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

DATE: March 24, 2008

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

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

RE: Docket No: 070592-GU; Company Name: St. Joe Natural Gas Company, Inc.; Audit Purpose: Rate Case; Company Code: GU610; Audit Control No: 08-008-1-1;

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 Commission Clerk. There are no 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 (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Mr. Stuart L. Shoaf
St. Joe Natural Gas Co., Inc.
P.O. Box 549
Port St. Joe, FL 32457

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tallahassee District Office

ST. JOE NATURAL GAS COMPANY, INC.

FILE AND SUSPEND RATE CASE

PROJECTED TEST YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 070592-GU
AUDIT CONTROL NO. 08-008-1-1

Charleston J. Winston, Audit Manager

Intesar Terkawi, Audit Staff

Debra Dobiac, Audit Staff

Hyma Vedula, Audit Staff

Lynn M. Deamer, Audit Supervisor

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DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT

MARCH 11, 2008

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 schedules prepared by St. Joe Natural Gas Company, Inc. in support of its filing for a File and Suspend Rate Case, Docket No. 070592-GU, for the projected test period ending December 31, 2008.

This audit was performed following general standards and fieldwork 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.

I. <u>OBJECTIVES AND PROCEDURES:</u>

RATE BASE:

A. Objective - Plant in Service: To determine that property exists and is owned by the utility. To determine that additions are authentic, recorded at original cost, and properly classified in compliance with Commission Rules and 18 CFR (Code of Federal Regulations), PART 201— Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act. To verify that the proper retirements were made when a replacement item was put in service. To determine that the land is owned by the utility and is included in rate base at original cost.

1. Judgmentally sampled projected plant additions for 2008. We tested the attributes for projection methodology, third party verification, supporting documentation, proper classification, in-service date and proper recognition of retirements.

a. We found that the company did not have proper supporting documentation for $515,051 in additions to Mains. More detail on this may be found in Audit Finding No. 1.

b. We found that the company underestimated plant additions for Other Equipment by $2,189. More detail on this may be found in Audit Finding No. 2.

c. We found that the company overestimated plant additions for Office Equipment by $4,317. More detail on this may be found in Audit Finding No. 3.

d. We found that the company did not record any salvage value for three projected vehicle retirements for $1,870, $8,000 and $5,000. More detail on this may be found in Audit Finding No. 4.

2. Judgmentally sampled plant additions from January 1, 2000 to December 31, 2007. We tested the attributes for proper amount, classification, and in-service date. We found that the company gifted a vehicle to a retiring employee without recording any salvage value. The estimated salvage value is $17,248. More detail on this may be found in Audit Finding No. 5.

3. We reviewed the company's CPRs (Continuing Property Records) for the proper recording of plant additions, retirements, cost of removal and salvage from 2000 to 2007. We recalculated and reviewed projected plant in-service and retirements for 2008. We reviewed and recalculated allocated plant in-service for proper allocation methodology. We reconciled plant in-service from 2000 to 2007 to the general ledgers and annual reports. We reconciled plant in-service to

FPSC Order PSC-01-1274-PAA-GU, issued June 8, 2001. We scheduled plant in-service from 2000 to 2007. We reviewed and sampled inactive gas service lines for compliance with Rule 25-12.045, Florida Administrative Code. We compared projected plant in-service with actual plant in-service for 2007.

B. Objective – Accumulated Depreciation and Depreciation Expense: To verify that accumulated depreciation and depreciation expense is calculated using the Commission authorized rates and that the calculations are correct.

1. We verified that selected property retirements together with the proceeds from salvage and cost of removal were recorded properly. We traced depreciation rates used by the company to FPSC Order PSC 03-1108-PAA-GU, issued October 6, 2003. We reconciled Accumulated Depreciation to FPSC Order PSC-01-1274-PAA-GU, issued June 8, 2001. We traced Accumulated Depreciation from 2000 to October 31, 2007 to the general ledgers and annual reports. We compared the 13 month projected average balance to the actual balance for 2007. We reviewed and recalculated Accumulated Depreciation adjustments included in the MFRs (Minimum Filing Requirements). We reviewed and recalculated common plant Accumulated Depreciation allocations. We reviewed the company's proposed depreciation rates for 2007 and 2008 and traced to the MFRs. We used a judgmental sample to recalculate the plant in-service times the depreciation rates.

C. Objective – Advances: To determine that utility Advances are properly stated.

1. We reviewed the Advances included in the MFRs for 2006. We found that the company did not include any Advances in the MFRs for 2007 and 2008. More detail on this may be found in Audit Finding No. 6.

