 2005 forecast. The adjustment for the natural gas portion of the overstated security filing costs is \$1,785.84 after trending. However, if the \$20,000 cannot be supported, the account should be reduced by the accrual of \$10,000 of which \$5,100 was charged to gas instead of the \$1,785.84. The adjustment for the natural gas portion of the overstatement of the annual report costs is \$7,720.41 after trending. The total is \$9,506.26.



FLORIDA PUBLIC UTILITIES  
ANALYSIS OF SECURITY FILING COSTS  
TEST YEAR ENDED DECEMBER 31, 2005

ACCOUNT	AMOUNT	DATE	PAYEE	ALLOCATED TO GAS	ALLOCATED AMOUNT
1849.930.2	2,786.99	04/25/2003	AKERMAN SENTERFITT	50.00%	1,393.50
1849.930.2	1,721.62	05/15/2003	AKERMAN SENTERFITT	50.00%	860.81
1849.930.2	1,603.35	09/17/2003	AKERMAN SENTERFITT 70% of 2290.50	50.00%	801.68
1849.923.2	1,350.00	11/30/2003	AKERMAN SENTERFITT	51.00%	688.50
1849.923.2	2,229.77	06/23/2003	AKERMAN SENTERFITT 90% of 2477.52	51.00%	1,137.18
1849.923.2	182.75	07/03/2003	AKERMAN SENTERFITT	51.00%	93.20
1849.923.2	1,223.15	08/29/2003	AKERMAN SENTERFITT 42% of 2912.26	51.00%	623.81
1849.923.2	2,412.00	08/21/2003	AKERMAN SENTERFITT	51.00%	1,230.12
1849.923.2	10,000.00		ACCRUAL	51.00%	5,100.00
	23,509.63		TOTAL BOOKED TO CLEARING		11,928.79
	20,000.00		COMPANY ESTIMATES \$20,000 PER YEAR	51.00%	10,200.00
	3,509.63		COMPANY OVERSTATED BY STARTING THE ACCRUAL IN DECEMBER AND INCLUDING THE ACTUAL INVOICES. NORMAL TEST YEAR SHOULD HAVE \$20,000.		1,728.79
	3,625.44		TRENDED UP AT 3.3%		1,785.84

FLORIDA PUBLIC UTILITIES  
ANALYSIS OF ANNUAL REPORT COSTS  
TEST YEAR ENDED DECEMBER 31, 2005

ACCOUNT	AMOUNT	DATE	PAYEE	ALLOCATED TO GAS	ALLOCATED AMOUNT
1849.930.2	1,650.00	03/26/2003	DOUG MORRALL	50.00%	825.00
1849.930.2	2,308.00	04/10/2003	SOUTHEASTERN PRINTING	50.00%	1,154.00
1849.930.2	10,989.56	04/10/2003	SOUTHEASTERN PRINTING	50.00%	5,494.78
1849.930.2	7,500.00	11/2003	ACCRUE ANNUAL REPORT	50.00%	3,750.00
1849.930.2	7,500.00	12/2003	ACCRUE ANNUAL REPORT	50.00%	3,750.00
	29,947.56				14,973.78
	15,000.00		CO. ESTIMATED COST PER YEAR	50.00%	7,500.00
	14,947.56		DIFFERENCE-DUPLICATED COSTS FOR YEAR		7,473.78
	15,440.83		TRENDED UP 3.3%		7,720.41

TOTAL ADJ. SECURITY FILING AND ANNUAL REPORT 9,506.26

**EXCEPTION NO. 10**

**SUBJECT: TAXES OTHER THAN INCOME - REGULATORY ASSESSMENT FEES**

**STATEMENT OF FACTS:** The utility's filing reflects regulatory assessment fees of \$265,788 for the 12-month period ended December 31, 2003, and projected regulatory assessment fees of \$293,871 and \$300,880 for the 12-month periods ending December 31, 2004, and 2005, respectively.

**OPINION:** The utility's regulatory assessment fees are understated by \$991 for the 12-month period ended December 31, 2003, and its projected regulatory assessment fees are understated by \$6,513, and \$6,692 for the 12-month periods ending December 31, 2004 and 2005, respectively, because of the following audit staff determinations.

- I. The utility's 2003 RAFs of \$265,788 in its filing did not reconcile to its actual RAFs of \$266,779 presented in its 2003 RAF return as filed with the Commission. ( $\$265,788 - \$266,779 = \$991$ )
- II. The utility's projected 2004 and 2005 RAF calculations excluded revenues of \$1,302,434 and \$1,338,358, respectively, for the Lake Worth Power Plant and its Area Expansion Project which should be included for RAF purposes.  $\{(\$1,302,434 \times 0.50\% = \$6,513) (\$1,338,358 \times 0.50\% = \$6,692)\}$

See the audit staff's calculations that follow.

<u>Description of Activity</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Total Revenues	\$53,610,475	\$60,613,674	\$61,514,455
Less PGA Over(Under) Recovery	(186,509)	(526,293)	0
Less Conservation Over(Under) Recovery	0	0	0
Less Unbundling Over(Under) Recovery	<u>(68,135)</u>	<u>(10,653)</u>	<u>0</u>
Adjusted Revenues	53,355,831	60,076,728	61,514,455
RAFs Rate	<u>0.500%</u>	<u>0.500%</u>	<u>0.500%</u>
RAFs per Audit	266,779	300,384	307,572
RAFs per Utility	<u>265,788</u>	<u>293,871</u>	<u>300,880</u>
Audit Adjustment	\$991	\$6,513	\$6,692

**EXCEPTION NO. 11**

**SUBJECT: TAXES OTHER THAN INCOME - PROPERTY TAXES**

**STATEMENT OF FACTS:** The utility's filing reflects property taxes of \$981,928 for the 12-month period ended December 31, 2003, and projected property taxes of \$1,001,567 and \$1,068,026 for the 12-month period ending December 31, 2004, and 2005, respectively.

