

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:** June 10, 2010

**TO:** Devlin Higgins, Regulatory Analyst III, Division of Economic Regulation

**FROM:** Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis **CP**

**RE:** Docket No.: 100004-GU  
 Company Name: Florida Public Utilities Company  
 Company Code: GU603  
 Audit Purpose: Gas Conservation Cost Recovery  
 Audit Control No: 09-350-4-4

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 a response to the Office of Commission Clerk. There were confidential work papers associated with this audit.

CP/ip  
Attachment: Audit Report

cc: (With Attachment)  
Office of Auditing and Performance Analysis (Mailhot, File Folder)  
Office of Commission Clerk  
Office of the General Counsel

(Without Attachment)  
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

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State of Florida



FLORIDA PUBLIC SERVICE COMMISSION  
OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
BUREAU OF AUDITING

*Miami District Office*

Florida Public Utilities Company  
Gas Energy Conservation Clause Audit

Twelve Months Ended December 31, 2009

DOCKET NO. 100004-GU  
AUDIT CONTROL NO. 09-350-4-4

A handwritten signature in cursive script, reading "Kathy L. Welch".

**Kathy L. Welch**  
**Audit Manager**

A handwritten signature in cursive script, reading "Iliana Piedra".

**Iliana Piedra**  
**Accounting Specialist**  
**Audit Reviewer**

**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
AUDITOR'S REPORT**

**June 8, 2010**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

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 Florida Public Utilities Company, in support of its filing for recovery of conservation costs in Docket 100004-GU.

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

## **OBJECTIVES AND PROCEDURES:**

**Objective:** The objective of the audit was to reconcile the schedules to each other and to the general ledger.

**Procedures:** We prepared a trial balance using the general ledger and reconciled all conservation accounts to the filing.

**Objective:** The objective was to verify that the true-up was calculated correctly.

**Procedures:** We agreed the beginning true-up provision to the last order and workpapers. We prepared a recalculation using the filing and Commission approved interest rates.

**Objective:** The objective of the audit was to determine that the company has applied the approved conservation cost recovery factors to actual therm sales and properly calculated revenues.

**Procedures:** Therms from the billing summaries were multiplied by the ordered rates and compared to the ledger and filing. Differences were compared to billing corrections. Some bills were selected and recalculated to determine that the tariff rates were used. No errors were found.

**Objective:** The objective of the audit was to determine that the actual energy conservation program expenses filed by the company agree with source documentation and meet the requirements of the programs.

**Procedures:** We reconciled the filing to the general ledger detail. We selected a sample of the vouchers recorded in the general ledger and traced them to source documentation. Audit Finding One and Two discuss certain costs that should be allocated to the appliance business but were not allocated in the filing.

We verified that the incentives paid by voucher met the program guidelines. We verified that the incentives credited to the bills met the program guidelines. There were no new contracts with builders this period.

We compared the payroll file to the file from the last audit to determine if new employees were added. We obtained their job descriptions to determine if their duties showed they were conservation employees. We reviewed the pension curtailment and payroll allocation entries.

**AUDIT FINDING NO. 1**

**SUBJECT: BENEFIT TO APPLIANCE SALES**

**AUDIT ANALYSIS:** The utility sent a mailing that offered a rebate of \$875 for the purchase of a tankless water heater if the appliance was purchased and installed from Florida Public Utilities. The ad met the conservation requirements. The rebate is more than the allowed rebate of \$450 for the retention program and \$525 for the electric to gas conservation program but only the allowed portion of \$450 or \$525 rebate was charged to conservation. However, the costs for postage and printing were not allocated to the appliance business. Some of the cost was allocated to account 913-Advertising expense based on the piping allowance. According to the Code of Federal Regulations for account 913,

“Advertisements which substantially mention or refer to the value or advantage of utility service, together with makes of appliances sold by the utility and the price, terms, etc., thereof, and designed for the joint purpose of increasing the use of utility service and the sales of appliances, shall be considered as a combination advertisement, and the costs shall be distributed between this account and account 416 on the basis of space, time, or other proportional factors.”

The advertisement had a benefit to the appliance business and should have been allocated. The costs for the mailing that were included in the filing were:

	<b>CONSERVATION COSTS</b>	<b>SALES EXP. 913.6</b>	<b>TOTAL</b>
POSTMASTER	26,097.55	4,605.45	30,703.00
ELLISON GRAPHICS	5,133.91	906.59	6,040.50
	<u>31,231.46</u>	<u>5,512.04</u>	<u>36,743.50</u>
	85%	15%	

**EFFECT ON THE LEDGER:** Expenses should be reduced for the portion of costs that relate to the appliance business.

**EFFECT ON THE FILING:** Expenses should be reduced for the portion of costs that relate to the appliance business.

**AUDIT FINDING NO. 2**

**SUBJECT: TRADE SHOW BENEFIT TO APPLIANCE SALES**

**AUDIT ANALYSIS:** The utility sponsors many events and festivals. They have booths at the festivals and promote conservation programs. Exposure at these events would also benefit the appliance business. A summary of the cost of the events follows.

Gold Coast Builders 2009 Home Expo	\$ 1,100
Palm Beach County Plumbing Show	815
Green Expo-Palm Beach Community College	2,000
Palm Beach Chamber of Commerce	10,000
Florida Atlantic University Football	7,000
Palms West Chamber of Commerce-West Fest	19,000
<hr/>	
Total	\$39,915

**EFFECT ON THE LEDGER:** Expenses should be reduced for the portion of costs that relate to the appliance business.

**EFFECT ON THE FILING:** Expenses should be reduced for the portion of costs that relate to the appliance business.

## EXHIBITS

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY  
ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION

SUMMARY OF EXPENSES BY PROGRAM BY MONTH  
FOR MONTHS January-09 THROUGH December-09

A	BY PROGRAM	CONSERVATION EXPENSE												
		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1	Full House Residential New Construction Program	4,442	15,846	12,021	12,731	25,361	16,467	13,098	21,828	13,155	22,948	11,396	34,324	203,617
2	Residential Appliance Replacement Program	9,760	15,462	15,272	15,528	23,362	26,747	17,983	24,327	37,197	37,645	11,417	30,562	265,262
3	Residential Education Program	74	(20)	4,660	430	1,998	2,329	1,557	6,178	7,111	15,552	(2,824)	5,364	42,409
4	Space Conditioning Program	1,095	806	906	1,146	2,269	1,144	1,074	938	818	1,053	2,752	961	14,962
5	Residential Conservation Service Program	47,295	37,714	46,226	39,036	41,879	40,751	32,074	33,604	48,404	43,769	26,046	47,402	484,200
6	Residential Appliance Retention Program													
7	Dealer / Contractor													
10	Commercial Conservation Service Program	886	1,157	10,374	87	1,321	1,034	1,348	579	11,964	5,266	924	1,864	36,804
13	Residential Service Reactivation Program	33,287	49,759	112,471	39,010	20,896	53,596	66,485	44,613	88,833	48,631	20,405	64,197	1,947
14	Common													
15														
16														
17														
18														
19														
20														
21	TOTAL ALL PROGRAMS	96,839	120,724	206,296	108,684	117,104	142,778	133,619	132,446	208,440	178,427	70,195	186,489	1,702,041
22	LESS AMOUNT INCLUDED IN RATE BASE													
23	RECOVERABLE CONSERVATION EXPENSES	96,839	120,724	206,296	108,684	117,104	142,778	133,619	132,446	208,440	178,427	70,195	186,489	1,702,041



COMPANY: FLORIDA PUBLIC UTILITIES COMPANY

SCHEDULE CT-3  
PAGE 2 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-09 THROUGH December-09