2. We reviewed and recalculated the Advances from 2004 to January 28, 2008 as shown in the general and subsidiary ledgers. We compared the projected amount to the actual amount for 2007. We reviewed and recalculated the Advances included in rate base for 2006. We reviewed and sampled the amounts shown in the Advances subsidiary ledger for proper amount, period, classification, accounting and supporting documentation. We traced the sample amounts to work orders – distribution plant schedules, transactions details ledgers, copy of the checks and development agreements.

D. Objective: Working Capital: To determine that the Working Capital calculation is accurate.

1. We agreed the balances for all components of working capital to the general ledger. We reviewed all applicable assets and liabilities included in the calculation for non-utility items. We found that non-utility amounts were included in some of the working capital accounts. More detail on this may be

found in Audit Finding No. 8. We reviewed the general ledgers to ensure that all accounts applicable to working capital were included. We reviewed all of the working capital for interest-bearing accounts. We found that Account No. 131.4 – Cash is an interest-bearing account. More detail on this may be found in Audit Finding No. 7.

II. REVENUES AND EXPENSES

A. Objective – Revenue: To verify that revenues earned from utility property during the test year are recorded and included in the filed exhibits. To verify that the company is billing the approved tariff rates and that the revenues are classified in compliance with the Commission Rules and Uniform System of Accounts.

1. We traced revenues to the general ledger. We found that conservation revenues were included for recovery in this rate case. More detail on this may be found in Audit Finding No. 9. We selected customer bills on a random basis and recalculated the bills using the tariff rates. We compared the types of revenues on the customer bills to the accounts booked. We verified the unbilled revenue calculation. We traced the company's documentation, including journal entries, to the unbilled calculation. We scheduled revenues by month from the general ledger for 2006. We verified that PGA revenues were not included for recovery in this rate case.

B. Objective – Expenses: To determine that operation and maintenance expenses are classified according to the Commission Rules and Uniform System of Accounts, that expenditures are appropriate for regulatory policy, that the amounts on the invoice agree with the general ledger, and that expenditures are recorded in the proper period. To determine that expenses are recorded for the correct amount, classified correctly, have adequate support documentation, and if there are any that are non-utility, non-recurring, unreasonable and imprudent.

1. We judgmentally selected payments and journal entries from the general ledger and reviewed invoices to determine the objectives above were met. We examined invoices, journal entries and supporting documentation to determine if the objectives above were met. We found that the cost of a service agreement is out of period. More detail on this may be found in Audit Finding No. 10. We found amounts for uncollectible accounts were out of period. More detail on this may be found in Audit Finding No. 11. We found that amounts for outside services were out of period. More detail on this may be found in Audit Finding No. 12. We found that conservation expenses were included in this rate case. More detail on this may be found in Audit Finding No. 13. We found that an amount for employee pension and benefits was out of period. More detail on this may be found in Audit Finding No. 14.

C. Objective: Income Taxes - Determine that the company's income tax calculation is accurate.

> 1. We reviewed the company's income tax return for 2006. We recalculated net operating income and traced adjustments to company provided schedules. We recalculated the state income tax portion. We recalculated deferred income tax expense and deferred tax balances and traced to the income tax return.

D. Objective – Taxes Other Than Income Tax -Determine the company's balances are accurate

> 1. We obtained the filings for gross receipts taxes and regulatory assessment fees and reconciled the amounts per the filings to the books. We obtained the detail for property taxes and selected various bills for testing. We reconciled the tax bills to the booked amount. We determined that the amount booked reflects the discounted amount. We reviewed the company's sales tax statements.

III. CAPITAL STRUCTURE

A. Objective – Capital Structure: To determine that the 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.

> 1. We traced components of the capital structure from the prior rate case to the current beginning balances. We reviewed, recalculated and traced all of the components of the capital structure to the general ledger. We reviewed and recalculated the reconciliation of the capital structure to rate base. We reviewed and recalculated the non-utility adjustments to the capital structure. We reviewed the debt agreements for long and short term debts. We traced the debt agreements to the prior FPSC Order PSC-01-1274-PAA-GU, issued June 8, 2001. We recalculated, reviewed and judgmentally sampled customer deposits for the proper amount, period, interest rate, classification and accounting. We re-computed the overall weighted average cost rate.

AUDIT FINDING NO. 1

SUBJECT: PROJECTED 2008 PLANT ADDITIONS - ACCOUNT 376 – MAINS

STATEMENT OF FACT: MFR schedule G-1, page 180 reports projected plant additions of $515,052, in Account 376 – Mains, for 2008. The utility provided the following supporting documentation for this amount.