The utility's filing includes an adjustment of \$42,563 to Taxes Other Than Income for the 12-month period ended December 31, 2003, that removes the property taxes associated with its common utility assets which are shared with its electric and nonregulated propane divisions.

The utility's filing includes an adjustment of \$42,500 to Taxes Other Than Income for the projected 12-month period ending December 31, 2005, that includes anticipated property taxes associated with the purchase of additional utility land in 2005.

The utility's projected 2004 and 2005 property taxes referenced above were calculated using a 2.00 percent and 4.44 percent growth factor multiplied by its 2003 historical amount of \$981,928. ( $\$981,928 \times 1.0200 = \$1,001,567$  and  $\$981,928 \times 1.0444 = \$1,025,526 + \$42,500 = \$1,068,026$ )

**OPINION:** The utility's property taxes are overstated by \$41,411 and \$42,448 for projected 12-month periods ending December 31, 2004, and 2005, respectively, because it failed to remove any property taxes associated with its common utility assets which are shared with its electric and nonregulated propane divisions as it did for the historical 2003 period. See the audit staff calculations that follow.

<u>Description</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Base Property Tax(1)	\$981,928	\$1,001,567	\$1,025,526
Common Tax Adjustment(2)	(42,563)	(43,414)	(44,453)
Projected Tax Adjustment	<u>0</u>	<u>0</u>	<u>42,500</u>
Property Tax per Audit	941,368	960,156	1,025,578
Property Tax per Utility	<u>941,368</u>	<u>1,001,567</u>	<u>1,068,026</u>
Audit Adjustment	<u>\$0</u>	<u>(\$41,411)</u>	<u>(\$42,448)</u>

- I. The projected base property taxes are increased by factors of 2.00 percent and 4.44 percent for years 2004 and 2005, respectively. ( $\$981,928 \times 2.200\% = \$1,001,567$ ) ( $\$981,928 \times 1.444\% = \$1,025,526$ )
- II. The projected common tax adjustments are increased by factors of 2.00 percent and 4.44

percent for years 2004 and 2005, respectively. ( $\$42,563 \times 2.200\% = \$43,414$ ) ( $\$42,563 \times 1.444\% = \$44,453$ )

**AUDIT DISCLOSURES**

**DISCLOSURE NO. 1**

**SUBJECT: CONTAMINATED LAND**

**STATEMENT OF FACTS:** Land that is contaminated and not in use is included in Account 123.389 for year ended December 31, 2003 and forecasted 2004 and 2005. The following is a list of the parcels and the amounts:

<u>Parcels</u>	<u>Amount</u>
25-19-30-5AG-0711-0090 and 25-19-30-5AG-0812-0010 25-19-30-5AG-0811-0020	\$ 771.71 <u>7,659.00</u>
<u>Total</u>	<u>\$8,430.10</u>

The property taxes included in the MFR's associated with these parcels for 2003 and forecasted amounts are \$2,402 for 2003, \$2,450 for 2004 and \$2,509 for 2005.

**OPINION:** If the land is not being used, it should be removed from rate base along with the associated property taxes.

## **AUDIT DISCLOSURE NO. 2**

**TITLE:           COMPARISON OF ACTUAL VS FORECASTED PLANT IN SERVICE AT  
                  JUNE 30, 2004**

**STATEMENT OF FACT:** We prepared an analysis of actual compared with forecasted plant in service, construction work in process, and common plant. The analysis showed that the plant forecast was more than the actual at June 30, 2004 in the amount of \$1,881,500, and that construction work in process forecast was less than actual in the amount of \$307,771, for a net overstatement in the forecast of \$1,573,729. The attached schedules show the detail by account.

The company provided us with a change in its forecast for plant and construction work in process at December 31, 2004. It reduced its forecast in the amount of \$1,182,900 for plant and increased its forecast for construction work in process by \$79,036, for a net reduction of \$1,103,864. This is also detailed by account on the attached schedules.

The common plant forecast was more than the actual at June 30, 2004 in the amount of \$354,091.79. The attached schedule shows that detail by account.

We were also provided with a revised plant in service forecast for the year ended December 31, 2005. The company increased its forecast by \$213,500. See the attached schedules for detail.

Florida Public Utilities Company  
Gas Rate Case - 040216-GU  
COMPARISON OF JUNE 30, 2004 TRIAL BALANCE TO FILING PROJECTION  
JANUARY THROUGH JUNE 2004

