

State of Florida



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# Public Service Commission

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COMMISSION  
CLERK

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**DATE:** December 18, 2007  
**TO:** George J. Slemkewicz, Public Utilities Supervisor, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance *DNV*  
**RE:** **Company Name:** Florida Public Utilities Company;  
**Audit Purpose:** 2006 Earnings Surveillance;  
**Audit Control No:** 07-240-4-1; **Undocketed**

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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 no confidential work papers associated with this audit.

DNV:bj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of Commission Clerk (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

Mr. John T. English  
Florida Public Utilities Co.  
P.O. Box 3395  
West Palm Beach, FL 33402-3395

DOCUMENT NUMBER-DATE

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**FLORIDA PUBLIC SERVICE COMMISSION**  
***DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE***  
***BUREAU OF AUDITING***  
  
***Miami District Office***

**FLORIDA PUBLIC UTILITIES COMPANY**  
**GAS DIVISION**  
  
**FILE AND SUSPEND RATE CASE INVESTIGATION**  
  
**AS OF DECEMBER 31, 2006**

**UNDOCKETED**  
**AUDIT CONTROL NO. 07-240-4-1**

  
\_\_\_\_\_  
***Gabriela Leon, Audit Manager***

  
\_\_\_\_\_  
***Iliana Piedra, Audit Staff***

  
\_\_\_\_\_  
***Kathy L. Welch, Public Utilities Supervisor***

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**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**December 13, 2007**

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

We have performed the procedures described 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 was 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

### RATE BASE

#### General

*Objective:* 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. To verify that all adjustments are consistent with the prior rate cases and calculated correctly.

*Procedures:* We reconciled the rate base balances to supporting schedules and traced those to the general ledger. We obtained supporting documentation for all adjustments in 2006, recalculated them, traced amounts to the ledgers, and reviewed prior orders.

#### Utility Plant

*Objective:* To verify plant additions and adjustments from the last rate case were correctly made by reviewing supporting documentation and the last Commission Order.

*Procedures:* We sampled plant additions for the year December 31, 2006 for compliance with the stated objectives above. We verified that the utility properly recorded additions and commission adjustments. We sampled construction project additions and the corresponding source documentation.

#### Accumulated Depreciation

*Objective:* To determine that the balances of Accumulated Depreciation on the filing tie to the general ledger. To verify that depreciation expense accruals are calculated using the Commission authorized rates.

*Procedures:* We traced the accumulated depreciation schedules to the corresponding plant in service schedules. We verified that the utility used Commission authorized rates to depreciate its plant accounts by calculating a sample of accumulated depreciation account balances to test for calculation errors.

#### Working Capital

*Objective:* To determine that the utility's working capital balance is properly calculated in compliance with Commission rules, consistent with the last order. Also, to determine if any interest earning or bearing accounts or any non-utility items were included in the calculation.

*Procedures:* We traced the working capital accounts to the general ledger, and reviewed any allocations of common accounts. We reviewed Commission policy to determine if any accounts did not comply. We recalculated the utility's working capital balance as of December 31, 2006.

## NET OPERATING INCOME

### General

*Objective:* To determine that the utility's filing represents its results from continuing operations. To determine if the adjustments were properly calculated, and consistent with prior audits.

*Procedures:* We reconciled all of the individual components of net operating income (NOI) balances to the utility's general ledger for the 12-month period ended December 31, 2006. We recalculated the adjustments, traced the components to the ledger and reviewed them with the last rate case.

### Revenues

*Objective:* To determine that revenues in 2006 are properly recorded.

*Procedures:* We traced revenues to the general ledger. Customer bills were not sampled and recalculated because this was done in the last Purchased Gas Adjustment Clause audit.

### Operation and Maintenance Expenses (O&M)

*Objective:* To determine that operation and maintenance expenses in 2006 agree to the company's general ledger and to review any explanations for accounts that increased more than 15% from the previous year.

*Procedures:* We traced operating and maintenance expenses to the general ledger. We performed an analytical review and asked the company to explain the increase in certain accounts. We reviewed the company response for reasonableness.

### Taxes-Other-Than-Income

*Objective:* To determine that the Taxes Other Than Income (TOTI) balances for 2006 agree to the general ledger.

*Procedures:* We traced the (TOTI) balances to the general ledger.

### Depreciation Expense

*Objective:* To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of plant assets.

*Procedures:* We recalculated depreciation expense for the period using Commission approved rates.

