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COMMISSION CLERK

DATE: August 29, 2006

TO: George J. Slemkewicz, Public Utilities Supervisor, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance DV

RE: **Company Name:** Florida Public Utilities Company – Gas Division;
Audit Purpose: 2005 Earnings Surveillance;
Audit Control No: 06-170-4-1; **Undocketed** 060629-GU

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 me for distribution. There are confidential work papers associated with this audit.

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk & Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND
CONSUMER ASSISTANCE
BUREAU OF AUDITING

Miami District Office

Florida Public Utilities Company
Earnings Surveillance Audit

Twelve Months Ended December 31, 2005

UNDOCKETED
AUDIT CONTROL NO. 06-170-4-1

Ruth K. Young
Audit Manager

Yen Ngo
Audit Staff

Kathy Welch
Public Utilities Supervisor

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DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT

August 25, 2006

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached surveillance report schedules prepared by Florida Public Utilities Company.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES:

GENERAL

Objective: The objective was to become familiar with the company's background and mode of operation, to become familiar with the Commission Rules and Regulations, and prior decisions regarding this utility.

Procedure: We read the external auditors working paper and reports, board of director's minutes, and company internal audits. We reviewed prior orders, prior audit reports, and Commission Rules and Regulations.

Objective: The objective was to gain an understanding of transactions and events since the last audit.

Procedure: We prepared a trial balance using the general ledger and reconciled all accounts to the filing. We also prepared a spreadsheet with the year end 2003, 2004 and 2005 amounts for all accounts and analyzed the percent increases and decreases, and the percent of each account to the total.

COMMISSION ORDERED ADJUSTMENTS

Objective: The objective was to ensure that the adjustments ordered by the Commission in FPSC Order No. 05-0769-PAA-GU were included in the surveillance report, and calculated appropriately.

Procedure: We compiled a list of all adjustments to plant in service, accumulated depreciation, working capital, cost of capital, revenue, and expenses from the order mentioned above. This list was compared with the adjustments in the surveillance report. Each adjustment was recalculated and the appropriate source documents reviewed. Audit Findings 1, 2, and 4 discuss some of these adjustments.

RATE BASE

Objective: The objective was to determine that the property exists and is owned by the utility, and to determine that additions are authentic, recorded at original cost, and properly classified as a capital item.

Procedures: A schedule of plant in service from year end 2003 through 2005 was prepared and the ending balance in 2003 was compared to the rate case order No. PSC-05-0769-PAA-GU. We selected a haphazard sample of plant additions since the last rate case. We tested the attributes for whether the addition was recorded at original cost, properly classified to the sub-account, and included an in-service date. Journal entries were traced to appropriate sources.

Objective: The objective was to verify that accumulated depreciation and depreciation expense are calculated using the commission authorized rates and that the calculations are accurate. In addition, we made sure the ending balance at 2003 was the same as ordered in PSC 05-0769-PAA-GU.

Procedures: We compared the rates used by the company to the rates authorized by the Commission. We recalculated the expense on a judgmental basis. The beginning balance of accumulated depreciation was reconciled to the above order.

Objective: The objective was to determine that the working capital calculation is accurate.

Procedures: The balances for all components of working capital were agreed to the trial balance. We determined that all applicable assets and liabilities are included in the calculation.

CAPITAL STRUCTURE

Objective: The objective was to determine that capital structure represents utility debt, capital stock, retained earnings, deferred taxes, customer deposits and other funds available for investment in utility plant, inventory and operations and that these balances are consistent with prior orders.

Procedure: We traced the components of capital structure from the prior rate case to the current beginning balances. Long term debt issued subsequent to the last rate case was tested by reviewing the debt instruments and recalculating the interest according to the debt agreement. The interest on customer deposits was verified to the Commission rule and interest recorded. The common equity cost rate was traced to the Commission order, and the overall weighted average cost rate was recalculated.

REVENUES AND EXPENSES

Objective: The objective was to determine that the revenues earned from utility property during the test year were recorded and included in the filed exhibits, and to verify that the company was billing the approved tariff rates.

Procedures: We traced the revenue as reported in the filed exhibits to the trial balance. We did not test any customer bills in this audit to determine if the company was billing the tariff rates. We relied upon the staff gas conservation audit for 2005 and the purchased gas adjustment audit for 2005 where customer bills were tested and no discrepancies were reported.

Objective: The objective was to determine how the company calculated its proposed over-earnings of $512,000.

Procedure: We reviewed the company's methodology for calculation and the source for the components of the calculation. See Audit Finding 3 for discussion.

Objective: The objective was to review the accruals to the storm damage reserve account starting in 1996 and to determine why the company terminated the accruals at the end of 2002. The second objective was to review the booking of the 2002 over-earnings to the storm reserve account and make sure those over-earnings are used for storm costs subsequent to the 2004 storms as ordered in FPSC Order No. PSC-05-1040-PAA-GU. The third objective was to make sure that the adjustments ordered in FPSC Order 05-1040-PAA-GU (petition for storm costs) were booked to the storm reserve accounts.

Procedure: We compiled entries to the storm reserve account from 1996 through June 30, 2006. We determined that the 2002 over earnings were booked in a separate account and charges booked were for costs subsequent to the 2004 storms, and that the adjustments ordered in FPSC Order 05-1040-PAA-GU were booked. See Audit Finding 5 for discussion.