ACCOUNT		121 PER LEDGER	123 PER LEDGER	TOTAL	PER FILING	DIFFERENCE
303.00	3030		213,641	2,113,641	2,113,641	0
303.10	3031		1,900,000			
304.00	3040					
305.00	3050					
311.00	3110					
362.00	3620					
374.00	3740	56,686	44,422	101,108	101,108	0
374.10	3741	12,910	14	12,923	12,923	0
375.00	3750	512,637	22,930	535,567	535,567	0
376.10	3761	11,678,439	5,231,846	16,910,285	17,854,958	(944,673)
376.20	3762	20,157,440	6,256,870	26,414,310	26,475,091	(60,781)
378.00	3780	261,122	63,965	325,087	253,037	72,050
379.00	3790	1,640,691	284,481	1,925,172	2,025,467	(100,295)
380.10	3801	12,065,819	4,201,726	16,267,545	16,350,745	(83,200)
380.20	3802	1,190,597	1,066,719	2,257,316	2,277,514	(20,198)
380.30	3803					
381.00	3810	3,010,291	1,388,376	4,398,668	4,409,878	(11,210)
382.00	3820	1,068,663	879,179	1,947,842	1,920,168	27,674
383.00	3830	1,018,393	350,040	1,368,433	1,361,663	6,770
384.00	3840	425,936	293,783	719,719	717,845	1,874
385.00	3850	75,323	25,952	101,275	101,275	(0)
386.00	3860					
387.00	3870	390,701	104,278	494,979	513,010	(18,031)
389.00	3890	12,516	217,452	229,968	229,968	(0)
389.20	3892	40,510		40,510	40,510	(0)
390.00	3900	100,165	1,371,473	1,471,638	1,475,658	(4,020)
391.10	3911	26,331	66,855	93,186	93,186	0
391.20	3912	22,635	45,709	68,344	76,811	(8,467)
391.30	3913	325,222	408,711	733,934	788,613	(54,680)
392.10	3921	202,083	46,745	248,829	285,419	(36,590)
392.20	3922	1,522,055	746,493	2,268,547	2,863,462	(594,915)
392.40	3924	24,269	19,060	43,329	40,914	2,415
393.00	3930	12,997		12,997	12,769	228
394.00	3940	191,011	99,765	290,776	284,261	6,515
395.00	3950					
396.00	3960	209,850	155,215	365,066	379,851	(14,585)
397.00	3970	184,020	102,070	286,091	292,073	(5,982)
398.00	3980	22,244	12,526	34,769	76,169	(41,400)
<b>TOTAL Plant-In-Service</b>		<b>56,461,558</b>	<b>25,620,296</b>	<b>82,081,854</b>	<b>83,963,354</b>	<b>(1,881,500)</b>

DUCTION WORK IN PROCESS:

ACCOUNT		121 PER LEDGER	123 PER LEDGER	TOTAL	PER FILING	DIFFERENCE
376.1120		34,528	13,047	47,576		
376.1200		191,886	8,802	200,688		
376.1400		119,236	99,870	219,106		
376.1600		112,657		112,657		
	<b>3761</b>	<b>458,307</b>	<b>121,720</b>	<b>580,027</b>	<b>698,684</b>	<b>(118,657)</b>
376.2200		2,172		2,172		
376.2400			3,178	3,178		
376.2600		89,188	3,557	92,744		
	<b>3762</b>	<b>91,360</b>	<b>6,734</b>	<b>98,094</b>	<b>15,034</b>	<b>83,060</b>
378.0000	3780		2,605	2,605		2,605
379.0000	3790	110,857		110,857	193,407	(82,550)
380.1070		7,465		7,465		
380.1120		40,549	322	40,871		
380.1200		16,353		16,353		
	<b>3801</b>	<b>64,367</b>	<b>322</b>	<b>64,689</b>	<b>13,900</b>	<b>50,789</b>
380.2200	3802	3,504		3,504		3,504
382.0000	3820		54	54		54
387.0000	3870	251	5,342	5,593		5,593
391.3000	3913	12,585		12,585		12,585
392.1000	3921	41,871		41,871		41,871
392.2000	3922	242,619	136,769	379,388	75,000	304,388
397.0000	3970	4,728		4,728		4,728
<b>TOTAL CWIP</b>		<b>1,030,449</b>	<b>273,547</b>	<b>1,303,996</b>	<b>996,225</b>	<b>307,771</b>

<b>GAS PLANT - Plant-In-Service AND CWIP</b>	<b>57,492,007</b>	<b>25,893,843</b>	<b>83,385,850</b>	<b>84,959,579</b>	<b>(1,573,729)</b>
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COMMON PLANT:

		DIVISION 100	PER FILING	DIFFERENCE
303.00	3030	1,833.00	1,833.00	(0.17)
369.00	3890	341,925.83	341,926.00	285.75
390.00	3900	2,090,628.75	2,090,343.00	(2,300.25)
391.10	3911	27,018.75	29,319.00	(10,599.61)
391.20	3912	159,809.39	170,409.00	(318,548.23)
391.30	3913	2,448,415.77	2,766,964.00	(22,607.06)
392.10	3921	89,117.94	111,725.00	0.46
392.20	3922	30,916.46	30,916.00	2,677.82
397.00	3970	247,451.82	244,774.00	9,244.00
399.00	3990	6,243.50	9,244.00	(3,000.50)
		<b>5,443,361.21</b>	<b>5,797,453.00</b>	<b>(354,091.79)</b>

COMPANY: FPUC - GAS  
 TITLE: MFR VS ACTUAL 6/30/04  
 DATE: AUGUST 8, 2004

**SOUTH FLORIDA**

	Construction Work in Process		Company Change in Projection for	Utility Plant in Service		Company Change in Projection for 12/31/2004
	South Florida	South Florida		South Florida	South Florida	
378	77,196	0	77,196			
379	(61,591)	18,591	(80,182)			
387		8,044	(8,044)			
394		0	0		0	0
396		0	0		41,400	75,200
397	3,374	286	3,088	3,088	0	41,400
3761	216,466	124,566	91,900	109,700	212,400	1,008,500
3762	65,117	(289,705)	354,822	174,822	(13,400)	110,200
3801	33,299	15,319	17,980	22,280	(3,200)	0
3802	0	0	0	0	0	0
3912	0	0	0	0	0	9,000
3913	0	5,000	(5,000)	0	12,600	3,000
3922	53,749	77,076	(23,327)	(23,327)	145,900	280,500
	387,610	(40,823)	428,433	117,233	395,700	1,531,300
					(1,135,600)	(883,000)

