

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: April 29, 2008
TO: Kimberley M. Pena, Office of Commission Clerk
FROM: John Slemkewicz, Division of Economic Regulation JS
RE: Docket No. 070592-GU, St. Joe Natural Gas Company, Inc. Rate Case - Document

Attached is a document for inclusion in the docket file for Docket No. 070592-GU, Petition for Rate Increase by St. Joe Natural Gas Company, Inc. (SJNG)

The document, dated April 23, 2008, is SJNG's response to staff's Final Audit Report in the above referenced docket.

RECEIVED-FPSC
08 APR 29 AM 10:14
COMMISSION
CLERK

DOCUMENT NUMBER-DATE

03448 APR 29 08

FPSC-COMMISSION CLERK

Costin and Costin

ATTORNEYS AT LAW
413 WILLIAMS AVENUE
PORT ST. JOE, FLORIDA 32456
TELEPHONE (850) 227-1159
FAX: (850) 229-6957

COPY

Charles A. Costin

Cecil G. Costin, Jr.
(1923 - 1990)

Mailing Address:
Post Office Box 98
Port St. Joe, FL 32457-0098

April 23, 2008

George J. Slemkewicz, Public Utilities
Division of Economic Regulation
Rm. 110 Easley Building
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Fl. 32399-0850

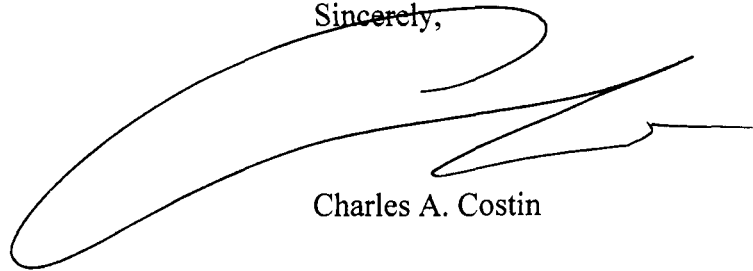
RE: Docket # 070592-GU

Dear Mr. Slemkewicz:

Enclosed for filing on behalf of St. Joe Natural Gas Company, Inc. is an original and one copy of St. Joe Natural Gas Company's Responses to the Final Audit Report in the above referenced docket.

Please acknowledge receipt of these documents by stamping the extra copy of this letter. Thank you for your assistance with this filing.

Sincerely,



Charles A. Costin

CAC:wlb
cc: Stuart Shoaf

DOCUMENT NUMBER-DATE

03448 APR 29 8

FPSC-COMMISSION CLERK

**St Joe. Natural Gas Company, Inc.
Docket No. 070592-GU
Audit Control No. 08-008-1-1
Responses to Final Audit Report
April 23, 2008**

Audit Finding No. 1 Projected 2008 Plant Additions – Account 376

Company Response: Company originally submitted its best estimate of the costs to add the projected gas mains based on its historical knowledge of construction costs with the assumption that a portion of the work would be performed by Company personnel with the other work to be performed by an outside contractor. Company also knew that any quote obtained in October/November 2007 would only be valid for thirty (30) days as was the case in this matter.

The original budgeted cost of \$512,052 to add 47,875 feet was submitted in December 2007 without any actual quotes.

On April 1, 2008, Company obtained an actual quote from an outside 3rd party contractor for the same 47,875 feet of gas mains at a cost of \$856,953 or \$341,901 greater than Company had estimated and filed in its December 2007 MFR's. This new higher cost is on the basis that the contractor performs 100% of the work. The break down is as follows (see Attachment(s) "A" and "B"):

:

<u>TYPE</u>	<u>FOOTAGE</u>	<u>PROJECTED ORIGINAL COST</u>	<u>PROJECTED REVISED COST</u>	<u>VARIANCE</u>
4" Steel	23,000	\$345,000	\$668,346	\$323,346
4" Plastic	2,400	\$ 19,224	\$ 25,095	\$ 5,871
4" Plastic	7,575	\$ 60,676	\$ 60,402	\$ (274)
4" Plastic	5,200	\$ 41,652	\$ 47,589	\$ 5,937
2" Plastic	7,000	\$ 35,000	\$ 36,718	\$ 1,718
2" Plastic	<u>2,700</u>	<u>\$ 13,500</u>	<u>\$ 18,803</u>	<u>\$ 5,303</u>
TOTAL	47,875	\$515,052	\$856,953	\$341,901

A second capable 3rd party outside contractor stated to me that they were not interested in quoting a job known not ready to commence.