Objective: The objective was to determine that operation and maintenance costs are classified according to the Commission Rules and Uniform System of Accounts, that expenditures were appropriate for regulatory purposes and that the amounts on the invoice and/or source documentation agree with the general ledger.

Procedures: Based on analytical review of accounts, we judgementally selected payments and journal entries from the general ledger. The accounts selected also included those that were adjusted by the Commission in the company's last rate case order. Invoices, journal entries and supporting documentation were examined to determine if the objectives above were met. See Audit Findings 6, 7, 8, 9, 10, 11 and 12.

The June 2005 payroll report was sorted by employee. The employees charged to gas on the payroll report were traced to the organization chart to verify that they were gas employees. We found that some employees charging time to gas were propane, merchandising and jobbing and select employees. The company was asked to verify what jobs these employees did for natural gas operations.

Objective: The objectives were to determine that the company's income tax, and taxes other than income tax balances in the filing reflected the trial balance. Also, to determine if property tax and real estate tax discounts were taken, and that the regulatory assesment form filed with the Comission reflected the company revenue.

Procedure: The balances in the filing were agreed to the company trial balance. Personal property and real estate taxes were agreed to the tax bill. The tax bills were reviewed to verify that the discounts were taken. The revenue on the regulatory assesment fee form was compared to the general ledger and the fee recalculated.

AUDIT FINDING NO. 1

SUBJECT: **YEAR END RATE BASE SCHEDULE 3 OF FILING**

SUMMARY: The adjustment amounts for "NON-UTILITY PLANT" on the year end rate base schedule are 13-month average amounts rather than year end.

STATEMENT OF FACTS: Schedule 3 of the filing includes an adjustment to plant in service and accumulated depreciation for non-utility plant. The adjustments were a credit to plant of $1,275,040 and a debit to accumulated depreciation of $414,024. These are 13-month average adjustments. We recalculated the year end amounts of the adjustments and found that the credit to plant should be $1,300,395 and the debit to accumulated depreciation should be $404,863; a difference of $25,355 and $9,161 respectively.

EFFECT ON THE GENERAL LEDGER: No effect.

EFFECT ON FILING: Schedule 3 of the filing should be changed to reflect a year end adjustment of $1,300,395 for plant in service and $404,863 for accumulated depreciation. If the filing is changed, then plant in service and accumulated depreciation would be changed as follows:

Adjusted Plant	$89,568,944
Year End Adjustment	25,355
	$89,612,299
Adjusted Accumulated Depreciation	$31,369,505
Year End Adjustment	(9,161)
	$31,360,344

AUDIT FINDING NO. 2

SUBJECT: INACTIVE SERVICE LINES

SUMMARY: The information to determine if the specific 309 service lines ordered by the Commission to be removed from plant in service is not readily available.

STATEMENT OF FACTS: Rate case Order No. PSC-04-1110-FOF-GU found that 309 service lines were inactive and removed them from plant in service with the associated accumulated depreciation and depreciation expense. The information to determine whether the specific 309 addressed in the order were retired on the books was not readily available. However, the company provided us with a list of service line retirements for 2004 and 2005. In 2004 the company retired 1,139 lines and 872 lines in 2005, for a total of 2,011. This information is provided for the analyst's review.

EFFECT ON GENERAL LEDGER: If further audit work determines that the 309 lines were not retired, then a retirement should be booked.

EFFECT ON FILING: If the analyst accepts that these 309 lines were included in the total of 2,011, then there is no effect on the filing. If the analyst determines that the company has to specifically identify these original 309 lines and an adjustment is required, then there would be an effect on the filing.

AUDIT FINDING NO. 3

SUBJECT: CALCULATION OF COMPANY ESTIMATED REFUND

SUMMARY: This finding is to explain how the company calculated its over-earnings in the amount of $512,000.

STATEMENT OF FACT: On Schedule 2, Page 2 of 2 of the filing, the company included two proforma adjustments to the net operating income statement for the estimated refund. It reduced operating revenues by $512,000 and decreased income taxes by $192,666 for a net effect of $319,334. Applying a tax rate of 37.6% to $512,000 results in $192,512; a difference of $154 with the amount included in the filing. We believe this difference is immaterial.

In 2005 it booked a debit to revenue of $700,000 and a credit to a deferred liability account for the same amount to estimate a potential refund. Therefore, to find the actual rate of return, the company added back the $700,000 to the income statement. With this and other adjustments to the income statement authorized by the Commission, the net operating income was $5,195,017. The refund was calculated as follows:

Average Proforma Rate Base	$57,769,238
Times	8.44%
Allowable Reveue	4,875,724
Less Adjusted NOI	5,195,017
Over Earnings	319,293
Company Calculaton	319,334
Immaterial Difference	41

The company's cost of capital was calculated on Schedule 4. It shows the low, mid and high point of its cost of capital. The high range was 8.44%. A refund was calculated in order to bring its average rate of return down to 8.44%. An estimated refund of $512,000 changed the company's average rate of return from 8.99% to 8.44%.

EFFECT ON GENERAL LEDGER: When a decision is made as to the company's over-earnings, then an adjustment to the general ledger is necessary to reflect the decision.

EFFECT ON THE FILING: There is no effect on the filing.

AUDIT FINDING NO. 4

SUBJECT: **TAXES OTHER THAN INCOME ADJUSTMENT TO THE NOI STATEMENT**

SUMMARY: The company filing reported a credit to expenses of $183,689 for taxes on fuel revenue. A recalculation showed that the credit should be $185,328; a difference of $1,630.