**CENTRAL FLORIDA**

	Construction Work in Process		Company Change in Projection for 12/31/2004	Utility Plant in Service		Company Change in Projection for 12/31/2004
	Central Florida	Central Florida		Central Florida	Central Florida	
378	266	1,000	(734)		0	0
379	0		0		0	100,000
387	0		0		5,300	5,700
390	0	0	0		0	28,600
394	0		0		0	0
396	0		0		0	3,500
397	0		0		15,200	0
3761	149,893	268,000	(118,107)	(64,840)	46,300	285,100
3762	4,416	0	4,416	4,416	0	210,000
3801	3,965	0	3,965	3,965		
3802	0		0	0		
3900	18,836	0	18,836	18,836		
3912	0		0	0		
3913	0		0	0		
3922	160	0	160	160		1
	177,536	269,000	(91,464)	(38,197)		

<b>Total SF &amp; CF</b>	565,146	228,177	336,969	79,036	584,200	2,377,100	(1,792,900)	(1,182,900)
							336,969	79,036
							(116,350)	
							(27,456)	
							26,007	
							(1,573,730)	(1,103,864)



COMPANY: FPUC - GAS  
 TITLE: MFR VS ACTUAL 6/30/04  
 DATE: AUGUST 8, 2004

<b>REVISED 2005 CAPITAL EXPENDITURE BUDGET</b>			
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Account	Increased Projection South Florida 2005	Increased Projection Central Florida 2005	TOTAL
3761	57,700	112,500	170,200
3762	43,300	0	43,300
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	101,000	112,500	213,500
	=====	=====	=====

### **AUDIT DISCLOSURE NO. 3**

#### **SUBJECT: DEFERRED PIPING ALLOWANCE**

**STATEMENT OF FACT:** The company records deferred piping in accounts 1860.31 and 1860.32 which are included in working capital on G-1(B-13) and thus included in rate base. The company amortizes these expenses over 7 and 5 years respectively. The amortization is included in account 916.1 in Schedule G-2(C-5).

To forecast 2004 and 2005 for these accounts, the company used 2003 additions and amortization, removed an adjustment of \$117,000 for advertising that was incorrectly recorded and increased the additions by 15% for 2004. The 2004 amount was then trended up by another 15% for 2005.

**OPINION:** We reviewed the deferred account to determine if the addition of 15% was reasonable. We determined that additions to the account increased and decreased without a predictable pattern. Staff determined the average for the last five years and compared the average to the 2004 additions and the 2005 additions. The schedule is attached. We determined that the five-year average was less than the 2004 additions by \$52,525.66 after amortization. The 2004 additions also effected the beginning balance for 2005 so the amount needs to be cumulative. The 2005 forecast was higher than the average after amortization by \$149,725.70. The beginning and ending average difference is a decrease of \$101,125.68 to the deferred account in working capital if the five-year average is used instead of a 15% increase.

Expense would also be reduced for the change in the amortization. In 2005, the expense would be reduced by \$30,578.61 as shown on the attached schedule.

FLORIDA PUBLIC UTILITIES  
 ANALYSIS OF DEFERRED PIPING  
 TEST YEAR ENDED DECEMBER 31, 2005

ACCOUNT	ADDITIONS 2004	FIVE YEAR AVERAGE ADDITIONS	DIFFERENCE 2004	YEARS AMORTIZATION	2004 AMORTIZATION EXPENSE	2004NET EFFECT ON ACCOUNT	ADDITIONS 2005	FIVE YEAR AVERAGE ADDITIONS	DIFFERENCE 2005	NET EFFECT 2004	TOTAL	YEARS AMORTIZED	2005CHANGE IN AMORTIZATION	NET CHANGE IN ACCOUNT
121 1860.31	217,985.79	157,992.00	(59,993.79)	7.00	(8,570.54)	(51,423.25)	250,761.69	157,992.00	(92,769.69)	(51,423.25)	(144,192.94)	7.00	(20,598.99)	(123,593.95)
123 1860.31	100,197.22	134,292.70	34,095.48	7.00	4,870.78	29,224.70	115,263.84	134,292.70	19,028.86	29,224.70	48,253.56	7.00	6,893.37	41,360.19
121 1860.32	49,614.63	30,215.51	(19,399.12)	5.00	(3,879.82)	(15,519.30)	57,056.82	30,215.51	(26,841.31)	(15,519.30)	(42,360.61)	5.00	(8,472.12)	(33,888.48)
123 1860.32	57,911.76	39,402.00	(18,509.76)	5.00	(3,701.95)	(14,807.81)	66,598.52	39,402.00	(27,196.52)	(14,807.81)	(42,004.33)	5.00	(8,400.87)	(33,603.46)
TOTAL	425,709.40	361,902.21	(63,807.19)		(11,281.53)	(52,525.66)	489,680.87	361,902.21	(127,778.66)	(52,525.66)	(180,304.32)		(30,578.61)	(149,725.70)

NET CHANGE IN BEGINNING BALANCE FROM 2004 FOR ACCOUNT 1860.31& .32 (52,525.66)  
 NET CHANGE IN ENDING BALANCE FROM 2005 FOR ACCOUNT 1860.31& .32 (149,725.70)  
 TOTAL (202,251.36)  
 AVERAGE BEGGINING AND ENDING (101,125.68)

BEGINNING AND ENDING SHOULD BE ABOUT THE SAME AS 13-MONTH AVERAGE ASSUMING  
 ADDITIONS ARE ABOUT EQUAL EACH YEAR.

## DISCLOSURE NO. 4

### SUBJECT: COST OF CAPITAL PRESENTATION

**STATEMENT OF FACTS:** The utility's cost of capital presentations for the projected period 2005 were prepared on a total company basis that includes regulated and nonregulated operations.