## CAPITAL STRUCTURE

### General

*Objective:* To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly

recorded and that the components accurately represent the ongoing utility operations. To verify that non-utility assets, supported by the utility's capital structure, are removed from the capital structure, in the rate base/capital structure reconciliation. To verify that the non-utility investments are removed from equity, prior to the determination of debt/ equity ratios. To verify that the cost rates are appropriate. To determine how the rate base adjustments are adjusted in the capital structure.

*Procedures:* We reconciled the following individual components of capital structure to balances in the utility's general ledger as of December 31, 2006. We recalculated the overall weighted cost of capital for the test year ended 2006.

#### Long-Term-Debt

*Objective:* To determine that long-term debt balances represent actual obligations of the utility's parent and that they are properly recorded.

*Procedures:* We compared actual long-term debt balances to the general ledger and recalculated the cost rate. We traced the long-term debt balances and cost rates to the debt instruments.

#### Short-Term-Debt

*Objective:* To determine that short-term debt balances represent actual obligations of the utility's parent and that they are properly recorded.

*Procedures:* We compared the actual short-term debt balance to the general ledger and recalculated the cost rate. We traced the short-term debt balances and cost rates to the debt instruments.

#### Accumulated Deferred Income Taxes

*Objective:* To determine that accumulated deferred income taxes are properly stated and calculated based on the recorded differences between utility book and taxable income.

*Procedures:* We compared actual deferred tax balances to the general ledger.

#### Customer Deposits

*Objective:* To determine that customer deposit balances represent actual obligations of the utility and are properly recorded.

*Procedures:* We compared actual deposits to the general ledger and recalculated the cost rate.

#### Investment Tax Credits

*Objective:* To determine that the investment tax credit balance agrees to the books.

*Procedures:* We compared the investment tax credit balance to the general ledger and recalculated the cost rate.

## **AUDIT FINDING NO. 1**

### **SUBJECT: NON-UTILITY PLANT**

**AUDIT ANALYSIS:** The Company included a year end and a 13-month average adjustment for non-utility operations in the amount of \$820,604 to Plant and \$254,284 to Accumulated Depreciation. The company agreed that these amounts were incorrectly calculated. They provided a revised schedule for the 13-month average but did not provide a revised schedule for year end. We recalculated year end amounts using the general ledger. It showed that year end Plant should be reduced for non-utility operations by \$1,505,096.20 and year end Accumulated Depreciation by \$366,379.76. Therefore, year end Plant needs to be decreased by an additional \$684,492.20 ( $\$1,505,096.20 - \$820,604$ ) and Accumulated Depreciation by an additional \$112,095.76 ( $\$366,379.76 - \$254,284$ ).

The company included the same adjustments for the 13-month average reduction to Plant and Accumulated Depreciation for non-utility operations. The recalculated amounts decrease 13-month average Plant \$1,362,760 and decrease 13-month Accumulated Depreciation \$407,015. Therefore, 13-month average Plant needs to be reduced an additional \$542,156 ( $\$1,362,760 - \$820,604$ ) and 13-month average Accumulated Depreciation needs to be reduced by \$152,731 ( $\$407,015 - \$254,284$ ).

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the general ledger because the Company only makes these adjustments for Surveillance purposes.

**EFFECT ON THE FILING:** Year end Plant should be reduced by an additional \$684,492.20, and year end Accumulated Depreciation needs to be reduced by an additional \$112,095.76. 13-month average Plant should be reduced by an additional \$542,156 ( $\$1,362,760 - \$820,604$ ) and 13-month average Accumulated Depreciation to be reduced an additional \$152,731 ( $\$407,015 - \$254,284$ ).

**AUDIT FINDING NO. 2**

**SUBJECT: WORKING CAPITAL**

**AUDIT ANALYSIS:** According to Commission Order PSC-04-1110-PAA-GU the utility was allowed only one-half of the unamortized rate case expense in its working capital calculation.

The utility correctly calculated its 13-month average rate base adjustment. However, in its year end rate base the Company included \$88,630 as an increase to working capital instead of a decrease to working capital. Therefore, working capital should be decreased by \$177,260 ( $\$88,630 \times 2$ ).

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the general ledger since this adjustment is only made for Surveillance purposes.