STATEMENT OF FACTS: In the Taxes Other Than Income Tax column of Schedule 2, page 2 of 2, the company made a proforma credit for the taxes on fuel revenue that are collected through the fuel adjustment clause. However, there was an error in the calculation. The company inadvertently left off certain revenues when calculating the taxes. The correct revenues and calculation are below:

Fuel Revenues for 2005	37,029,993
Divided by Tax Factor	1.00503
Revenues Net of tax	36,844,664
Revenues including tax	37,029,993
Taxes	185,329
Reported on Filing	183,699
Difference	1,630

EFFECT ON GENERAL LEDGER: Since this adjustment was only calculated for the Surveillance Report, it would have no affect on the general ledger.

EFFECT ON FILING: Increasing the proforma credit by $1,630 would increase the company's expenses from $23,802,282 to $23,803,912.

AUDIT FINDING NO. 5

SUBJECT: STORM RESERVE ACCOUNT

SUMMARY: The analyst requested that we analyze the storm reserve account from 1996 to the present. We found the following:

Storm Accruals to Account 121.2280.204: The company accrued $13,500 in 1996, $18,000 per year in 1997 and 1998, $16,452 in 1999, and $18,000 each year after that through 2002 for a total of $119,952. The accruals were terminated at the end of 2002. In 2001 charges were made to the accrual account in the amount of $60,882.39 for damages incurred during Hurricane Floyd. The resulting balance at the end of 2003 was $59,069.61. This balance was transferred to account 100.2280.12 in 2004, where the 2004 storm costs were accumulated.

Thereafter, a number of transfers were made so that the company could comply with Order No. PSC 05-1040-PAA-GU where separate accounts were to be set up for overearnings required to be booked to the storm reserve and for the unamortized balance of the storm restoration costs. The schedule following this disclosure is a summary of the transactions in the company's storm reserve accounts from 1996 through June 2006.

In Order No. PSC 05-1040-PAA-GU, the Commission stated that "It is unclear under what authority FPUC ceased making accruals to its storm damage reserve. ... If, after review, the Company and our staff determine that the accrual was stopped without our authorization, the Company has agreed to make a one-time credit to the reserve to make up for the lost accruals from January 2003 until November 18, 2004, when rates were last set in Docket No. 040216-GU."

The company response citing its reasons for terminating its accruals follows this finding.

2002 Over Earnings: In PSC 05-1040-PAA-GU, the Commission ordered the company to book its 2002 over earnings in the amount of $117,773 to the storm reserve account (Account 228.1). It also stated that this amount should be used for future storm expenses, and not for the expenses included in its storm docket filing. We found that the company followed this order.

Separate Account for Storm Docket Expenses: The company established a separate sub account of Account 182.1 to account for the unamortized balance of the storm restoration costs subject to future recovery as directed in Order No. PSC-05-1040-PAA-GU.

Adjustments to Expenses based on PSC-05-01040-PAA-GU: The Commission ordered that certain storm related expenses in the amount of $37,306.23 should be disallowed. A journal entry removing these costs from storm expenses was booked in September 2005.

EFFECT ON GENERAL LEDGER: This finding is for information purposes. There is no effect on the general ledger.

EFFECT ON FILING: This finding is for information purposes. There is no effect on the filing.

Florida Public Utilities.
Summary of Storm Account Transactions

		Dr. (Cr) Per Yr. 121.2280.204	Cumulative 121.2280.204
	1996	-13,500.00	-13,500.00
	1997	-18,000.00	-31,500.00
	1998	-18,000.00	-49,500.00
	1999	-16,452.00	-65,952.00
	1999	60,882.39	-5,069.61
	2000	-18,000.00	-23,069.61
	2001	-18,000.00	-41,069.61
	2002	-18,000.00	-59,069.61
	2003	No activity	-59,069.61
	2004	59,069.61	0.00
Balance 12/31/04			0.00

		100.2280.12	Cumulative 100.2280.12
Beginning Balance 2004		0.00	0.00
Transfer from 121.2280.204		-59,069.61	-59,069.61
Storm Expense		555,334.40	496,264.79
Estimated Over Earnings 2002		-79,810.49	416,454.30
Transfer to 121.1820.31		-416,454.30	0.00
Balance 12/31/04			0.00
Beginning 2005		0.00	0.00
Transfer from 121.1820.31	See Below	352,027.88	352,027.88
Transfer to 121.1820.32	See below	-469,801.37	-117,773.49
Various Entries for Expenses Subsequent to 2004 storms		88,515.21	-29,258.28
Balance at 12/31/05			-29,258.28
Beginning Balance 2005			-29,258.28
Various Entries Jan-June 2006		29,268.87	10.59
Balance 6/30/06			10.59

	121.1820.31	Cumulative 121.1820.31
Beginning 2004		
Transfer from 100.2280	416,454.30	416,454.30
Balance at 12/31/04		
Beginning Balance 2005	416,454.30	416,454.30
Reverse estimated Over-Earning	79,810.49	496,264.79
Book 2002 Over Earnings	-117,773.49	378,491.30
Various Entries	10,842.81	389,334.11
~~Audit~~ Commission Adjustments	-37,306.23	352,027.88
Transfer to 100.2280.12	-352,027.88	0.00
Ending Balance 12/31/05		0.00
Various entries Jan thru June 2006	3,963.39	3,963.39
Ending Balance 6/30/06		3,963.39