The schedules include a jurisdictional factor of 51 percent that is applied to the company's common debt and equity components to calculate the natural gas operations capital structure.

The jurisdictional factors are calculated as a ratio of the natural gas division rate base reduced by the direct components of the natural gas division's capital structure divided by the total company's debt and equity component balances. See example below.

Projected 13-month average balances for:	Amount
Natural gas division rate base	\$65,835,210
Natural gas division customer deposits, deferred taxes, and ITCs	\$10,624,246
Total company capitalization**	\$118,816,033

\*\* Includes \$2,258,023 of equity for Flo-Gas Corp., a nonregulated subsidiary operation

Calculation:  $(\$65,835,210 - \$10,624,246) / \$118,816,033 = 51.00$  percent

Order No. PSC-04-0369-AS-EI, issued April 6, 2004, in the utility's last rate proceeding required that nonregulated investments shall be removed directly from equity rather than proportionately from debt and equity.

**OPINION:** The company's cost of capital presentations do not comply with the above-mentioned Order because the jurisdictional factors are applied to both the debt and equity components of the company's capital structure.

## DISCLOSURE NO. 5

### SUBJECT: COST OF CAPITAL - EQUITY

**STATEMENT OF FACTS:** The utility's filing reflects balances of 6,000,000 and 3,916,295 for its common shares authorized and outstanding, respectively, as of December 31, 2003.

On May 25, 2004, at the utility's Annual Shareholders' Meeting, a proposal to increase the number of common shares authorized to 10,000,000 was approved by the shareholders.

On June 3, 2003, at the Flo Gas Corporation Special Directors' Meeting, the Board of Directors declared a \$1,000 per share dividend payable as of April 1, 2003, for its shareholders as of April 1, 2003.

FPUC is the sole shareholder of Flo Gas Corporation's 1,000 outstanding shares and its accounting treatment of the above transaction was to reduce Flo Gas Corporation's retained earnings by \$1,000,000 and increase FPUC's retained earnings by \$1,000,000.

A complete review of Flo Gas Corporation's dividend payments to FPUC is illustrated below.

<u>Date</u>	<u>Amount</u>
Jun 1978	\$200,000
Jun 1979	200,000
Jun 1980	200,000
Jun 1981	200,000
Dec 1988	735,000
Dec 1990	500,000
Sep 1994	500,000
Sep 1996	500,000
Dec 1999	500,000
Apr 2003	<u>1,000,000</u>
Total	<u>\$4,535,000</u>
25-year average (1978 - 2003)	\$181,400

**OPINION:** The audit staff defers this issue to the staff analyst in Tallahassee for final disposition.

**DISCLOSURE NO. 6**

**SUBJECT: COST OF CAPITAL - 2004 EQUITY OFFERING**

**STATEMENT OF FACTS:** The utility's filing reflects a 13-month average common equity balance of 39,621,866 as of December 31, 2003, and projected 13-month average common equity balances of \$48,956,807 and \$56,448,772 as of December 31, 2004, and 2005, respectively.

The December 31, 2004 balance above includes \$14,100,000 of net proceeds from a proposed equity offering in June 2004.

**OPINION:** The above equity offering was delayed at a Special Board of Directors meeting on June 2, 2004 and rescinded at a Special Board of Directors meeting on July 16, 2004 base on advice from the company's underwriters for the equity offering.

According the company, the company's line of credit with Bank of America is being increased from \$12 million to \$15 million or \$20 million for interim financing purposes.

The company declined to provided a revised cost of capital schedule based on the above revelations because it believes that even with the interim financing arrangements discussed above they will still need to issue equity within the next three years.

The audit staff defers this issue to the analyst in Tallahassee for disposition.

**AUDIT DISCLOSURE NO. 7**

**SUBJECT: POSSIBLE NON-RECURRING EXPENSES**

**STATEMENT OF FACT:** The company had three invoices which may not be recurring in future periods that were trended up to 2005 in Schedule G-2(C-5).

The company paid \$1,533 to Eagle Research to replace SCADA equipment for a lightening strike. The amount was included in account 877.1 which was trended up at 3.3%. The amount included in 2005 was \$1,583.59.

The company paid Orcom for two invoices related to a modification in its bill printing program. The invoices were for \$6,150 and \$1,725 and were charged to the clearing account for 921.3 which was allocated to the company using 60% but was corrected by staff to be 47% or \$3,701.25. This amount was trended up by 3.3%. The total included in gas in 2005 was \$3,823.39.

## AUDIT DISCLOSURE NO. 8

### SUBJECT: CO-OPERATIVE ADVERTISING

**STATEMENT OF FACT:** The company has an agreement with St. Joe Arvida Homes, to pay \$4,000 a quarter to Arvida for advertising. The \$16,000 for the year 2003 was charged to account 123.4010.913.2. This amount was trended up by 7.9% for 2005. The amount included in 2005 expenses in Schedule G-2(C-5) is \$17,264. According to the agreement:

“The owner acknowledges that the Cooperative Advertising Payment is being made to Owner to promote the Company and the use of natural gas by residents and businesses in the Project. Newspaper advertisements of a size equal to or greater than one-half page prepared by or for Owner for the sale of residential or commercial units in the project shall include the Company’s logo in the Advertising Material. Owner will display in Owner’s sale center and will include in information packets a reasonable amount of the Company’s promotional materials.”

The company also has an agreement with Transeastern Homes. During 2003, Transeastern was paid \$117,000 for cooperative advertising based on a price per home added. This amount was charged to account 913.4. The company removed \$18,000 of this amount in its adjustments to 2003 actual, leaving \$99,000 in the account. Account 913.4 was trended up using 7.9%. Therefore, \$106,821 was charged to the test year for this advertising.