Account No. 376 – Mains should be increased by \$341,901 (\$856,953 - \$515,052) and increase the Accumulated Depreciation and Depreciation Expense by \$6,187 (\$14,906-\$8,719).

Audit Finding No. 2 Projected 2008 Plant Additions – Account 387

Company Response: Agree

Audit Finding No. 3 Projected 2008 Plant Additions – Account 391.2

Company Response: Agree

Audit Finding No. 4 2008 – Vehicle Retirements

Company Response: Agree

Audit Finding No. 5 Gifted - Vehicle Retirement

Company Response: Disagree, A document obtained on January 8, 2003 by Company from the auto dealer who originally sold the vehicle states the value of the vehicle as of January 8, 2003 to be \$13,500.00, not the \$17,248 suggested by the auditors (see Attachment "C"). The vehicle was retired in January 2003.

Increase Accumulated Depreciation by \$13,500 and decrease Retained Earnings by \$13,500.

Audit Finding No. 6 Customer Advances for Construction

Company Response: Agree, Company will accept this finding and begin to use Account No. 252. Does the FPSC accept this finding?

Audit Finding No. 7 Interest Income and Working Capital

Company Response: Agree

Audit Finding No. 8 Working Capital and Non-Utility Adjustments

Company Response: Agree

Audit Finding No. 9 Conservation Revenue

Company Response: Agree

Audit Finding No. 10 Maintenance of Structures and Improvement Expense

Company Response: Agree, although the annual expense was paid in 2006 for the 12 month period ending July 31, 2007, only \$588 (the 2006 portion) should be booked in 2006 with the remaining amount of \$823 booked in 2007.

Audit Finding No. 11 Uncollectible Accounts

Company Response: Agree, the actual expense for 2006 is \$7,314 although it was not known until after 12/31/06 had passed. Since the Company uses the accrual method of accounting, sometimes an expense for a particular year is not known until that year has ended but once the expense amount is known, Company then books the expense in the appropriate year .

Audit Finding No. 12 Outside Services Employed

Company Response: Agree, Company inadvertently reported 100% of its 2005 outside audit and financial reporting expenses in the MFR 2006 year. The \$2,000 expense was paid on 2/9/06 for 2005 audit work. \$14,985.00 also was paid on 5/18/06 for 2005 audit work. The auditors missed this expense for 2005 and it also should be taken out for a total reduction of \$16,985.00 for the 12 month period ended December 31, 2006.

Company also inadvertently omitted its actual 2006 outside service expense for its outside auditing and financial report expenses in the amount of \$19,240.00 paid by check as follows:

<u>DATE</u>	<u>AMOUNT</u>
March 9, 2007	\$ 5,000.00
May 25, 2007	<u>\$14,240.00</u>
TOTAL 2006 EXPENSE	\$19,240.00

Again, since the Company uses the accrual method of accounting, sometimes an expense for a particular year is not known until that year has ended but once the expense amount is known, Company then books the expense in the appropriate year.

The actual expenses in the amount of \$19,240.00 should be included in Account No. 401-923 for the 12 month period ending December 31, 2006.

Audit Finding No. 13 Conservation Expense

Company Response: Agree

Audit Finding No. 14 Employee Pension and Benefits

Company Response: Disagree, the actual pension expense for the 12 month period ending December 31, 2006 is \$30,000 as reported in the MFR filing. A \$10,000 check dated 11/29/06 and a \$20,000 check dated 3/14/07 represent the total expense for the 2006 year.

Contributions to the company pension plan are typically made in the 1st quarter of the following year for the previous year. The amount to be paid is typically based on profits on the year which are not known until the 1st quarter following the subject year.

It appears the auditors have taken a 180 on this position. Finding Nos. 10, 11 and 12 go the opposite direction as taken on Finding No. 14.