	121.1820.32	Cumulative 121.1820.32
Beginning Balance 2005	0.00	0.00
Transfer from 100.2280.12	469,801.37	469,801.37
Various Entries 2005	-17,474.20	452,327.17
Ending Balance 12/31/05		452,327.17
Various Entries Jan thru June 2006	-100,510.45	351,816.72
Balance at 6/30/06		351,816.72

Authorization for stopping or not having a natural gas storm accrual from the FPSC would have come in conjunction with our most recent rate proceeding filed in 2004. We were never told to provide this accrual, nor did we ever receive any type of recovery before 2005 for storm reserves. We did not seek recovery in this 2004 proceeding nor were we mandated to provide for a storm reserve. We did not receive recovery for storm in our base rates. In the rate case preceding the most recent one, filed in 1993, we did not seek nor receive recovery for a storm reserve either.

We started our own storm accrual after our 1993 rate case, but did not get recovery for that storm accrual from the customers for this accrual. We stopped the accrual before the historic test year of our most recent rate case filed in 2004.

Recent history of the natural gas storm reserve prior to 2004 showed that we were properly funded for historical storms. In our most recent rate proceeding, we could not justify the need for additional accruals. History did not support a need for a reserve and insurance rates were astronomical, and we did not have data to support a storm reserve accrual.

Since the last rate proceeding, and with the recent storm activities, it has become apparent that storm reserves are required for the natural gas areas. We filed for a storm surcharge in 2005 to recover the costs of our 2004 storms and in 2005 the FPSC allowed 2002 over earnings to be used for future storm funding. We also recently requested that any 2005 over earnings be used for future storm funding as well. We will re-examine the need for additional storm reserves beyond these levels at our next rate proceeding or at a time that storm costs significantly exceed our reserves.

AUDIT FINDING NO. 6

SUBJECT: GENERAL LIABILITY INSURANCE

SUMMARY: General liability insurance was allocated to non-regulated operations at 10% which is less than would be allocated using gross profit for all operations.

STATEMENT OF FACTS: When recording the general liability insurance, FPUC allocated 10% of the accrual directly to non-regulated operations and then entered the remaining 90% in a clearing account (1840).

This clearing account is allocated using gross profit of the company. If the amounts are charged to 1840.925, they are allocated only to utility operations. If the amounts are charged to 1849.925, they are allocated to all operations including propane and merchandising and jobbing. If the amount had been charged to 1849.925, 15% of the total costs would have been allocated to non-regulated operations. General liability insurance covers all operations.

The company representatives agree that the amount should have been charged to the 1849.925 account and therefore, allocated using different percentages. The difference between the two methods is computed as follows:

BOOKED BY COMPANY	
TOTAL COST	641,559.00
PERCENT CHARGED NON-REG	10.00%
AMOUNT CO. CHARGED TO NON-REG	64,155.90
REMAINDER	577,403.10
ALLOCATED TO GAS	66.00%
CHARGED TO GAS	381,086.05
SHOULD BE BOOKED PER STAFF	
TOTAL COST	641,559.00
ALLOCATED TO GAS USING 1849 ACCOUNT PERCENTS	56.00%
ALLOCATED TO GAS	359,273.04
DIFFERENCE	21,813.01

	ACCOUNT 1840	ACCOUNT 1849	DIFFERENCE
GAS	66.00%	56.00%	
ELECTRIC	34.00%	29.00%	
NON-REGULATED OPERATIONS		15.00%	
TOTAL	641,559.00	641,559.00	
LESS DIRECT TO NON-REGULATED	64,155.90		
NET ALLOCATED	577,403.10		
GAS	381,086.05	359,273.04	(21,813.01)
ELECTRIC	196,317.05	186,052.11	(10,264.94)
NON-REGULATED		96,233.85	32,077.95
TOTAL	641,559.00	641,559.00	0.00

EFFECT ON GENERAL LEDGER: Gas account 925 needs to be reduced by $21,813.01, electric account 925 needs to be reduced by $10,264.94 and non-regulated operations needs to be increased by $32,077.95.

EFFECT ON FILING: Gas expense needs to be reduced by $21,813.01.

AUDIT FINDING NO. 7

SUBJECT: SETTLEMENT OF LAWSUIT

SUMMARY: A settlement of $16,565.20 was paid to the Village of Royal Palm Beach on December 21, 2005.

STATEMENT OF FACTS: A settlement of $16,565.20 was paid to the Village of Royal Palm Beach on December 21, 2005. According to a company representative, a subcontractor of Florida Public Utilities broke a main. The subcontractor claimed the main was not marked and they should not be responsible. The actual damage was in the $30 thousands. Since Florida Public Utilities is establishing a franchise agreement with the Village of Royal Palm Beach, a settlement was reached. The $16,565.20 was recorded in account 880.2 in December 2005. Florida Public Utilites is not planning on trying to recover from the subcontractor.

EFFECT ON GENERAL LEDGER: There is no effect on the general ledger unless the analyst determines that this settlement should be below the line. If so, account 880.2 should be reduced by $16,565.20 and below the line expenses increased by $16,565.20.

EFFECT ON FILING: There is no effect on the filing unless the analyst determines that this settlement should be below the line. If so, gas expense should be reduced by $16,565.20.