## **AUDIT DISCLOSURE NO. 9**

### **SUBJECT: NEW INSURANCE ESTIMATE**

**STATEMENT OF FACT:** The company has received a new estimate from its insurance carrier. This estimate shows a decrease in property insurance of 12.5% and an increase in its second layer of excess liability insurance of 65% more than the increase shown in the filing.

Property Insurance of \$99,971 in 2003 was expected to increase 2.5% when the filing was done. The current estimate by the insurance broker is a decrease of 10%. Therefore, the current projection is 12.5% lower than in the filing or \$12,496.37 less. This account was allocated 52% to gas. This would amount to a reduction of \$6,498.11 to the amount recorded in 2005 on Schedule G-2 (C-5).

The second layer of excess liability insurance was \$101,000 in 2003. An increase of 25% was included in the filing. The insurance broker now projects a 90% increase, or an additional 65%. This would increase total expenses by \$65,650. Using the 51% allocation to gas used by the company, this would amount to an increase of \$33,481.50. Using the allocation rate as adjusted by staff of 47%, the increase would be \$30,855.50 on Schedule G-2(C-5).

## **AUDIT DISCLOSURE NO. 10**

### **SUBJECT: ANNUALIZATION OF CURRENT 2004**

**STATEMENT OF FACT:** Expenses at June 2004 were annualized and compared to the 2004 forecast included in the filing G-2(C-5). Annualized expenses were \$894,305.30 less than the company projection. Staff made adjustments in other exceptions that amounted to approximately \$307,000. Approximately \$587,000 difference remains. Each account that had a material difference was analyzed and reviewed to determine possible causes for the difference. Most of the accounts that had a material difference contained an adjustment to 2003 expenses for vacant positions and/or an adjustment to 2004 for new positions.

**OPINION:** The total adjustment to 2003 expense for vacant positions was \$321,053 and the total adjustment to 2004 for new positions was \$285,146. The total for the two was \$606,199. These adjustments are believed to be the reason for the majority of the difference.

When calculating the dollar amount of the vacant positions, the salary rates used in the calculation were the mid-range for the positions even though several people were hired at a much lower rate. They were also assumed to be vacant the entire month, which was not always the case.

In addition, the problem with increasing expenses for vacant positions, is that there will always be vacant positions and to assume full staffing would create an over-earnings situation when the company is not at full staff. The company does believe that the 2003 staffing situation was unusual. Several employees transferred to Central Florida, leaving vacancies in South Florida that took a long time to fill.

Since 2004 projections are higher than actual already it appears that either the positions have still not been filled or other positions have become vacant.

**AUDIT DISCLOSURE NO. 11**

**SUBJECT: UNBUNDLING**

**STATEMENT OF FACT:** The company included \$15,930 in unbundling expense in Schedule G-2(C-5). Unbundling costs have been recovered in a separate docket. The company is requesting that these costs be allowed to be included in base rates and not recovered through the unbundling clause in the future.

**AUDIT DISCLOSURE NO. 12**

**SUBJECT: ACCOUNT 920 PAYROLL INCREASE**

**STATEMENT OF FACT:** The company increased executive payroll by \$40,000 in 2005. Of this amount, \$20,800 was charged to gas expense in 2005 in Schedule G-2(C-5). This increase is for the executive bonus policy which is currently at 15% of the officers salary based on several goals and other criteria. The program has been in place since 2001. The amount paid for 2003 was approximately \$60,000. This amount was increased by the \$40,000 in the forecast to increase it to \$100,000. If all goals are met, the bonus is now expected to be \$80,000 since one of the officer positions has been eliminated.

**OPINION:** The \$20,000 reduction, provided by the company, to reduce the projected amount from \$100,000 to \$80,000 would reduce gas expenses in 2005 by \$10,400.

**AUDIT DISCLOSURE NO. 13**

**SUBJECT: REQUESTED TRAINING**

**STATEMENT OF FACT:** The company is requesting \$50,000 of additional training for corporate employees in 2005 included in Schedule G-2(C-5). Of this amount, \$23,260 was included as gas costs in the 2005 filing of expenses. Some training was charged during the 2003 test year. However, because the accounting staff was involved in preparing two rate cases, they did not have time to attend the training that the company usually provides. In addition, changes in financial reporting requirements require additional training.

**AUDIT DISCLOSURE NO. 14**

**SUBJECT: NEW POSITIONS REQUESTED IN 2005 FILING OF EXPENSES**

**STATEMENT OF FACT:** The company has included several adjustment for 2005 for additional payroll for new employees in Schedule G-2(C-5). The positions requested and the portion the company charged to gas follow:

ACCOUNT	TITLE	TOTAL	GAS
920	Staff Accountant	\$53,200	\$27,664
920	Financial Analyst 1/2	3,250	17,290
912.1	Marketing Representative	69,345	69,345
912.1	Inside Marketing Representative	41,715	41,715
912.1	Financial Analyst ½	33,250	33,250
912.2	Make Communications Assistant Full Time	17,360	17,360
Various	Operations in West Palm Beach Including a Systems Operation Technician, a Service Technician, an Engineering Technician, a Meter Reader, and a Lead Mechanic	437,071	437,071
Various	Operations in Central Florida for Distribution Clerk, Distribution Line Locator, Serviceman, Gas Utility Worker and Assistant Engineer	173,149	158,384
Total		\$858,340	\$802,079

The company believes the accounting staff is necessary due to increased financial requirements and increases in internal control because of new legislation.

The justification for these positions that has been provided by the company is attached. During this review, the company determined that the \$41,715 included for an inside marketing representative should only have been an upgrade and not a new position. The incremental increase should have been \$3,073.73 according to the former marketing director. Therefore, \$38,641.27 should be removed from 2005 expenses for this correction.