No change should be made to Company's filing.

Attachment "A"

St Joe Natural Gas Company, Inc.

Audit Control No. 08-008-1-1

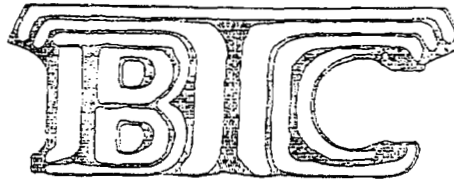
Finding No. 1

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BRC

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p. 2



BROADBAND TELE COMMUNICATIONS, INC.

900 N. EAST AVENUE • PANAMA CITY, FL 32401

850-785-2911 • FAX: (850) 769-5046

Complete CATV / Fiber Optic Construction • Directional Drilling • Underground Utility Construction

April 1, 2008

St. Joe Natural Gas
Attn: Stuart Shoaf
301 Long Ave.
Port St. Joe, FL 32456

Dear Mr. Shoaf:

Thank you for the opportunity to provide a quote for the 4" main extension on your existing system. Pricing as listed below:

Materials	\$320,246.22
Testing	\$25,000.00
Main Tie-In	\$10,000.00
Directional Bore 4" Steel – approx. 800' @ \$32.00 per ft.	\$25,600.00
Labor – Welding, Pipe Wrap, & Pipe Laying 36" cover approx. 23,000' @ \$12.50 per ft	\$287,500.00
TOTAL QUOTE	\$668,346.22

This price is good through April 30, 2008.

Should you have any questions, please give me a call.

Sincerely,

A handwritten signature in black ink, appearing to read 'James Davis', is written over a horizontal line.

James Davis
Executive Vice President

JD:clw

Attachment "B"

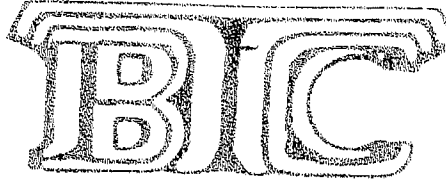
St Joe Natural Gas Company, Inc.

Audit Control No. 08-008-1-1

Finding No. 1

P. 1

Apr 09 08 12:10p



BROADBAND TELE COMMUNICATIONS, INC.
900 N. EAST AVENUE • PANAMA CITY, FL 32401
850-785-2911 • FAX: (850) 769-5046

Complete CATV / Fiber Optic Construction • Directional Drilling • Underground Utility Construction

April 9, 2008

St. Joe Natural Gas
Attn: Stuart Shoaf
301 Long Ave
Port St. Joe, FL 32456

RE: REQUEST FOR BIDS

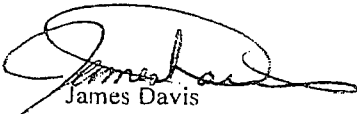
Dear Stuart:

Per your request, listed below are Broadband Tele Communications, Inc. quotes for the various jobs.

<u>JOB #</u>	<u>MATERIALS</u>	<u>LABOR</u>	<u>TOTAL</u>
2.040108	\$13,638.56	\$11,456.00	\$25,094.56
3.040108	\$32,722.58	\$27,679.20	\$60,401.78
4.040108	\$25,840.58	\$21,748.00	\$47,588.58
5.040108	\$14,098.16	\$22,620.00	\$36,718.16
6.040108	\$6,113.12	\$12,690.00	\$18,803.12

Should you have any questions, please give me a call.

Sincerely,


James Davis
Executive Vice President

JD:clw

Attachment "C"

St Joe Natural Gas Company, Inc.
Audit Control No. 08-008-1-1
Finding No. 5

Billy Carr Auto Sales, Inc.

1976 Highway 98 West • P. O. Box 519
PORT ST. JOE, FL 32457
Phone (850) 229-6961 Fax (850) 227-2188

To Whom it may concern

This is to certify that the 2001 Chevy
VIN 1GCFC14V312333489 is worth <13,500.00>
Thirteen Thousand Five Hundred Dollars, this
value is based on NADA Book and the best
of my knowledge

Thank you
1-8-03
Becky Wood MANAGER
Billy Carr Auto Sales