AUDIT FINDING NO. 8

SUBJECT: EXPENSES

SUMMARY: Florida Public Utility employees were sent to Mobile, Alabama to aid Mobil Gas in restoration of damages from Hurricane Katrina. The company's employees were providing staging areas for all the utilities that were providing assistance to the effected utilities in the region. The costs are charged to natural gas. No reimbursement has been made nor is there any expected from Mobil Gas.

STATEMENT OF FACT: A total of eight employees were involved in the relief effort in Alabama after Hurricane Katrina. The company stated that it did not expect to receive payment in return, and that it was "...confident that our participation in the response effort ... participation in the Southern Gas Association mutual aid meetings...would result in FPU and our customers receiving aid from other utilities if FPU's natural gas systems were affected by a hurricane."

We tried to determine both the payroll and expense charges for these employees. We obtained expense reports for seven employees and a cash advance voucher for one employee for charges related to the Alabama relief during the month of October. Based on the dates of the expense reports, we tried to obtain the total amont of payroll charged during that period by employee. We found the following:

Name	Dates	Expense Report		Payroll	Total Payroll and Expenses
1	10/3-10/15	1,392.10		4,275.05	5,667.15
2	10/3-10/15	1,446.43		4,771.53	6,217.96
3	10/3-10/15	1,527.42		2,338.38	3,865.80
4	10/15-10/30	1,672.45		1,372.07	3,044.52
5	10/15-10/30	1,954.22		1,958.55	3,912.77
6		600.00	A		600.00
7	10/17-10/20	161.06	A		161.06
8	10/15-10/30	1,741.17		1,741.42	3,482.59
		10,494.85		16,457.00	26,951.85

Note A – We did not have the payroll dollar information for two of the employees at the end of field work.

During the course of the audit we were also provided with a report for hours worked from 10/9/05 thru 10/30/05. This report showed that there were three other employees who charged time to the Alabama Hurricane. They are Alexander Caprio, Joshua Cowart and Glen Reuter. As we obtained this report at the end of the audit, we did not have time to determine the payroll dollars and expense report dollars associated with these employees.

EFFECT ON GENERAL LEDGER: If the Commission decides that the natural gas customers should not pay for these costs, there would be no effect on the general ledger since the company's books are closed for the year.

EFFECT ON FILING: If the Commission decides that the natural gas customers should not pay for these costs, the company should be asked to supply the missing information. This would have the effect of reducing expenses and increasing the company's over earnings.

AUDIT FINDING NO. 9

SUBJECT: DONATIONS

SUMMARY: Florida Public Utilities paid the March of Dimes a donation of $7,500 which was charged 35% to account 913.2, conservation advertising, 50% to account 913.5, community affairs, and 15% to account 909, information and instructional advertising.

STATEMENT OF FACTS: Florida Public Utilities paid the March of Dimes a donation of $7,500 which was charged 35% ($2,625) to account 913.2, conservation advertising, 50% ($3,750) to account 913.5, community affairs, and 15% ($1,125) to account 909, information and instructional advertising.

Commission Order No. PSC-05-0769-PAA-GU disallowed Florida Public Utilities charitable contributions.

EFFECT ON GENERAL LEDGER: The following entry should be made to reduce above the line expenses:

Below the line expense	$7,500	
Conservation Advertising		$2,625
Community Affairs		3,750
Information and Instructional		1,125

EFFECT ON THE FILING: Gas expenses should be reduced by $7,500.

AUDIT FINDING NO. 10

SUBJECT: CO-OP ADVERTISING

SUMMARY: Florida Public Utilities paid St. Joe/Arvida Homes $52,000 in 2005 for co-op advertising.

STATEMENT OF FACTS: FPUC paid St. Joe/Arvida Homes $52,000 for co-op advertising. This was paid $13,000 per quarter and charged to promotional advertising. A copy of the ad was obtained. The ad is for The St. Joe development at Victoria Park. The only mention of Florida Public Utilities, or gas service is a small FPUC logo in the lower left corner of the ad.

EFFECT ON GENERAL LEDGER: There is no effect on the general ledger unless the analyst determines that promotional advertising does not benefit the customer and should not be included. If so, since the ledger is already closed for 2005, the adjustment would be to retained earnings and the entry to non-regulated expense from regulated expense would offset.

EFFECT ON FILING: There is no effect on the filing unless the analyst determines that this promotional advertising should not be included. If so, gas expense should be reduced by $52,000.

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AUDIT FINDING NO. 11

SUBJECT: OVERACCRUAL ACCOUNTING FEES

SUMMARY: Florida Public Utilities over-accrued accounting fees for its external auditors and under-accrued outside consultant fees. The net over-accrual is $4,228. Of this amount, $2,368 was allocated to gas.

STATEMENT OF FACTS: Florida Public Utilities accrued for $75,520 for external audit fees that was unpaid at the end of 2005. It paid $65,000 and determined that the $10,520 accrual was not needed. It accrued $13,586 for unpaid outside consultant bills at the end of 2005 but paid $19,878. Therefore, this accrual was understated by $6,292. The difference is a net overstatement of $4,228. The company allocated 56% to natural gas operations based on adjusted gross profit. Therefore, the over-accrual related to gas is $2,368.

EFFECT ON GENERAL LEDGER: Since the 2005 ledger is closed to retained earnings, there is no adjustment to the ledger. The company is adjusting the over-accrual in the 2006 expenses.

EFFECT ON THE FILING: Outside Services expenses should be reduced by $2,368.