## **FLORIDA PUBLIC UTILITIES COMPANY**

### **Justification for additional South Florida Staff:**

- ✓ Our distribution system has grown at unprecedented high rates and now reaches into Broward County (Deerfield Beach).
- ✓ We have had unprecedented high customer growth rates.
- ✓ As our system is ages it needs additional maintenance work.
- ✓ We have more year round customers who need service and cause damages, rerouting of FPU facilities, etc. than ever in the past.
- ✓ The amount of roadwork that requires more FPU support and construction services is occurring, and will continue to occur, at unprecedented high rates.
- ✓ We must provide higher levels of quality service and increase the availability of our staff.
- ✓ Our customers, more so now than ever, demand immediate response from FPU.
- ✓ We must get our vehicles repaired as quickly and as safely as possible and improve our public image through a better presentation and appearance of the vehicles.

### **Proposed SF Staffing Increases**

<u>2004</u>	<u>2005</u>
3 - I&M Mechanics	1 - Systems Ops Tech
1 - Service Tech	2 - Service Techs
	1 - Eng Tech
	1 - Meter Reader
	1 - Garage Mechanic



**DATE:** 7/23/04  
**TO:** Mehrdad Khojasteh  
**FROM:** Don Kitner  
**RE:** New Positions – Central Florida.

**DISTRIBUTION CLERK**

Position is required to assist with daily paperwork in the Operations Department that is now being performed by Operations Supervisors. These clerical functions are preventing the Operations Supervisors from providing in-field supervision to their subordinates to ensure our customers receive the best level of service possible. The position will also serve as backup for the Dispatcher, a roll now performed by the Operations Supervisors. Other duties will include assisting the Stores Supervisor with processing stock slips and to maintain the fleet vehicle repair records and preventative maintenance scheduling.

**SERVICE TECHNICIAN**

Position is required to help meet daily scheduled service work due to the increase in new natural gas customers and fulfilling the goals of customer satisfaction. This position will help improve service, reduce overtime and shifting personnel from other departments to meet daily scheduled work.

**GAS UTILITY WORKER "C"**

This position is needed to help meet the demands created from the increased growth in natural gas. The position will assist in meeting the service expectations of our customers, in maintaining the integrity of our operating system and to remain current on required compliance work.

**LINE LOCATOR**

This position is required to meet the ever-increasing number of line location requests associated with construction activities in our natural gas service areas. In an attempt to stay current with line location requests and governmental compliance requirements personnel from other departments have been utilized almost on a fulltime basis.

**ASSISTANT ENGINEER**

Position is required to assist in processing the increasing demands for natural gas installations to include engineering; sizing and designing construction projects; coordinating and permitting construction projects with local authorities; and monitoring contractor installations to ensure proper construction practices are being adhered to. The increased workload associated with the aforementioned items has exceeded the capacity of the existing engineering staff in the division.



**AUDIT DISCLOSURE NO. 15**

**SUBJECT: INCREASED ADVERTISING EXPENSES**

**STATEMENT OF FACT:** The company has requested an increase in its advertising campaign for Other Information, Account 913.4 of \$77,250. It has also requested an increase for Safety Advertising Account 913.3 of \$25,750. These adjustments are on Schedule G-2(C-5).

The testimony provides descriptions of the advertising campaigns. The company believes that half of the \$25,750 is already included in other operational accounts and is therefore, included twice.

## **AUDIT DISCLOSURE NO. 16**

### **SUBJECT: LINE LOCATION AND BARE STEEL REPLACEMENT REDUCTION**

**STATEMENT OF FACTS:** In Schedule G-2(C-5), the company included in 2005 adjustments, a reduction of \$100,000 for levelized line location expense and \$80,000 for a reduction to maintenance due to the Bare Steel replacement program. They were charged to account 874 and 887 respectively. We asked the company to provide support for its reductions so we could verify if additional amounts needed to be reduced. The amounts were based on the expert opinions of the directors responsible for natural gas operations. No supporting documentation was provided.

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE THE CALCULATION OF JURISDICTIONAL  
NET OPERATING INCOME FOR THE TEST YEAR AND THE PRIOR YEAR.

TYPE OF DATA SHOWN:  
HISTORIC BASE YEAR: 12/31/2003  
PROJECTED YEAR DATA: 12/31/2004  
PROJECTED TEST YEAR: 12/31/2005  
WITNESS: KHOJASTEH

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY  
CONSOLIDATED NATURAL GAS DIVISION  
DOCKET NO.: 040216-GU

Line No.	(1) 2003 Total Company Per Books	(2) 2003 Commission Adjustments (C-2)	(3) 2003 Company Adjustments (C-2)	(4) 2003 Adjusted Amount (1)+(2)+(3)	*	(5) 2004 Total Company Per Books	(6) 2004 Commission Adjustments (C-2)	(7) 2004 Company Adjustments (C-2)	(8) 2004 Adjusted Amount (5)+(6)+(7)	*	(9) 2005 Total Company Per Books	(10) 2005 Commission Adjustments (C-2)	(11) 2005 Company Adjustments (C-2)	(12) 2005 Adjusted Amount (9)+(10)+(11)		
1	<b>OPERATING REVENUES</b>															
2	17,043,850	-	-	17,043,850	*	17,305,072	-	-	17,305,072	*	17,717,851	-	-	17,717,851		
3	27,772,085	(27,772,085)	-	0	*	35,375,760	(35,375,760)	-	-	*	36,236,758	(36,236,758)	-	-		
4	2,125,541	(2,125,541)	-	0	*	2,085,467	(2,085,467)	-	-	*	2,136,828	(2,136,828)	-	-		
5	(24,125)	24,125	-	0	*	17,390	(17,390)	-	-	*	-	-	-	-		
6	1,172,812	-	-	1,172,812	*	1,369,592	-	-	1,369,592	*	1,402,286	-	-	1,402,286		
7	1,287,446	-	-	1,287,446	*	1,314,809	-	-	1,314,809	*	1,346,194	-	-	1,346,194		
8	4,232,866	(2,019,374)	-	2,213,492	*	3,145,585	(1,059,099)	-	2,086,486	*	2,674,539	(572,646)	-	2,101,893		
9	<b>TOTAL OPERATING REVENUES</b>															
10	53,610,475	(31,892,875)	-	21,717,600	*	60,613,674	(38,537,716)	-	22,075,958	*	61,514,455	(38,946,231)	-	22,568,224		
11	<b>OPERATING EXPENSES</b>															
13	10,556,373	189,122	317,394	11,062,889	*	11,727,009	-	-	11,727,009	*	13,500,476	-	-	13,500,476		
14	1,077,610	-	58,834	1,136,444	*	1,189,335	-	-	1,189,335	*	1,279,223	-	-	1,279,223		
15	27,837,662	(27,837,662)	-	(0)	*	35,198,885	(35,198,885)	-	-	*	36,055,579	(36,055,579)	-	(0)		
16	2,115,951	(2,115,950)	-	1	*	2,120,412	(2,120,412)	-	-	*	2,126,144	(2,126,144)	-	-		
17	44,349	(44,349)	-	0	*	17,864	(17,864)	-	(0)	*	15,930	-	-	15,930		
18	2,315,532	(51,597)	-	2,263,935	*	2,518,879	(64,282)	-	2,454,597	*	2,791,858	(78,954)	114,971	2,827,875		
19	251,640	(252,596)	-	(956)	*	518,582	(519,542)	-	(960)	*	568,823	(569,783)	933,614	932,654		
20	4,221,195	(151,283)	(42,563)	4,027,349	*	4,503,554	(192,684)	-	4,310,870	*	4,659,446	(194,726)	-	4,464,719		
21	(455,518)	258,182	(723,234)	(920,570)	*	(1,105,860)	(183,758)	24,189	(1,265,429)	*	(2,085,985)	-	(364,872)	(2,450,857)		
22	1,353,123	-	-	1,353,123	*	1,371,525	-	-	1,371,525	*	1,397,315	-	-	1,397,315		
23	(41,310)	-	-	(41,310)	*	(41,012)	-	-	(41,012)	*	(40,331)	-	-	(40,331)		
24	<b>TOTAL OPERATING EXPENSES</b>															
25	49,276,607	(30,006,133)	(389,569)	18,880,904	*	58,019,172	(38,297,427)	24,189	19,745,934	*	60,268,476	(39,025,185)	683,713	21,927,003		
26	<b>NET OPERATING INCOME</b>															
27	4,333,869	(1,886,742)	389,569	2,836,696	*	2,594,502	(240,289)	(24,189)	2,330,024	*	1,245,980	78,954	(683,713)	641,221		
28	<b>RATE BASE</b>															
29					*					*						
30					*	52,093,355					*	56,444,060				
31					*	5.45%					*	4.13%				
					*					*						

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13 MONTH AVERAGE COST OF CAPITAL FOR THE PROJECTED TEST YEAR.

TYPE OF DATA SHOWN:  
PROJECTED TEST YEAR: 12/31/2005

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY  
CONSOLIDATED NATURAL GAS DIVISION  
DOCKET NO.: 040216-GU

WITNESS: BACHMAN, CAMFIELD, COX

\$(000)

LINE NO.	LINE NUMBER	DESCRIPTION	2005 13-MO AVERAGE TOTAL COMPANY	ALLOCATED TO GAS	2005 13-MO AVERAGE CONSOLIDATED GAS	CAPITALIZATION SHARE	COST RATE (%)	2005 WEIGHTED COST OF CAPITAL
1	1	Long Term Debt	50,346,860	51.0%	25,692,326	39.03%	8.04%	3.14%
	2	Short-Term Debt	796,154	51.0%	406,282	0.62%	5.98%	0.04%
	3	Preferred Stock	600,000	51.0%	306,184	0.47%	4.75%	0.02%
2	4	Common Equity	56,448,772	51.0%	28,806,171	43.75%	11.50%	5.03%
	5	Customer Deposits	* 4,094,408	100%	4,094,408	6.22%	6.28%	0.39%
3	6	Deferred Taxes	* 6,253,275	100%	6,253,275	9.50%	0.00%	0.00%
	7	ITC at Zero Cost	* -	100%	-	0.00%	0.00%	0.00%
4	8	ITC at Overall Cost	* 276,563	100%	276,563	0.42%	9.81%	0.04%
5		<b>TOTAL CAPITALIZATION</b>	<b>118,816,033</b>		<b>65,835,210</b>	<b>100%</b>		<b>** 8.66%</b>
6		<b>CONVENTIONAL CAPITALIZATION (1)-(4)</b>	<b>108,191,787</b>					
7		<b>GAS RATE BASE</b>	<b>65,835,210</b>					
		<b>GAS-SPECIFIC CAPITAL ITEMS (5)-(8)</b>	<b>* 10,624,246</b>					
		<b>GAS RATE BASE LESS GAS-SPECIFIC ITEMS</b>	<b>55,210,964</b>					
		<b>CAPITALIZATION ALLOCATED TO GAS</b>	<b>51.0%</b>					
		<b>NON-ROUNDED ROR</b>	<b>** 8.660224%</b>					