**EFFECT ON THE FILING:** Working capital needs to be decreased by \$177,260 at year end.

### AUDIT FINDING NO. 3

#### SUBJECT: ALLOCATION OF CLEARING

**AUDIT ANALYSIS:** The utility puts several expenses in its 1840 clearing accounts. These accounts are not allocated to all divisions but instead are charged to the divisions through the payroll entry. The allocation through payroll does not allocate as much expense to non-regulated operations as the regular allocation process. They allocate the remaining liability insurance based on adjusted gross profit and pension, medical and 401 K based on payroll excluding merchandising and jobbing. They are all payroll related costs. Based on the payroll allocation used by the utility in 2006, 26% of payroll relates to propane and merchandising and jobbing. The following schedule shows how much of the costs were removed using the payroll entry instead of allocating the expenses using payroll and how it effects the gas allocation.

| Account | Type       | Removed<br>Non-Reg<br>and Cons. | Total<br>Costs      | Charged<br>Electric<br>Co. Methodology | Charged<br>Gas 39%<br>Payroll Alloc. | Difference        |
|---------|------------|---------------------------------|---------------------|--|--------------------------------------|-------------------|
| 925.2   | Gen. Liab. | 87,770.00                       | 574,386.04          | 253,040.34                             | 224,010.56                           | 29,029.79         |
| 926.1   | Pension    | 181,835.00                      | 1,396,952.00        | 619,709.67                             | 544,811.28                           | 74,898.39         |
| 926.2   | Medical    | 232,370.00                      | 1,625,883.63        | 710,691.95                             | 634,094.62                           | 76,597.34         |
| 926.4   | 401K       | 2,490.00                        | 17,259.28           | 7,532.33                               | 6,731.12                             | 801.21            |
|         |            | <u>504,465.00</u>               | <u>3,614,480.95</u> | <u>1,590,974.29</u>                    | <u>1,409,647.57</u>                  | <u>181,326.72</u> |

Expenses allocated to gas would decrease by \$181,326.72 if the utility allocated the total account based on the payroll allocated.

**EFFECT ON THE GENERAL LEDGER:** If this adjustment is accepted, the utility method would change going forward but 2006 would not be affected.

**EFFECT ON THE FILING:** If this adjustment is accepted, expenses for 2006 should be reduced by \$181,326.72.

**AUDIT FINDING NO. 4**

**SUBJECT: PAYROLL OVERHEAD**

**AUDIT ANALYSIS:** In the conservation audit for 2006, we reviewed and traced payroll overhead rates to a detailed company schedule, by employee, of payroll overhead added to base pay. We determined that the only charge allocated to the gas salaries was unproductive time. Electric conservation payroll included FUTA, SUTA, and FICA taxes, an allocation of pension, group insurance and workmen's compensation insurance. Gas payroll did not include these items because of a computer programming error. Therefore, \$67,968 was not allocated to gas conservation expenses. The following page shows the utility calculation of the amount of the error. These items were increased in the conservation docket and therefore, regulated operations for purposes of the surveillance report needs to be reduced.

**EFFECT ON THE GENERAL LEDGER:** The following entry was made to the general ledger in 2007:

| ACCOUNT                                  | DEBIT     | CREDIT    |
|--|-----------|-----------|
| 121.2530.61 DEFERRED CREDIT OVERRECOVERY | 67,968.00 |           |
| TAXES AND BENEFITS NON-CONSERVATION      |           | 67,968.00 |