> 376 Mains – The $515,052 includes steel and plastic mains. Page 2 of the 2008 budget lists the footages by size, type and cost per foot. 4" STEEL: the cost per foot for 4" steel pipe was quoted by phone by supplier at approximately 7.50 per foot for a quantity greater than 20,000 feet in late 2007. This price is subject to the actual date an order in placed and could increase. The actual labor cost in 1997 to install 36,583 feet of 4" steel was $6.95 per foot. I adjusted this cost per foot to $7.50 for 2008. Material $7.50 plus Labor 7.50 equals an estimated cost of $15.00 per foot. 4"PLASTIC: Company installed 2,520 feet of 4" PE pipe in 2006 at a cost of $8.01 per foot. I used this cost for the 2008 budget and realize the actual 2008 cost may likely be higher. 2" PLASTIC: The $5.00 per foot for the 2" PE installation was based on our expected expenses during 2008. Most of these additions will involve working in conflict with other underground construction activities simultaneously.
>
> 100% of new expansion located adjacent to company's existing system. Maps are available at 301 Long Avenue, Port St Joe. A large portion of these lines are to meet the expected load of the new hospital, the new Bayside Village Development and the existing Jones Homestead community. Company already experiences critically low operating pressure on the east end of its gas system during the coldest days each winter. The largest portion of the $515,052 is for a high pressure "loop" to correct this low pressure problem. Company would be unable to serve the hospital without this high pressure loop in place, much less any other new accounts.
>
> $345,000 – 4" Steel High Pressure from City Rd 382, cross country parallel to existing railroad track, to SR 98 on east side of Port St Joe (Loop).
>
> $19,224 – East SR 98 to Garrison Avenue existing gas main (Loop)
>
> $60,676 – Garrison Ave to Long Ave existing (Loop)
>
> $41,652 – East SR 98 along Jones Homestead Rd to Rutherford Road
>
> $35,000 – Phase I - Jones Homestead unincorporated community
>
> $13,500 – Phase II - Jones Homestead unincorporated community

The audit staff asked if there are any competitive bids, independent estimates, contracts with third party, etc., done to derive the $515,051. The company responded, "No bids, no independent estimates, yes, contracts with third party where the cost per foot is based on contracted price from outside underground contractor the company has used for the past several years. When the outside third party's price is excessive, the company completes the new construction with its own employees and resources."

The company states the above items are 100% new plant additions.

The audit staff believes this supporting documentation is inadequate. Projected plant additions of this size needs more substantial documentation, i.e., independent estimates, contracts, past history of this occurring more frequently, etc. Some type of third party verification is warranted for the above $515,052 projected plant addition for 2008.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: No effect on the general ledger

EFFECT ON FILING IF FINDING IS ACCEPTED: Reduce Account 376 Mains – Plastic by $515,052, reduce the associated Accumulated Depreciation and Depreciation Expense by $8,719 for 2008. The company only recorded the projected amounts in Account 376 Mains – Plastic.

AUDIT FINDING NO. 2

SUBJECT: PROJECTED 2008 PLANT ADDITIONS - ACCOUNT 387 – OTHER EQUIPMENT

STATEMENT OF FACT: MFR Schedule G-1, page 180 projected plant additions of $8,700, in Account 387 – Other Equipment, for 2008. This projected amount is for the addition of six Pressure Temperature (PT) Units and was based on past history, which caused the company to underestimate the cost.

Because the six PT Units have been ordered, the audit staff reviewed the invoices billed to the company by Eagle Research Corporation and the actual amount is $10,889. The difference of $2,189 ($10,889 - $8,700) should be added to the projected plant in service for 2008.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: No effect on the general ledger

EFFECT ON FILING IF FINDING IS ACCEPTED: Increase Account 387 – Other Equipment for $2,189, increase the associated Accumulated Depreciation and Depreciation Expense by $231 for 2008.

AUDIT FINDING NO. 3

SUBJECT: PROJECTED 2008 PLANT ADDITIONS - ACCOUNT 391.2 – OFFICE EQUIPMENT

STATEMENT OF FACT: The company projected plant additions of $16,000, MFR schedule G-1, page 180, Account 391.2 – Office Equipment, for 2008. The company provided the following explanation for this addition.