AUDIT FINDING NO. 12

SUBJECT: BARRIER WALL AT SAPODILA OFFICE

SUMMARY: Florida Public Utilities charged $1,991.55 to account 121.4010.8802, West Palm Beach other expense, for a barrier wall that was built at the Sapodila office. The wall should have been capitalized.

STATEMENT OF FACTS: Florida Public Utilities charged $1,991.55 to for a barrier wall that was built at the Sapodila office. Since the company capitalizes additions over $500, the wall should have been capitalized. The account it should have been capitalized to account 121.1070,3909,work in process, structures and improvements.

EFFECT ON GENERAL LEDGER: Retained earnings needs to be credited and the construction work in process account debited for $1,991.55.

EFFECT ON THE FILING: The West Palm Beach other expense account needs to be reduced by $1,991.55 and construction work in process increased by the same amount.

EXHIBITS

FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED GAS DIVISION
EARNINGS SURVEILLANCE REPORT SUMMARY
DECEMBER 2005

SCHEDULE 1

	(1) ACTUAL PER BOOKS	(2) FPSC ADJUSTMENTS	(3) FPSC ADJUSTED	(4) PRO FORMA ADJUSTMENTS	(5) PRO FORMA ADJUSTED
I. AVERAGE RATE OF RETURN (JURISDICTIONAL)					
NET OPERATING INCOME	$4,765,946	429,071	$5,195,017	($319,334)	$4,875,683
AVERAGE RATE BASE	$61,130,751	(3,322,128)	$57,808,623	(39,385)	$57,769,238
AVERAGE RATE OF RETURN	7.80%		8.99%		8.44%
II. YEAR END RATE BASE (JURISDICTIONAL)	$63,468,174	(2,817,794)	$60,650,380	(512,000)	$60,138,380

III. REQUIRED RATES OF RETURN AVERAGE CAPITAL STRUCTURE (FPSC ADJUSTED BASIS)

LOW	7.71%
MIDPOINT	8.07%
HIGH	8.44%

IV. EARNED RETURN ON EQUITY (FPSC ADJUSTED BASIS)

A. INCLUDING FLEX RATE REVENUES	13.82%
B. EXCLUDING FLEX RATE REVENUES	13.82%

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

Cheryl Martin, Controller — (Name & Title)

CMMartin — (Signature)

3/6/06 — (Date)

**FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED GAS DIVISIONS
AVERAGE RATE OF RETURN
RATE BASE
DECEMBER 2005**

	(1) PLANT IN SERVICE	(2) ACCUMULATED DEPRECIATION & AMORTIZATION*	(3) NET PLANT IN SERVICE	(4) PROPERTY HELD FOR FUTURE USE	(5) CONSTRUCTION WORK IN PROGRESS	(6) NET UTILITY PLANT	(7) WORKING CAPITAL	(8) TOTAL RATE BASE
PER BOOKS	$90,897,511	$30,827,440	$60,070,071		$2,212,956	$62,283,027	($1,152,276)	$61,130,751
FPSC ADJUSTMENTS:								
ACCRUED VOUCHERS - DEC. 2005		5,840	(5,840)		(55,947)	(61,787)	51,263	(10,524)
NONUTILITY PLANT	(1,275,040)	(414,024)	(861,016)			(861,016)		(861,016)
RATE REFUND ADJ - 2002 O/E							17,074	17,074
SFNG ACQUSITION GOOD WILL	(2,544,974)		(2,544,974)			(2,544,974)		(2,544,974)
RATE REFUND PENDING - 2005 O/E							231,308	231,308
1/2 RATE CASE EXPENSE							(153,996)	(153,996)
TOTAL FPSC ADJUSTMENTS	(3,820,014)	(408,184)	(3,411,830)		(55,947)	(3,467,777)	145,649	(3,322,128)
FPSC ADJUSTED	87,077,497	30,419,256	56,658,241		2,157,009	58,815,250	(1,006,627)	57,808,623
FLEX RATE REVENUES								
ADJUSTED FOR FLEX RATE REVENUES	87,077,497	30,419,256	56,658,241		2,157,009	58,815,250	(1,006,627)	57,808,623
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:								
RATE REFUND PENDING - 2005 O/E							(39,385)	(39,385)
TOTAL PRO FORMA ADJUSTMENTS							(39,385)	(39,385)
PRO FORMA ADJUSTED	$87,077,497	$30,419,256	$56,658,241		$2,157,009	$58,815,250	($1,046,012)	$57,769,238

*INCLUDES CUSTOMER ADVANCES FOR CONSTRUCTION

FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED GAS DIVISIONS
AVERAGE RATE OF RETURN
INCOME STATEMENT
DECEMBER 2005

	(1) OPERATING REVENUES	(2) O & M GAS EXPENSE	(3) O & M OTHER	(4) DEPRECIATION & AMORTIZATION	(5) TAXES OTHER THAN INCOME	(6) INCOME TAXES CURRENT	(7) DEFERRED INCOME TAXES (NET)	(8) INVESTMENT TAX CREDIT (NET)	(9) GAIN/LOSS ON DISPOSITION	(10) TOTAL OPERATING EXPENSES	(11) NET OPERATING INCOME
PER BOOKS	$69,094,451	$37,980,376	$16,341,820	$4,125,165	$4,598,412	$476,510	$850,412	($44,190)		$64,328,505	$4,765,946
FPSC ADJUSTMENTS:											
FUEL COST RECOVERIES	(37,029,993)	(40,896,277)			(183,689)	1,524,005				(39,555,961)	2,525,968
FUEL OVER/UNDER RECOVERIES	(1,108,131)	2,915,901				(1,514,243)				1,401,658	(2,509,789)
CONSERVATION/UNBUNDLING RECOVERIE!	(2,181,261)		(2,172,046)		(10,916)	640				(2,182,322)	1,061
INT. & INC. TAX SYNCHRONIZATION						82,097				82,097	(82,097)
NONUTILITY DEPRECIATION EXPENSE				(71,775)		27,009				(44,766)	44,766
RATE REFUND ADJ - 2002 O/E	31,709					11,932				11,932	19,777
REMOVAL OF ECONOMIC DEV. EXP. $4,750			(250)			94				(156)	156
AEP	(503,276)		(500,372)		(2,904)					(503,276)	
RATE REFUND PENDING - 2005 O/E	700,000					263,410				263,410	436,590
ACCRUED VOUCHERS - DEC. 2005	(6,200)		(238)	5,840		(4,441)				1,161	(7,361)
TOTAL FPSC ADJUSTMENTS	(40,097,152)	(37,980,376)	(2,672,906)	(65,935)	(197,509)	390,503				(40,526,223)	429,071
FPSC ADJUSTED	28,997,299		13,668,914	4,059,230	4,400,903	867,013	850,412	(44,190)		23,802,282	5,195,017
FLEX RATE REVENUES											
ADJUSTED FOR FLEX RATE REVENUES	28,997,299		13,668,914	4,059,230	4,400,903	867,013	850,412	(44,190)		23,802,282	5,195,017
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:											
RATE REFUND PENDING - 2005 O/E	(512,000)					(192,666)				(192,666)	(319,334)
TOTAL PRO FORMA ADJUSTMENTS	(512,000)					(192,666)				(192,666)	(319,334)
PRO FORMA ADJUSTED	$28,485,299		$13,668,914	$4,059,230	$4,400,903	$674,347	$850,412	($44,190)		$23,609,616	$4,875,683
PER BOOKS CURRENT MONTH AMOUNT	$8,083,464	$4,853,197	$2,130,260	$364,843	$515,440	($113,549)	$80,860	($7,219)		$7,823,832	$259,632

FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED GAS DIVISIONS
YEAR END RATE OF RETURN
RATE BASE
DECEMBER 2005

SCHEDULE 3

	(1) PLANT IN SERVICE	(2) ACCUMULATED DEPRECIATION & AMORTIZATION*	(3) NET PLANT IN SERVICE	(4) PROPERTY HELD FOR FUTURE USE	(5) CONSTRUCTION WORK IN PROGRESS	(6) NET UTILITY PLANT	(7) WORKING CAPITAL	(8) TOTAL RATE BASE
PER BOOKS	$93,407,001	$31,777,689	$61,629,312		$2,084,882	$63,714,194	($246,020)	$63,468,174
FPSC ADJUSTMENTS:								
ACCRUED VOUCHERS - DEC. 2005		5,840	(5,840)		(55,947)	(61,787)	51,263	(10,524)
NONUTILITY PLANT	(1,275,040)	(414,024)	(861,016)			(861,016)		(861,016)
RATE REFUND ADJ - 2002 O/E							31,709	31,709
SFNG ACQUSITION GOOD WILL	(2,545,017)		(2,545,017)			(2,545,017)		(2,545,017)
RATE REFUND PENDING - 2005 O/E							700,000	700,000
1/2 RATE CASE EXPENSE							(132,946)	(132,946)
TOTAL FPSC ADJUSTMENTS	(3,820,057)	(408,184)	(3,411,873)		(55,947)	(3,467,820)	650,026	(2,817,794)
FPSC ADJUSTED	$89,586,944	$31,369,505	$58,217,439		$2,028,935	$60,246,374	$404,006	$60,650,380
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:								
RATE REFUND PENDING - 2005 O/E							(512,000)	(512,000)
TOTAL PRO FORMA ADJUSTMENTS							(512,000)	(512,000)
PRO FORMA ADJUSTED	$89,586,944	$31,369,505	$58,217,439		$2,028,935	$60,246,374	($107,994)	$60,138,380

*INCLUDES CUSTOMER ADVANCES FOR CONSTRUCTION

3/4/2006

FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED GAS DIVISIONS
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
DECEMBER 2005

SCHEDULE 4

				ADJUSTMENTS				LOW POINT		MID POINT		HIGH POINT	
AVERAGE	SYSTEM PER BOOKS	ADJUSTMENT FOR FLO-GAS	RETAIL PER BOOKS	PRORATA	SPECIFIC	ADJUSTED RETAIL	RATIO (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
LONG TERM DEBT	$25,343,763	550,407	$25,894,170	(1,719,201)		$24,174,969	41.82	8.04	3.36	8.04	3.36	8.04	3.36
SHORT TERM DEBT	1,576,167	35,026	1,611,193	(106,973)		1,504,220	2.60	2.52	0.07	2.52	0.07	2.52	0.07
PREFERRED STOCK	300,222	10,008	310,230	(20,597)		289,633	0.50	4.75	0.02	4.75	0.02	4.75	0.02
CUSTOMER DEPOSITS	4,784,170		4,784,170			4,784,170	8.28	6.50	0.54	6.50	0.54	6.50	0.54
COMMON EQUITY	22,816,892	(595,441)	22,221,451	(1,475,357)		20,746,094	35.89	10.25	3.68	11.25	4.04	12.25	4.40
DEFERRED INCOME TAXES	6,032,983		6,032,983			6,032,983	10.44						
TAX CREDITS-ZERO COST													
TAX CREDITS-WEIGHTED COST	276,554		276,554			276,554	0.47	8.82	0.04	9.27	0.04	9.71	0.05
TOTAL	$61,130,751		$61,130,751	($3,322,128)		$57,808,623	100.00		7.71		8.07		8.44