**EFFECT ON THE FILING:** Taxes and other benefit expenses should be decreased in the surveillance report by \$67,968.

|                         |                 | SALARY            | FUTA          | SUTA            | FICA             | PENSION PLAN     | GROUP INS        | COMP- SOUTH FL  | WORKMEN'S<br>OMP- CENTRAL FL | WORKMEN'S<br>TOTAL | OVERHEAD         | TOTAL %       |
|-------------------------|-----------------|-------------------|---------------|-----------------|------------------|------------------|------------------|-----------------|------------------------------|--------------------|------------------|---------------|
|                         |                 |                   | 0.8%          | 1.29%           | 7.65%            | 11.14%           | 9.70%            | 3.46%           | 3.35%                        |                    |                  |               |
| JANUARY                 | SOUTH FLORIDA   | 10,034.45         |               |                 |                  |                  |                  | 347.19          |                              |                    |                  |               |
|                         | CENTRAL FLORIDA | 5,899.61          |               |                 |                  |                  |                  |                 | 197.64                       |                    |                  |               |
|                         | <b>TOTAL</b>    | <b>15,934.06</b>  | 127.47        | 205.55          | 1,218.96         | 1,775.05         | 1,545.60         | 347.19          | 197.64                       |                    | <b>5,417.46</b>  | 34.00%        |
| FEBRUARY                | SOUTH FLORIDA   | 10,987.02         |               |                 |                  |                  |                  | 380.15          |                              |                    |                  |               |
|                         | CENTRAL FLORIDA | 6,211.77          |               |                 |                  |                  |                  |                 | 208.09                       |                    |                  |               |
|                         | <b>TOTAL</b>    | <b>17,198.79</b>  | 137.59        | 221.86          | 1,315.71         | 1,725.04         | 1,979.58         | 380.15          | 208.09                       |                    | <b>5,968.03</b>  | 34.70%        |
| MARCH                   | SOUTH FLORIDA   | 11,401.55         |               |                 |                  |                  |                  | 394.49          |                              |                    |                  |               |
|                         | CENTRAL FLORIDA | 5,602.71          |               |                 |                  |                  |                  |                 | 187.69                       |                    |                  |               |
|                         | <b>TOTAL</b>    | <b>17,004.26</b>  | 136.03        | 219.35          | 1,300.83         | 1,290.62         | 1,265.12         | 394.49          | 187.69                       |                    | <b>4,794.14</b>  | 28.19%        |
| APRIL                   | SOUTH FLORIDA   | 18,444.29         |               |                 |                  |                  |                  | 638.17          |                              |                    |                  |               |
|                         | CENTRAL FLORIDA | 9,998.46          |               |                 |                  |                  |                  |                 | 334.95                       |                    |                  |               |
|                         | <b>TOTAL</b>    | <b>28,442.75</b>  | 227.54        | 366.91          | 2,175.87         | 2,983.64         | 2,764.64         | 638.17          | 334.95                       |                    | <b>9,491.72</b>  | 33.37%        |
| MAY                     | SOUTH FLORIDA   | 11,602.24         |               |                 |                  |                  |                  | 401.44          |                              |                    |                  |               |
|                         | CENTRAL FLORIDA | 8,789.87          |               |                 |                  |                  |                  |                 | 294.46                       |                    |                  |               |
|                         | <b>TOTAL</b>    | <b>20,392.11</b>  | 163.14        | 263.06          | 1,560.00         | 2,126.90         | 2,086.11         | 401.44          | 294.46                       |                    | <b>6,895.10</b>  | 33.81%        |
| JUNE                    | SOUTH FLORIDA   | 6,951.62          |               |                 |                  |                  |                  | 240.53          |                              |                    |                  |               |
|                         | CENTRAL FLORIDA | 7,287.61          |               |                 |                  |                  |                  |                 | 244.13                       |                    |                  |               |
|                         | <b>TOTAL</b>    | <b>14,239.23</b>  | 113.91        | 183.69          | 1,089.30         | 1,102.12         | 1,090.73         | 240.53          | 244.13                       |                    | <b>4,064.40</b>  | 28.54%        |
| JULY                    | SOUTH FLORIDA   | 13,684.68         |               |                 |                  |                  |                  | 473.49          |                              |                    |                  |               |
|                         | CENTRAL FLORIDA | 11,430.18         |               |                 |                  |                  |                  |                 | 382.91                       |                    |                  |               |
|                         | <b>TOTAL</b>    | <b>25,114.86</b>  | -             | -               | 1,921.29         | 2,599.39         | 2,529.07         | 473.49          | 382.91                       |                    | <b>7,906.14</b>  | 31.48%        |
| AUGUST                  | SOUTH FLORIDA   | 9,447.04          |               |                 |                  |                  |                  | 326.87          |                              |                    |                  |               |
|                         | CENTRAL FLORIDA | 7,775.06          |               |                 |                  |                  |                  |                 | 260.46                       |                    |                  |               |
|                         | <b>TOTAL</b>    | <b>17,222.10</b>  | -             | -               | 1,317.49         | 609.66           | 1,494.88         | 326.87          | 260.46                       |                    | <b>4,009.36</b>  | 23.28%        |
| SEPTEMBER               | SOUTH FLORIDA   | 8,625.87          |               |                 |                  |                  |                  | 298.46          |                              |                    |                  |               |
|                         | CENTRAL FLORIDA | 7,257.61          |               |                 |                  |                  |                  |                 | 243.13                       |                    |                  |               |
|                         | <b>TOTAL</b>    | <b>15,883.48</b>  | -             | -               | 1,215.09         | 573.39           | 1,678.88         | 298.46          | 243.13                       |                    | <b>4,008.95</b>  | 25.24%        |
| OCTOBER                 | SOUTH FLORIDA   | 11,168.52         |               |                 |                  |                  |                  | 386.43          |                              |                    |                  |               |
|                         | CENTRAL FLORIDA | 8,522.56          |               |                 |                  |                  |                  |                 | 285.51                       |                    |                  |               |
|                         | <b>TOTAL</b>    | <b>19,691.08</b>  | -             | -               | 1,506.37         | 11.81            | 2,223.12         | 386.43          | 285.51                       |                    | <b>4,413.24</b>  | 22.41%        |
| NOVEMBER                | SOUTH FLORIDA   | 10,680.26         |               |                 |                  |                  |                  | 369.54          |                              |                    |                  |               |
|                         | CENTRAL FLORIDA | 8,466.43          |               |                 |                  |                  |                  |                 | 283.63                       |                    |                  |               |
|                         | <b>TOTAL</b>    | <b>19,146.69</b>  | -             | -               | 1,464.72         | 1,560.46         | 1,937.65         | 289.44          | 276.01                       |                    | <b>5,528.26</b>  | 28.87%        |
| DECEMBER                | SOUTH FLORIDA   | 13,575.72         |               |                 |                  |                  |                  | 469.72          |                              |                    |                  |               |
|                         | CENTRAL FLORIDA | 10,748.17         |               |                 |                  |                  |                  |                 | 360.06                       |                    |                  |               |
|                         | <b>TOTAL</b>    | <b>24,323.89</b>  | -             | -               | 1,860.78         | 1,123.76         | 1,768.35         | 367.90          | 350.39                       |                    | <b>5,471.18</b>  | 22.49%        |
| <b>TOTAL S. FLORIDA</b> |                 | <b>136,603.26</b> |               |                 |                  |                  |                  |                 |                              |                    |                  |               |
| <b>TOTAL C. FLORIDA</b> |                 | <b>97,990.04</b>  |               |                 |                  |                  |                  |                 |                              |                    |                  |               |
| <b>GRAND TOTAL</b>      |                 | <b>234,593.30</b> | <b>905.69</b> | <b>1,460.42</b> | <b>17,946.39</b> | <b>17,481.85</b> | <b>22,363.72</b> | <b>4,544.55</b> | <b>3,265.37</b>              |                    | <b>67,968.00</b> | <b>28.97%</b> |

## **EXHIBITS**

FLORIDA PUBLIC UTILITIES COMPANY  
CONSOLIDATED GAS DIVISIONS  
AVERAGE RATE OF RETURN  
RATE BASE  
DECEMBER 2006

SCHEDULE 2  
PAGE 1 OF 2

|  | (1)                 | (2)  | (3)                        | (4)                             | (5)                                 | (6)                  | (7)                | (8)                |
|--|---------------------|--|----------------------------|---------------------------------|-------------------------------------|----------------------|--------------------|--------------------|
|  | PLANT IN<br>SERVICE | ACCUMULATED<br>DEPRECIATION &<br>AMORTIZATION* | NET<br>PLANT IN<br>SERVICE | PROPERTY HELD<br>FOR FUTURE USE | CONSTRUCTION<br>WORK IN<br>PROGRESS | NET<br>UTILITY PLANT | WORKING<br>CAPITAL | TOTAL<br>RATE BASE |
| PER BOOKS  | \$95,883,458        | \$32,924,464                                   | \$62,958,994               |                                 | \$2,528,712                         | \$65,487,706         | (\$4,433,254)      | \$61,054,452       |
| <u>FPSC ADJUSTMENTS:</u>   |                     |  |                            |                                 |                                     |                      |                    |                    |
| REVERS. ACCRUED VOUCHERS - DEC. 2005                             |                     | (5,840)  | 5,840                      |                                 | (1,022)                             | 4,818                | 5,706              | 10,524             |
| NONUTILITY PLANT   | (820,604)           | (254,284)                                      | (566,320)                  |                                 |                                     | (566,320)            |                    | (566,320)          |
| RATE REFUND ADJ - 2006 O/E                                       |                     |  |                            |                                 |                                     |                      | 1,646              | 1,646              |
| SFNG ACQUISITION GOOD WILL                                       | (2,545,016)         |  | (2,545,016)                |                                 |                                     | (2,545,016)          |                    | (2,545,016)        |
| RATE REFUND PENDING - 2005 O/E                                   |                     |  |                            |                                 |                                     |                      | 182,000            | 182,000            |
| 1/2 RATE CASE EXPENSE  |                     |  |                            |                                 |                                     |                      | (110,788)          | (110,788)          |
| REG ASSET-PENS alloc adj.  |                     |  |                            |                                 |                                     |                      | 2,963              | 2,963              |
| TOTAL FPSC ADJUSTMENTS   | (3,365,620)         | (260,124)                                      | (3,105,496)                |                                 | (1,022)                             | (3,106,518)          | 81,527             | (3,024,991)        |
| FPSC ADJUSTED  | 92,517,838          | 32,664,340                                     | 59,853,498                 |                                 | 2,527,690                           | 62,381,188           | (4,351,727)        | 58,029,461         |
| <u>FLEX RATE REVENUES</u>  |                     |  |                            |                                 |                                     |                      |                    |                    |
| ADJUSTED FOR   |                     |  |                            |                                 |                                     |                      |                    |                    |
| FLEX RATE REVENUES   | 92,517,838          | 32,664,340                                     | 59,853,498                 |                                 | 2,527,690                           | 62,381,188           | (4,351,727)        | 58,029,461         |
| <u>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</u> |                     |  |                            |                                 |                                     |                      |                    |                    |
| REVERSAL OF PGA OVER RECOVERIES                                  |                     |  |                            |                                 |                                     |                      | 2,972,286          | 2,972,286          |
| TOTAL PRO FORMA ADJUSTMENTS                                      |                     |  |                            |                                 |                                     |                      | 2,972,286          | 2,972,286          |
| PRO FORMA ADJUSTED   | \$92,517,838        | \$32,664,340                                   | \$59,853,498               |                                 | \$2,527,690                         | \$62,381,188         | (\$1,379,441)      | \$61,001,747       |

\*INCLUDES CUSTOMER ADVANCES FOR CONSTRUCTION

FLORIDA PUBLIC UTILITIES COMPANY  
CONSOLIDATED GAS DIVISIONS  
AVERAGE RATE OF RETURN  
INCOME STATEMENT  
DECEMBER 2006

SCHEDULE 2  
PAGE 2 OF 2

|  | (1)                   | (2)                     | (3)            | (4)                            | (5)                        | (6)                     | (7)                               | (8)                               | (9)                         | (10)                           | (11)                       |
|--|-----------------------|-------------------------|----------------|--------------------------------|----------------------------|-------------------------|-----------------------------------|-----------------------------------|-----------------------------|--------------------------------|----------------------------|
|  | OPERATING<br>REVENUES | O & M<br>GAS<br>EXPENSE | O & M<br>OTHER | DEPRECIATION &<br>AMORTIZATION | TAXES OTHER<br>THAN INCOME | INCOME TAXES<br>CURRENT | DEFERRED<br>INCOME TAXES<br>(NET) | INVESTMENT<br>TAX CREDIT<br>(NET) | GAIN/LOSS<br>ON DISPOSITION | TOTAL<br>OPERATING<br>EXPENSES | NET<br>OPERATING<br>INCOME |
| PER BOOKS  | \$71,139,339          | \$38,119,301            | \$16,876,639   | \$4,299,398                    | \$5,726,046                | \$3,376,323             | (\$1,997,258)                     | (\$42,642)                        |                             | \$66,357,807                   | \$4,781,532                |
| <u>FPSC ADJUSTMENTS:</u>   |                       |                         |                |                                |                            |                         |                                   |                                   |                             |                                |                            |
| FUEL COST RECOVERIES   | (41,839,554)          | (35,203,402)            |                |                                | (208,104)                  | (2,418,874)             |                                   |                                   |                             | (37,830,380)                   | (4,009,174)                |
| FUEL OVER/UNDER RECOVERIES                                       | 3,656,021             | (2,915,899)             |                |                                |                            | 2,473,013               |                                   |                                   |                             | (442,886)                      | 4,098,907                  |
| CONSERVATION/UNBUNDLING RECOVERIES                               | (2,116,384)           |                         | (2,115,635)    |                                | (13,702)                   | 4,874                   |                                   |                                   |                             | (2,124,463)                    | 8,079                      |
| INT & INC. TAX SYNCHRONIZATION                                   |                       |                         |                |                                |                            | 69,747                  |                                   |                                   |                             | 69,747                         | (69,747)                   |
| NONUTILITY DEPRECIATION EXPENSE                                  |                       |                         |                | (77,939)                       |                            | 29,328                  |                                   |                                   |                             | (48,611)                       | 48,611                     |
| RATE REFUND ADJ - 2006 O/E                                       | 21,400                |                         |                |                                |                            | 8,053                   |                                   |                                   |                             | 8,053                          | 13,347                     |
| REMOVAL OF ECONOMIC DEV. EXP. \$4,750                            |                       |                         | (250)          |                                |                            | 94                      |                                   |                                   |                             | (156)                          | 156                        |
| AEP  | (540,173)             |                         | (537,473)      |                                | (2,700)                    |                         |                                   |                                   |                             | (540,173)                      |                            |
| PURCHASED UNIT CORRECTION, UNBILLED AD                           | (72,442)              |                         |                |                                |                            | (27,260)                |                                   |                                   |                             | (27,260)                       | (45,182)                   |
| REVERS. ACCRUED VOUCHERS - DEC. 2005                             | 6,200                 |                         | 238            | (5,840)                        |                            | 4,441                   |                                   |                                   |                             | (1,161)                        | 7,361                      |
| TOTAL FPSC ADJUSTMENTS   | (40,884,932)          | (38,119,301)            | (2,653,120)    | (83,779)                       | (224,506)                  | 143,416                 |                                   |                                   |                             | (40,937,290)                   | 52,358                     |
| FPSC ADJUSTED  | 30,254,407            |                         | 14,223,519     | 4,215,619                      | 5,501,540                  | 3,519,739               | (1,997,258)                       | (42,642)                          |                             | 25,420,517                     | 4,833,890                  |
| <u>FLEX RATE REVENUES</u>  |                       |                         |                |                                |                            |                         |                                   |                                   |                             |                                |                            |
| ADJUSTED FOR   |                       |                         |                |                                |                            |                         |                                   |                                   |                             |                                |                            |
| FLEX RATE REVENUES   | 30,254,407            |                         | 14,223,519     | 4,215,619                      | 5,501,540                  | 3,519,739               | (1,997,258)                       | (42,642)                          |                             | 25,420,517                     | 4,833,890                  |
| <u>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</u> |                       |                         |                |                                |                            |                         |                                   |                                   |                             |                                |                            |
| <u>TOTAL PRO FORMA ADJUSTMENTS</u>                               |                       |                         |                |                                |                            |                         |                                   |                                   |                             |                                |                            |
| PRO FORMA ADJUSTED   | \$30,254,407          |                         | \$14,223,519   | \$4,215,619                    | \$5,501,540                | \$3,519,739             | (\$1,997,258)                     | (\$42,642)                        |                             | \$25,420,517                   | \$4,833,890                |
| <u>PER BOOKS</u>   |                       |                         |                |                                |                            |                         |                                   |                                   |                             |                                |                            |
| CURRENT MONTH AMOUNT   | \$7,167,193           | \$4,056,091             | \$1,513,886    | \$375,702                      | \$531,216                  | \$467,400               | (\$283,115)                       | (\$3,548)                         |                             | \$6,657,632                    | \$509,561                  |

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FLORIDA PUBLIC UTILITIES COMPANY  
CONSOLIDATED GAS DIVISIONS  
CAPITAL STRUCTURE  
FPSC ADJUSTED BASIS  
DECEMBER 2006

SCHEDULE 4

| AVERAGE                   | SYSTEM<br>PER BOOKS | ADJUSTMENT<br>FOR FLO-GAS | RETAIL<br>PER BOOKS | ADJUSTMENTS          |          | ADJUSTED<br>RETAIL  | RATIO<br>(%)  | LOW POINT        |                         | MID POINT        |                         | HIGH POINT       |                         |
|---------------------------|---------------------|---------------------------|---------------------|----------------------|----------|---------------------|---------------|------------------|-------------------------|------------------|-------------------------|------------------|-------------------------|
|                           |                     |                           |                     | PRORATA              | SPECIFIC |                     |               | COST RATE<br>(%) | WEIGHTED<br>COST<br>(%) | COST RATE<br>(%) | WEIGHTED<br>COST<br>(%) | COST RATE<br>(%) | WEIGHTED<br>COST<br>(%) |
| LONG TERM DEBT            | \$24,109,191        | 613,069                   | \$24,722,260        | (1,536,998)          |          | \$23,185,262        | 39.95         | 8.02             | 3.20                    | 8.02             | 3.20                    | 8.02             | 3.20                    |
| SHORT TERM DEBT           | 1,581,329           | 38,925                    | 1,620,254           | (100,732)            |          | 1,519,522           | 2.62          | 3.28             | 0.09                    | 3.28             | 0.09                    | 3.28             | 0.09                    |
| PREFERRED STOCK           | 287,072             | 4,866                     | 291,938             | (18,150)             |          | 273,788             | 0.47          | 4.75             | 0.02                    | 4.75             | 0.02                    | 4.75             | 0.02                    |
| CUSTOMER DEPOSITS         | 5,277,158           |                           | 5,277,158           |                      |          | 5,277,158           | 9.09          | 6.61             | 0.60                    | 6.61             | 0.60                    | 6.61             | 0.60                    |
| COMMON EQUITY             | 22,678,696          | (656,860)                 | 22,021,836          | (1,369,111)          |          | 20,652,725          | 35.59         | 10.25            | 3.65                    | 11.25            | 4.00                    | 12.25            | 4.36                    |
| DEFERRED INCOME TAXES     | 6,889,503           |                           | 6,889,503           |                      |          | 6,889,503           | 11.87         |                  |                         |                  |                         |                  |                         |
| TAX CREDITS-ZERO COST     |                     |                           |                     |                      |          |                     |               |                  |                         |                  |                         |                  |                         |
| TAX CREDITS-WEIGHTED COST | 231,503             |                           | 231,503             |                      |          | 231,503             | 0.41          | 8.85             | 0.04                    | 9.30             | 0.04                    | 9.75             | 0.04                    |
| <b>TOTAL</b>              | <b>\$61,054,452</b> |                           | <b>\$61,054,452</b> | <b>(\$3,024,991)</b> |          | <b>\$58,029,461</b> | <b>100.00</b> |                  | <b>7.60</b>             |                  | <b>7.95</b>             |                  | <b>8.31</b>             |

| YEAR END                  | SYSTEM<br>PER BOOKS | ADJUSTMENT<br>FOR FLO-GAS | RETAIL<br>PER BOOKS | ADJUSTMENTS          |          | ADJUSTED<br>RETAIL  | RATIO<br>(%)  | LOW POINT        |                         | MID POINT        |                         | HIGH POINT       |                         |
|---------------------------|---------------------|---------------------------|---------------------|----------------------|----------|---------------------|---------------|------------------|-------------------------|------------------|-------------------------|------------------|-------------------------|
|                           |                     |                           |                     | PRORATA              | SPECIFIC |                     |               | COST RATE<br>(%) | WEIGHTED<br>COST<br>(%) | COST RATE<br>(%) | WEIGHTED<br>COST<br>(%) | COST RATE<br>(%) | WEIGHTED<br>COST<br>(%) |
| LONG TERM DEBT            | \$24,000,671        | 572,716                   | \$24,573,387        | (1,422,085)          |          | \$23,151,302        | 39.75         | 8.01             | 3.18                    | 8.01             | 3.18                    | 8.01             | 3.18                    |
| SHORT TERM DEBT           | 1,645,344           | 43,682                    | 1,689,026           | (97,746)             |          | 1,591,280           | 2.73          | 3.13             | 0.09                    | 3.13             | 0.09                    | 3.13             | 0.09                    |
| PREFERRED STOCK           | 286,358             | 4,853                     | 291,211             | (16,853)             |          | 274,358             | 0.47          | 4.75             | 0.02                    | 4.75             | 0.02                    | 4.75             | 0.02                    |
| CUSTOMER DEPOSITS         | 5,491,600           |                           | 5,491,600           |                      |          | 5,491,600           | 9.43          | 5.79             | 0.55                    | 5.79             | 0.55                    | 5.79             | 0.55                    |
| COMMON EQUITY             | 22,602,857          | (621,251)                 | 21,981,606          | (1,272,096)          |          | 20,709,510          | 35.56         | 10.25            | 3.64                    | 11.25            | 4.00                    | 12.25            | 4.36                    |
| DEFERRED INCOME TAXES     | 6,806,954           |                           | 6,806,954           |                      |          | 6,806,954           | 11.69         |                  |                         |                  |                         |                  |                         |
| TAX CREDITS-ZERO COST     |                     |                           |                     |                      |          |                     |               |                  |                         |                  |                         |                  |                         |
| TAX CREDITS-WEIGHTED COST | 210,185             |                           | 210,185             |                      |          | 210,185             | 0.37          | 8.84             | 0.03                    | 9.30             | 0.03                    | 9.75             | 0.04                    |
| <b>TOTAL</b>              | <b>\$61,043,969</b> |                           | <b>\$61,043,969</b> | <b>(\$2,808,780)</b> |          | <b>\$58,235,189</b> | <b>100.00</b> |                  | <b>7.51</b>             |                  | <b>7.87</b>             |                  | <b>8.24</b>             |