> 391 Office Equipment – Company's existing billing insert machine was purchased in 2002 at a cost of $14,361 with an expected service life of 5 years. The manufacturer has advised the existing machine is on its last leg and we anticipate its failure beyond repair during 2008. For the budget, I assumed the purchase price would be higher. Today, I obtained a quote to purchase a new machine for $11,684 (see attached quote). This budget item should be reduced by $4,317.

The quote referenced above is an invoice from Pitney Bowes, dated February 18, 2008, for $11,684. Plant in service, Account 391.2 – Office Equipment should be reduced by $4,317 ($16,000 - $11,684).

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: No effect on the general ledger

EFFECT ON FILING IF FINDING IS ACCEPTED: Decrease Account 391.2 – Office Equipment for $4,317, decrease the associated Accumulated Depreciation and Depreciation Expense by $685 for 2008.

AUDIT FINDING NO. 4

SUBJECT: 2008 - VEHICLE RETIREMENTS

STATEMENT OF FACT: The company bought, retired and sold three trucks without recording salvage values.

The Company bought a 1999 Chevrolet Pick-up Truck on November 30, 1999 for $24,140. The Company retired the truck on October 31, 2007 for $24,140. No salvage value was recognized at that time per MFR Schedule G-1, page 176. The company stated that this truck was sold to an unrelated party on January 16, 2008 for $1,870, which will be recorded as salvage in January 2008.

The company bought a 2002 Silverado Chevrolet Truck on August 31, 2001 for $25,262. The company retired the truck on October 31, 2007 for $25,262. No salvage value was recognized at that time per MFR Schedule G-1, page 176. The company stated that this truck was sold to an unrelated party on January 29, 2008 for $8,000 which will be recorded as salvage in January 2008.

The company bought a 2002 Chevrolet 2500 Truck on March 31, 2003 for $24,550. Per MFR Schedule G-1, page 179 the company projected to retire this truck in 2008 for $24,550 but no salvage value was recognized. The company stated that the salvage value is expected to be $5,000. The company bases this on the vehicle being in "fair" condition with no mechanical defects with approximately 150,000 miles. Per the company "the current value on this truck is $6,000 based on the Kelly Blue Book web site."

EFFECT ON GENERAL LEDGER IF THIS FINDING IS ACCEPTED: No effect on the general ledger.

EFFECT ON FILING IF THIS FINDING IS ACCEPTED:

For 2008 increase Accumulated Depreciation and Cash by $1,870 for the 1999 Chevrolet Pick-up Truck.

For 2008 increase Accumulated Depreciation and Cash by $8,000 for the 2002 Silverado Chevrolet Truck.

For 2008 increase Accumulated Depreciation and Cash by $5,000 for the 2002 Chevrolet Truck.

AUDIT FINDING NO. 5

SUBJECT: GIFTED – VEHICLE RETIREMENT

STATEMENT OF FACT: The company bought a Silverado Chevrolet Truck on August 31 2001 for $22,628.80. The company retired the truck on December 31, 2003 by recording the following journal entry. No Salvage value was recognized.

		Debit	Credit
Acct No. 108-392	Accumulated Depreciation	22,629	
Acct No. 392	Transportation equipment		22,629

The truck was a gift to the General Manager of the company for his retirement.

Audit staff believes that a salvage value of $17,248 (as calculated below) should be recognized in the MFRs.

Account No.	Account	Year	Service Date	Retirement Date	Depr. Rate/ Remaining Life	Amount	Salvage value/Depr.
392	Trans. Equip., Truck (a)	2003	8/31/2001	12/31/2003	10.3%	$ 22,629	$ 2,331
392	Trans. Equip., Truck (a)	2003	8/31/2001	12/31/2003	7.4	$ 2,331	$ 17,248

Life of truck @ 10.3%(b) (1/.103)	9.7 years
Years in service 8/31/01 to 12/31/03	2.3 years
Remaining Life:	7.4 years

(a) 2001 Silverado Chevrolet Truck
(b) Per PSC Order PSC-03-1108-PAA-GU, issued October 6, 2003, page 10

EFFECT ON GENERAL LEDGER IF THIS FINDING IS ACCEPTED: No effect on the general ledger.

EFFECT ON FILING IF THIS FINDING IS ACCEPTED: Increase Accumulated Depreciation by $17,248. Decrease Retained Earnings by $17,248

AUDIT FINDING NO. 6

SUBJECT: CUSTOMER ADVANCES FOR CONSTRUCTION

STATEMENT OF FACT: For 2006 the company included $60,788 (MFR Schedule B-2, page 12) in Rate Base for Account No. 166.1 - Customer Advances for Construction.