B. CONSERVATION REVENUES	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. RESIDENTIAL CONSERVATION													
2. CONSERVATION ADJ. REVENUES	(202,387)	(222,241)	(225,601)	(166,836)	(137,280)	(121,528)	(104,970)	(99,013)	(101,831)	(99,068)	(124,967)	(161,156)	(1,766,878)
3. TOTAL REVENUES	(202,387)	(222,241)	(225,601)	(166,836)	(137,280)	(121,528)	(104,970)	(99,013)	(101,831)	(99,068)	(124,967)	(161,156)	(1,766,878)
4. PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	(31,767)	(31,772)	(31,772)	(31,772)	(31,772)	(31,772)	(31,772)	(31,772)	(31,772)	(31,772)	(31,772)	(31,772)	(361,259)
5. CONSERVATION REVENUE APPLICABLE	(234,154)	(254,013)	(257,373)	(198,608)	(169,052)	(153,300)	(136,742)	(130,785)	(133,603)	(130,840)	(156,739)	(192,928)	(2,148,137)
6. CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	96,839	120,724	206,296	108,684	117,104	142,778	133,619	132,446	208,440	178,427	70,195	186,489	1,702,041
7. TRUE-UP THIS PERIOD (LINE 5 - 6)	(137,315)	(133,289)	(51,077)	(89,924)	(51,948)	(10,522)	(3,123)	1,661	74,837	47,587	(86,544)	(6,439)	(446,096)
8. INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	(241)	(349)	(326)	(254)	(198)	(184)	(180)	(145)	(115)	(90)	(79)	(77)	(2,238)
9. TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	(381,259)	(487,048)	(588,914)	(608,545)	(666,951)	(687,325)	(666,259)	(637,790)	(604,502)	(498,008)	(418,739)	(473,590)	(381,259)
9A. DEFERRED TRUE-UP BEGINNING OF PERIOD													
10. PRIOR TRUE-UP COLLECTED (REFUNDED)	31,767	31,772	31,772	31,772	31,772	31,772	31,772	31,772	31,772	31,772	31,772	31,772	381,259
11. TOTAL NET TRUE-UP (LINES 7+8+9+9A+10)	(487,048)	(588,914)	(588,914)	(608,545)	(666,951)	(687,325)	(666,259)	(637,790)	(604,502)	(498,008)	(418,739)	(473,590)	(448,334)

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COMPANY: FLORIDA PUBLIC UTILITIES COMPANY

SCHEDULE CT-3

CALCULATION OF TRUE-UP AND INTEREST PROVISION

PAGE 3 OF 3

FOR MONTHS January-09 THROUGH December-09

C.	INTEREST PROVISION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1.	BEGINNING TRUE-UP (LINE B-9)	(381,259)	(487,048)	(588,914)	(608,545)	(666,951)	(687,325)	(666,259)	(637,790)	(604,502)	(498,008)	(418,739)	(473,590)	(381,259)
2.	ENDING TRUE-UP BEFORE INTEREST (LINES B7+B9+B9A+B10)	(486,807)	(588,565)	(608,219)	(666,697)	(687,127)	(666,075)	(637,610)	(604,357)	(497,893)	(418,649)	(473,511)	(448,257)	(446,096)
3.	TOTAL BEG. AND ENDING TRUE-UP	(868,066)	(1,075,613)	(1,197,133)	(1,275,242)	(1,354,078)	(1,353,400)	(1,303,869)	(1,242,147)	(1,102,395)	(916,657)	(892,250)	(921,847)	(827,355)
4.	AVERAGE TRUE-UP (LINE C-3 X 50%)	(434,033)	(537,807)	(598,567)	(637,621)	(677,039)	(676,700)	(651,935)	(621,074)	(551,198)	(458,329)	(446,125)	(460,924)	(413,678)
5.	INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	0.54%	0.79%	0.75%	0.55%	0.40%	0.30%	0.35%	0.30%	0.25%	0.25%	0.22%	0.20%	
6.	INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	0.79%	0.75%	0.55%	0.40%	0.30%	0.35%	0.30%	0.25%	0.25%	0.22%	0.20%	0.20%	
7.	TOTAL (LINE C-5 + C-6)	1.33%	1.54%	1.30%	0.95%	0.70%	0.65%	0.65%	0.55%	0.50%	0.47%	0.42%	0.40%	
8.	AVG. INTEREST RATE (C-7 X 50%)	0.67%	0.77%	0.65%	0.48%	0.35%	0.33%	0.33%	0.28%	0.25%	0.24%	0.21%	0.20%	
9.	MONTHLY AVERAGE INTEREST RATE	0.055%	0.064%	0.054%	0.040%	0.029%	0.027%	0.027%	0.023%	0.021%	0.020%	0.018%	0.017%	
10.	INTEREST PROVISION (LINE C-4 X C-9)	(241)	(349)	(326)	(254)	(198)	(184)	(180)	(145)	(115)	(90)	(79)	(77)	(2,238)

EXHIBIT NO. \_\_\_\_\_  
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