				ADJUSTMENTS				LOW POINT		MID POINT		HIGH POINT	
YEAR END	SYSTEM PER BOOKS	ADJUSTMENT FOR FLO-GAS	RETAIL PER BOOKS	PRORATA	SPECIFIC	ADJUSTED RETAIL	RATIO (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
LONG TERM DEBT	$24,346,924	522,598	$24,869,522	(1,367,757)		$23,501,765	38.75	8.03	3.11	8.03	3.11	8.03	3.11
SHORT TERM DEBT	4,616,283	102,471	4,718,754	(259,519)		4,459,235	7.35	0.82	0.06	0.82	0.06	0.82	0.06
PREFERRED STOCK	292,040	5,124	297,164	(16,343)		280,821	0.46	4.75	0.02	4.75	0.02	4.75	0.02
CUSTOMER DEPOSITS	5,093,616		5,093,616			5,093,616	8.40	6.73	0.57	6.73	0.57	6.73	0.57
COMMON EQUITY	21,979,862	(630,193)	21,349,669	(1,174,175)		20,175,494	33.27	10.25	3.41	11.25	3.74	12.25	4.08
DEFERRED INCOME TAXES	6,886,622		6,886,622			6,886,622	11.35						
TAX CREDITS-ZERO COST													
TAX CREDITS-WEIGHTED COST	252,827		252,827			252,827	0.42	8.28	0.03	8.70	0.04	9.11	0.04
TOTAL	$63,468,174		$63,468,174	($2,817,794)		$60,650,380	100.00		7.20		7.54		7.88

SCHEDULE 5

FLORIDA PUBLIC UTILITIES COMPANY
CONSOLIDATED GAS DIVISIONS
EARNED RETURN ON COMMON EQUITY
FPSC ADJUSTED BASIS
DECEMBER 2005

A. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY INCLUDING FLEX RATE REVENUES

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	8.99
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:	
LONG TERM DEBT	(3.36)
SHORT TERM DEBT	(0.07)
PREFERRED STOCK	(0.02)
CUSTOMER DEPOSITS	(0.54)
TAX CREDITS - WEIGHTED COST (MIDPOINT)	(0.04)
SUBTOTAL	(4.03)
TOTAL	4.96
DIVIDED BY RECONCILED COMMON EQUITY RATIO	0.3589
JURISDICTIONAL RETURN ON COMMON EQUITY	13.82

B. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY EXCLUDING FLEX RATE REVENUES

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	$5,195,017
RATE BASE EXCLUDING FLEX RATE REVENUES	$57,808,623
FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	8.99
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:	
LONG TERM DEBT	(3.36)
SHORT TERM DEBT	(0.07)
PREFERRED STOCK	(0.02)
CUSTOMER DEPOSITS	(0.54)
TAX CREDITS - WEIGHTED COST (MIDPOINT)	(0.04)
SUBTOTAL	(4.03)
TOTAL	4.96
DIVIDED BY RECONCILED COMMON EQUITY RATIO	0.3589
JURISDICTIONAL RETURN ON COMMON EQUITY	13.82

Florida Public Utilities Company
ELECTRIC DIVISIONS
100.2280.11 - Accumulated Provisions for Property Insurance
Storm Damage Reserve Summary
December 2005

Prepared By: Catherine Hulme
Approved by:

DATE	Accruals (JE 19)	Storm Charges	Overearnings (JE 5)	Balance	Maximum
BALANCES FORWARD	0.00	0.00	0.00	(1,538,087.57)	$2,900,000
Jan-05	(10,135.00)	73.79	0.00	(1,548,148.78)	$2,900,000
Feb-05	(10,135.00)	3,342.50	0.00	(1,554,941.28)	$2,900,000
Mar-05	(10,135.00)	(18.00)	0.00	(1,565,094.28)	$2,900,000
Apr-05	(10,135.00)	0.00	0.00	(1,575,229.28)	$2,900,000
May-05	(10,135.00)	272.74	0.00	(1,585,091.54)	$2,900,000
Jun-05	(10,135.00)	329.41	0.00	(1,594,897.13)	$2,900,000
Jul-05	(10,135.00)	0.00	0.00	(1,605,032.13)	$2,900,000
Aug-05	(10,135.00)	0.00	0.00	(1,615,167.13)	$2,900,000
Sep-05	(10,135.00)	108,305.80	0.00	(1,516,996.33)	$2,900,000
Oct-05	(10,135.00)	0.00	0.00	(1,527,131.33)	$2,900,000
Nov-05	(10,135.00)	0.00	0.00	(1,537,266.33)	$2,900,000
Dec-05	(10,135.00)	57,274.00	(16,759.00)	(1,506,886.33)	$2,900,000
	(121,620.00)	169,580.24	(16,759.00)		

\\NAS1\P_Drive\Departments & Divisions\Accounting Departments\Temp Accountants\Catherine\Monthly Reconciliations\Ins-Pension Recs 2005\2005 Electric storm Reserve 2280.112/27/2006