For 2007 the company removed the projected amount of $135,000 (MFR Schedule G-1, page 151) from Rate Base for Account No. 166.1 - Customer Advances for Construction. The actual amount as of December 31, 2007 was $134,824.

For 2008 the company excluded from Rate Base Account No. 166.1 - Customer Advances for Construction, (MFR Schedule A-3, page 4).

Per 18 CFR (Code of Federal Regulations), PART 201— Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act, Account No. 166 – Advances for Gas Exploration, Development, and Production shall include all advances made for gas (whether called "advances," "contributions" or otherwise) to independent producers, affiliated or associated companies, or others operating within the lower 48 states and Alaska; for exploration, development or production (but not to include lease acquisition) of natural gas.

Per 18 CFR, Part 201—Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act, Account No. 252 – Customer Advances for Construction shall include advances by customers for construction which are to be refunded either wholly or in part. When a customer is refunded the entire amount to which he is entitled, according to the agreement or rule under which the advance was made, the balances, if any, remaining in this account shall be credited to the respective plant account.

The amount included in Account 166 - Advances for Gas Exploration, Development and Production should be reclassified to Account 252 Customer Advances for Construction.

The above advances of $134,824 should be included in rate base for 2007 and 2008. The company has projected plant additions for 2007 and 2008 and as stated above any remaining advances should be credited to the plant account.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: No effect on the general ledger

EFFECT ON FILING IF FINDING IS ACCEPTED: Include $134,824 for Customer Advances for Construction in rate base for 2007 (MFR Schedule G-1, page 151) and 2008 (MFR Schedule A-3, page 4).

AUDIT FINDING NO. 7

SUBJECT: INTEREST INCOME AND WORKING CAPITAL

STATEMENT OF FACT: The company included interest income of $7,173 in operating revenues in the Minimum Filing Requirements (MFRs) for the year ended December 31, 2006. This amount represents interest earned on the cash recorded in Account 131.4,Cash. This cash account, which is included in the calculation of working capital, had an average balance of $259,979 in 2006 and consists of both utility and non-utility activities. The company stated that 51% of this amount is attributable to non-utility activities as a percentage of revenues.

The audit staff removed the $3,658 ($7,173*51%) from the operating revenues and $132,589 ($259,979*51%) from cash – working capital for the year ended December 31, 2006.

EFFECT ON GENERAL LEDGER IF THIS FINDING IS ACCEPTED: No effect on the general ledger

EFFECT ON FILING IF THIS FINDING IS ACCEPTED: The Operating revenues should be reduced by $3,658 for the period ended December 31, 2006. Working Capital should be reduced by $132,589 for the period ended December 31, 2006.

AUDIT FINDING NO. 8

SUBJECT: WORKING CAPITAL AND NON-UTILITY ADJUSTMENTS

STATEMENT OF FACT: The company did not remove non-utility activity in Miscellaneous Current Liabilities and Taxes Accrued-General when calculating Working Capital for the year ended December 31, 2006 filed on MFR Schedule B-13. The audit staff noted that the thirteen-month average balances of $30,856 and $13,556, respectively, consisted of the co-mingling of utility and non-utility activity. In calculating the working capital allowance, adjustments for non-utility activity should be consistent throughout the applicable general ledger accounts.

The audit staff calculated adjustments of $8,359 for Miscellaneous Current Liabilities and $1,415 for Taxes Accrued-General for the period ended December 31, 2006 based on the thirteen-month average for the non-utility payroll and tax accruals.

EFFECT ON GENERAL LEDGER IF THE FINDING IS ACCEPTED: No effect on the general ledger

EFFECT ON FILING IF THE FINDING IS ACCEPTED: Working Capital should be increased by $9,774 ($8,359 + $1,415) for the year ended December 31, 2006.

AUDIT FINDING NO. 9

SUBJECT: CONSERVATION REVENUE

STATEMENT OF FACT: The company reported conservation revenues of $8,058 in the Minimum Filing Requirements (MFRs) for the year ended December 31, 2006. The amount represents the conservation revenues that are recovered under Docket No. 070004-GU, and are not eligible for recovery under this rate base docket.

The audit staff removed the amount of $8,058 from the operating revenues for the year ended December 31, 2006.

EFFECT ON GENERAL LEDGER: No effect on the general ledger

EFFECT ON FILING: The Operating revenues should be reduced by $8,058 for the period ended December 31, 2006.

AUDIT FINDING NO. 10

SUBJECT: MAINTENANCE OF STRUCTURES AND IMPROVEMENTS EXPENSE

STATEMENT OF FACT: The company reported $1,411 in Account 886, Maintenance of Structures and Improvements. This amount represents the cost of service agreement for a folding machine maintenance contract that started August 1, 2006 and ended July 31, 2007.

The company misclassified reporting the cost of the service agreement in Account 886, Maintenance of Structures and Improvements. The audit staff determined that the expense applicable to the year 2006 is $588 ($1,411 *5/12), and recorded this amount in Account 903, Customer Records and Collection Expenses The audit staff removed $1,411 from Account 886, Maintenance of Structures and Improvements.

EFFECT ON GENERAL LEDGER: The following general ledger entries are needed to correct the company's general ledger.

Acct No.	Account Description	Debit	Credit
186	Miscellaneous Deferred Debits	$823	
886	Maintenance of Structures and Improvements Expense		$1,411
903	Customer Records and Collection Expenses	$588	

EFFECT ON FILING: Account 886, Maintenance of Structures and Improvements balance of $8,744 on MFR schedule C-5 should be reduced by $1,411 for the period ended December 31, 2006. Account 903, Customer Records and Collection Expenses balance of $115,548 on MFR schedule C-5 should be increased by $588.

AUDIT FINDING NO. 11

SUBJECT: UNCOLLECTIBLE ACCOUNTS

STATEMENT OF FACT: The company reported the amount of $11,429 in Account 904, Uncollectible Accounts for the period ended December 31, 2006. This amount represents the write-offs of uncollectible accounts for the year ended December 31, 2005. The write-offs of uncollectible accounts amount is $7,314 for the year ended December 31, 2006.

Uncollectible Accounts for 2006 should be reduced by $4,116 ($11,429 - $7,314) which is the difference of write-offs amounts between the year 2005 and 2006.

EFFECT ON GENERAL LEDGER: The following general ledger entries are needed to correct the company's general ledger.

Acct No.	Account Description	Debit	Credit
216	Retained Earnings	$4,116	
904	Uncollectible Accounts		$4,116

EFFECT ON FILING: Account 904 - Uncollectible Accounts, balance of $11,429 on MFR schedule C-5, should be reduced by $4,116 for the period ended December 31, 2006.

AUDIT FINDING NO. 12

SUBJECT: OUTSIDE SERVICES EMPLOYED

STATEMENT OF FACT: The company incorrectly included $2,000 in Account 923, Outside Services Employed, in the MFR schedule C-5 for the year ended December 31, 2006. This amount represents the billing for the 2005 Financial Audit prepared by Roberson & Friedman P.A.

EFFECT ON GENERAL LEDGER: The following general ledger entries are needed to correct the company's general ledger.

Acct No.	Account Description	Debit	Credit
216	Retained Earnings	$2,000	
923	Outside Services Employed		$2,000

EFFECT ON FILING: Account 923, Outside Services Employed, on MFR schedule C-5, balance of $27,351 should be reduced by $2,000 for the period ended December 31, 2006.

AUDIT FINDING NO. 13

SUBJECT: CONSERVATION EXPENSE

STATEMENT OF FACT: The company reported the amount of $7,574 in Account 908, Conservation Expense for the year ended December 31, 2006. The conservation expenses are recovered under Docket No. 070004-GU, and are not eligible for recovery under the base rates in this docket

The audit staff removed $7,574 from Account 908, Conservation expense for the year ended December 31, 2006.

EFFECT ON GENERAL LEDGER: No effect on General Ledger

EFFECT ON FILING: Account 908, Conservation Expense should be reduced by $7,574 for the period ended December 31, 2006.

AUDIT FINDING NO. 14

SUBJECT: EMPLOYEE PENSION AND BENEFITS

STATEMENT OF FACT: The company reported $41,875 in Account 926, Employee Pension and Benefits, for the year ended December 31, 2006. This amount represents a profit sharing plan accrual of 12 monthly payments of $1,823 totaling $21,875 ($1,823 * 12) for the year ended December 31, 2006, and a single payment of $20,000 that was paid in 2007. Audit staff requested to see actual cancelled checks and only one check was written in 2006 for the amount of $10,000.

Audit staff removed $31,875 ($41,875 - $10,000) from Account 926, Employee Pension and Benefits to adjust the balance for the 12-month period ended December 31, 2006.

EFFECT ON GENERAL LEDGER: The following general ledger entries are needed to correct the company's general ledger.

Acct No.	Account Description	Debit	Credit
216	Retained Earnings	$31,875	
926	Employee Pension and benefits		$31,875

EFFECT ON FILING: Account 926, Employee Pension and Benefits balance should be reduced by $31,875 for the period ended December 31, 2006.

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: ST. JOE NATURAL GAS COMPANY

DOCKET NO. 070592-GU

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13-MONTH AVERAGE RATE BASE FOR THE HISTORIC BASE YEAR, THE HISTORIC BASE YEAR PLUS ONE, AND THE PROJECTED TEST YEAR.

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA: 12/31/06
HISTORIC BASE YEAR DATA + 1: 12/31/07
PROJECTED TEST YEAR: 12/31/08
WITNESS: STITT

LINE NO	DESCRIPTION	BASE YEAR 12/31/06 (PER BOOKS)	COMPANY ADJUSTMENTS	BASE YEAR ADJUSTED AVERAGE YEAR	BASE YR + 1 12/31/07 AVERAGE YEAR	PROJECTED TEST YEAR UNADJUSTED AVERAGE YR.	PROJECTED TEST YEAR ADJUSTMENTS	PROJECTED TEST YEAR AS ADJUSTED
	UTILITY PLANT							
1	PLANT IN SERVICE	$6,155,759	$0	$6,155,759	$6,214,691	$6,499,238	$0	$6,499,238
2	COMMON PLANT ALLOCATED	$0	($58,035)	($58,035)	$0	$0	($61,732)	($61,732)
3	ACQUISITION ADJUSTMENT	$0	$0	$0	$0	$0	$0	$0
4	PROPERTY HELD FOR FUTURE USE	$0	$0	$0	$0	$0	$0	$0
5	CONSTRUCTION WORK IN PROGRESS	$31,131	$0	$31,131	$31,642	$34,331	($34,331)	$0
6	TOTAL	$6,186,890	($58,035)	$6,128,855	$6,246,333	$6,533,569	($96,062)	$6,437,506
	DEDUCTIONS							
7	CUSTOMER ADVANCES FOR CONST	($60,788)	$0	($60,788)	($130,585)	($135,000)	$135,000	$0
8	ACCUM. DEPR. - UTILITY PLANT	($3,036,052)	$5,558	($3,030,494)	($3,198,589)	($3,278,861)	$23,081	($3,255,779)
9	TOTAL DEDUCTIONS	($3,096,840)	$5,558	($3,091,282)	($3,329,173)	($3,413,861)	$158,082	($3,255,779)
10	PLANT NET	$3,090,050	($52,477)	$3,037,573	$2,917,160	$3,119,708	$62,020	$3,181,727
	ALLOWANCE FOR WORKING CAPITAL							
11	BALANCE SHEET METHOD	($1,062,096)	$1,047,058	($15,038)	($1,155,800)	($1,165,217)	$1,052,536	($112,681)
12	TOTAL RATE BASE	$2,027,954	$994,581	$3,022,535	$1,761,360	$1,954,490	$1,114,556	$3,069,046
13	NET OPERATING INCOME	$106,546	($52,462)	$54,084	($66,639)	($200,835)	$0	($200,835)
14	RATE OF RETURN	5.25%		1.79%		-10.28%		-6.54%

SUPPORTING SCHEDULES: B-2, G-1 p.4-8, G-1 p.15, G-2 p.18, G-2 p.21, G-2 p.22, G-2 p.1-3, G-6 p.1-2

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: ST. JOE NATURAL GAS COMPANY

DOCKET NO. 070592-GU

EXPLANATION: PROVIDE THE COMPANY'S 13-MONTH AVERAGE RECONCILED JURISDICTIONAL CAPITAL STRUCTURE AND COST RATES FOR EACH CLASS OF CAPITAL FOR THE HISTORIC BASE YEAR OF THE CURRENT CASE AND THE HISTORIC BASE YEAR OR TEST YEAR OF THE LAST RATE CASE.

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA 12/31/06
PRIOR RATE CASE YR 12/31/99
WITNESS: STITT

		LAST RATE CASE - TEST YEAR OR HISTORIC BASE YEAR ENDED 12/31/99				PRESENT RATE CASE - HISTORIC BASE YEAR ENDED 12/31/06						
				COST RATE	WEIGHTED COST	AMOUNT	ADJUSTMENTS					
LINE NO	CLASS OF CAPITAL (1)	DOLLARS (2)	RATIO (3)	APPROVED (4)	APPROVED (5)	PER BOOKS (6)	SPECIFIC (7)	PRORATA (8)	NET (9)	RATIO (10)	COST RATE (11)	WEIGHTED COST (12)
1	COMMON EQUITY	$1,389,369	34.21%	11.50%	3.93%	$2,284,019	$0	($511,310)	$1,772,709	53.22%	11.50%	6.12%
2	LONG TERM DEBT	$775,451	19.09%	8.82%	1.68%	$138,064	$0	($30,908)	$107,156	3.22%	6.75%	0.28%
3	LONG TERM DEBT-VAR					$0	$0	$0	$0	0.00%	0.00%	0.00%
4	SHORT TERM DEBT	$150,000	3.71%	8.00%	0.30%	$150,000	$0	($33,580)	$116,420	3.50%	8.00%	0.28%
5	FLEX RATE LIABILITY					$0	$0	$0	$0	0.00%	0.00%	0.00%
6	CUSTOMER DEPOSITS	$28,095	0.69%	5.99%	0.04%	$46,719	$0	($10,459)	$36,260	1.09%	6.00%	0.07%
7	DEFERRED CREDITS-FCPI	$1,578,595	38.86%	0.00%	0.00%	$1,275,004	$0	$0	$1,275,004	38.28%	0.00%	0.00%
8	DEFERRED INCOME TAXE	$40,478	1.00%	0.00%	0.00%	$23,311	$0	$0	$23,311	0.70%	0.00%	0.00%
9	DEFERRED REFUNDS	$99,220	2.44%	0.00%	0.00%	$0	$0	$0	$0	0.00%	0.00%	0.00%
10	REG ASSET/LIAB. 100					$0	$0	$0	$0	0.00%	0.00%	0.00%
11	OTHER (EXPLAIN)					$0	$0	$0	$0	0.00%	0.00%	0.00%
12	TOTAL	$4,061,938	100.00%		5.96%	$3,917,117	$0	($586,256)	$3,330,861	100.00%		6.75%

SUPPORTING SCHEDULES: D-1 p.2, D-2 p.1, D-3, D-4, D-5, D-6

RECAP SCHEDULES: A-1, A-2, C-22

10/19/2007
10:57 AM

SCHEDULE C-1 | NET OPERATING INCOME |

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: ST. JOE NATURAL GAS COMPANY

DOCKET NO: 070592-GU

EXPLANATION: PROVIDE THE CALCULATION OF NET OPERATING INCOME PER BOOKS FOR THE HISTORIC BAES YEAR AND THE PRIOR YEAR.

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA: 12/31/06
HISTORIC BASE YEAR DATA - 1: 12/31/05
WITNESS: STITT

NET OPERATING INCOME - HISTORIC BASE YEAR ENDED 12/31/06

LINE NO.		(1) PRIOR YEAR ENDED TOTAL COMPANY PER BOOKS (BASE YEAR - 1) 12/31/2005	(2) CURRENT HISTORIC BASE YEAR ENDED TOTAL COMPANY PER BOOKS 12/31/2006	(3) ADJUSTMENTS	(4) COMPANY ADJUSTED (2) - (3)	(5) REVENUE ADJUSTMENT	(6) JURISDICTIONAL AMOUNT PROPOSED RATES
1	OPERATING REVENUES	$2,188,007	$2,064,578	($918,387)	$1,146,191	$0	$1,146,191
	OPERATING EXPENSES:						
2	GAS EXPENSE	$987,058	$772,422	($746,599)	$25,823	$0	$25,823
3	OPERATION & MAINTENANCE	$687,850	$803,820	($94,605)	$709,215	$0	$709,215
4	DEPRECIATION & AMORTIZATION	$225,422	$226,967	($4,108)	$222,859	$0	$222,859
5	TAXES OTHER THAN INCOME TAXES	$115,821	$105,887	($4,286)	$101,601	$0	$101,601
	INCOME TAXES:						
6	- FEDERAL	$23,228	$40,660	($13,726)	$26,934	$0	$26,934
7	- STATE	$0	$8,276	($2,596)	$5,680	$0	$5,680
	DEFERRED INCOME TAXES						
8	- FEDERAL	$0	$0	$0	$0	$0	$0
9	- STATE	$0	$0	$0	$0	$0	$0
10	INVESTMENT TAX CREDIT - NET	$0	$0	$0	$0	$0	$0
11	TOTAL OPERATING EXPENSES	$2,039,378	$1,958,032	($865,920)	$1,092,112	$0	$1,092,112
12	OPERATING INCOME	$148,629	$106,546	($52,467)	$54,079	$0	$54,079

SUPPORTING SCHEDULES: C-2 p. 1, C-2 p.2, C-3, C-20, C-21

RECAP SCHEDULES: