

State of Florida



Public Service Commission

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CLERK

DATE: August 11, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*
RE: Docket No.: 110133-GU
Company Name: Florida Public Utilities Company
Company Code: GU603
Audit Purpose: Earnings Review
Audit Control No: 11-129-4-1

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

CJP/kby

Attachments: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Miami District Office

Auditor's Report

Florida Public Utilities Company
Earnings Review

Twelve Months Ended December 31, 2010

Docket No. 110133-GU
Audit Control No. 11-129-4-1
August 10, 2011

Bety Maitre
Audit Manager

Yen N. Ngo
Audit Staff

Kathy Welch
Reviewer

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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Purpose

To: Florida Public Service Commission

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 dated May 9, 2011. We have applied these procedures to the attached schedules prepared by Florida Public Utilities Company in support of its 2010 Earnings Review filing in Docket No. 110133-GU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

The term “Utility” used within this report refers to the Natural Gas Division of Florida Public Utilities Company. The term “FPUC” refers to Florida Public Utilities Company. The term “CUC” refers to Chesapeake Utilities Corporation, the holding company for Florida Public Utilities Company.

Utility Books and Records

Objectives: Our objective was to verify that the Utility’s “Per Books” amounts agree to the general ledger and that the Utility maintains its accounts and records in conformity with the Uniform System of Accounts as adopted by the Commission.

Procedures: We reconciled the filing to the general ledger. We sampled costs incurred to ensure the costs were proper and recorded in the appropriate account.

Rate Base

Objective: Our objective was to determine that the calculation of the Utility’s “FPSC Adjusted” Average Rate Base was properly calculated and supported.

Procedures: We obtained supporting documentation for the adjustments to rate base and compared the methodology used in the filing to the prior rate order¹ for consistency. Findings 1 and 2 address our recommended adjustments to rate base.

Utility Plant in Service

Objectives: Our objective was to ensure the Utility Plant in Service amount was properly computed and verify that the adjustments to plant in the Utility’s last rate proceeding were recorded in its’ general ledger.

Procedures: We determined the 13-month average plant as of December 31, 2010 using the general ledger and adjustments based on the assumptions used in the last rate case. We sampled additions booked in the test year and ensured retirements were booked when capital items were removed or replaced. Using the 13-month average plant, we recalculated the adjustment for non-utility plant and ensured the allocation basis was consistent with the prior rate case. We determined the Utility’s 13-month average plant as of December 31, 2010 using the general ledger and recalculated the general plant allocation. We traced the allocation basis to support and ensured it was consistent with the last rate case.

¹ See Order No. PSC-08-0375-PAA-GU, issued May 27, 2009, Docket No.080366-GU, In Re: Petition for rate increase by Florida Public Utilities Company.

Land & Land Rights

Objectives: Our objective was to determine that Utility's land is recorded at original cost and is owned or secured under a long-term lease, and to verify that the adjustments to land in the Utility's last rate proceeding were recorded in its general ledger.

Procedures: We determined the 13-month average land as of December 31, 2010. We reviewed Utility documents for the addition or sale of land.

Accumulated Depreciation and Amortization

Objectives: Our objective was to determine that accruals to accumulated depreciation and amortization are properly recorded and are calculated using the Commission's authorized rates.

Procedures: We determined the 13-month average of accumulated depreciation and amortization as of December 31, 2010 using the general ledger. We examined the Utility's accumulated depreciation account true-up, sampled additions, and determined the Utility's proper 13-month average of accumulated depreciation. We ensured that retirements to accumulated depreciation were made when a capital item was removed or replaced. Using the 13-month average for accumulated depreciation, we recalculated the adjustment for non-utility accumulated depreciation and ensured the allocation basis was consistent with the prior rate case. We determined the Utility's 13-month average accumulated depreciation as of December 31, 2010 using the general ledger and recalculated the common plant accumulated depreciation. We traced the allocation basis to support and ensured it was consistent with the last rate case.

Working Capital

Objectives: Our objective was to determine that the Utility's working capital balance is properly calculated and maintained consistent with the prior rate case.

Procedures: We verified the Utility's calculation of the 13-month average working capital as of December 31, 2010, using the balance sheet approach. The components were traced to the general ledger. We reviewed and recalculated the adjustments to working capital.

Income Statement

Objectives: Our objective was to determine that the calculation of the "FPSC Adjusted" Income Statement was properly calculated and supported.

Procedures: We obtained supporting documentation for the adjustments to revenue and expense and compared the methodology used in the filing to the prior rate case for consistency. Findings 3, 4, 5, 6, and 9 address our recommended adjustments to the income statement.

Operating Revenue

Objectives: Our objective was to determine that utility revenues are properly recorded in compliance with Commission rules and are based on the Utility's Commission approved tariff rates.

Procedures: We determined the Utility's revenues for the 12-month period ended December 31, 2010 using the Utility's general ledger. We verified that the Utility is using its Commission authorized tariff rates by recalculating a sample of residential and general service customers' bills in the test year period.

Operation and Maintenance Expense

Objectives: Our objective was to determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and are representative of ongoing utility operations.

Procedures: We determined operation and maintenance expenses for the 12-month period ended December 31, 2010 using the general ledger. Due to time constraints, we traced a limited sample of invoices to the original source documentation. The Utility could not provide the allocation bases before the audit due date. The Utility did not provide answers to the questions regarding the sample in the time provided. Invoices received were reviewed to ensure the cost were utility related and had the proper amount, period, and classification.

Depreciation and Amortization

Objectives: Our objective was to determine that depreciation and amortization expense are properly recorded in compliance with Commission rules and that they accurately represent the depreciation of assets and the amortization of deferred assets from ongoing utility operations.

Procedures: We verified the calculation of depreciation amortization expense for the 12-month period ended December 31, 2010. Using the annual depreciation expense, we recalculated the adjustment for non-utility depreciation and ensured the allocation basis was consistent with the prior rate case. We determined the annual depreciation expense for the Utility and recalculated the general plant depreciation allocation. We traced the allocation basis to the support.

Taxes Other than Income

Objective: Our objective was to determine that taxes other than income expenses are properly stated.

Procedures: We determined the taxes other than income expenses for the 12-month period ended December 31, 2010 using the general ledger. We reviewed the 2010 regulatory assessment fee returns. No exceptions were noted.

Income Taxes

Objective: Our objective was to determine that the income taxes balance was properly stated.

Procedures: We determined the 12-month balance for income tax using the general ledger. We recalculated the interest synchronization adjustment using the same methodology as the last rate case.

Capital Structure

Objective: Our objective was to determine that the calculation of the “FPSC Adjusted” Capital Structure was properly calculated.

Procedures: We determined the 13-month average for the direct and allocated capital structure using the Utility’s and CUC books. We traced the cost rates to source documentation and recalculated the cost of capital schedule. Findings 7 and 8 address recommended adjustments to the cost of capital schedules.

Audit Findings

Finding 1: Rate Base

Audit Analysis: Rule 25-7.1352 requires each investor-owned natural gas utility to file an earnings surveillance report by the 15th day of the second month following the reporting period. This report is expected to represent the Utility's books and records on a basis consistent with the most recent rate case order.

We examined the Utility's computation of average rate base in the filed Earnings Surveillance Report for the test period. We were unable to reconcile the book average of each rate base component reported in the filing to the Utility's books. The Utility explained that the differences were due to best estimates being used for the month of December at the time of filing preparations. However, months other than December were different than the general ledger. We determined that this was due to improper exclusion or inclusion of accounts and calculation errors as described below.

We compared the filing to the Utility's last order and found some inconsistencies in calculating rate base. In the order, the prior acquisition adjustment was added to plant and the associated amortization was added to accumulated amortization. The Utility classified these accounts as working capital. In comparing the calculation of working capital, we found additional accounts that the Utility should have included or excluded. The following schedule provides the working capital exceptions between the prior order and the filing.

Accounts to Exclude From Working Capital Calculation in the Filing			
Cost Type	Account	Account Name	Reason for inclusion or exclusion
Allocated	17601860	Deferred Rate Case - Miscellaneous Deferred Debits	The Commission has not allowed deferred rate case costs in working capital. The Utility did remove the allocated number. However, if allowed, they should be included at the direct cost and not an allocated number.
Allocated	17991860	Regulatory Asset- Miscellaneous Deferred Debits	Utility maintains a schedule of direct cost. Direct Cost should be charged.
Allocated	17991890	Regulatory Asset - Unamortized Loss on Reacquired Debt	This account should be in Capital Structure
Direct	17991140	Regulatory Asset - Acquisition Adjustment	This account was included in Plant In Service in the last case.
Direct	17991150	Regulatory Asset - Accumulated Amort Acquisition Adjustment	This account was included in Accumulated Amortization in the last case.

Accounts to Include From Working Capital Calculation in the Filing			
Cost Type	Account	Account Name	Reason for inclusion or exclusion
Direct	17991860	Regulatory Asset - Miscellaneous Deferred Debits	Charge direct costs for regulatory asset instead of allocated cost.
Direct	19111420	Long-term Accounts Receivable	This is a proper working capital account
Direct	19701832	Prelim. Nat. Gas Survey & Investigation	This is a proper working capital account
Direct	19901840	Clearing Accounts	This is a proper working capital account
Direct	19901841	Clearing Accounts 2	This is a proper working capital account
Direct	19901860	Clearing Account - Miscellaneous Deferred Debits	This is a proper working capital account
Direct	19911860	Piping & Conversion - Miscellaneous Deferred Debits	This is a proper working capital account

Using the actual ledger monthly balances and appropriate accounts, we have determined the book average for each rate base component on the schedules following this finding. For detail on the working capital account included, please see Exhibit 4 and 5.

Effect on the Filing: Plant should be increased by \$1,179,763 and accumulated depreciation and amortization decreased by \$197,798. Construction work in progress and working capital should be reduced by \$71,223 and \$11,571,728, respectively.

Computation of Rate Base Averages

Acct. #	Description	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	13-Mo Average
Plant In Service															
1010	Plant In Service	\$ 111,678,263	\$ 111,694,376	\$ 111,820,125	\$ 111,923,828	\$ 111,962,350	\$ 111,914,074	\$ 112,158,654	\$ 111,893,166	\$ 111,893,166	\$ 113,122,617	\$ 113,369,002	\$ 113,627,452	\$ 114,551,250	\$ 112,431,409
1010	Allocated Plant	\$ 3,272,309	\$ 3,284,685	\$ 3,279,572	\$ 3,262,618	\$ 3,305,090	\$ 3,413,212	\$ 3,486,562	\$ 3,535,638	\$ 3,540,686	\$ 3,444,905	\$ 3,446,787	\$ 3,439,144	\$ 3,468,226	\$ 3,398,418
1140	Acq. Adj.	\$ 35,277,662	\$ 35,277,662	\$ 35,277,662	\$ 35,894,106	\$ 35,894,106	\$ 35,894,106	\$ 35,894,106	\$ 35,894,106	\$ 35,894,106	\$ 35,943,552	\$ 35,943,552	\$ 35,943,552	\$ 35,943,552	\$ 35,767,064
	Total Per Staff	\$ 150,228,234	\$ 150,256,723	\$ 150,377,359	\$ 151,080,553	\$ 151,161,546	\$ 151,221,392	\$ 151,539,322	\$ 151,322,910	\$ 151,327,958	\$ 152,511,074	\$ 152,759,341	\$ 153,010,148	\$ 153,963,028	\$ 151,596,891
	Total Per Filing	\$ 149,081,832	\$ 149,110,351	\$ 149,230,957	\$ 149,934,151	\$ 150,016,083	\$ 150,076,063	\$ 150,393,947	\$ 150,177,531	\$ 150,182,579	\$ 151,365,739	\$ 151,612,124	\$ 151,870,659	\$ 152,370,659	\$ 150,417,129
	Difference	\$ 1,146,402	\$ 1,146,372	\$ 1,146,402	\$ 1,146,402	\$ 1,145,463	\$ 1,145,329	\$ 1,145,376	\$ 1,145,379	\$ 1,145,379	\$ 1,145,335	\$ 1,147,217	\$ 1,139,489	\$ 1,592,369	\$ 1,179,763
	See Note 1 below														
Accumulated Depreciation and Amortization															
1080	Acc. Dep.	\$ (38,161,309)	\$ (38,450,989)	\$ (38,748,501)	\$ (39,015,914)	\$ (39,350,370)	\$ (39,627,594)	\$ (39,869,383)	\$ (40,173,061)	\$ (40,507,816)	\$ (40,800,168)	\$ (41,162,820)	\$ (41,500,602)	\$ (41,828,402)	\$ (37,711,175)
1080	Acc. Dep. Allocated	\$ (1,366,562)	\$ (1,384,997)	\$ (1,394,382)	\$ (1,408,366)	\$ (1,426,617)	\$ (1,445,033)	\$ (1,463,074)	\$ (1,481,549)	\$ (1,499,190)	\$ (1,517,021)	\$ (1,535,042)	\$ (1,553,263)	\$ (1,571,684)	\$ (1,423,405)
2520	Acq. For Constr.	\$ (2,333,709)	\$ (2,306,956)	\$ (2,317,690)	\$ (2,288,698)	\$ (2,322,503)	\$ (2,345,703)	\$ (2,072,706)	\$ (2,054,021)	\$ (2,324,199)	\$ (2,139,310)	\$ (2,733,130)	\$ (2,734,630)	\$ (2,044,670)	\$ (2,309,071)
1150	A/A Acq Adj.	\$ (468,326)	\$ (470,952)	\$ (473,579)	\$ (476,205)	\$ (478,832)	\$ (481,459)	\$ (484,085)	\$ (486,712)	\$ (489,338)	\$ (491,965)	\$ (494,591)	\$ (497,218)	\$ (499,845)	\$ (484,085)
3762	Acc. Asset Remov.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,395,892)	\$ (5,428,971)	\$ (5,462,050)	\$ (5,495,129)	\$ (5,528,208)	\$ (2,100,788)
	Total Per Staff	\$ (42,329,906)	\$ (42,613,895)	\$ (42,934,152)	\$ (43,189,184)	\$ (43,578,321)	\$ (43,899,789)	\$ (43,889,249)	\$ (44,195,344)	\$ (44,772,435)	\$ (44,763,684)	\$ (45,542,651)	\$ (45,734,743)	\$ (44,927,469)	\$ (44,028,525)
	Total Per Filing	\$ (42,420,071)	\$ (42,710,028)	\$ (43,036,255)	\$ (43,297,257)	\$ (43,692,363)	\$ (44,019,807)	\$ (44,015,245)	\$ (44,327,316)	\$ (44,901,781)	\$ (44,890,405)	\$ (45,662,422)	\$ (45,875,967)	\$ (46,093,271)	\$ (44,226,322)
	Difference	\$ 90,165	\$ 90,165	\$ 90,165	\$ 90,165	\$ 90,165	\$ 90,165	\$ 90,165	\$ 90,165	\$ 90,165	\$ 90,165	\$ 90,165	\$ 90,165	\$ 90,165	\$ 197,798
	See Note 2 below														
Construction Work In Progress															
1050	CWIP Per Staff	\$ 929,835	\$ 1,115,700	\$ 1,226,515	\$ 1,739,597	\$ 2,036,517	\$ 2,179,506	\$ 1,934,606	\$ 2,900,396	\$ 3,416,939	\$ 3,148,572	\$ 3,578,029	\$ 3,578,107	\$ 2,902,226	\$ 2,360,503
	CWIP Per Co.	\$ 929,835	\$ 1,115,701	\$ 1,226,516	\$ 1,739,599	\$ 2,036,519	\$ 2,179,508	\$ 1,934,609	\$ 2,900,398	\$ 3,416,941	\$ 3,148,574	\$ 3,578,031	\$ 3,578,109	\$ 3,828,109	\$ 2,431,727
	Difference	\$ (0)	\$ (1)	\$ (1)	\$ (2)	\$ (2)	\$ (2)	\$ (3)	\$ (3)	\$ (2)	\$ (2)	\$ (2)	\$ (2)	\$ (925,883)	\$ (71,223)
Working Capital															
	Working Capital Books	\$ (9,345,621)	\$ (5,904,058)	\$ (7,145,937)	\$ (7,779,478)	\$ (10,480,194)	\$ (12,441,280)	\$ (13,707,063)	\$ (14,851,410)	\$ (13,430,292)	\$ (18,618,688)	\$ (16,119,347)	\$ (16,558,136)	\$ (9,995,166)	\$ (12,028,974)
	Working Capital Per Co.	\$ (458,751)	\$ 3,345,577	\$ 2,923,430	\$ 2,159,989	\$ (368,650)	\$ (2,324,904)	\$ (3,404,553)	\$ (2,715,857)	\$ (845,599)	\$ (2,909,992)	\$ (2,938,166)	\$ (53,059)	\$ 1,646,325	\$ (457,247)
	Difference	\$ (8,886,870)	\$ (9,249,635)	\$ (10,069,366)	\$ (9,939,467)	\$ (10,111,544)	\$ (10,116,376)	\$ (10,302,510)	\$ (12,135,554)	\$ (12,584,693)	\$ (15,708,696)	\$ (13,181,182)	\$ (16,505,077)	\$ (11,641,491)	\$ (11,571,728)

See Note 3 below

Note 1: The Utility included an average balance of \$34,503,288 in total plant for the acquisition adjustment related to the merger with CUC but transferred the amount to a proforma adjustment in the filing. The prior approved acquisition adjustment of \$1,263,776, which the Utility included in working capital, was added to staff's numbers. The remainder of the difference is due to the use of incorrect December balances.

Note 2: The difference is mainly due to staff removing leased plant of \$(600,158) as was done in the prior rate case, including the amortization of prior approved acquisition adjustment from the last rate case of \$(484,085), and the difference in December balances

Note 3: The difference is mainly due to overstatement of the cash balance of \$2,099,829, overstatement of regulatory assets of \$1,656,180, accounts payable under-statement of \$2,376,688, and the Utility exclusion of deferred environmental cost of \$5,606,507. See Exhibit 4 and 5 for the detailed differences by account.

Finding 2: Rate Base Adjustments

Audit Analysis: The Utility included adjustments of \$37,883,320 to reduce rate base in the Average 2010 Earnings Surveillance Report. We examined the support and computation of each adjustment.

The adjustment to remove plant of (\$1,876,631) and accumulated depreciation of \$595,630 for non-utility was incorrectly calculated. The Utility used the average balances as of October 31, 2010 to compute these adjustments. On the following pages we compute the non-utility adjustment using the actual 2010 13-month average plant and accumulated depreciation. The appropriate non-utility adjustments for plant and accumulated depreciation are (\$1,883,979) and \$623,947. The differences are a reduction to the non-utility plant adjustment of \$7,348 and an increase to the non-utility depreciation adjustment of \$28,317.

Working capital includes an adjustment for (\$2,141,361) in the filing. This adjustment consists of several adjustments which include (\$158,448) for non-utility accounts, (\$1,771,140) for prior rate case adjustments, and an adjustment to working capital of (\$211,773) for the Utility's share of accrued interest on debt. These adjustments used incorrect numbers as explained in Finding 1. On the following page, we re-compute the adjustments using the appropriate book averages for the remainder of the adjustment entries.

In the Utility's adjustment to working capital, the Utility's working capital liabilities were increased by (\$211,733) to reflect a total interest payable amount of (\$433,028). This amount is a 24.58% allocation of CUC's total interest payable. The percentage is computed by dividing the Utility's total allocated debt from CUC to CUC's total debt. The 13-month average used to determine this allocation percentage was incorrectly calculated and we could not verify the interest payable amount to CUC's books.

We reviewed the prior orders and identified working capital adjustments excluded from the filing. The most recent order included an adjustment to reduce the Plant Material and Supply account by 9% for non-utility. The filing does not include an adjustment to the Plant Material and Supply account.

Working Capital Adjustments

Account Number	Description	13-Mo. Average
1540	Plant Material & Operating Supplies	\$ 41,009
	Non-Utility Rate	9%
	Non-Utility Adjustment	\$ (3,691)

Effect on the Filing: The adjustments to plant and accumulated depreciation for non-utility should be increased by \$7,348 and \$28,317, respectively. The adjustments decrease plant and accumulated depreciation by the same amounts. The adjustments to working capital should be decreased by \$12,553 (\$3,691 + \$7,450 + \$1,412). Further investigation is needed on the \$211,773 reduction to working capital in the Utility's adjustments for interest payable.

Working Capital Adjustment

Non-Utility Adjustments															
Account No.	Description	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	13-Mo. Avg Per Staff
12301420	Acc. Rec.-Merchandise	\$ 47,613	\$ 40,474	\$ 33,938	\$ 17,893	\$ 40,693	\$ 43,541	\$ 39,906	\$ 43,556	\$ 63,155	\$ 18,729	\$ 9,879	\$ 30,597	\$ -	\$ 33,075
12501420	Acc. Rec.-Service	\$ 41,221	\$ 43,709	\$ 42,179	\$ 48,551	\$ 40,242	\$ 39,132	\$ 37,685	\$ 41,784	\$ 40,294	\$ 50,493	\$ 45,099	\$ 56,908	\$ -	\$ 40,561
14211550	Appliance Inv. - Merchandise	\$ 189,330	\$ 179,759	\$ 169,558	\$ 161,268	\$ 158,756	\$ 176,976	\$ 168,273	\$ 171,075	\$ 164,398	\$ 165,131	\$ 165,131	\$ 173,853	\$ -	\$ 157,193
14241550	Merchandise-Leased Eq.	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601
14241551	Merchandise-Leased Eq. - Amort.	\$ (24,665)	\$ (25,178)	\$ (25,691)	\$ (26,204)	\$ (26,717)	\$ (27,230)	\$ (27,743)	\$ (28,256)	\$ (28,256)	\$ (28,256)	\$ (28,256)	\$ (28,256)	\$ (28,256)	\$ (27,151)
22132350	Merchandise - Customer Deposits	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ (2,100)	\$ (2,100)	\$ (2,100)	\$ 9,477
Account No.	Description	13-Mo. Avg Per Staff	13-Mo. Avg Per Filing	Difference											
12301420	Acc. Rec.-Merchandise	\$ 33,075													
12501420	Accounts Receivable-Service	\$ 40,561													
	Total	\$ 73,636	\$ 77,754	\$ (4,118)											
14211550	Appliance Inv. - Merchandise	\$ 157,193													
14241550	Merchandise-Leased Eq.	\$ 61,601													
14241551	Merchandise-Leased Eq. - Amort.	\$ (27,151)													
	Total	\$ 191,643	\$ 205,017	\$ (13,374)											
22132350	Merchandise - Customer Deposits	\$ (114,281)	\$ (124,323)	\$ 10,042											
	Total	\$ 150,998	\$ 158,448	\$ (7,450)											
Prior Rate Case Adjustments															
Account No.	Description	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	13-Mo. Avg Per Staff
17741420	Unrecovered Area Exp. Costs	\$ 1,698,235	\$ 1,518,282	\$ 1,387,609	\$ 1,233,696	\$ 1,141,029	\$ 1,273,873	\$ 1,257,956	\$ 1,318,912	\$ 1,291,500	\$ 1,265,434	\$ 1,233,642	\$ 1,197,931	\$ 1,129,590	\$ 1,303,668
17601860	Deferred Rate Case	\$ 548,022	\$ 532,396	\$ 520,820	\$ 508,224	\$ 495,768	\$ 483,367	\$ 470,791	\$ 458,217	\$ 445,641	\$ 433,065	\$ 420,489	\$ 377,275	\$ 364,699	\$ 466,059
Account No.	Description	13-Mo. Avg Per Staff	13-Mo. Avg Per Filing	Difference											
17741420	Unrecovered Area Exp. Costs	\$ 1,303,668	\$ 1,305,079	\$ (1,411)											
17601860	Deferred Rate Case	\$ 466,059	\$ 466,061	\$ (2)											
	Total	\$ 1,769,728	\$ 1,771,140	\$ (1,412)											

Finding 3: Income Statement

Audit Analysis: Rule 25-7.1352 requires each investor-owned natural gas utility to file an earnings surveillance report by the 15th day of the second month following the reporting period. This report is expected to represent the Utility's books and records on a basis consistent with the most recent rate case order. The book balance of income tax expense is discussed in Finding 6.

We examined the calculation for each income statement component used to calculate net operating income for the 12-month period ended December 31, 2010. Except for depreciation and amortization expense, we could not reconcile the income statement book balances per the filing to the Utility's books. The Utility explained that the differences were due to best estimates used for the month of December at the time of filing preparation. In addition, revenues do not agree with the books due to a weather adjustment which is discussed Finding 4.

We reviewed the ledger accounts used by the utility to compute each income statement component and identified the following revenue accounts that the Utility did not exclude from the filing. The Utility failed to remove both the revenues and expenses for gross receipts and franchise taxes from the filing. The gross receipt and franchise taxes were included in the filing in O & M Gas Expense instead of Taxes Other Than Income Tax and have been removed from schedule following this finding. These items are not used for earnings review purposes and should have been removed from the filing. Revenues and taxes other than income should be reduced by \$3,811,654 and \$3,816,535.

Effect on the Filing: Revenues, O & M Gas Expense, and O&M Other Expense should increase by \$4,055,087, \$3,203,758, and \$172,686, respectively. Taxes Other Than Income should increase by \$381,006 (\$4,197,541 book difference less \$3,816,535 to remove franchise and gross receipt taxes as done in prior rate case).

Revenues by Account

Account No.	Description	Amount
4010	Fuel	\$ 25,668,414
4011	Other Fuel	\$ 365,315
4015	Base	\$ 35,034,625
4199	Propane	\$ 992,581
4800	Other Gas	\$ -
4952	Unbilled	\$ 71,071
4953	Conservation	\$ 2,088,331
4960	Rate Refund Provision	\$ 256,659
4999	Misc Revenues	\$ 799,483
499A	Misc Allowance & Adj	\$ (9,831)
499B	Bill Collection Charge	\$ 88,925
499G	Change of Account	\$ 46,048
499P	Returned Pymt Charge	\$ 34,463
499R	Disconnect/Reconnect	\$ 341,276
499S	Seasonal Reconnection	\$ 322,807
	Per Staff	\$ 66,100,167
	Per Filing	\$ 62,045,080
	Difference	\$ 4,055,087
Difference Explanation:		
4020	Franchise Tax	\$ (1,533,755)
4025	Gross Receipt Tax	\$ (2,277,899)
	Weather Refund Provision	\$ 4,562,577
	Calculation Error	\$ 3,304,165
	Total	\$ 4,055,087

Taxes Other Than Income by Account

Account No.	Description	Amount
5881	Franchise Tax	\$ 1,533,755
5882	Gross Receipt Tax	\$ 2,282,780
5883	PSC Assessment	\$ 346,450
8200	Taxes Other Than Income	\$ 75,907
8210	Payroll Taxes	\$ 538,266
821D	Inter-Dept Payroll Taxes	\$ (39,451)
8220	Property Taxes	\$ 1,587,438
8290	Misc Taxes Other	\$ 21,419
	Per Staff	\$ 6,346,565
	Per Filing	\$ 2,149,024
	Difference	\$ 4,197,541
Difference Explanation:		
5881	Franchise Tax	\$ 1,533,755
5882	Gross Receipt Tax	\$ 2,282,780
5883	PSC Assessment	\$ 346,450
XX10	Weather Refund Estimate	\$ (264,579)
	Calculation Error	\$ 299,135
	Total	\$ 4,197,541

O & M Gas Expense

Account No.	Description	Amount
5011	Salaries	\$ 472,929
5012	Overtime	\$ 2,442
5014	Bonus	\$ 6,712
5020	Lodging and Travel	\$ 14,501
5021	Meals	\$ 4,568
5023	Seminars & Training	\$ 1,606
5024	Cell Phones	\$ 4,822
5025	Total Uniforms	\$ 744
5026	Membership & Subscriptions	\$ 2,610
5029	Supplies/Misc Debt Exp	\$ 59,702
5031	Vehicle Fuel	\$ 2,899
5032	Vehicle Depreciation	\$ 790
5033	Vehicle Insurance	\$ 597
5034	Vehicle Leasing	\$ 1,048
5039	Other Vehicle Exp	\$ 10,095
504D	Inter-Dept Benefits	\$ 36,384
505D	Inter-Dept Payroll Tax	\$ 39,451
5060	Legal	\$ 10,860
5061	Consulting/Sub-Contractors	\$ 11,336
5069	Other Outside Services	\$ 14,178
5070	Shipping/Delivery	\$ 35,170
5078	Maintenance	\$ 27
5079	Other Facilities Cost	\$ 14,864
5080	Advertising	\$ 304,160
5081	Printing and Printing Material	\$ 3,684
5082	Outdoor Banner/Signage	\$ 83,172
5083	Print Advertising	\$ 142,777
5085	Radio Advertising	\$ 27,100
5086	Print/Production	\$ 36,277
5087	Television	\$ 42,264
5089	Other Comm. Exp	\$ 54,171
5090	Customer Satisfaction	\$ 729,314
5714	Firm Commodity Other	\$ 228,408
5726	Commodity Firm Trans FGT	\$ 2,340,716
5732	Firm Trans D1 FGT	\$ 3,690,824
5800	Cost of Gas	\$ 19,642,366
5882	Utility Tax	\$ 6,015
5890	Cost of Gas Other	\$ 9,896
5954	Conservation Recovery	\$ -
	Per Staff	\$ 28,089,474
	Per Filing	\$ 24,885,716
	Difference	\$ 3,203,758
Difference Explanation:		
5881	Franchise Tax	\$ (1,533,755)
5882	Gross Receipt Tax	\$ (2,282,780)
5883	PSC Assessment	\$ (346,450)
	Weather Refund Provision	\$ 3,812,577
	Calculation Error	\$ 3,554,166
	Total	\$ 3,203,758

O&M Other Expense

Account	Description	Amount
61XX	Payroll	\$ 7,981,814
62XX	Dept Exp	\$ 1,918,971
63XX	Vehicle	\$ 781,348
64XX	Health	\$ 893,224
65XX	COBRA	\$ 8,953
66XX	Other Benefits	\$ 1,155,451
67XX	HR	\$ 45,179
68XX	Co Event & Choice	\$ 8,547
70XX	Sales, Ad, &Comm	\$ 726,981
71XX	CR, Collections, Cust Svc	\$ 298,650
72XX	Outside Services	\$ 688,055
73XX	Fees & Assessments	\$ 544,538
74XX	Investor Relation	\$ 136,405
75XX	Insurance	\$ 424,547
76XX	Safety	\$ 2,570
77XX	Facility	\$ 594,589
78XX	Maintenance	\$ 249,865
8010	Misc Service Revenues	\$ (36,315)
	Total Per Staff	\$ 16,423,372
	Total Per Filing	\$ 16,250,686
	Difference	\$ 172,686

Finding 4: Weather Reduction Estimate

Audit Analysis: The Utility's per books filing includes a reduction for a weather refund estimate of \$4,562,577 in revenue and a decrease in O & M gas expense of \$3,812,577. Also, an increase to taxes other than income taxes of \$264,579 and a decrease in income taxes of \$405,832 were made. These adjustments resulted in a net income decrease of \$608,747. The estimate is based on customer usage over a five-year period. The Utility stated "The Company booked the \$750,000 reduction to revenues and corresponding contingent liability for regulatory risk related to the "come back" filing and earnings review as is reflected in the financial statements of FPU." The working capital and cost of capital side of this entry was not included in the filing.

The weather refund estimate is recorded under Company/Division XX. The Utility stated that the "The CO/Division XX was created specifically for acquisition related entries. The Company desires to isolate these entries so that it can isolate and track all acquisition related activities and, if necessary, to simplify any reporting differences between Regulatory accounting and US GAAP accounting."

We have excluded the weather refund estimate from the all calculations presented in this report. The weather adjustments made were removed in Finding 3 and Finding 6 because the filing should reflect actual revenue and expenses at December 31, 2010. We did not review the calculation behind the estimate. Any weather adjustment to show future operations should have been included as a proforma adjustment.

Effect on the Filing: The adjustments for this finding are included in the adjustments in Finding 3 and Finding 6.

Non-Utility Plant Adjustment

Co.	Account No.	13-Mb. Avg.	Allocation	Propane %	M&J %	Propane Plant	M&J Plant	Total Plant	
FN41	1010	3740	\$ 56,686	N/P/M	16.00%	0.00%	\$ 9,070	\$ -	\$ 9,070
		3741	\$ 12,910	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3750	\$ 478,088	N/P/M	16.00%	0.00%	\$ 76,494	\$ -	\$ 76,494
		3761	\$ 20,555,597	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3762	\$ 21,764,890	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3780	\$ 279,534	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3790	\$ 1,786,551	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3801	\$ 17,457,537	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3802	\$ 1,147,012	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3810	\$ 4,262,014	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3820	\$ 2,111,790	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3830	\$ 1,587,690	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3840	\$ 616,809	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3850	\$ 39,025	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3870	\$ 387,081	N/P	16.00%	0.00%	\$ 61,933	\$ -	\$ 61,933
		3890	\$ 3,545,163	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3890	\$ 10,317	N/P/M	16.00%	0.00%	\$ 1,651	\$ -	\$ 1,651
		3900	\$ 103,772	N/P/M	16.00%	0.00%	\$ 16,603	\$ -	\$ 16,603
		3910	\$ 34,082	N/P/M	16.00%	0.00%	\$ 5,453	\$ -	\$ 5,453
		3912	\$ 367,551	N/P/M	16.00%	0.00%	\$ 58,808	\$ -	\$ 58,808
		3913	\$ 51,167	N/P/M	16.00%	0.00%	\$ 8,187	\$ -	\$ 8,187
		3914	\$ 347,852	N/P/M	16.00%	0.00%	\$ 55,656	\$ -	\$ 55,656
		3921	\$ 137,627	N/P/M	16.00%	0.00%	\$ 22,020	\$ -	\$ 22,020
		3922	\$ 2,509,774	N/P/M	16.00%	0.00%	\$ 401,564	\$ -	\$ 401,564
		3924	\$ 36,900	N/P/M	16.00%	0.00%	\$ 5,904	\$ -	\$ 5,904
		3930	\$ 9,562	N/P/M	16.00%	0.00%	\$ 1,530	\$ -	\$ 1,530
		3940	\$ 245,469	N/P	16.00%	0.00%	\$ 39,275	\$ -	\$ 39,275
		3960	\$ 250,279	N/P	16.00%	0.00%	\$ 40,045	\$ -	\$ 40,045
3970	\$ 224,005	N/P/M	16.00%	0.00%	\$ 35,841	\$ -	\$ 35,841		
3980	\$ 136,467	N/P/M	16.00%	0.00%	\$ 21,835	\$ -	\$ 21,835		
FN41 Total		\$ 80,553,202				\$ 861,869	\$ -	\$ 861,869	
FN43	1010	3030	\$ 213,641	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3740	\$ 44,422	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3750	\$ -	N/P/M	21.00%	1.00%	\$ -	\$ -	\$ -
		3761	\$ 8,115,922	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3762	\$ 7,049,915	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3780	\$ 54,808	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3790	\$ 285,821	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3801	\$ 6,513,746	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3802	\$ 953,296	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3810	\$ 1,781,251	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3820	\$ 1,237,467	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3830	\$ 569,999	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3840	\$ 369,167	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3850	\$ 10,350	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3870	\$ 453,309	N/P	21.00%	0.00%	\$ 95,195	\$ -	\$ 95,195
		3890	\$ 418,725	N/P/M	21.00%	1.00%	\$ 87,932	\$ 4,187	\$ 92,119
		3900	\$ 1,354,374	N/P/M	21.00%	1.00%	\$ 284,419	\$ 13,544	\$ 297,962
		3910	\$ 31,223	N/P/M	21.00%	1.00%	\$ 6,557	\$ 312	\$ 6,869
		3912	\$ 265,896	N/P/M	21.00%	1.00%	\$ 55,838	\$ 2,659	\$ 58,497
		3913	\$ 65,192	N/P/M	21.00%	1.00%	\$ 13,690	\$ 652	\$ 14,342
		3914	\$ 188,926	N/P/M	21.00%	1.00%	\$ 39,674	\$ 1,889	\$ 41,564
3922	\$ 1,415,901	N/P/M	21.00%	1.00%	\$ 297,339	\$ 14,159	\$ 311,498		
3924	\$ 24,383	N/P/M	21.00%	1.00%	\$ 5,120	\$ 244	\$ 5,364		
3930	\$ 1,861	N/P/M	21.00%	1.00%	\$ 391	\$ 19	\$ 410		
3940	\$ 103,161	N/P	21.00%	0.00%	\$ 21,664	\$ -	\$ 21,664		
3960	\$ 157,370	N/P	21.00%	0.00%	\$ 33,048	\$ -	\$ 33,048		
3970	\$ 141,032	N/P/M	21.00%	1.00%	\$ 29,617	\$ 1,410	\$ 31,027		
3980	\$ 57,050	N/P/M	21.00%	1.00%	\$ 11,980	\$ 570	\$ 12,551		
FN43 Total		\$ 31,878,207				\$ 982,465	\$ 39,646	\$ 1,022,110	
Grand Total		\$ 112,431,409				\$ 1,844,334	\$ 39,646	\$ 1,883,979	
Total Per Filing								\$ 1,876,631	
							Difference	\$ (7,348)	

Non-Utility Accumulated Depreciation

Co.	Account No.	13 Mo. Avg.	Allocation	Propane %	M&J %	Propane Reserve	M&J Reserve	Total Reserve	
FN41	1080	3741	\$ 5,645	No Alloc.		0%	\$0	\$0	\$0
		3750	\$ (295,190)	N/P/M	16%	0%	(\$47,230)	\$0	(\$47,230)
		3761	\$ (4,193,514)	No Alloc.			\$0	\$0	\$0
		3762	\$ (12,224,663)	No Alloc.			\$0	\$0	\$0
		3780	\$ (110,469)	No Alloc.			\$0	\$0	\$0
		3790	\$ (535,184)	No Alloc.			\$0	\$0	\$0
		3801	\$ (5,120,284)	No Alloc.			\$0	\$0	\$0
		3802	\$ (1,032,186)	No Alloc.			\$0	\$0	\$0
		3810	\$ (1,553,004)	No Alloc.			\$0	\$0	\$0
		3820	\$ (607,194)	No Alloc.			\$0	\$0	\$0
		3830	\$ (589,025)	No Alloc.			\$0	\$0	\$0
		3840	\$ (229,060)	No Alloc.			\$0	\$0	\$0
		3850	\$ (16,283)	No Alloc.			\$0	\$0	\$0
		3870	\$ (82,694)	N/P	16%	0%	(\$13,231)	\$0	(\$13,231)
		3900	\$ (22,644)	N/P/M	16%	0%	(\$3,623)	\$0	(\$3,623)
		3910	\$ (8,430)	N/P/M	16%	0%	(\$1,349)	\$0	(\$1,349)
		3912	\$ (44,300)	N/P/M	16%	0%	(\$7,088)	\$0	(\$7,088)
		3913	\$ (16,469)	N/P/M	16%	0%	(\$2,635)	\$0	(\$2,635)
		3914	\$ (138,304)	N/P/M	16%	0%	(\$22,129)	\$0	(\$22,129)
		3921	\$ (57,809)	N/P/M	16%	0%	(\$9,249)	\$0	(\$9,249)
		3922	\$ (954,192)	N/P/M	16%	0%	(\$152,671)	\$0	(\$152,671)
		3924	\$ (27,762)	N/P/M	16%	0%	(\$4,442)	\$0	(\$4,442)
		3930	\$ (9,562)	N/P/M	16%	0%	(\$1,530)	\$0	(\$1,530)
		3940	\$ (123,768)	N/P	16%	0%	(\$19,803)	\$0	(\$19,803)
3960	\$ (61,510)	N/P	16%	0%	(\$9,842)	\$0	(\$9,842)		
3970	\$ (77,623)	N/P/M	16%	0%	(\$12,420)	\$0	(\$12,420)		
3980	\$ (26,155)	N/P/M	16%	0%	(\$4,185)	\$0	(\$4,185)		
FN41 Total		\$ (28,151,635)				(\$311,426)	\$0	(\$311,426)	
FN43	1080	3030	\$ (121,592)				\$0	\$0	\$0
		3750	\$ 7,611	N/P/M	21%	1%	\$1,598	\$76	\$1,674
		3761	\$ (1,918,050)	No Alloc.			\$0	\$0	\$0
		3762	\$ (3,565,625)	No Alloc.			\$0	\$0	\$0
		3780	\$ (7,264)	No Alloc.			\$0	\$0	\$0
		3790	\$ (111,921)	No Alloc.			\$0	\$0	\$0
		3801	\$ (1,849,215)	No Alloc.			\$0	\$0	\$0
		3802	\$ (1,008,608)	No Alloc.			\$0	\$0	\$0
		3810	\$ (946,006)	No Alloc.			\$0	\$0	\$0
		3820	\$ (353,841)	No Alloc.			\$0	\$0	\$0
		3830	\$ (307,348)	No Alloc.			\$0	\$0	\$0
		3840	\$ (110,535)	No Alloc.			\$0	\$0	\$0
		3850	\$ (2,440)	No Alloc.			\$0	\$0	\$0
		3870	\$ (55,243)	N/P	21%		(\$11,601)	\$0	(\$11,601)
		3900	\$ (391,290)	N/P/M	21%	1%	(\$82,171)	(\$3,913)	(\$86,084)
		3910	\$ (27,843)	N/P/M	21%	1%	(\$5,847)	(\$278)	(\$6,125)
		3912	\$ 28,812	N/P/M	21%	1%	\$6,051	\$288	\$6,339
		3913	\$ (24,619)	N/P/M	21%	1%	(\$5,170)	(\$246)	(\$5,416)
		3914	\$ (93,065)	N/P/M	21%	1%	(\$19,544)	(\$931)	(\$20,474)
		3921	\$ 7,403	N/P/M	21%	1%	\$1,555	\$74	\$1,629
		3922	\$ (613,897)	N/P/M	21%	1%	(\$128,918)	(\$6,139)	(\$135,057)
		3924	\$ (9,580)	N/P/M	21%	1%	(\$2,012)	(\$96)	(\$2,108)
		3930	\$ (184)	N/P/M	21%	1%	(\$39)	(\$2)	(\$40)
		3940	\$ (79,034)	N/P	21%		(\$16,597)	\$0	(\$16,597)
3960	\$ (96,773)	N/P	21%		(\$20,322)	\$0	(\$20,322)		
3970	\$ (69,250)	N/P/M	21%	1%	(\$14,543)	(\$693)	(\$15,235)		
3980	\$ (14,099)	N/P/M	21%	1%	(\$2,961)	(\$141)	(\$3,102)		
FN43 Total		\$ (11,733,498)				(\$300,521)	(\$12,000)	(\$312,521)	
Total		\$ (39,885,134)				Total Per Staff (\$611,947)	(\$12,000)	(\$623,947)	
						Total Per Filing (\$584,422)	(\$11,208)	(\$595,630)	
						Difference	\$792	\$28,317	

Finding 5: Income Statement Adjustments

Audit Analysis: The adjustments filed in the Earnings Surveillance Report increased operating income by \$38,340 for the 12-month period ended December 31, 2010. We could not reconcile any of the adjustments to the books. Each adjustment calculation was reviewed and recalculated. The adjustments to income taxes are discussed in Finding 6.

The last rate case included adjustments to the area expansion program (AEP) for the removal of revenues, amortization expense, and regulatory assessment fees. In the filing, the Utility includes adjustments of \$550,304 and \$547,552 to remove AEP revenues and amortization expense from the income statement. The Utility failed to remove the entire book balance of AEP revenues of \$995,094 and amortization expense of \$990,117 and made an adjustment for regulatory assessment fees of \$4,975. Revenues and amortization expenses should increase by \$444,790 and \$442,565 to remove the residual amounts and agree to the books. Taxes other than income should be decreased by \$4,975 to account for AEP taxes on the income statement.

AEP Revenues and Expenses

Month	AEP Revenue	RAF @ \$0.005	Amtz. of AEP
Jan-10	\$ 192,236	\$ 961	\$ 191,275
Feb-10	\$ 141,501	\$ 708	\$ 140,793
Mar-10	\$ 163,986	\$ 820	\$ 163,166
Apr-10	\$ 101,730	\$ 509	\$ 101,222
May-10	\$ 70,410	\$ 352	\$ 70,058
Jun-10	\$ 48,196	\$ 241	\$ 47,955
Jul-10	\$ 38,162	\$ 191	\$ 37,971
Aug-10	\$ 36,493	\$ 182	\$ 36,311
Sep-10	\$ 35,336	\$ 177	\$ 35,159
Oct-10	\$ 41,413	\$ 207	\$ 40,237
Nov-10	\$ 48,857	\$ 244	\$ 49,581
Dec-10	\$ 76,774	\$ 384	\$ 76,390
Total Per Staff	\$ 995,094	\$ 4,975	\$ 990,117
Total Per Filing	\$ 550,304	\$ -	\$ 547,552
Difference	\$ 444,790	\$ 4,975	\$ 442,565

We examined the Utility's calculation to remove \$116,691 of non-utility depreciation expense. The Utility did not use the ledger balances as the basis for computing the non-utility adjustment. Instead, the Utility used a depreciation schedule that we could not reconcile to the books. The schedule following the finding computes depreciation using the booked depreciation expense for the year. The non-utility adjustments for depreciation expense should increase by \$9,495 to remove the appropriate allocation of non-utility depreciation expense.

We reviewed the adjustments related to the purchased gas adjustment (PGA) in the filing. PGA revenues and cost of gas expenses were both reduced by \$22,805,173. The Utility did not provide support for the calculation of the PGA amounts included in the filing. We reconciled the ledger to the PGA audit and found PGA revenues and expenses understated by \$3,228,603 and \$3,103,192.

PGA Adjustment

PGA Revenue Accounts		
Account	Description	Amount
4010	Fuel	\$ 25,668,414
4011	Other Fuel	\$ 365,325
	Per Books	\$ 26,033,739
	Per Filing	\$ 22,805,137
	Difference	\$ 3,228,603
PGA Expense Accounts		
Account	Description	Amount
5714	Firm Commodity Other	\$ 228,408
5726	Commodity Firm Trans FGT	\$ 2,340,716
5732	Firm Trans DI FGT	\$ 3,690,824
5800	Cost of Gas	\$ 19,642,366
5882	Utility Tax	\$ 6,015
	Per Books	\$ 25,908,328
	Per Filing	\$ 22,805,137
	Difference	\$ 3,103,192

Conservation revenues and cost of gas expenses were reduced by \$2,079,231 and \$2,080,579, respectively in the filing. We reconciled the ledger to the conservation audit. The Utility excluded revenue taxes of \$9,100 and expense account FN00-XXXXX-XXXX-910V totaling \$4,146. The conservation adjustment to revenue and cost of gas should increase by \$9,100 and \$4,146, respectively.

The Utility included a \$0 adjustment for rate refund. There is \$256,659 relating to rate refunds in operating revenues. Rate refund is a disallowed revenue source and should be removed from operating revenues.

Effect on the Filing: The AEP adjustments to remove revenue, amortization expense and taxes other than income should increase by (\$444,790), (\$442,565), (\$4,975), respectively. The non-utility adjustment to depreciation expense should increase by (\$9,495). PGA revenue and cost of gas adjustment should increase by \$3,228,603 and \$ 3,103,192, respectively. Conservation revenues and expenses adjustments should increase by (\$9,100) and (\$4,146), respectively. The adjustment for rate refund should increase by (\$256,659).

Non-Utility Depreciation Expense Adjustment

Co.	Account No.	Depreciation Expense	Propane		M&J		Propane Expense	M&J Expense	Total Non-Utility
			Allocation and Rate		Allocation and Rate				
FN41	3741	\$ 1,411	No Alloc.		N/P/M	0%	\$ -	\$ -	\$ -
	3750	\$ 14,820	N/P/M	16%	N/P/M	0%	\$ 2,371	\$ -	\$ 2,371
	3761	\$ 512,304	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3762	\$ 608,307	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3780	\$ 10,620	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3790	\$ 67,900	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3801	\$ 592,328	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3802	\$ 127,351	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3810	\$ 144,800	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3820	\$ 63,169	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3830	\$ 53,788	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3840	\$ 18,489	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3850	\$ 3,030	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3870	\$ 18,185	N/P	16%	N/P	0%	\$ 2,910	\$ -	\$ 2,910
	3900	\$ 2,695	N/P/M	16%	N/P/M	0%	\$ 431	\$ -	\$ 431
	3910	\$ 2,460	N/P/M	16%	N/P/M	0%	\$ 394	\$ -	\$ 394
	3912	\$ 2,484	N/P/M	16%	N/P/M	0%	\$ 397	\$ -	\$ 397
	3913	\$ 40,864	N/P/M	16%	N/P/M	0%	\$ 6,538	\$ -	\$ 6,538
	3914	\$ 38,606	N/P/M	16%	N/P/M	0%	\$ 6,177	\$ -	\$ 6,177
	3921	\$ 18,109	N/P/M	16%	N/P/M	0%	\$ 2,897	\$ -	\$ 2,897
	3922	\$ 216,874	N/P/M	16%	N/P/M	0%	\$ 34,700	\$ -	\$ 34,700
	3924	\$ 1,903	N/P/M	16%	N/P/M	0%	\$ 304	\$ -	\$ 304
	3930	\$ 224	N/P/M	16%	N/P/M	0%	\$ 36	\$ -	\$ 36
	3940	\$ 17,676	N/P	16%	N/P	0%	\$ 2,828	\$ -	\$ 2,828
	3960	\$ 16,749	N/P	16%	N/P	0%	\$ 2,680	\$ -	\$ 2,680
	3970	\$ 20,604	N/P/M	16%	N/P/M	0%	\$ 3,297	\$ -	\$ 3,297
	3980	\$ 8,179	N/P/M	16%	N/P/M	0%	\$ 1,309	\$ -	\$ 1,309
FN41 Total		\$ 2,623,929					\$ 67,269	\$ -	\$ 67,269
FN43	3030	\$ 7,260					\$ -	\$ -	\$ -
	3761	\$ 202,334	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3762	\$ 197,415	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3780	\$ 2,088	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3790	\$ 10,784	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3801	\$ 221,245	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3802	\$ 105,765	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3810	\$ 60,599	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3820	\$ 37,020	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3830	\$ 19,378	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3840	\$ 11,050	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3850	\$ 807	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3870	\$ 21,300	N/P	21%	N/P		\$ 4,473	\$ -	\$ 4,473
	3900	\$ 35,207	N/P/M	21%	N/P/M	1%	\$ 7,393	\$ 352	\$ 7,746
	3910	\$ 3,132	N/P/M	21%	N/P/M	1%	\$ 658	\$ 31	\$ 689
	3912	\$ 2,280	N/P/M	21%	N/P/M	1%	\$ 479	\$ 23	\$ 502
	3913	\$ 29,441	N/P/M	21%	N/P/M	1%	\$ 6,183	\$ 294	\$ 6,477
	3914	\$ 20,976	N/P/M	21%	N/P/M	1%	\$ 4,405	\$ 210	\$ 4,615
	3922	\$ 121,444	N/P/M	21%	N/P/M	1%	\$ 25,503	\$ 1,214	\$ 26,718
	3924	\$ 1,272	N/P/M	21%	N/P/M	1%	\$ 267	\$ 13	\$ 280
	3930	\$ 72	N/P/M	21%	N/P/M	1%	\$ 15	\$ 1	\$ 16
	3940	\$ 7,404	N/P	21%	N/P		\$ 1,555	\$ -	\$ 1,555
	3960	\$ 10,673	N/P	21%	N/P		\$ 2,241	\$ -	\$ 2,241
	3970	\$ 12,972	N/P/M	21%	N/P/M	1%	\$ 2,724	\$ 130	\$ 2,854
	3980	\$ 3,420	N/P/M	21%	N/P/M	1%	\$ 718	\$ 34	\$ 752
FN43 Total		\$ 1,145,338					\$ 56,615	\$ 2,302	\$ 58,917
Total		\$ 3,769,267					\$ 123,884	\$ 2,302	\$ 126,186
						Per Filing	\$ 114,542	\$ 2,149	\$ 116,691
						Difference	\$ (9,342)	\$ (153)	\$ (9,495)

Conservation Adjustments

Conservation Revenue Accounts		
Account No.	Description	Amount
4953	Conservation	\$ 2,088,331
	Per Filing	\$ 2,079,231
	Difference	\$ 9,100
Conservation Expense Accounts		
Account No.	Description	Amount
5011	Salaries	\$ 393,503
5012	Overtime	\$ 2,442
5014	Bonus	\$ 6,712
5020	Lodging and Travel	\$ 14,501
5021	Meals	\$ 4,567
5023	Seminars & Training	\$ 1,606
5024	Cell Phones	\$ 4,818
5025	Total Uniforms	\$ 744
5026	Membership & Subscriptions	\$ 2,610
5029	Supplies/Misc Debt Exp	\$ 59,700
5031	Vehicle Fuel	\$ 2,904
5032	Vehicle Depreciation	\$ 787
5033	Vehicle Insurance	\$ 596
5034	Vehicle Leasing	\$ 1,048
5039	Other Vehicle Exp	\$ 10,078
504D	Inter-Dept Benefits	\$ 35,268
505D	Inter-Dept Payroll Tax	\$ 33,490
5060	Legal	\$ 10,860
5061	Consulting/Sub-Contractors	\$ 11,336
5069	Other Outside Services	\$ 14,178
5070	Shipping/Delivery	\$ 35,170
5078	Maintenance	\$ 27
5079	Other Facilities Cost	\$ 14,864
5080	Advertising	\$ 304,160
5081	Printing and Printing Material	\$ 3,684
5082	Outdoor Banner/Signage	\$ 83,172
5083	Print Advertising	\$ 142,777
5085	Radio Advertising	\$ 27,100
5086	Print/Production	\$ 36,277
5087	Television	\$ 42,264
5089	Other Comm. Exp	\$ 54,171
5090	Customer Satisfaction	\$ 729,314
5954	Conservation Recovery	\$ -
	Per Ledger	\$ 2,084,725
	Per Filing	\$ 2,080,579
	Difference	\$ 4,146

Finding 6: Income Tax Expense and Adjustment

Audit Analysis: The Utility reported a book balance of \$4,203,422 for Income taxes in the December 2010 Earnings Surveillance Report. The income tax expense, in the filing, does not agree with the books. The Utility attributes the difference to a weather refund provision resulting in a tax implication of \$405,832 (See Finding 4) and the use of best estimates for the month of December at the time of filing. We reviewed the accounts used to calculate the income tax expense and identified a non-operating income tax account included in the calculation. We have excluded the non-operating account. The proper book balance for the income tax expense is \$4,291,217.

Income Tax Reconciliation to Book Balance

Account No.	Description	Amount
8310	State Income Tax	\$ 631,843
8320	Federal Income Tax	\$ 2,555,848
8390	Investment Tax Credit	\$ (30,497)
8410	State IT True Up	\$ (22,023)
8420	Federal IT True Up	\$ (3,040)
8500	DIT Debit	\$ 1,534,723
8510	DIT True-Up	\$ 226,795
8600	DIT Credit	\$ (398,534)
8610	DIT Credit True Up	\$ (203,898)
	Per Ledger	\$ 4,291,217
	Per Filing	\$ 4,203,422
	Difference	\$ 87,795
Difference Explanation:		
9310 -9500	Total Non-Op Tax	\$ (12,669)
XX10	Weather Refund Estimate	\$ 405,832
	Calculation Error	\$ (305,368)
	Total	\$ 87,795

The Utility increased the tax expense by \$76,948. However, none of the calculation bases for the income tax adjustments reconcile to the books.

The Utility increased taxes by \$32,476 to synchronize interest expense on debt with interest expense deducted for income tax calculations. The increase was derived by subtracting the interest expense per books from the interest deduction calculated by the Utility. Based on the adjustments to rate base and the capital structure stated in this report, we calculated the imputed interest to be \$1,556,683. This is \$509,457 less than the Utility's interest expense balance of \$2,066,140. The income tax synchronization adjustment should increase by \$164,047 to reflect the appropriate interest synchronization adjustment.

Interest Synchronization

Description	13-Mo. Average	Cost Rate	Interest Expense
Long Term Debt	\$ 12,827,454	7.18%	\$ 920,931
Short-Term Debt	\$ 4,641,082	1.78%	\$ 170,487
Customer Deposit	\$ 7,629,696	6.00%	\$ 457,828
ITC	\$ 82,546	9.01%	\$ 7,437
Common Equity	\$ 26,485,617	10.85%	\$ -
Deferred Taxes	\$ 8,376,321	0.00%	\$ -
Total	\$ 60,042,715		
	Interest Expense		\$ 1,556,683
	Interest Per Books		\$ 2,066,140
	Adjustment Amount		\$ (509,457)
	Tax Rate		38.575%
	Effect on Income Tax Per Staff		\$ 196,523
	Effect on Income Tax Per Filing		\$ 32,476
	Difference		\$ 164,047

AEP's revenues and expenses were understated in the filing. The AEP tax adjustment should increase by \$1,690 because the expense adjustments off-set the revenue adjustment resulting in a \$0 net income tax effect for these items.

AEP Adjustment Income Tax Effect

Description	Amt. Per Staff	Amt. Per Filing	Difference
AEP Revenues	\$ 995,094	\$ 550,304	\$ 444,790
AEP Amortization	\$ 990,117	\$ 547,552	\$ 442,565
AEP Taxes	\$ 4,975	\$ -	\$ 4,975
Difference	\$ 1	\$ 2,752	\$ (2,750)
Tax Rate	38.575%	38.575%	
Effect on Income Tax	\$ (0)	\$ (1,061)	\$ 1,061

The Utility did not report the entire revenue and expense amounts related to conservation in the filing. We computed the income tax adjustment below. The tax adjustment related to conservation was overstated by \$1,911.

Conservation Adjustment Income Tax Effect

Description	Amt. Per Staff	Amt. Per Filing	Difference
Conservation Revenues	\$ 2,088,331	\$ 2,079,231	\$ 9,100
Conservation Expenses	\$ 2,084,725	\$ 2,080,579	\$ 4,146
Difference	\$ 3,607	\$ (1,348)	\$ 4,955
Tax Rate	38.575%	38.575%	
Effect on Income Taxes	\$ (1,391)	\$ 520	\$ (1,911)

The Utility's computation of PGA resulted in a \$0 income tax effect. Below we compute the PGA adjustment to income tax expense.

PGA Adjustment Income Tax Effect

Description	Amt. Per Staff	Amt. Per Filing	Difference
PGA Revenues	\$ 26,033,739	\$ 22,805,137	\$ 3,228,603
PGA Expenses	\$ 25,908,328	\$ 22,805,137	\$ 3,103,192
Difference	\$ 125,411	\$ -	\$ 125,411
Tax Rate	38.575%	38.575%	
Effect on Income Tax	\$ (48,377)	\$ -	\$ (48,377)

Finding 5 explains that the non-utility adjustment was incorrectly calculated. The income tax provision for the Utility should increase by \$3,663 for the \$9,495 decrease in the depreciation deduction due to the non-utility adjustment.

Income Tax on Non-Utility Depreciation Adjustment

Description	Amount
Non-Utility Depreciation Adj. Per Staff	\$ (126,186)
Non-Utility Depreciation Adj. Per Filing	\$ (116,691)
Difference	\$ (9,495)
Tax Rate	38.575%
Income Tax Adjustment	\$ 3,663

The Utility did not include a dollar amount to remove the rate refund from revenues, which resulted in a \$0 income tax effect. Below we compute the rate refund adjustment to income tax expense.

Rate Refund Effect on Income Tax

Description	Amt. Per Staff	Amt. Per Filing	Difference
Revenues Refunded	\$ 256,659	\$ -	\$ 256,659
Tax Rate	38.575%	38.575%	
Effect on Income Tax:	\$ (99,006)	\$ -	\$ (99,006)

Effect on the Filing: The book balance of income tax expense should increase by \$87,795. The tax adjustment for Conservation should decrease by (\$1,911) and the PGA income tax should decrease by (\$48,373). The tax adjustment for AEP should increase by \$1,061. The tax adjustment for non-utility depreciation should increase by \$3,663. The tax effect of the interest synchronization adjustment should be reduced by (\$164,047). The tax effect of the rate refund should be decreased by (\$99,006).

*

Finding 7: Utility's Capital Structure Components

Audit Analysis: The Utility's capital structure is composed of the Utility's 13-month average for customer deposits, deferred taxes, investment tax credits, and an allocation of debt and equity from CUC's consolidated 13-month average. We examined the calculations of the Utility's capital structure components. None of the 13-month averages, except for the investment tax credit reconciled to the Utility's books.

The Utility included customer deposits of \$7,628,340 in its capital structure at a cost rate of 6.21%. We reviewed the computation of the cost rate and could not reconcile to the Utility's books. The 13-month book average and cost rate for customer deposits are \$7,629,696 and 6%.

Customer Deposit 13-Month Average

Month	Amount	Per Co.	Difference
Dec-09	\$ 7,409,035		
Jan-10	\$ 7,468,423		
Feb-10	\$ 7,524,220		
Mar-10	\$ 7,618,358		
Apr-10	\$ 7,686,996		
May-10	\$ 7,689,290		
Jun-10	\$ 7,667,651		
Jul-10	\$ 7,677,366		
Aug-10	\$ 7,666,136		
Sep-10	\$ 7,654,439		
Oct-10	\$ 7,688,080		
Nov-10	\$ 7,699,219		
Dec-10	\$ 7,736,833		
13-Mo. Avg. Customer Dep.	\$ 7,629,696	\$ 7,628,340	\$ (1,356)
Interest Expense	\$ 457,828	\$ 473,994	\$ 16,166
Cost Rate	6.00%	6.21%	0.21%

The Utility included investment tax credits of \$82,545 in its capital structure at a 9.01 percent cost rate. We agreed the 13-month average to the Utility's books. The Utility did not provide the calculation for the cost rate.

The Utility included deferred taxes of \$8,154,499 in its capital structure at zero cost. We could not reconcile the amount to the Utility's books. Using the ledger, \$8,376,321 is the appropriate 13-month average for deferred taxes. The deferred taxes are understated by \$221,822.

Deferred Taxes 13-Mo Average

Description	Acc No	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10
Deferred Income Taxes (Non-Current)	25XX2832	(7,629,450)	(7,986,219)	(8,354,815)	(8,734,738)	(8,573,093)	(8,546,320)	(9,365,719)	(9,274,713)	(9,274,713)	(8,559,508)	(8,572,091)	(8,512,253)
Regulatory Liability ADIT - Property	280X2822	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)
Deferred Income Taxes (Current)	25XX2831	583,387	652,901	705,826	687,835	699,926	711,054	703,991	669,968	669,968	525,861	525,861	525,861
Total ADIT Per TB		(7,185,412)	(7,472,667)	(7,788,338)	(8,186,252)	(8,012,516)	(7,974,615)	(8,801,077)	(8,744,094)	(8,744,094)	(8,172,996)	(8,185,579)	(8,125,741)
Total ADIT Per Co		(7,185,413)	(7,472,668)	(7,788,339)	(8,186,253)	(8,012,517)	(7,974,616)	(8,801,078)	(8,744,095)	(8,744,095)	(8,172,997)	(8,185,579)	(8,245,416)
Difference		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(0)	(119,675)

Effect on the Filing: Using the book balances, the effect on the filing would be a 13-month average increase of \$1,356 to customer deposits and \$221,822 to deferred taxes. The cost rate of customer deposits should decreased by .21%.

Finding 8: CUC's Capital Structure Components

Audit Analysis: The Utility's capital structure is composed of the Utility's 13-month average for customer deposits, deferred taxes, investment tax credits, and an allocation of debt and equity from CUC's consolidated 13-month average. We examined the calculations of CUC's capital structure components and could not reconcile any of the components back to CUC's books.

The Utility reported a book average of \$ \$54,333,798 for common equity, \$26,289,530 for long-term debt, and \$9,518,444 for short term debt. The book average equals the rate base amount in the filing. These amounts were calculated using improper 13-month averages for the CUC capital structure components.

The filing's December 2010 balances of the CUC capital structure components do not agree with the books. The Utility attributes the differences to its books not being closed at the time of filing preparation. The 13-month filing average of long-term debt included Sharp Energy's long term debt and the unamortized debt expense of FPUC.

The short term debt included in the filing included a negative cash adjustment account in the month of December 2009 of (\$834,677) for a 13-month average effect of (\$64,205). The negative cash adjustment account shows the amount of outstanding checks that would exceed CUC's cash balance but are still honored by the bank. However, they did not include the negative cash adjustment balances for any of the other months. The actual 13-month average effect for this account would have been (\$2,264,436). Staff removed the entire \$2,264,436 from short term debt in the schedule on the following page.

Short term debt also had an error of \$900,000 in January in the filing. The Utility used \$64,090,415 and the balance was \$64,990,415. This error was corrected along with the other balance errors in the schedule on the following page.

We corrected the errors and calculated the book balances for the CUC capital structure components below using the appropriate 13-month averages and a staff adjusted rate base of \$60,042,715. (See the Reconciliation to Rate Base on the following page.)

The Utility reported an average cost rate of 6.96% for long-term debt. This rate was composed of CUC's convertible debenture and five senior notes, FPUC's three mortgage bonds, and Sharp Energy's two promissory notes. Sharp Energy is a subsidiary of CUC that is not related to Florida operations and should not be included in the Utility's cost rate calculation.

The rate is a 13-month average of the composite debt's weighted average cost. To compute the monthly weighted average cost rate, the Utility multiplied the yield to maturity rate for each debt by the percentage of outstanding long-term debt at month-end and summed the weighted cost. This method of calculating the cost rate for long term debt was not used in the last rate case for FPUC.

In the last rate case, the Utility divided the total interest and debt amortization expense by the 13-month average long-term debt net of unamortized debt expense. When this method is applied, the cost rate is 7.16%, resulting in a .20% increase in the cost rate.

Long Term Debt Cost Rate

Description	13-Mo. Avg.	13-Mo. Avg.
Total Interest and Amort. Exp.		\$ 7,528,093
Total Long-Term Debt	\$ 107,065,343	
Unamortized Debt Expense	\$ 1,935,148	
Net Long-Term Debt		\$ 105,130,195
Cost Rate Per Staff		7.16%
Cost Rate Per Filing		6.96%
Difference		0.20%

The filing includes an adjustment to reclassify all of the short-term debt to long-term debt. The debt was reclassified because in 2010, CUC retired two of FPUC's mortgage bonds with short-term financing and planned to restructure the debt into a 5.96% unsecured long term debt in July 2011. The debt has been restructured but the Utility could not provide all the cost related to the issuance of the debt. We do not have all the information needed to justify this adjustment or consider its impact on the capital structure of the Utility. The adjustment should be excluded to reflect the actual capital structure at December 31, 2010. Any changes related to future periods should be shown as a proforma adjustment.

The Utility reported an average weighted cost rate of 7.88%. We computed the weighted cost rate using staff adjusted rate base on the next page. Our calculation shows a weighted cost rate of 7.23%. This is a reduction of .65%.

Effect on the Filing: Common equity and long term debt should decrease by \$6,317,992 and \$8,785,520. Short-term debt should increase by \$4,641,082. The cost rate of long-term increased by .20%. The weighted cost rate of the Utility should be reduced by .65%.

Reconciliation to Rate Base

Class of Capital	Utility/CUC 13-Month Average	Utility Direct Adjustments	CUC Adjusted Average	CUC % of Total	CUC Pro-Rata Adjustment	CUC Allocation	Utility Direct	Utility's Reconciled to Rate Base Per Staff	Utility's Reconciled to Rate Base Per Filing	Difference
Common Equity	\$ 221,064,275		\$ 221,064,275	60.26%	\$ 194,578,658	\$ 26,485,617	\$ -	\$ 26,485,617	\$ 32,803,609	\$ (6,317,992)
Long Term Debt	\$ 107,065,343	\$ -	\$ 107,065,343	29.18%	\$ 94,237,890	\$ 12,827,454	\$ -	\$ 12,827,454	\$ 21,612,974	\$ (8,785,520)
Short Term Debt	\$ 38,737,153	\$ -	\$ 38,737,153	10.56%	\$ 34,096,071	\$ 4,641,082	\$ -	\$ 4,641,082	\$ -	\$ 4,641,082
Customer Deposit	\$ 7,629,696	\$ (7,629,696)	\$ -	0.00%	\$ -	\$ -	\$ 7,629,696	\$ 7,629,696	\$ 7,628,340	\$ 1,356
Def Income Tax	\$ 8,376,321	\$ (8,376,321)	\$ -	0.00%	\$ -	\$ -	\$ 8,376,321	\$ 8,376,321	\$ 8,154,499	\$ 221,822
Tax Credit	\$ 82,546	\$ (82,546)	\$ -	0.00%	\$ -	\$ -	\$ 82,546	\$ 82,546	\$ 82,545	\$ 1
Total	\$ 382,955,334	\$ (16,088,562)	\$ 366,866,772	100.00%	\$ 322,912,619	\$ 43,954,153	\$ 16,088,562	\$ 60,042,715	\$ 70,281,967	\$ (10,239,251)

Weighted Cost Rate Per Staff

Class of Capital	Utility's Reconciled to RB Per Staff	Ratio	Cost Rate	Weighted Cost
Common Equity	26,485,617	44.11%	10.85%	4.79%
Long Term Debt	12,827,454	21.36%	7.16%	1.53%
Short Term Debt	4,641,082	7.73%	1.78%	0.14%
Customer Deposit	7,629,696	12.71%	6.00%	0.76%
DIT	8,376,321	13.95%	0.00%	0.00%
Tax Credit	82,546	0.14%	9.01%	0.01%
Total	60,042,715	100.00%		7.23%
			Per Filing	7.88%
			Difference	-0.65%

Finding 9: Expense Sample Scope Limitation

Audit Analysis: The Utility's expenses consist of a combination of direct and allocated expenses from FPUC and CUC. We selected a sample of expense for the year. The source documentation provided was insufficient to determine if the amounts were proper.

Effect on the Filing: This is for information purpose only.

Exhibits

Exhibit 1: Rate Base

FLORIDA PUBLIC UTILITIES COMPANY
 NATURAL GAS
AVERAGE RATE OF RETURN
 For the 12 Months Ending December 31, 2010
 RATE BASE

SCHEDULE 2
 PAGE 1 OF 2

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	PLANT IN SERVICE	NET PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
PER BOOKS	\$150,417,129	(\$44,226,322)	\$106,190,806	\$0	\$2,431,727	\$108,622,533	(\$457,247)	\$108,165,286
FPSC ADJUSTMENTS:								
ELIMINATIONS TO WORKING CAPITAL	\$0	\$0	\$0			\$0	(\$2,141,361)	(\$2,141,361)
ELIMINATE ACQUISITION ADJ.	(\$34,503,288)	\$0	(\$34,503,288)			(\$34,503,288)		(\$34,503,288)
RATE REFUND PENDING - 2009	\$0		\$0			\$0	\$42,330	\$42,330
ELIM. COMMON PLANT	(\$1,876,631)	\$595,630	(\$1,281,001)			(\$1,281,001)		(\$1,281,001)
TOTAL FPSC ADJUSTMENTS	(\$36,379,919)	\$595,630	(\$35,784,289)	\$0	\$0	(\$35,784,289)	(\$2,099,031)	(\$37,883,320)
FPSC ADJUSTED	\$114,037,210	(\$43,630,692)	\$70,406,517	\$0	\$2,431,727	\$72,838,244	(\$2,556,278)	\$70,281,967
FLEX RATE REVENUES	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
ADJUSTED FOR FLEX RATE REVENUES	\$114,037,210	(\$43,630,692)	\$70,406,517	\$0	\$2,431,727	\$72,838,244	(\$2,556,278)	\$70,281,967
PROFORMA ADJUSTMENTS								
ACQUISITION ADJUSTMENT	\$34,679,776	(\$776,408)	\$33,903,368			\$33,903,368		\$33,903,368
TRANSACTION & TRANSITION COSTS							\$1,821,821	\$1,821,821
TOTAL PRO FORMA ADJUSTMENTS	\$34,679,776	(\$776,408)	\$33,903,368	\$0	\$0	\$33,903,368	\$1,821,821	\$35,725,189
PRO FORMA ADJUSTED	\$148,716,986	(\$44,407,100)	\$104,309,885	\$0	\$2,431,727	\$106,741,612	(\$734,457)	\$106,007,156

Exhibit 2: Income Statement

FLORIDA PUBLIC UTILITIES COMPANY
 NATURAL GAS
AVERAGE RATE OF RETURN
 For the 12 Months Ending December 31, 2010
 INCOME STATEMENT

SCHEDULE 2
 PAGE 2 OF 2

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	OPERATING REVENUES	O & M GAS EXPENSE	O & M OTHER	DEPREC. & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	D.I.T. (NET)	I.T.C. (NET)	GAIN/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
PER BOOKS	\$62,045,080	\$ 24,885,716	\$16,250,686	\$5,763,835	\$2,149,024	\$4,203,422				\$53,252,683	\$8,792,397
FPSC ADJUSTMENTS:											
1) INTEREST SYNCHRONIZATION						\$32,476				\$32,476	(\$32,476)
2) ELIMINATE FUEL REVENUES AND EXPENSES	\$ (22,805,137)	\$ (22,805,137)				\$0				(\$22,805,137)	\$0
3) ELIMINATE CONSERVATION	(\$2,079,231)	(\$2,080,579)				\$520				(\$2,080,059)	\$828
4)NON-UTILITY DEPRECIATION EXPENSE				(\$116,691)		\$45,014				(\$71,677)	\$71,677
5) ELIMINATE AEP REVENUES AND EXPENSES	(\$550,304)			(\$547,552)		(\$1,061)				(\$548,614)	(\$1,690)
6) RATE REFUND PENDING	\$0					\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
TOTAL FPSC ADJUSTMENTS	(\$25,434,672)	(\$24,885,716)	\$0	(\$664,243)	\$0	\$76,948	\$0	\$0	\$0	(\$25,473,012)	\$38,340
FPSC ADJUSTED	\$36,610,408	\$0	\$16,250,686	\$5,099,592	\$2,149,024	\$4,280,370	\$0	\$0	\$0	\$27,779,671	\$8,830,737
FLEX RATE REVENUES - DEFICIT/(SURPLUS)	\$0					\$0				\$0	\$0
ADJUSTED FOR FLEX RATE REVENUES	\$36,610,408	\$0	\$16,250,686	\$5,099,592	\$2,149,024	\$4,280,370	\$0	\$0	\$0	\$27,779,671	8,830,737
ACQUISITION ADJ. - AMORT EXP (DEDUCTIBLE)				\$87,228		(\$33,648)				\$53,580	(\$53,580)
ACQUISITION ADJ. - AMORT EXP (NON-DEDUCTIBLE)				\$1,077,384		\$0				\$1,077,384	(\$1,077,384)
TRANSACTION/TRANSITION COSTS - AMORT EXP (DEDUCTIBLE)				\$238,368		(\$91,950)				\$146,418	(\$146,418)
TRANSITION COSTS - AMORT EXP (NON-DEDUCTIBLE)				\$203,064		\$0				\$203,064	(\$203,064)
TOTAL PRO FORMA ADJUSTMENTS	\$0	\$0	\$0	\$1,606,044	\$0	(\$125,599)	\$0	\$0	\$0	\$1,480,445	(\$1,480,445)

Exhibit 3: Capital Structure

FLORIDA PUBLIC UTILITIES COMPANY
 NATURAL GAS
 CAPITAL STRUCTURE
 December 31, 2010
 FPSC ADJUSTED BASIS

SCHEDULE 4

AVERAGE	ADJUSTMENTS		ADJUSTED BOOKS	PRO-RATA	SPECIFIC	BALANCE	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
	PER BOOKS	NON-UTILITY						COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
COMMON EQUITY	\$54,333,798	(\$1,281,001)	\$53,052,797	\$14,430,588	(\$34,679,776)	\$32,803,609	46.67%	9.85%	4.60%	10.85%	5.06%	11.85%	5.53%
LONG TERM DEBT	\$26,289,530		\$26,289,530	(\$14,195,000)	\$9,518,444	\$21,612,974	30.75%	6.96%	2.14%	6.96%	2.14%	6.96%	2.14%
SHORT TERM DEBT	\$9,518,444		\$9,518,444		(\$9,518,444)	\$0	0.00%	1.76%	0.00%	1.76%	0.00%	1.76%	0.00%
CUSTOMER DEPOSITS	\$7,628,340		\$7,628,340			\$7,628,340	10.85%	6.21%	0.67%	6.21%	0.67%	6.21%	0.67%
DEFERRED INCOME TAXES	\$8,154,499		\$8,154,499			\$8,154,499	11.60%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	\$82,545		\$82,545			\$82,545	0.12%	8.42%	0.01%	9.01%	0.01%	9.59%	0.01%
TOTAL AVERAGE	\$106,007,156	(\$1,281,001)	\$104,726,155	\$235,588	(\$34,679,776)	\$70,281,967	100.00%		7.42%		7.88%		8.35%

Exhibit 4: Working Capital Assets

Source	Description	Acc No.	Dec-10	13-Mo Avg	Per Filing	Difference
Common	General Disbursements - Cash	11101312	(3,073,102)	(2,183,146)		
Common	Depository Account - Cash	11401310	746,776	176,117		
Common	Working Funds		(2,326,326)	(2,007,029)		
Common	Working Funds	54%	(1,256,216)	(1,083,795)	1,016,034	(2,099,829)
Utility	Imprest Account - Petty Cash	11301350	4,896	3,438		
Utility	Petty Cash - Petty Cash	11701350	(2,100)	9,477		
Utility	Petty Cash - Petty Cash 2	11701351	5,500	4,731		
Utility	Petty Cash - Petty Cash 3	11701352	1,200	1,200		
Utility	Cash		9,496	18,845	18,845	0
Common	Petty Cash - Petty Cash	11701350	500	885		
Common	Petty Cash Allocation	52%	260	460		460
Utility	Accounts Receivable - Accounts Receivable	12201420	5,246,748	4,350,051		
Utility	Employee Receivables - Other Accounts Receivable	12901430	61	921		
Utility	Misc Acc Receivable - Other Accounts Receivable	12991430	(2,025)	76,634		
Utility	Acc Receivable - Gas and Other		5,244,784	4,427,606	4,318,899	108,707
Utility	Unbilled Revenue - Accrued Utility Revenue	12751730	2,902,993	2,307,010	2,244,105	62,905
Utility	Provision for Bad Debts	12251440	(96,128)	(77,710)	(86,385)	8,675
Utility	Gasoline Inventory - Plant Materials & Operating	14301540	3,047	13,295		
Utility	Construction/Service Inventory - Plant Materials	14311540	493,004	588,803		
Utility	Cycle Count Adjustment - Plant Materials & Op	14341540	-	(113,309)		
Utility	Physical Inventory Adjustment - Plant Materials &	14351540	11,989	9,431		
Utility	Purchase Price Variance - Plant Materials &	14381540	-	15,690		
Utility	Construction/Service Inventory Clearing - Plant	14391540	25,071	2,217		
Utility	Plant Material & Operating Supplies		533,111	516,128	292,116	224,012
Common	Prepaid Insurance - Prepayments	15101650	14,713	43,152		
Common	Prepaid Maintenance - Prepayments	15201650	20,121	25,773		
Common	Prepaid Other - Prepayments	15501650	7,041	135,234		
Common	Prepaid Insurance - Prepayment		41,875	204,160		
Common	Prepaid Insurance - Prepayments	54%	22,613	110,246	112,648	(2,402)
Utility	Prepaid Insurance - Prepayments	15101650	119,092	43,961		
Utility	Prepaid Other - Prepayments	15501650	46,638	17,553		
Utility	Prepaid Insurance - Prepayments		165,730	61,515	57,378	4,137

Source	Description	Acc No.	Dec-10	13-Mo Avg	Per Filing	Difference
Utility	Environ Regulatory Assets - Other Regulatory Assets	17201823	6,168,012	6,396,186	6,757,008	(360,822)
Common	Retirement Plans - Other Regulatory Assets	17811823	8,276,002	4,695,407		
Common	Other Regulatory Assets		8,276,002	4,695,407		
Common	Other Regulatory Assets	64%	5,296,641	3,005,060	4,300,418	(1,295,358)
Utility	Unrecovered Piping & Conversion - Misc Deferred Debit	17731860	938,679	975,215	974,759	456
Utility	Regulatory Asset - Miscellaneous Deferred Debits	17991860	63,198	76,323	-	76,323
The following non-utility accounts have same dollar offsetting adjustments (\$0 net effect on rate base)						
Utility	Accounts Receivable-Merchandise - Accounts Receivable	12301420	-	33,075		
Utility	Accounts Receivable-Service - Accounts Receivable	12501420	-	40,561		
Utility	Acc Receivable - Merchandise, Service, and Other		-	73,636	77,754	(4,118)
Utility	Unrecovered Area Expansion Costs - Accounts Rec	17741420	1,129,590	1,303,668	1,305,079	(1,411)
Utility	Appliance Inventory - Merchandise	14211550	-	157,193		
Utility	Merchandise-Leased Equipment - Merchandise	14241550	61,601	61,601		
Utility	Merchandise-Leased Equipment - Amortize Leased	14241551	(28,256)	(27,151)		
Utility	Merchandise		33,345	191,643	205,017	(13,374)
Utility	Deferred Rate Case - Miscellaneous Deferred Debits	17601860	364,699	466,059	466,061	(2)
The following accounts were included after staff reviewed the trial balance:						
Utility	Long-term Accounts Receivable - Accounts Receivable	19111420	-	66,871		
Utility	Prelim Nat Gas Survey & Investigation - Other Prelim Survey&Investigation Chgs	19701832	31,818	2,448		
Utility	Clearing Account - Clearing Accounts	19901840	-	(4,469)		
Utility	Clearing Account - Clearing Accounts 2	19901841	-	102		
Utility	Clearing Account - Miscellaneous Deferred Debits	19901860	-	62		
Utility	Piping & Conversion - Miscellaneous Deferred Debits	19911860	-	3,336		
	Total		31,818	68,349	-	68,349

Exhibit 5: Working Capital Liabilities

Source	Description	Acc No.	Dec-10	13-Mo Avg	Per Filing	Difference
Utility	AP Hand Accrual - Accounts Payable	21002320	\$ (388,570.34)	\$ (159,796.39)		
Utility	Unmatched Receipts - Accounts Payable	21102320	\$ (78,759.30)	\$ (15,132.23)		
Utility	Gas Bills Payable - Accounts Payable	21122320	\$ (3,081,831.51)	\$ (624,722.16)		
Utility	Total accounts payable		\$ (3,549,161.15)	\$ (799,650.78)		
Common	AP Hand Accrual - Accounts Payable	21002320	\$ (574,962.98)	\$ (5,673,638.40)		
Common	Accounts Payable - NO DRILL/DOWN	21022320	\$ (3,161,738.74)	\$ (2,650,742.42)		
	Total accounts payable		\$ (3,736,701.72)	\$ (8,324,380.82)		
	Total allocated accounts payable	54%	\$ (2,017,818.93)	\$ (4,495,165.64)		
Common	401K Payable/Withholding - Accounts Payable	21322320	\$ 133,341.81	\$ 73,484.46		
Common	401K Loan Payable/Withholding - Accounts Payable	21352320	\$ (133,341.81)	\$ (86,251.14)		
Common	United Way Payable/Withholding - Accounts Payable	21412320	\$ (827.04)	\$ (358.70)		
Common	Union Dues Payable/Withholding - Accounts Payable	21442320	\$ (4,725.78)	\$ (1,330.16)		
Common	Savings Bonds Payable/Withholding - Accounts Payable	21452320	\$ (370.00)	\$ 55.00		
Common	Medical/Dental Fees Payable/Withholding - Accounts Payable	21502320	\$ (33,086.34)	\$ 12,259.82		
Common	Life Insurance Payable/Withholding - Accounts Payable	21512320	\$ (41.37)	\$ 2,968.84		
Common	LTD Insurance Payable/Withholding - Accounts Payable	21522320	\$ (136.22)	\$ 864.48		
Common	AD&D Insurance Payable/Withholding - Accounts Payable	21532320	\$ (2.29)	\$ (58.25)		
Common	Dental Only Fees Payable/Withholding - Accounts Payable	21552320	\$ -	\$ 1,202.58		
Common	Other Withholding/Misc - Accounts Payable	21592320	\$ 197.10	\$ (161.57)		
Common	Total Accounts Payable - Withholding		\$ (38,991.94)	\$ 2,675.37		
Common	Total Allocated Accounts Payable - Withholding	52%	\$ (20,275.81)	\$ 1,391.19		
Both	Total Accounts Payable		\$ (5,587,255.89)	\$ (5,293,425.23)	\$ (2,916,737.00)	\$ (2,376,688.23)
Common	Property Taxes - Tax Collections Payable	27812410	\$ -	\$ (713,564.36)		
Common	Total Property Taxes - Tax Collections Payable	Direct	\$ -	\$ (499,420.85)		
Common	Accrued Gross Receipts Tax - Tax Collections Payable	27882410	\$ -	\$ (373,810.52)		
Common	Accrued State Regulatory Tax - Tax Collections Payable	27852410	\$ (0.01)	\$ (92,890.36)		
Common	Total Rev Tax Payable		\$ (0.01)	\$ (466,700.89)		
Common	Total Rev Tax Payable	63%	\$ (0.01)	\$ (294,021.56)		
Common	Federal & FICA Withholding - Tax Collections Payable	27902410	\$ 11,568.81	\$ 1,539.14		
Common	FUTA - Tax Collections Payable	27952410	\$ 1,399.43	\$ (4,921.11)		
Common	FL Taxes Other - SUTA	27FL2411	\$ (568.94)	\$ (21,267.96)		
Common	WageTax Payable		\$ 12,399.30	\$ (24,649.93)		
Common	Total Accrued Payroll Taxes	52%	\$ 6,447.64	\$ (12,817.96)		
Common	Franchise Tax - Tax Collections Payable	27822410	\$ -	\$ (635,100.65)		
Common	Accrued Utility Tax - Tax Collections Payable	27892410	\$ -	\$ (329,876.60)		
Common	Total Tax Collect Payable		\$ -	\$ (964,977.26)		
Common	Total Tax Collect Payable	64%	\$ -	\$ (617,585.44)		
Common	Total Accrued Taxes - General		\$ 6,447.63	\$ (1,423,845.81)	\$ (1,478,604.00)	\$ 54,758.19

Source	Description	Acc No.	Dec-10	13-Mo Avg	Per Filing	Difference
Utility	Federal - Prepaid -Current	24202364	\$ 2,005,900.00	\$ 308,600.00		
Utility	Federal - Accrued -Current	24202365	\$ (2,515,303.00)	\$ (906,899.09)		
Utility	FL - Accrued -Current	24FL2365	\$ (624,908.25)	\$ (159,110.07)		
Utility	Total income taxes		\$ (1,134,311.25)	\$ (757,409.16)		
Common	Federal - Prepaid -Current	24202364	\$ -	\$ 495,030.77		
Common	Federal - Accrued -Current	24202365	\$ 451,012.95	\$ (701,503.05)		
Common	Federal - Accrued -Prior	24202367	\$ 14,747.00	\$ 75,705.92		
Common	FL - Prepaid -Current	24FL2364	\$ 86,100.00	\$ 36,161.54		
Common	FL - Accrued -Current	24FL2365	\$ 424,968.00	\$ 106,637.08		
Common	FL - Accrued -Prior	24FL2367	\$ 14,000.00	\$ 24,916.31		
Common	Total income taxes		\$ 990,827.95	\$ 36,948.57		
Common	Total Allocated income taxes	54%	\$ 535,047.09	\$ 19,952.23		
Both	Total income taxes		\$ (599,264.16)	\$ (737,456.94)	\$ (659,677.00)	\$ (77,779.94)
Utility	Customer Deposits - Accrued Interest	23302370	\$ (362,985.83)	\$ (238,455.74)	\$ (237,988.00)	\$ (467.74)
Common	Customer Deposits - Accrued Interest	23302370	\$ -	\$ 112,958.64		
Common	First Mortgage Bond 1 - Accrued Interest	23B12370	\$ (116,004.22)	\$ (64,694.39)		
Common	First Mortgage Bond 2 - Accrued Interest	23B22370	\$ (66,866.66)	\$ (37,291.02)		
Common	First Mortgage Bond 3 - Accrued Interest	23B32370	\$ (60,533.33)	\$ (149,005.11)		
Common	Undefined Debt - Accrued Interest	23ZZ2370	\$ -	\$ (279,430.60)		
Common	Total accrued interest		\$ (243,404.21)	\$ (417,462.47)		
Common	Total accrued interest - Debt	53%	\$ (129,004.23)	\$ (221,255.11)	\$ (221,255.00)	\$ (0.11)
Utility	Regulatory Liability - Accum Provision for Rate Refunds	26992290	\$ -	\$ (42,330.23)		
Utility	Over-recovered PGC - Unrecovered Purchased Gas Costs	26PG1910	\$ (1,525,377.53)	\$ (2,184,533.35)		
Utility	Accrued Other Expenses - Misc Current & Accrued Liabilities	27792420	\$ (26,549.60)	\$ (18,297.02)		
Utility	Property Taxes - Tax Collections Payable	27812410	\$ -	\$ 21,375.71		
Utility	Franchise Tax - Tax Collections Payable	27822410	\$ (647,507.71)	\$ (116,421.84)		
Utility	Accrued State Regulatory Tax - Tax Collections Payable	27852410	\$ (144,001.00)	\$ (27,682.25)		
Utility	Accrued Gross Receipts Tax - Tax Collections Payable	27882410	\$ (239,132.46)	\$ (23,288.96)		
Utility	Accrued Utility Tax - Tax Collections Payable	27892410	\$ (302,233.41)	\$ (31,071.41)		
Utility	FL Taxes Other - Sales Tax	27FL2413	\$ (77,811.03)	\$ (58,818.26)		
Utility	Total Misc Current & Accrued Liabilities		\$ (2,962,612.74)	\$ (2,481,067.61)		
Common	Self Insurance-Current - Accumulated Provision for Injuries & Damages	26202282	\$ (234,306.74)	\$ (181,535.39)		
Common	Accrued Other Expenses - Misc Current & Accrued Liabilities	27792420	\$ (1,828.10)	\$ (1,808.56)		
Common	Accrued Tax & Audit Fees - Misc Current & Accrued Liabilities	27342420	\$ -	\$ (55,472.75)		
Common	Total Misc Current & Accrued Liabilities		\$ (236,134.84)	\$ (238,816.69)		
Common	Total Allocated Misc Current & Accrued Liabilities	54%	\$ (127,512.81)	\$ (128,961.01)		
Both	Total Misc Current & Accrued Liabilities		\$ (3,090,125.55)	\$ (2,610,028.62)	\$ (2,485,960.00)	\$ (124,068.62)
Utility	Conservation Cost Recovery Liability - Other Deferred Credits	26002530	\$ (165,826.00)	\$ (512,072.09)	\$ (511,553.00)	\$ (519.09)

Source	Description	Acc No.	Dec-10	13-Mo Avg	Per Filing	Difference
Utility	Deferred Environmental Costs - Other Deferred Credits	28102530	\$ (5,611,068.93)	\$ (431,620.69)		
Utility	Deferred Environmental Liability - Other Deferred Credits	28152530	\$ 198,119.91	\$ 15,403.60		
Utility	Deferred Environmental Liability - Other Deferred Credits 2	28152531	\$ (6,169,751.00)	\$ (475,398.85)		
Utility	Total environmental liabilities		\$ (11,582,700.02)	\$ (891,615.93)		
Common	Deferred Environmental Liability - Other Deferred Credits	28152530	\$ -	\$ 130,872.55		
Common	Deferred Environmental Liability - Other Deferred Credits 2	28152531	\$ -	\$ (5,921,723.54)		
Common	Deferred Environmental Costs - Other Deferred Credits	28102530	\$ -	\$ (5,179,448.24)		
Common	Total allocated environmental liabilities		\$ -	\$ (10,970,299.23)		
Both	Total environmental liabilities		\$ (11,582,700.02)	\$ (11,861,915.16)	\$ (6,255,408.00)	\$ (5,606,507.16)
Common	Accrued Payroll - Misc Current & Accrued Liabilities	27102420	\$ (367,730.00)	\$ (684,100.91)		
Common	Accrued PTO - Misc Current & Accrued Liabilities	27112420	\$ (1,598,046.62)	\$ (1,640,941.18)		
Common	Accrued Bonus - Misc Current & Accrued Liabilities	27142420	\$ (122,152.72)	\$ (9,396.36)		
Common	Accrued Severance - Misc Current & Accrued Liabilities	27162420	\$ (185,732.49)	\$ (37,207.35)		
Common	Total accrued compensation		\$ (2,273,661.83)	\$ (2,371,645.79)		
Common	Total allocated accrued compensation	52%	\$ (1,182,304.15)	\$ (1,233,255.81)	\$ (1,235,134.00)	\$ 1,878.19
Utility	Storm Reserve - Accum Provision for Property Insurance	28052281	\$ (798,204.36)	\$ (61,784.95)		
Common	Storm Reserve - Accum Provision for Property Insurance	28052281	\$ -	\$ (2,403,790.98)		
Common	Allocated Storm Reserve		\$ -	\$ (733,419.08)		
Both	Total Storm Reserve		\$ (798,204.36)	\$ (795,204.03)	\$ (794,858.00)	\$ (346.03)
Common	Accrued Pensions - Accum Provision for Pensions & Benefits	29002283	\$ (12,347,955.34)	\$ (8,575,796.88)		
Common	Allocated Accrued Pension & Benefits	52%	\$ (6,420,936.78)	\$ (4,459,414.38)		
Common	Accrued OPRB (Current) - Accum Provision for Pensions & Benefits	27332283	\$ (154,852.00)	\$ (59,372.62)		
Common	Other Post Retirement Benefits - Accum Provision for Pensions & Benefits	29202283	\$ (2,926,051.11)	\$ (2,480,777.82)		
Common	OPRB-Retiree Claims - Accum Provision for Pensions & Benefits	29212283	\$ 53,394.90	\$ 12,023.90		
Common	OPRB-Retiree Life Ins - Accum Provision for Pensions & Benefits	29232283	\$ 456.46	\$ 175.56		
Common	OPRB-Retiree Contributions - Accum Provision for Pensions & Benefits	29242283	\$ (1,898.60)	\$ 523.82		
Common	Allocated Other Post Retirement		\$ (3,028,950.35)	\$ (2,527,427.15)		
Common	Allocated Other Post Retirement	54%	\$ (1,635,633.19)	\$ (1,364,810.66)		
Both	Total Pension & Benefits		\$ (8,056,569.97)	\$ (5,824,225.04)	\$ (5,595,486.00)	\$ (228,739.04)
			\$ -	\$ -		
			\$ -	\$ -		
The following non-utility account has a same dollar offsetting adjustment (\$0 net effect on rate base)						
Utility	Merchandise Downpayments Billed in Advance - Customer Deposits	22132350	\$ -	\$ (114,280.95)	\$ (124,323.00)	\$ 10,042.05
	Total Liabilities		\$ (31,547,792.53)	\$ (30,865,420.54)	\$ (22,516,983.00)	\$ (8,348,437.54)
	Total Assets + Liabilities		\$ (9,995,165.84)	\$ (12,028,974.48)	\$ (457,247.00)	\$ (11,571,727.48)

Exhibit 6: Staff Adjusted Rate Base

RATE BASE PER STAFF

SCHEDULE 2
PAGE 1 OF 2

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	PLANT IN SERVICE	NET PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
PER BOOKS	\$151,596,891	(\$44,028,525)	\$107,568,366	\$0	\$2,360,503	\$109,928,869	(\$12,028,974)	\$97,899,895
FPSC ADJUSTMENTS:								
ELIMINATIONS TO WORKING CAPITAL	\$0	\$0	\$0			\$0	(\$2,132,499)	(\$2,132,499)
ELIMINATE ACQUISITION ADJ.	(\$34,503,288)	\$0	(\$34,503,288)			(\$34,503,288)		(\$34,503,288)
RATE REFUND PENDING - 2009	\$0		\$0			\$0	\$42,330	\$42,330
ELIM. COMMON PLANT	(\$1,883,979)	\$623,947	(\$1,260,032)			(\$1,260,032)		(\$1,260,032)
REMOVE NON UTILITY MATERIALS AND SUP.							(\$3,691)	(\$3,691)
TOTAL FPSC ADJUSTMENTS	(\$36,387,267)	\$623,947	(\$35,763,320)	\$0	\$0	(\$35,763,320)	(\$2,093,860)	(\$37,857,180)
FPSC ADJUSTED	\$115,209,624	(\$43,404,578)	\$71,805,046	\$0	\$2,360,503	\$74,165,549	(\$14,122,834)	\$60,042,715
FLEX RATE REVENUES	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
ADJUSTED FOR FLEX RATE REVENUES	\$115,209,624	(\$43,404,578)	\$71,805,046	\$0	\$2,360,503	\$74,165,549	(\$14,122,834)	\$60,042,715
PROFORMA ADJUSTMENTS								
ACQUISITION ADJUSTMENT	\$34,679,776	(\$776,408)	\$33,903,368			\$33,903,368		\$33,903,368
TRANSACTION & TRANSITION COSTS							\$1,821,821	\$1,821,821
TOTAL PRO FORMA ADJUSTMENTS	\$34,679,776	(\$776,408)	\$33,903,368	\$0	\$0	\$33,903,368	\$1,821,821	\$35,725,189
PRO FORMA ADJUSTED	\$149,889,400	(\$44,180,986)	\$105,708,414	\$0	\$2,360,503	\$108,068,917	(\$12,301,013)	\$95,767,905

Exhibit 7: Staff Adjusted Income Statement

INCOME STATEMENT PER STAFF

SCHEDULE 2
PAGE 2 OF 2

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	OPERATING REVENUES	O & M GAS EXPENSE	O & M OTHER	DEPREC. & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	D.I.T. (NET)	I.T.C. (NET)	GAIN/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
PER BOOKS	\$66,100,167	\$28,089,474	\$16,423,372	\$5,763,835	\$2,530,030	\$4,291,217				\$57,097,928	\$9,002,239
FPSC ADJUSTMENTS:											
1) INTEREST SYNCHRONIZATION						\$196,523				\$196,523	(\$196,523)
2) ELIMINATE FUEL REVENUES AND EXPENSES	\$ (26,033,739)	\$ (25,908,328)				(\$48,373)				(\$25,956,701)	(\$77,038)
3) ELIMINATE CONSERVATION	(\$2,088,331)	(\$2,084,725)				(\$1,391)				(\$2,086,116)	(\$2,215)
4) NON-UTILITY DEPRECIATION EXPENSE				(\$126,186)		\$48,677				(\$77,509)	\$77,509
5) ELIMINATE AEP REVENUES AND EXPENSES	(\$995,094)			(\$990,117)	(\$4,975)	\$0				(\$995,092)	(\$2)
6) RATE REFUND PENDING	(\$256,659)					(\$99,006)				(\$99,006)	(\$157,653)
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
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						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
TOTAL FPSC ADJUSTMENTS	(\$29,373,823)	(\$27,993,053)	\$0	(\$1,116,303)	(\$4,975)	\$96,430	\$0	\$0	\$0	(\$29,017,901)	(\$355,922)
FPSC ADJUSTED	\$36,726,344	\$96,421	\$16,423,372	\$4,647,532	\$2,525,055	\$4,387,647	\$0	\$0	\$0	\$28,080,027	\$8,646,317
FLEX RATE REVENUES - DEFICIT/(SURPLUS)	\$0					\$0				\$0	\$0
ADJUSTED FOR FLEX RATE REVENUES	\$36,726,344	\$96,421	\$16,423,372	\$4,647,532	\$2,525,055	\$4,387,647	\$0	\$0	\$0	\$28,080,027	\$8,646,317
ACQUISITION ADJ. - AMORT EXP (DEDUCTIBLE)				\$87,228		(\$33,648)				\$53,580	(\$53,580)
ACQUISITION ADJ. - AMORT EXP (NON-DEDUCTIBLE)				\$1,077,384		\$0				\$1,077,384	(\$1,077,384)
TRANSACTION/TRANSITION COSTS - AMORT EXP (DEDUCTIBLE)				\$238,368		(\$91,950)				\$146,418	(\$146,418)
TRANSACTION COSTS - AMORT EXP (NON-DEDUCTIBLE)				\$203,064		\$0				\$203,064	(\$203,064)
TOTAL PRO FORMA ADJUSTMENTS	\$0	\$0	\$0	\$1,606,044	\$0	(\$125,599)	\$0	\$0	\$0	\$1,480,445	(\$1,480,445)
PRO FORMA ADJUSTED	\$36,726,344	\$96,421	\$16,423,372	\$6,253,576	\$2,525,055	\$4,262,048	\$0	\$0	\$0	\$29,560,472	\$7,165,872

Exhibit 8: Staff Adjusted Capital Structure

CAPITAL STRUCTURE PER STAFF

SCHEDULE 4

AVERAGE	PER BOOKS	PRO-RATA	BALANCE	RATIO (%)	COST RATE (%)	WEIGHTED COST (%)
COMMON EQUITY	\$221,064,268	(\$194,578,651)	\$26,485,617	44.11%	10.85%	4.79%
LONG TERM DEBT	\$107,065,342	(\$94,237,888)	\$12,827,454	21.36%	7.18%	1.53%
SHORT TERM DEBT	\$38,737,153	(\$34,096,071)	\$4,641,082	7.73%	1.76%	0.14%
CUSTOMER DEPOSITS	\$7,629,696		\$7,629,696	12.71%	6.00%	0.76%
DEFERRED INCOME TAXES	\$8,376,321		\$8,376,321	13.95%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	\$82,546		\$82,546	0.14%	9.01%	0.01%
TOTAL AVERAGE	\$382,955,325	(\$322,912,610)	\$60,042,715	100.00%		7.23%

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Miami District Office

Auditor's Report

Florida Public Utilities Company
Earnings Review

Twelve Months Ended December 31, 2010

Docket No. 110133-GU
Audit Control No. 11-129-4-1
August 10, 2011

Bety Maitre
Audit Manager

Yen N. Ngo
Audit Staff

Kathy Welch
Reviewer

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Purpose

To: Florida Public Service Commission

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 dated May 9, 2011. We have applied these procedures to the attached schedules prepared by Florida Public Utilities Company in support of its 2010 Earnings Review filing in Docket No. 110133-GU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

The term “Utility” used within this report refers to the Natural Gas Division of Florida Public Utilities Company. The term “FPUC” refers to Florida Public Utilities Company. The term “CUC” refers to Chesapeake Utilities Corporation, the holding company for Florida Public Utilities Company.

Utility Books and Records

Objectives: Our objective was to verify that the Utility’s “Per Books” amounts agree to the general ledger and that the Utility maintains its accounts and records in conformity with the Uniform System of Accounts as adopted by the Commission.

Procedures: We reconciled the filing to the general ledger. We sampled costs incurred to ensure the costs were proper and recorded in the appropriate account.

Rate Base

Objective: Our objective was to determine that the calculation of the Utility’s “FPSC Adjusted” Average Rate Base was properly calculated and supported.

Procedures: We obtained supporting documentation for the adjustments to rate base and compared the methodology used in the filing to the prior rate order¹ for consistency. Findings 1 and 2 address our recommended adjustments to rate base.

Utility Plant in Service

Objectives: Our objective was to ensure the Utility Plant in Service amount was properly computed and verify that the adjustments to plant in the Utility’s last rate proceeding were recorded in its’ general ledger.

Procedures: We determined the 13-month average plant as of December 31, 2010 using the general ledger and adjustments based on the assumptions used in the last rate case. We sampled additions booked in the test year and ensured retirements were booked when capital items were removed or replaced. Using the 13-month average plant, we recalculated the adjustment for non-utility plant and ensured the allocation basis was consistent with the prior rate case. We determined the Utility’s 13-month average plant as of December 31, 2010 using the general ledger and recalculated the general plant allocation. We traced the allocation basis to support and ensured it was consistent with the last rate case.

¹ See Order No. PSC-08-0375-PAA-GU, issued May 27, 2009, Docket No.080366-GU, In Re: Petition for rate increase by Florida Public Utilities Company.

Land & Land Rights

Objectives: Our objective was to determine that Utility's land is recorded at original cost and is owned or secured under a long-term lease, and to verify that the adjustments to land in the Utility's last rate proceeding were recorded in its general ledger.

Procedures: We determined the 13-month average land as of December 31, 2010. We reviewed Utility documents for the addition or sale of land.

Accumulated Depreciation and Amortization

Objectives: Our objective was to determine that accruals to accumulated depreciation and amortization are properly recorded and are calculated using the Commission's authorized rates.

Procedures: We determined the 13-month average of accumulated depreciation and amortization as of December 31, 2010 using the general ledger. We examined the Utility's accumulated depreciation account true-up, sampled additions, and determined the Utility's proper 13-month average of accumulated depreciation. We ensured that retirements to accumulated depreciation were made when a capital item was removed or replaced. Using the 13-month average for accumulated depreciation, we recalculated the adjustment for non-utility accumulated depreciation and ensured the allocation basis was consistent with the prior rate case. We determined the Utility's 13-month average accumulated depreciation as of December 31, 2010 using the general ledger and recalculated the common plant accumulated depreciation. We traced the allocation basis to support and ensured it was consistent with the last rate case.

Working Capital

Objectives: Our objective was to determine that the Utility's working capital balance is properly calculated and maintained consistent with the prior rate case.

Procedures: We verified the Utility's calculation of the 13-month average working capital as of December 31, 2010, using the balance sheet approach. The components were traced to the general ledger. We reviewed and recalculated the adjustments to working capital.

Income Statement

Objectives: Our objective was to determine that the calculation of the "FPSC Adjusted" Income Statement was properly calculated and supported.

Procedures: We obtained supporting documentation for the adjustments to revenue and expense and compared the methodology used in the filing to the prior rate case for consistency. Findings 3, 4, 5, 6, and 9 address our recommended adjustments to the income statement.

Operating Revenue

Objectives: Our objective was to determine that utility revenues are properly recorded in compliance with Commission rules and are based on the Utility's Commission approved tariff rates.

Procedures: We determined the Utility's revenues for the 12-month period ended December 31, 2010 using the Utility's general ledger. We verified that the Utility is using its Commission authorized tariff rates by recalculating a sample of residential and general service customers' bills in the test year period.

Operation and Maintenance Expense

Objectives: Our objective was to determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and are representative of ongoing utility operations.

Procedures: We determined operation and maintenance expenses for the 12-month period ended December 31, 2010 using the general ledger. Due to time constraints, we traced a limited sample of invoices to the original source documentation. The Utility could not provide the allocation bases before the audit due date. The Utility did not provide answers to the questions regarding the sample in the time provided. Invoices received were reviewed to ensure the cost were utility related and had the proper amount, period, and classification.

Depreciation and Amortization

Objectives: Our objective was to determine that depreciation and amortization expense are properly recorded in compliance with Commission rules and that they accurately represent the depreciation of assets and the amortization of deferred assets from ongoing utility operations.

Procedures: We verified the calculation of depreciation amortization expense for the 12-month period ended December 31, 2010. Using the annual depreciation expense, we recalculated the adjustment for non-utility depreciation and ensured the allocation basis was consistent with the prior rate case. We determined the annual depreciation expense for the Utility and recalculated the general plant depreciation allocation. We traced the allocation basis to the support.

Taxes Other than Income

Objective: Our objective was to determine that taxes other than income expenses are properly stated.

Procedures: We determined the taxes other than income expenses for the 12-month period ended December 31, 2010 using the general ledger. We reviewed the 2010 regulatory assessment fee returns. No exceptions were noted.

Income Taxes

Objective: Our objective was to determine that the income taxes balance was properly stated.

Procedures: We determined the 12-month balance for income tax using the general ledger. We recalculated the interest synchronization adjustment using the same methodology as the last rate case.

Capital Structure

Objective: Our objective was to determine that the calculation of the “FPSC Adjusted” Capital Structure was properly calculated.

Procedures: We determined the 13-month average for the direct and allocated capital structure using the Utility’s and CUC books. We traced the cost rates to source documentation and recalculated the cost of capital schedule. Findings 7 and 8 address recommended adjustments to the cost of capital schedules.

Audit Findings

Finding 1: Rate Base

Audit Analysis: Rule 25-7.1352 requires each investor-owned natural gas utility to file an earnings surveillance report by the 15th day of the second month following the reporting period. This report is expected to represent the Utility's books and records on a basis consistent with the most recent rate case order.

We examined the Utility's computation of average rate base in the filed Earnings Surveillance Report for the test period. We were unable to reconcile the book average of each rate base component reported in the filing to the Utility's books. The Utility explained that the differences were due to best estimates being used for the month of December at the time of filing preparations. However, months other than December were different than the general ledger. We determined that this was due to improper exclusion or inclusion of accounts and calculation errors as described below.

We compared the filing to the Utility's last order and found some inconsistencies in calculating rate base. In the order, the prior acquisition adjustment was added to plant and the associated amortization was added to accumulated amortization. The Utility classified these accounts as working capital. In comparing the calculation of working capital, we found additional accounts that the Utility should have included or excluded. The following schedule provides the working capital exceptions between the prior order and the filing.

Accounts to Exclude From Working Capital Calculation in the Filing			
Cost Type	Account	Account Name	Reason for inclusion or exclusion
Allocated	17601860	Deferred Rate Case - Miscellaneous Deferred Debits	The Commission has not allowed deferred rate case costs in working capital. The Utility did remove the allocated number. However, if allowed, they should be included at the direct cost and not an allocated number.
Allocated	17991860	Regulatory Asset - Miscellaneous Deferred Debits	Utility maintains a schedule of direct cost. Direct Cost should be charged.
Allocated	17991890	Regulatory Asset - Unamortized Loss on Reacquired Debt	This account should be in Capital Structure
Direct	17991140	Regulatory Asset - Acquisition Adjustment	This account was included in Plant In Service in the last case.
Direct	17991150	Regulatory Asset - Accumulated Amort Acquisition Adjustment	This account was included in Accumulated Amortization in the last case.

Accounts to Include From Working Capital Calculation in the Filing			
Cost Type	Account	Account Name	Reason for inclusion or exclusion
Direct	17991860	Regulatory Asset - Miscellaneous Deferred Debits	Charge direct costs for regulatory asset instead of allocated cost.
Direct	19111420	Long-term Accounts Receivable	This is a proper working capital account
Direct	19701832	Prelim. Nat. Gas Survey & Investigation	This is a proper working capital account
Direct	19901840	Clearing Accounts	This is a proper working capital account
Direct	19901841	Clearing Accounts 2	This is a proper working capital account
Direct	19901860	Clearing Account - Miscellaneous Deferred Debits	This is a proper working capital account
Direct	19911860	Piping & Conversion - Miscellaneous Deferred Debits	This is a proper working capital account

Using the actual ledger monthly balances and appropriate accounts, we have determined the book average for each rate base component on the schedules following this finding. For detail on the working capital account included, please see Exhibit 4 and 5.

Effect on the Filing: Plant should be increased by \$1,179,763 and accumulated depreciation and amortization decreased by \$197,798. Construction work in progress and working capital should be reduced by \$71,223 and \$11,571,728, respectively.

Computation of Rate Base Averages

Acct. #	Description	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	13-Mo Average
Plant In Service															
1010	Plant in Service	\$ 111,678,263	\$ 111,694,376	\$ 111,820,125	\$ 111,923,828	\$ 111,962,350	\$ 111,914,074	\$ 112,158,654	\$ 111,893,166	\$ 111,893,166	\$ 113,122,617	\$ 113,369,002	\$ 113,627,452	\$ 114,551,250	\$ 112,431,409
1010	Allocated Plant	\$ 3,272,309	\$ 3,284,685	\$ 3,279,572	\$ 3,262,618	\$ 3,305,090	\$ 3,413,212	\$ 3,486,562	\$ 3,535,638	\$ 3,540,686	\$ 3,444,905	\$ 3,446,787	\$ 3,439,144	\$ 3,468,226	\$ 3,398,418
1140	Acq. Adj	\$ 35,277,662	\$ 35,277,662	\$ 35,277,662	\$ 35,894,106	\$ 35,894,106	\$ 35,894,106	\$ 35,894,106	\$ 35,894,106	\$ 35,894,106	\$ 35,943,552	\$ 35,943,552	\$ 35,943,552	\$ 35,943,552	\$ 35,767,064
	Total Per Staff	\$ 150,228,234	\$ 150,256,723	\$ 150,377,359	\$ 151,080,553	\$ 151,161,546	\$ 151,221,392	\$ 151,539,322	\$ 151,322,910	\$ 151,327,958	\$ 152,511,074	\$ 152,759,341	\$ 153,010,148	\$ 153,963,028	\$ 151,596,891
	Total Per Filing	\$ 149,081,832	\$ 149,110,351	\$ 149,230,957	\$ 149,934,151	\$ 150,016,083	\$ 150,076,063	\$ 150,393,947	\$ 150,177,531	\$ 150,182,579	\$ 151,365,739	\$ 151,612,124	\$ 151,870,659	\$ 152,370,659	\$ 150,417,129
	Difference	\$ 1,146,402	\$ 1,146,372	\$ 1,146,402	\$ 1,146,402	\$ 1,145,463	\$ 1,145,329	\$ 1,145,376	\$ 1,145,379	\$ 1,145,379	\$ 1,145,335	\$ 1,147,217	\$ 1,139,489	\$ 1,592,369	\$ 1,179,763
See Note 1 below															
Accumulated Depreciation and Amortization															
1080	Acc. Dep.	\$ (38,161,309)	\$ (38,450,989)	\$ (38,748,501)	\$ (39,015,914)	\$ (39,350,370)	\$ (39,627,594)	\$ (39,869,383)	\$ (40,173,061)	\$ (35,072,816)	\$ (35,300,168)	\$ (35,436,060)	\$ (35,605,802)	\$ (35,433,305)	\$ (37,711,175)
1080	Acc. Dep. Allocated	\$ (1,366,562)	\$ (1,384,997)	\$ (1,394,382)	\$ (1,408,366)	\$ (1,426,617)	\$ (1,445,033)	\$ (1,463,074)	\$ (1,481,549)	\$ (1,490,190)	\$ (1,403,271)	\$ (1,416,820)	\$ (1,401,964)	\$ (1,421,441)	\$ (1,423,405)
2520	Acv. For Constr.	\$ (2,333,709)	\$ (2,306,956)	\$ (2,317,690)	\$ (2,288,698)	\$ (2,322,503)	\$ (2,345,703)	\$ (2,072,706)	\$ (2,054,021)	\$ (2,324,199)	\$ (2,139,310)	\$ (2,733,130)	\$ (2,734,630)	\$ (2,044,670)	\$ (2,309,071)
1150	A/A Acq Adj.	\$ (468,326)	\$ (470,952)	\$ (473,579)	\$ (476,205)	\$ (478,832)	\$ (481,459)	\$ (484,085)	\$ (486,712)	\$ (489,338)	\$ (491,965)	\$ (494,591)	\$ (497,218)	\$ (499,845)	\$ (484,085)
3762	Acc. Asset Remov.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,395,892)	\$ (5,428,971)	\$ (5,462,050)	\$ (5,495,129)	\$ (5,528,208)	\$ (2,100,788)
	Total Per Staff	\$ (42,329,906)	\$ (42,613,895)	\$ (42,934,152)	\$ (43,189,184)	\$ (43,578,321)	\$ (43,899,789)	\$ (43,889,249)	\$ (44,195,344)	\$ (44,772,435)	\$ (44,763,684)	\$ (45,542,651)	\$ (45,734,743)	\$ (44,927,469)	\$ (44,028,525)
	Total Per Filing	\$ (42,420,071)	\$ (42,710,028)	\$ (43,036,255)	\$ (43,297,257)	\$ (43,692,363)	\$ (44,019,807)	\$ (44,015,245)	\$ (44,327,316)	\$ (44,901,781)	\$ (44,890,405)	\$ (45,662,422)	\$ (45,875,967)	\$ (46,093,271)	\$ (44,226,322)
	Difference	\$ 90,165	\$ 96,134	\$ 102,103	\$ 108,073	\$ 114,042	\$ 120,019	\$ 125,997	\$ 131,973	\$ 129,347	\$ 126,721	\$ 119,770	\$ 141,224	\$ 1,165,802	\$ 197,798
See Note 2 below															
Construction Work In Progress															
1050	CWIP Per Staff	\$ 929,835	\$ 1,115,700	\$ 1,226,515	\$ 1,739,597	\$ 2,036,517	\$ 2,179,506	\$ 1,934,606	\$ 2,900,396	\$ 3,416,939	\$ 3,148,572	\$ 3,578,029	\$ 3,578,107	\$ 2,902,226	\$ 2,360,503
	CWIP Per Co.	\$ 929,835	\$ 1,115,701	\$ 1,226,516	\$ 1,739,599	\$ 2,036,519	\$ 2,179,508	\$ 1,934,609	\$ 2,900,398	\$ 3,416,941	\$ 3,148,574	\$ 3,578,031	\$ 3,578,109	\$ 3,828,109	\$ 2,431,727
	Difference	\$ (0)	\$ (1)	\$ (1)	\$ (2)	\$ (2)	\$ (2)	\$ (3)	\$ (3)	\$ (3)	\$ (2)	\$ (2)	\$ (2)	\$ (925,883)	\$ (71,223)
Working Capital															
	Working Capital Books	\$ (9,345,621)	\$ (5,904,058)	\$ (7,145,937)	\$ (7,779,478)	\$ (10,480,194)	\$ (12,441,280)	\$ (13,707,063)	\$ (14,851,410)	\$ (13,430,292)	\$ (18,618,688)	\$ (16,119,347)	\$ (16,558,136)	\$ (9,995,166)	\$ (12,028,974)
	Working Capital Per Co.	\$ (458,751)	\$ 3,345,577	\$ 2,923,430	\$ 2,159,989	\$ (368,650)	\$ (2,324,904)	\$ (3,404,553)	\$ (2,715,857)	\$ (845,599)	\$ (2,909,992)	\$ (2,938,166)	\$ (53,059)	\$ 1,646,325	\$ (457,247)
	Difference	\$ (8,886,870)	\$ (9,249,635)	\$ (10,069,366)	\$ (9,939,467)	\$ (10,111,544)	\$ (10,116,376)	\$ (10,302,510)	\$ (12,135,554)	\$ (12,584,693)	\$ (15,708,696)	\$ (13,181,182)	\$ (16,505,077)	\$ (11,641,491)	\$ (11,571,728)

See Note 3 below

Note 1: The Utility included an average balance of \$34,503,288 in total plant for the acquisition adjustment related to the merger with CUC but transferred the amount to a proforma adjustment in the filing. The prior approved acquisition adjustment of \$1,263,776, which the Utility included in working capital, was added to staff's numbers. The remainder of the difference is due to the use of incorrect December balances.

Note 2: The difference is mainly due to staff removing leased plant of \$(600,158) as was done in the prior rate case, including the amortization of prior approved acquisition adjustment from the last rate case of \$(484,085), and the difference in December balances

Note 3: The difference is mainly due to overstatement of the cash balance of \$2,099,829, overstatement of regulatory assets of \$1,656,180, accounts payable under-statement of \$2,376,688, and the Utility exclusion of deferred environmental cost of \$5,606,507. See Exhibit 4 and 5 for the detailed differences by account.

Finding 2: Rate Base Adjustments

Audit Analysis: The Utility included adjustments of \$37,883,320 to reduce rate base in the Average 2010 Earnings Surveillance Report. We examined the support and computation of each adjustment.

The adjustment to remove plant of (\$1,876,631) and accumulated depreciation of \$595,630 for non-utility was incorrectly calculated. The Utility used the average balances as of October 31, 2010 to compute these adjustments. On the following pages we compute the non-utility adjustment using the actual 2010 13-month average plant and accumulated depreciation. The appropriate non-utility adjustments for plant and accumulated depreciation are (\$1,883,979) and \$623,947. The differences are a reduction to the non-utility plant adjustment of \$7,348 and an increase to the non-utility depreciation adjustment of \$28,317.

Working capital includes an adjustment for (\$2,141,361) in the filing. This adjustment consists of several adjustments which include (\$158,448) for non-utility accounts, (\$1,771,140) for prior rate case adjustments, and an adjustment to working capital of (\$211,773) for the Utility's share of accrued interest on debt. These adjustments used incorrect numbers as explained in Finding 1. On the following page, we re-compute the adjustments using the appropriate book averages for the remainder of the adjustment entries.

In the Utility's adjustment to working capital, the Utility's working capital liabilities were increased by (\$211,733) to reflect a total interest payable amount of (\$433,028). This amount is a 24.58% allocation of CUC's total interest payable. The percentage is computed by dividing the Utility's total allocated debt from CUC to CUC's total debt. The 13-month average used to determine this allocation percentage was incorrectly calculated and we could not verify the interest payable amount to CUC's books.

We reviewed the prior orders and identified working capital adjustments excluded from the filing. The most recent order included an adjustment to reduce the Plant Material and Supply account by 9% for non-utility. The filing does not include an adjustment to the Plant Material and Supply account.

Working Capital Adjustments

Account Number	Description	13-Mo. Average
1540	Plant Material & Operating Supplies	\$ 41,009
	Non-Utility Rate	9%
	Non-Utility Adjustment	\$ (3,691)

Effect on the Filing: The adjustments to plant and accumulated depreciation for non-utility should be increased by \$7,348 and \$28,317, respectively. The adjustments decrease plant and accumulated depreciation by the same amounts. The adjustments to working capital should be decreased by \$12,553 (\$3,691 + \$7,450 + \$1,412). Further investigation is needed on the \$211,773 reduction to working capital in the Utility's adjustments for interest payable.

Working Capital Adjustment

Non-Utility Adjustments															
Account No.	Description	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	13-Mo. Avg Per Staff
12301420	Acc. Rec -Merchandise	\$ 47,613	\$ 40,474	\$ 33,938	\$ 17,893	\$ 40,693	\$ 43,541	\$ 39,906	\$ 43,556	\$ 63,155	\$ 18,729	\$ 9,879	\$ 30,597	\$ -	\$ 33,075
12501420	Acc. Rec -Service	\$ 41,221	\$ 43,709	\$ 42,179	\$ 48,551	\$ 40,242	\$ 39,132	\$ 37,685	\$ 41,784	\$ 40,294	\$ 50,493	\$ 45,099	\$ 56,908	\$ -	\$ 40,561
14211550	Appliance Inv. - Merchandise	\$ 189,330	\$ 179,759	\$ 169,558	\$ 161,268	\$ 158,756	\$ 176,976	\$ 168,273	\$ 171,075	\$ 164,398	\$ 165,131	\$ 165,131	\$ 173,853	\$ -	\$ 157,193
14241550	Merchandise-Leased Eq.	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601	\$ 61,601
14241551	Merchandise-Leased Eq - Amort.	\$ (24,665)	\$ (25,178)	\$ (25,691)	\$ (26,204)	\$ (26,717)	\$ (27,230)	\$ (27,743)	\$ (28,256)	\$ (28,256)	\$ (28,256)	\$ (28,256)	\$ (28,256)	\$ (28,256)	\$ (27,151)
22132350	Merchandise - Customer Deposits	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ 12,950	\$ (2,100)	\$ (2,100)	\$ (2,100)	\$ 9,477
Account No.	Description	13-Mo. Avg Per Staff	13-Mo. Avg Per Filing	Difference											
12301420	Acc. Rec -Merchandise	\$ 33,075													
12501420	Accounts Receivable-Service	\$ 40,561													
	Total	\$ 73,636	\$ 77,754	\$ (4,118)											
14211550	Appliance Inv. - Merchandise	\$ 157,193													
14241550	Merchandise-Leased Eq.	\$ 61,601													
14241551	Merchandise-Leased Eq - Amort.	\$ (27,151)													
	Total	\$ 191,643	\$ 205,017	\$ (13,374)											
22132350	Merchandise - Customer Deposits	\$ (114,281)	\$ (124,323)	\$ 10,042											
	Total	\$ 150,998	\$ 158,448	\$ (7,450)											
Prior Rate Case Adjustments															
Account No.	Description	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	13-Mo. Avg Per Staff
17741420	Unrecovered Area Exp. Costs	\$ 1,698,235	\$ 1,518,282	\$ 1,387,609	\$ 1,233,696	\$ 1,141,029	\$ 1,273,873	\$ 1,257,956	\$ 1,318,912	\$ 1,291,500	\$ 1,265,434	\$ 1,233,642	\$ 1,197,931	\$ 1,129,590	\$ 1,303,668
17601860	Deferred Rate Case	\$ 548,022	\$ 532,396	\$ 520,820	\$ 508,224	\$ 495,768	\$ 483,367	\$ 470,791	\$ 458,217	\$ 445,641	\$ 433,065	\$ 420,489	\$ 377,275	\$ 364,699	\$ 466,059
															\$ 1,769,728
Account No.	Description	13-Mo. Avg Per Staff	13-Mo. Avg Per Filing	Difference											
17741420	Unrecovered Area Exp. Costs	\$ 1,303,668	\$ 1,305,079	\$ (1,411)											
17601860	Deferred Rate Case	\$ 466,059	\$ 466,061	\$ (2)											
	Total	\$ 1,769,728	\$ 1,771,140	\$ (1,412)											

Finding 3: Income Statement

Audit Analysis: Rule 25-7.1352 requires each investor-owned natural gas utility to file an earnings surveillance report by the 15th day of the second month following the reporting period. This report is expected to represent the Utility's books and records on a basis consistent with the most recent rate case order. The book balance of income tax expense is discussed in Finding 6.

We examined the calculation for each income statement component used to calculate net operating income for the 12-month period ended December 31, 2010. Except for depreciation and amortization expense, we could not reconcile the income statement book balances per the filing to the Utility's books. The Utility explained that the differences were due to best estimates used for the month of December at the time of filing preparation. In addition, revenues do not agree with the books due to a weather adjustment which is discussed Finding 4.

We reviewed the ledger accounts used by the utility to compute each income statement component and identified the following revenue accounts that the Utility did not exclude from the filing. The Utility failed to remove both the revenues and expenses for gross receipts and franchise taxes from the filing. The gross receipt and franchise taxes were included in the filing in O & M Gas Expense instead of Taxes Other Than Income Tax and have been removed from schedule following this finding. These items are not used for earnings review purposes and should have been removed from the filing. Revenues and taxes other than income should be reduced by \$3,811,654 and \$3,816,535.

Effect on the Filing: Revenues, O & M Gas Expense, and O&M Other Expense should increase by \$4,055,087, \$3,203,758, and \$172,686, respectively. Taxes Other Than Income should increase by \$381,006 (\$4,197,541 book difference less \$3,816,535 to remove franchise and gross receipt taxes as done in prior rate case).

Revenues by Account

Account No.	Description	Amount
4010	Fuel	\$ 25,668,414
4011	Other Fuel	\$ 365,315
4015	Base	\$ 35,034,625
4199	Propane	\$ 992,581
4800	Other Gas	\$ -
4952	Unbilled	\$ 71,071
4953	Conservation	\$ 2,088,331
4960	Rate Refund Provision	\$ 256,659
4999	Misc Revenues	\$ 799,483
499A	Misc Allowance & Adj	\$ (9,831)
499B	Bill Collection Charge	\$ 88,925
499G	Change of Account	\$ 46,048
499P	Returned Pymt Charge	\$ 34,463
499R	Disconnect/Reconnect	\$ 341,276
499S	Seasonal Reconnection	\$ 322,807
	Per Staff	\$ 66,100,167
	Per Filing	\$ 62,045,080
	Difference	\$ 4,055,087
Difference Explanation:		
4020	Franchise Tax	\$ (1,533,755)
4025	Gross Receipt Tax	\$ (2,277,899)
	Weather Refund Provision	\$ 4,562,577
	Calculation Error	\$ 3,304,165
	Total	\$ 4,055,087

Taxes Other Than Income by Account

Account No.	Description	Amount
5881	Franchise Tax	\$ 1,533,755
5882	Gross Receipt Tax	\$ 2,282,780
5883	PSC Assessment	\$ 346,450
8200	Taxes Other Than Income	\$ 75,907
8210	Payroll Taxes	\$ 538,266
821D	Inter-Dept Payroll Taxes	\$ (39,451)
8220	Property Taxes	\$ 1,587,438
8290	Misc Taxes Other	\$ 21,419
	Per Staff	\$ 6,346,565
	Per Filing	\$ 2,149,024
	Difference	\$ 4,197,541
Difference Explanation:		
5881	Franchise Tax	\$ 1,533,755
5882	Gross Receipt Tax	\$ 2,282,780
5883	PSC Assessment	\$ 346,450
XX10	Weather Refund Estimate	\$ (264,579)
	Calculation Error	\$ 299,135
	Total	\$ 4,197,541

O & M Gas Expense

Account No.	Description	Amount
5011	Salaries	\$ 472,929
5012	Overtime	\$ 2,442
5014	Bonus	\$ 6,712
5020	Lodging and Travel	\$ 14,501
5021	Meals	\$ 4,568
5023	Seminars & Training	\$ 1,606
5024	Cell Phones	\$ 4,822
5025	Total Uniforms	\$ 744
5026	Membership & Subscriptions	\$ 2,610
5029	Supplies/Misc Debt Exp	\$ 59,702
5031	Vehicle Fuel	\$ 2,899
5032	Vehicle Depreciation	\$ 790
5033	Vehicle Insurance	\$ 597
5034	Vehicle Leasing	\$ 1,048
5039	Other Vehicle Exp	\$ 10,095
504D	Inter-Dept Benefits	\$ 36,384
505D	Inter-Dept Payroll Tax	\$ 39,451
5060	Legal	\$ 10,860
5061	Consulting/Sub-Contractors	\$ 11,336
5069	Other Outside Services	\$ 14,178
5070	Shipping/Delivery	\$ 35,170
5078	Maintenance	\$ 27
5079	Other Facilities Cost	\$ 14,864
5080	Advertising	\$ 304,160
5081	Printing and Printing Material	\$ 3,684
5082	Outdoor Banner/Signage	\$ 83,172
5083	Print Advertising	\$ 142,777
5085	Radio Advertising	\$ 27,100
5086	Print/Production	\$ 36,277
5087	Television	\$ 42,264
5089	Other Comm. Exp	\$ 54,171
5090	Customer Satisfaction	\$ 729,314
5714	Firm Commodity Other	\$ 228,408
5726	Commodity Firm Trans FGT	\$ 2,340,716
5732	Firm Trans D1 FGT	\$ 3,690,824
5800	Cost of Gas	\$ 19,642,366
5882	Utility Tax	\$ 6,015
5890	Cost of Gas Other	\$ 9,896
5954	Conservation Recovery	\$ -
	Per Staff	\$ 28,089,474
	Per Filing	\$ 24,885,716
	Difference	\$ 3,203,758
Difference Explanation:		
5881	Franchise Tax	\$ (1,533,755)
5882	Gross Receipt Tax	\$ (2,282,780)
5883	PSC Assessment	\$ (346,450)
	Weather Refund Provision	\$ 3,812,577
	Calculation Error	\$ 3,554,166
	Total	\$ 3,203,758

O&M Other Expense

Account	Description	Amount
61XX	Payroll	\$ 7,981,814
62XX	Dept Exp	\$ 1,918,971
63XX	Vehicle	\$ 781,348
64XX	Health	\$ 893,224
65XX	COBRA	\$ 8,953
66XX	Other Benefits	\$ 1,155,451
67XX	HR	\$ 45,179
68XX	Co Event & Choice	\$ 8,547
70XX	Sales, Ad, &Comm	\$ 726,981
71XX	CR, Collections, Cust Svc	\$ 298,650
72XX	Outside Services	\$ 688,055
73XX	Fees & Assessments	\$ 544,538
74XX	Investor Relation	\$ 136,405
75XX	Insurance	\$ 424,547
76XX	Safety	\$ 2,570
77XX	Facility	\$ 594,589
78XX	Maintenance	\$ 249,865
8010	Misc Service Revenues	\$ (36,315)
	Total Per Staff	\$ 16,423,372
	Total Per Filing	\$ 16,250,686
	Difference	\$ 172,686

Finding 4: Weather Reduction Estimate

Audit Analysis: The Utility's per books filing includes a reduction for a weather refund estimate of \$4,562,577 in revenue and a decrease in O & M gas expense of \$3,812,577. Also, an increase to taxes other than income taxes of \$264,579 and a decrease in income taxes of \$405,832 were made. These adjustments resulted in a net income decrease of \$608,747. The estimate is based on customer usage over a five-year period. The Utility stated "The Company booked the \$750,000 reduction to revenues and corresponding contingent liability for regulatory risk related to the "come back" filing and earnings review as is reflected in the financial statements of FPU." The working capital and cost of capital side of this entry was not included in the filing.

The weather refund estimate is recorded under Company/Division XX. The Utility stated that the "The CO/Division XX was created specifically for acquisition related entries. The Company desires to isolate these entries so that it can isolate and track all acquisition related activities and, if necessary, to simplify any reporting differences between Regulatory accounting and US GAAP accounting."

We have excluded the weather refund estimate from the all calculations presented in this report. The weather adjustments made were removed in Finding 3 and Finding 6 because the filing should reflect actual revenue and expenses at December 31, 2010. We did not review the calculation behind the estimate. Any weather adjustment to show future operations should have been included as a proforma adjustment.

Effect on the Filing: The adjustments for this finding are included in the adjustments in Finding 3 and Finding 6.

Non-Utility Plant Adjustment

Co.	Account No.	13-Mo. Avg.	Allocation	Propane %	M&J %	Propane Plant	M&J Plant	Total Plant	
FN41	1010	3740	\$ 56,686	N/P/M	16.00%	0.00%	\$ 9,070	\$ -	\$ 9,070
		3741	\$ 12,910	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3750	\$ 478,088	N/P/M	16.00%	0.00%	\$ 76,494	\$ -	\$ 76,494
		3761	\$ 20,555,597	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3762	\$ 21,764,890	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3780	\$ 279,534	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3790	\$ 1,786,551	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3801	\$ 17,457,537	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3802	\$ 1,147,012	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3810	\$ 4,262,014	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3820	\$ 2,111,790	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3830	\$ 1,587,690	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3840	\$ 616,809	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3850	\$ 39,025	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3870	\$ 387,081	N/P	16.00%	0.00%	\$ 61,933	\$ -	\$ 61,933
		3890	\$ 3,545,163	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3890	\$ 10,317	N/P/M	16.00%	0.00%	\$ 1,651	\$ -	\$ 1,651
		3900	\$ 103,772	N/P/M	16.00%	0.00%	\$ 16,603	\$ -	\$ 16,603
		3910	\$ 34,082	N/P/M	16.00%	0.00%	\$ 5,453	\$ -	\$ 5,453
		3912	\$ 367,551	N/P/M	16.00%	0.00%	\$ 58,808	\$ -	\$ 58,808
		3913	\$ 51,167	N/P/M	16.00%	0.00%	\$ 8,187	\$ -	\$ 8,187
		3914	\$ 347,852	N/P/M	16.00%	0.00%	\$ 55,656	\$ -	\$ 55,656
		3921	\$ 137,627	N/P/M	16.00%	0.00%	\$ 22,020	\$ -	\$ 22,020
		3922	\$ 2,509,774	N/P/M	16.00%	0.00%	\$ 401,564	\$ -	\$ 401,564
		3924	\$ 36,900	N/P/M	16.00%	0.00%	\$ 5,904	\$ -	\$ 5,904
		3930	\$ 9,562	N/P/M	16.00%	0.00%	\$ 1,530	\$ -	\$ 1,530
		3940	\$ 245,469	N/P	16.00%	0.00%	\$ 39,275	\$ -	\$ 39,275
		3960	\$ 250,279	N/P	16.00%	0.00%	\$ 40,045	\$ -	\$ 40,045
		3970	\$ 224,005	N/P/M	16.00%	0.00%	\$ 35,841	\$ -	\$ 35,841
		3980	\$ 136,467	N/P/M	16.00%	0.00%	\$ 21,835	\$ -	\$ 21,835
FN41 Total		\$ 80,553,202				\$ 861,869	\$ -	\$ 861,869	
FN43	1010	3030	\$ 213,641	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3740	\$ 44,422	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3750	\$ -	N/P/M	21.00%	1.00%	\$ -	\$ -	\$ -
		3761	\$ 8,115,922	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3762	\$ 7,049,915	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3780	\$ 54,808	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3790	\$ 285,821	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3801	\$ 6,513,746	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3802	\$ 953,296	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3810	\$ 1,781,251	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3820	\$ 1,237,467	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3830	\$ 569,999	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3840	\$ 369,167	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3850	\$ 10,350	No Alloc.	0.00%	0.00%	\$ -	\$ -	\$ -
		3870	\$ 453,309	N/P	21.00%	0.00%	\$ 95,195	\$ -	\$ 95,195
		3890	\$ 418,725	N/P/M	21.00%	1.00%	\$ 87,932	\$ 4,187	\$ 92,119
		3900	\$ 1,354,374	N/P/M	21.00%	1.00%	\$ 284,419	\$ 13,544	\$ 297,962
		3910	\$ 31,223	N/P/M	21.00%	1.00%	\$ 6,557	\$ 312	\$ 6,869
		3912	\$ 265,896	N/P/M	21.00%	1.00%	\$ 55,838	\$ 2,659	\$ 58,497
		3913	\$ 65,192	N/P/M	21.00%	1.00%	\$ 13,690	\$ 652	\$ 14,342
		3914	\$ 188,926	N/P/M	21.00%	1.00%	\$ 39,674	\$ 1,889	\$ 41,564
		3922	\$ 1,415,901	N/P/M	21.00%	1.00%	\$ 297,339	\$ 14,159	\$ 311,498
		3924	\$ 24,383	N/P/M	21.00%	1.00%	\$ 5,120	\$ 244	\$ 5,364
3930	\$ 1,861	N/P/M	21.00%	1.00%	\$ 391	\$ 19	\$ 410		
3940	\$ 103,161	N/P	21.00%	0.00%	\$ 21,664	\$ -	\$ 21,664		
3960	\$ 157,370	N/P	21.00%	0.00%	\$ 33,048	\$ -	\$ 33,048		
3970	\$ 141,032	N/P/M	21.00%	1.00%	\$ 29,617	\$ 1,410	\$ 31,027		
3980	\$ 57,050	N/P/M	21.00%	1.00%	\$ 11,980	\$ 570	\$ 12,551		
FN43 Total		\$ 31,878,207				\$ 982,465	\$ 39,646	\$ 1,022,110	
Grand Total		\$ 112,431,409				\$ 1,844,334	\$ 39,646	\$ 1,883,979	
Total Per Filing								\$ 1,876,631	
								Difference	\$ (7,348)

Non-Utility Accumulated Depreciation

Co.	Account No.	13 Mo. Avg.	Allocation	Propane %	M&J %	Propane Reserve	M&J Reserve	Total Reserve	
FN41	1080	3741	\$ 5,645	No Alloc.		0%	\$0	\$0	\$0
		3750	\$ (295,190)	N/P/M	16%	0%	(\$47,230)	\$0	(\$47,230)
		3761	\$ (4,193,514)	No Alloc.			\$0	\$0	\$0
		3762	\$ (12,224,663)	No Alloc.			\$0	\$0	\$0
		3780	\$ (110,469)	No Alloc.			\$0	\$0	\$0
		3790	\$ (535,184)	No Alloc.			\$0	\$0	\$0
		3801	\$ (5,120,284)	No Alloc.			\$0	\$0	\$0
		3802	\$ (1,032,186)	No Alloc.			\$0	\$0	\$0
		3810	\$ (1,553,004)	No Alloc.			\$0	\$0	\$0
		3820	\$ (607,194)	No Alloc.			\$0	\$0	\$0
		3830	\$ (589,025)	No Alloc.			\$0	\$0	\$0
		3840	\$ (229,060)	No Alloc.			\$0	\$0	\$0
		3850	\$ (16,283)	No Alloc.			\$0	\$0	\$0
		3870	\$ (82,694)	N/P	16%	0%	(\$13,231)	\$0	(\$13,231)
		3900	\$ (22,644)	N/P/M	16%	0%	(\$3,623)	\$0	(\$3,623)
		3910	\$ (8,430)	N/P/M	16%	0%	(\$1,349)	\$0	(\$1,349)
		3912	\$ (44,300)	N/P/M	16%	0%	(\$7,088)	\$0	(\$7,088)
		3913	\$ (16,469)	N/P/M	16%	0%	(\$2,635)	\$0	(\$2,635)
		3914	\$ (138,304)	N/P/M	16%	0%	(\$22,129)	\$0	(\$22,129)
		3921	\$ (57,809)	N/P/M	16%	0%	(\$9,249)	\$0	(\$9,249)
		3922	\$ (954,192)	N/P/M	16%	0%	(\$152,671)	\$0	(\$152,671)
		3924	\$ (27,762)	N/P/M	16%	0%	(\$4,442)	\$0	(\$4,442)
		3930	\$ (9,562)	N/P/M	16%	0%	(\$1,530)	\$0	(\$1,530)
3940	\$ (123,768)	N/P	16%	0%	(\$19,803)	\$0	(\$19,803)		
3960	\$ (61,510)	N/P	16%	0%	(\$9,842)	\$0	(\$9,842)		
3970	\$ (77,623)	N/P/M	16%	0%	(\$12,420)	\$0	(\$12,420)		
3980	\$ (26,155)	N/P/M	16%	0%	(\$4,185)	\$0	(\$4,185)		
FN41 Total		\$ (28,151,635)				(\$311,426)	\$0	(\$311,426)	
FN43	1080	3030	\$ (121,592)			\$0	\$0	\$0	
		3750	\$ 7,611	N/P/M	21%	1%	\$1,598	\$76	\$1,674
		3761	\$ (1,918,050)	No Alloc.			\$0	\$0	\$0
		3762	\$ (3,565,625)	No Alloc.			\$0	\$0	\$0
		3780	\$ (7,264)	No Alloc.			\$0	\$0	\$0
		3790	\$ (111,921)	No Alloc.			\$0	\$0	\$0
		3801	\$ (1,849,215)	No Alloc.			\$0	\$0	\$0
		3802	\$ (1,008,608)	No Alloc.			\$0	\$0	\$0
		3810	\$ (946,006)	No Alloc.			\$0	\$0	\$0
		3820	\$ (353,841)	No Alloc.			\$0	\$0	\$0
		3830	\$ (307,348)	No Alloc.			\$0	\$0	\$0
		3840	\$ (110,535)	No Alloc.			\$0	\$0	\$0
		3850	\$ (2,440)	No Alloc.			\$0	\$0	\$0
		3870	\$ (55,243)	N/P	21%		(\$11,601)	\$0	(\$11,601)
		3900	\$ (391,290)	N/P/M	21%	1%	(\$82,171)	(\$3,913)	(\$86,084)
		3910	\$ (27,843)	N/P/M	21%	1%	(\$5,847)	(\$278)	(\$6,125)
		3912	\$ 28,812	N/P/M	21%	1%	\$6,051	\$288	\$6,339
		3913	\$ (24,619)	N/P/M	21%	1%	(\$5,170)	(\$246)	(\$5,416)
		3914	\$ (93,065)	N/P/M	21%	1%	(\$19,544)	(\$931)	(\$20,474)
		3921	\$ 7,403	N/P/M	21%	1%	\$1,555	\$74	\$1,629
		3922	\$ (613,897)	N/P/M	21%	1%	(\$128,918)	(\$6,139)	(\$135,057)
		3924	\$ (9,580)	N/P/M	21%	1%	(\$2,012)	(\$96)	(\$2,108)
		3930	\$ (184)	N/P/M	21%	1%	(\$39)	(\$2)	(\$40)
3940	\$ (79,034)	N/P	21%		(\$16,597)	\$0	(\$16,597)		
3960	\$ (96,773)	N/P	21%		(\$20,322)	\$0	(\$20,322)		
3970	\$ (69,250)	N/P/M	21%	1%	(\$14,543)	(\$693)	(\$15,235)		
3980	\$ (14,099)	N/P/M	21%	1%	(\$2,961)	(\$141)	(\$3,102)		
FN43 Total		\$ (11,733,498)				(\$300,521)	(\$12,000)	(\$312,521)	
Total		\$ (39,885,134)				Total Per Staff (\$611,947)	(\$12,000)	(\$623,947)	
						Total Per Filing (\$584,422)	(\$11,208)	(\$595,630)	
						Difference \$27,525	\$792	\$28,317	

Finding 5: Income Statement Adjustments

Audit Analysis: The adjustments filed in the Earnings Surveillance Report increased operating income by \$38,340 for the 12-month period ended December 31, 2010. We could not reconcile any of the adjustments to the books. Each adjustment calculation was reviewed and recalculated. The adjustments to income taxes are discussed in Finding 6.

The last rate case included adjustments to the area expansion program (AEP) for the removal of revenues, amortization expense, and regulatory assessment fees. In the filing, the Utility includes adjustments of \$550,304 and \$547,552 to remove AEP revenues and amortization expense from the income statement. The Utility failed to remove the entire book balance of AEP revenues of \$995,094 and amortization expense of \$990,117 and made an adjustment for regulatory assessment fees of \$4,975. Revenues and amortization expenses should increase by \$444,790 and \$442,565 to remove the residual amounts and agree to the books. Taxes other than income should be decreased by \$4,975 to account for AEP taxes on the income statement.

AEP Revenues and Expenses

Month	AEP Revenue	RAF @ \$0.005	Amtz. of AEP
Jan-10	\$ 192,236	\$ 961	\$ 191,275
Feb-10	\$ 141,501	\$ 708	\$ 140,793
Mar-10	\$ 163,986	\$ 820	\$ 163,166
Apr-10	\$ 101,730	\$ 509	\$ 101,222
May-10	\$ 70,410	\$ 352	\$ 70,058
Jun-10	\$ 48,196	\$ 241	\$ 47,955
Jul-10	\$ 38,162	\$ 191	\$ 37,971
Aug-10	\$ 36,493	\$ 182	\$ 36,311
Sep-10	\$ 35,336	\$ 177	\$ 35,159
Oct-10	\$ 41,413	\$ 207	\$ 40,237
Nov-10	\$ 48,857	\$ 244	\$ 49,581
Dec-10	\$ 76,774	\$ 384	\$ 76,390
Total Per Staff	\$ 995,094	\$ 4,975	\$ 990,117
Total Per Filing	\$ 550,304	\$ -	\$ 547,552
Difference	\$ 444,790	\$ 4,975	\$ 442,565

We examined the Utility's calculation to remove \$116,691 of non-utility depreciation expense. The Utility did not use the ledger balances as the basis for computing the non-utility adjustment. Instead, the Utility used a depreciation schedule that we could not reconcile to the books. The schedule following the finding computes depreciation using the booked depreciation expense for the year. The non-utility adjustments for depreciation expense should increase by \$9,495 to remove the appropriate allocation of non-utility depreciation expense.

We reviewed the adjustments related to the purchased gas adjustment (PGA) in the filing. PGA revenues and cost of gas expenses were both reduced by \$22,805,173. The Utility did not provide support for the calculation of the PGA amounts included in the filing. We reconciled the ledger to the PGA audit and found PGA revenues and expenses understated by \$3,228,603 and \$3,103,192.

PGA Adjustment

PGA Revenue Accounts		
Account	Description	Amount
4010	Fuel	\$ 25,668,414
4011	Other Fuel	\$ 365,325
	Per Books	\$ 26,033,739
	Per Filing	\$ 22,805,137
	Difference	\$ 3,228,603
PGA Expense Accounts		
Account	Description	Amount
5714	Firm Commodity Other	\$ 228,408
5726	Commodity Firm Trans FGT	\$ 2,340,716
5732	Firm Trans D1 FGT	\$ 3,690,824
5800	Cost of Gas	\$ 19,642,366
5882	Utility Tax	\$ 6,015
	Per Books	\$ 25,908,328
	Per Filing	\$ 22,805,137
	Difference	\$ 3,103,192

Conservation revenues and cost of gas expenses were reduced by \$2,079,231 and \$2,080,579, respectively in the filing. We reconciled the ledger to the conservation audit. The Utility excluded revenue taxes of \$9,100 and expense account FN00-XXXXXX-XXXX-910V totaling \$4,146. The conservation adjustment to revenue and cost of gas should increase by \$9,100 and \$4,146, respectively.

The Utility included a \$0 adjustment for rate refund. There is \$256,659 relating to rate refunds in operating revenues. Rate refund is a disallowed revenue source and should be removed from operating revenues.

Effect on the Filing: The AEP adjustments to remove revenue, amortization expense and taxes other than income should increase by (\$444,790), (\$442,565), (\$4,975), respectively. The non-utility adjustment to depreciation expense should increase by (\$9,495). PGA revenue and cost of gas adjustment should increase by \$3,228,603 and \$ 3,103,192, respectively. Conservation revenues and expenses adjustments should increase by (\$9,100) and (\$4,146), respectively. The adjustment for rate refund should increase by (\$256,659).

Non-Utility Depreciation Expense Adjustment

Co.	Account No.	Depreciation Expense	Propane		M&J		Propane Expense	M&J Expense	Total Non-Utility
			Allocation and Rate		Allocation and Rate				
FN41	3741	\$ 1,411	No Alloc.		N/P/M	0%	\$ -	\$ -	\$ -
	3750	\$ 14,820	N/P/M	16%	N/P/M	0%	\$ 2,371	\$ -	\$ 2,371
	3761	\$ 512,304	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3762	\$ 608,307	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3780	\$ 10,620	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3790	\$ 67,900	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3801	\$ 592,328	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3802	\$ 127,351	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3810	\$ 144,800	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3820	\$ 63,169	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3830	\$ 53,788	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3840	\$ 18,489	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3850	\$ 3,030	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3870	\$ 18,185	N/P	16%	N/P	0%	\$ 2,910	\$ -	\$ 2,910
	3900	\$ 2,695	N/P/M	16%	N/P/M	0%	\$ 431	\$ -	\$ 431
	3910	\$ 2,460	N/P/M	16%	N/P/M	0%	\$ 394	\$ -	\$ 394
	3912	\$ 2,484	N/P/M	16%	N/P/M	0%	\$ 397	\$ -	\$ 397
	3913	\$ 40,864	N/P/M	16%	N/P/M	0%	\$ 6,538	\$ -	\$ 6,538
	3914	\$ 38,606	N/P/M	16%	N/P/M	0%	\$ 6,177	\$ -	\$ 6,177
	3921	\$ 18,109	N/P/M	16%	N/P/M	0%	\$ 2,897	\$ -	\$ 2,897
	3922	\$ 216,874	N/P/M	16%	N/P/M	0%	\$ 34,700	\$ -	\$ 34,700
	3924	\$ 1,903	N/P/M	16%	N/P/M	0%	\$ 304	\$ -	\$ 304
	3930	\$ 224	N/P/M	16%	N/P/M	0%	\$ 36	\$ -	\$ 36
	3940	\$ 17,676	N/P	16%	N/P	0%	\$ 2,828	\$ -	\$ 2,828
	3960	\$ 16,749	N/P	16%	N/P	0%	\$ 2,680	\$ -	\$ 2,680
	3970	\$ 20,604	N/P/M	16%	N/P/M	0%	\$ 3,297	\$ -	\$ 3,297
	3980	\$ 8,179	N/P/M	16%	N/P/M	0%	\$ 1,309	\$ -	\$ 1,309
FN41 Total		\$ 2,623,929					\$ 67,269	\$ -	\$ 67,269
FN43	3030	\$ 7,260					\$ -	\$ -	\$ -
	3761	\$ 202,334	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3762	\$ 197,415	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3780	\$ 2,088	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3790	\$ 10,784	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3801	\$ 221,245	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3802	\$ 105,765	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3810	\$ 60,599	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3820	\$ 37,020	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3830	\$ 19,378	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3840	\$ 11,050	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3850	\$ 807	No Alloc.		No Alloc.		\$ -	\$ -	\$ -
	3870	\$ 21,300	N/P	21%	N/P		\$ 4,473	\$ -	\$ 4,473
	3900	\$ 35,207	N/P/M	21%	N/P/M	1%	\$ 7,393	\$ 352	\$ 7,746
	3910	\$ 3,132	N/P/M	21%	N/P/M	1%	\$ 658	\$ 31	\$ 689
	3912	\$ 2,280	N/P/M	21%	N/P/M	1%	\$ 479	\$ 23	\$ 502
	3913	\$ 29,441	N/P/M	21%	N/P/M	1%	\$ 6,183	\$ 294	\$ 6,477
	3914	\$ 20,976	N/P/M	21%	N/P/M	1%	\$ 4,405	\$ 210	\$ 4,615
	3922	\$ 121,444	N/P/M	21%	N/P/M	1%	\$ 25,503	\$ 1,214	\$ 26,718
	3924	\$ 1,272	N/P/M	21%	N/P/M	1%	\$ 267	\$ 13	\$ 280
	3930	\$ 72	N/P/M	21%	N/P/M	1%	\$ 15	\$ 1	\$ 16
	3940	\$ 7,404	N/P	21%	N/P		\$ 1,555	\$ -	\$ 1,555
	3960	\$ 10,673	N/P	21%	N/P		\$ 2,241	\$ -	\$ 2,241
	3970	\$ 12,972	N/P/M	21%	N/P/M	1%	\$ 2,724	\$ 130	\$ 2,854
	3980	\$ 3,420	N/P/M	21%	N/P/M	1%	\$ 718	\$ 34	\$ 752
FN43 Total		\$ 1,145,338					\$ 56,615	\$ 2,302	\$ 58,917
Total		\$ 3,769,267					\$ 123,884	\$ 2,302	\$ 126,186
						Per Filing	\$ 114,542	\$ 2,149	\$ 116,691
						Difference	\$ (9,342)	\$ (153)	\$ (9,495)

Conservation Adjustments

Conservation Revenue Accounts		
Account No.	Description	Amount
4953	Conservation	\$ 2,088,331
	Per Filing	\$ 2,079,231
	Difference	\$ 9,100
Conservation Expense Accounts		
Account No.	Description	Amount
5011	Salaries	\$ 393,503
5012	Overtime	\$ 2,442
5014	Bonus	\$ 6,712
5020	Lodging and Travel	\$ 14,501
5021	Meals	\$ 4,567
5023	Seminars & Training	\$ 1,606
5024	Cell Phones	\$ 4,818
5025	Total Uniforms	\$ 744
5026	Membership & Subscriptions	\$ 2,610
5029	Supplies/Misc Debt Exp	\$ 59,700
5031	Vehicle Fuel	\$ 2,904
5032	Vehicle Depreciation	\$ 787
5033	Vehicle Insurance	\$ 596
5034	Vehicle Leasing	\$ 1,048
5039	Other Vehicle Exp	\$ 10,078
504D	Inter-Dept Benefits	\$ 35,268
505D	Inter-Dept Payroll Tax	\$ 33,490
5060	Legal	\$ 10,360
5061	Consulting/Sub-Contractors	\$ 11,336
5069	Other Outside Services	\$ 14,178
5070	Shipping/Delivery	\$ 35,170
5078	Maintenance	\$ 27
5079	Other Facilities Cost	\$ 14,864
5080	Advertising	\$ 304,160
5081	Printing and Printing Material	\$ 3,684
5082	Outdoor Banner/Signage	\$ 83,172
5083	Print Advertising	\$ 142,777
5085	Radio Advertising	\$ 27,100
5086	Print/Production	\$ 36,277
5087	Television	\$ 42,264
5089	Other Comm. Exp	\$ 54,171
5090	Customer Satisfaction	\$ 729,314
5954	Conservation Recovery	\$ -
	Per Ledger	\$ 2,084,725
	Per Filing	\$ 2,080,579
	Difference	\$ 4,146

Finding 6: Income Tax Expense and Adjustment

Audit Analysis: The Utility reported a book balance of \$4,203,422 for Income taxes in the December 2010 Earnings Surveillance Report. The income tax expense, in the filing, does not agree with the books. The Utility attributes the difference to a weather refund provision resulting in a tax implication of \$405,832 (See Finding 4) and the use of best estimates for the month of December at the time of filing. We reviewed the accounts used to calculate the income tax expense and identified a non-operating income tax account included in the calculation. We have excluded the non-operating account. The proper book balance for the income tax expense is \$4,291,217.

Income Tax Reconciliation to Book Balance

Account No.	Description	Amount
8310	State Income Tax	\$ 631,843
8320	Federal Income Tax	\$ 2,555,848
8390	Investment Tax Credit	\$ (30,497)
8410	State IT True Up	\$ (22,023)
8420	Federal IT True Up	\$ (3,040)
8500	DIT Debit	\$ 1,534,723
8510	DIT True-Up	\$ 226,795
8600	DIT Credit	\$ (398,534)
8610	DIT Credit True Up	\$ (203,898)
	Per Ledger	\$ 4,291,217
	Per Filing	\$ 4,203,422
	Difference	\$ 87,795
Difference Explanation:		
9310 -9500	Total Non-Op Tax	\$ (12,669)
XX10	Weather Refund Estimate	\$ 405,832
	Calculation Error	\$ (305,368)
	Total	\$ 87,795

The Utility increased the tax expense by \$76,948. However, none of the calculation bases for the income tax adjustments reconcile to the books.

The Utility increased taxes by \$32,476 to synchronize interest expense on debt with interest expense deducted for income tax calculations. The increase was derived by subtracting the interest expense per books from the interest deduction calculated by the Utility. Based on the adjustments to rate base and the capital structure stated in this report, we calculated the imputed interest to be \$1,556,683. This is \$509,457 less than the Utility's interest expense balance of \$2,066,140. The income tax synchronization adjustment should increase by \$164,047 to reflect the appropriate interest synchronization adjustment.

Interest Synchronization

Description	13-Mo. Average	Cost Rate	Interest Expense
Long-Term Debt	\$ 12,827,454	7.18%	\$ 920,931
Short-Term Debt	\$ 4,641,082	1.78%	\$ 170,487
Customer Deposit	\$ 7,629,696	6.00%	\$ 457,828
ITC	\$ 82,546	9.01%	\$ 7,437
Common Equity	\$ 26,485,617	10.85%	\$ -
Deferred Taxes	\$ 8,376,321	0.00%	\$ -
Total	\$ 60,042,715		
		Interest Expense	\$ 1,556,683
		Interest Per Books	\$ 2,066,140
		Adjustment Amount	\$ (509,457)
		Tax Rate	38.575%
		Effect on Income Tax Per Staff	\$ 196,523
		Effect on Income Tax Per Filing	\$ 32,476
		Difference	\$ 164,047

AEP's revenues and expenses were understated in the filing. The AEP tax adjustment should increase by \$1,690 because the expense adjustments off-set the revenue adjustment resulting in a \$0 net income tax effect for these items.

AEP Adjustment Income Tax Effect

Description	Amt. Per Staff	Amt. Per Filing	Difference
AEP Revenues	\$ 995,094	\$ 550,304	\$ 444,790
AEP Amortization	\$ 990,117	\$ 547,552	\$ 442,565
AEP Taxes	\$ 4,975	\$ -	\$ 4,975
Difference	\$ 1	\$ 2,752	\$ (2,750)
Tax Rate	38.575%	38.575%	
Effect on Income Taxes	\$ (0)	\$ (1,061)	\$ 1,061

The Utility did not report the entire revenue and expense amounts related to conservation in the filing. We computed the income tax adjustment below. The tax adjustment related to conservation was overstated by \$1,911.

Conservation Adjustment Income Tax Effect

Description	Amt. Per Staff	Amt. Per Filing	Difference
Conservation Revenues	\$ 2,088,331	\$ 2,079,231	\$ 9,100
Conservation Expenses	\$ 2,084,725	\$ 2,080,579	\$ 4,146
Difference	\$ 3,607	\$ (1,348)	\$ 4,955
Tax Rate	38.575%	38.575%	
Effect on Income Taxes	\$ (1,391)	\$ 520	\$ (1,911)

The Utility's computation of PGA resulted in a \$0 income tax effect. Below we compute the PGA adjustment to income tax expense.

PGA Adjustment Income Tax Effect

Description	Amt. Per Staff	Amt. Per Filing	Difference
PGA Revenues	\$ 26,033,739	\$ 22,805,137	\$ 3,228,603
PGA Expenses	\$ 25,908,328	\$ 22,805,137	\$ 3,103,192
Difference	\$ 125,411	\$ -	\$ 125,411
Tax Rate	38.575%	38.575%	
Effect on Income Taxes	\$ (48,377)	\$ -	\$ (48,377)

Finding 5 explains that the non-utility adjustment was incorrectly calculated. The income tax provision for the Utility should increase by \$3,663 for the \$9,495 decrease in the depreciation deduction due to the non-utility adjustment.

Income Tax on Non-Utility Depreciation Adjustment

Description	Amount
Non-Utility Depreciation Adj. Per Staff	\$ (126,186)
Non-Utility Depreciation Adj. Per Filing	\$ (116,691)
Difference	\$ (9,495)
Tax Rate	38.575%
Income Tax Adjustment	\$ 3,663

The Utility did not include a dollar amount to remove the rate refund from revenues, which resulted in a \$0 income tax effect. Below we compute the rate refund adjustment to income tax expense.

Rate Refund Effect on Income Tax

Description	Amt. Per Staff	Amt. Per Filing	Difference
Revenues Refunded	\$ 256,659	\$ -	\$ 256,659
Tax Rate	38.575%	38.575%	
Effect on Income Tax	\$ (99,006)	\$ -	\$ (99,006)

Effect on the Filing: The book balance of income tax expense should increase by \$87,795. The tax adjustment for Conservation should decrease by (\$1,911) and the PGA income tax should decrease by (\$48,373). The tax adjustment for AEP should increase by \$1,061. The tax adjustment for non-utility depreciation should increase by \$3,663. The tax effect of the interest synchronization adjustment should be reduced by (\$164,047). The tax effect of the rate refund should be decreased by (\$99,006).

Finding 7: Utility's Capital Structure Components

Audit Analysis: The Utility's capital structure is composed of the Utility's 13-month average for customer deposits, deferred taxes, investment tax credits, and an allocation of debt and equity from CUC's consolidated 13-month average. We examined the calculations of the Utility's capital structure components. None of the 13-month averages, except for the investment tax credit reconciled to the Utility's books.

The Utility included customer deposits of \$7,628,340 in its capital structure at a cost rate of 6.21%. We reviewed the computation of the cost rate and could not reconcile to the Utility's books. The 13-month book average and cost rate for customer deposits are \$7,629,696 and 6%.

Customer Deposit 13-Month Average

Month	Amount	Per Co.	Difference
Dec-09	\$ 7,409,035		
Jan-10	\$ 7,468,423		
Feb-10	\$ 7,524,220		
Mar-10	\$ 7,618,358		
Apr-10	\$ 7,686,996		
May-10	\$ 7,689,290		
Jun-10	\$ 7,667,651		
Jul-10	\$ 7,677,366		
Aug-10	\$ 7,666,136		
Sep-10	\$ 7,654,439		
Oct-10	\$ 7,688,080		
Nov-10	\$ 7,699,219		
Dec-10	\$ 7,736,833		
13-Mo. Avg. Customer Dep.	\$ 7,629,696	\$ 7,628,340	\$ (1,356)
Interest Expense	\$ 457,828	\$ 473,994	\$ 16,166
Cost Rate	6.00%	6.21%	0.21%

The Utility included investment tax credits of \$82,545 in its capital structure at a 9.01 percent cost rate. We agreed the 13-month average to the Utility's books. The Utility did not provide the calculation for the cost rate.

The Utility included deferred taxes of \$8,154,499 in its capital structure at zero cost. We could not reconcile the amount to the Utility's books. Using the ledger, \$8,376,321 is the appropriate 13-month average for deferred taxes. The deferred taxes are understated by \$221,822.

Deferred Taxes 13-Mo Average

Description	Acc No	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10
Deferred Income Taxes (Non-Current)	25XX2832	(7,629,450)	(7,986,219)	(8,354,815)	(8,734,738)	(8,573,093)	(8,546,320)	(9,365,719)	(9,274,713)	(9,274,713)	(8,559,508)	(8,572,091)	(8,512,253)
Regulatory Liability ADIT - Property	280X2822	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)	(139,349)
Deferred Income Taxes (Current)	25XX2831	583,387	652,901	705,826	687,835	699,926	711,054	703,991	669,968	669,968	525,861	525,861	525,861
Total ADIT Per TB		(7,185,412)	(7,472,667)	(7,788,338)	(8,186,253)	(8,012,516)	(7,974,615)	(8,801,077)	(8,744,094)	(8,744,094)	(8,172,996)	(8,185,579)	(8,125,741)
Total ADIT Per Co		(7,185,413)	(7,472,668)	(7,788,339)	(8,186,253)	(8,012,517)	(7,974,616)	(8,801,078)	(8,744,095)	(8,744,095)	(8,172,997)	(8,185,579)	(8,245,416)
Difference		(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(0)	(119,675)

Effect on the Filing: Using the book balances, the effect on the filing would be a 13-month average increase of \$1,356 to customer deposits and \$221,822 to deferred taxes. The cost rate of customer deposits should decreased by .21%.

Finding 8: CUC's Capital Structure Components

Audit Analysis: The Utility's capital structure is composed of the Utility's 13-month average for customer deposits, deferred taxes, investment tax credits, and an allocation of debt and equity from CUC's consolidated 13-month average. We examined the calculations of CUC's capital structure components and could not reconcile any of the components back to CUC's books.

The Utility reported a book average of \$ \$54,333,798 for common equity, \$26,289,530 for long-term debt, and \$9,518,444 for short term debt. The book average equals the rate base amount in the filing. These amounts were calculated using improper 13-month averages for the CUC capital structure components.

The filing's December 2010 balances of the CUC capital structure components do not agree with the books. The Utility attributes the differences to its books not being closed at the time of filing preparation. The 13-month filing average of long-term debt included Sharp Energy's long term debt and the unamortized debt expense of FPUC.

The short term debt included in the filing included a negative cash adjustment account in the month of December 2009 of (\$834,677) for a 13-month average effect of (\$64,205). The negative cash adjustment account shows the amount of outstanding checks that would exceed CUC's cash balance but are still honored by the bank. However, they did not include the negative cash adjustment balances for any of the other months. The actual 13-month average effect for this account would have been (\$2,264,436). Staff removed the entire \$2,264,436 from short term debt in the schedule on the following page.

Short term debt also had an error of \$900,000 in January in the filing. The Utility used \$64,090,415 and the balance was \$64,990,415. This error was corrected along with the other balance errors in the schedule on the following page.

We corrected the errors and calculated the book balances for the CUC capital structure components below using the appropriate 13-month averages and a staff adjusted rate base of \$60,042,715. (See the Reconciliation to Rate Base on the following page.)

The Utility reported an average cost rate of 6.96% for long-term debt. This rate was composed of CUC's convertible debenture and five senior notes, FPUC's three mortgage bonds, and Sharp Energy's two promissory notes. Sharp Energy is a subsidiary of CUC that is not related to Florida operations and should not be included in the Utility's cost rate calculation.

The rate is a 13-month average of the composite debt's weighted average cost. To compute the monthly weighted average cost rate, the Utility multiplied the yield to maturity rate for each debt by the percentage of outstanding long-term debt at month-end and summed the weighted cost. This method of calculating the cost rate for long term debt was not used in the last rate case for FPUC.

In the last rate case, the Utility divided the total interest and debt amortization expense by the 13-month average long-term debt net of unamortized debt expense. When this method is applied, the cost rate is 7.16%, resulting in a .20% increase in the cost rate.

Long Term Debt Cost Rate

Description	13-Mo. Avg.	13-Mo. Avg.
Total Interest and Amort. Exp.		\$ 7,528,093
Total Long-Term Debt	\$ 107,065,343	
Unamortized Debt Expense	\$ 1,935,148	
Net Long-Term Debt		\$ 105,130,195
Cost Rate Per Staff		7.16%
Cost Rate Per Filing		6.96%
Difference		0.20%

The filing includes an adjustment to reclassify all of the short-term debt to long-term debt. The debt was reclassified because in 2010, CUC retired two of FPUC's mortgage bonds with short-term financing and planned to restructure the debt into a 5.96% unsecured long term debt in July 2011. The debt has been restructured but the Utility could not provide all the cost related to the issuance of the debt. We do not have all the information needed to justify this adjustment or consider its impact on the capital structure of the Utility. The adjustment should be excluded to reflect the actual capital structure at December 31, 2010. Any changes related to future periods should be shown as a proforma adjustment.

The Utility reported an average weighted cost rate of 7.88%. We computed the weighted cost rate using staff adjusted rate base on the next page. Our calculation shows a weighted cost rate of 7.23%. This is a reduction of .65%.

Effect on the Filing: Common equity and long term debt should decrease by \$6,317,992 and \$8,785,520. Short-term debt should increase by \$4,641,082. The cost rate of long-term increased by .20%. The weighted cost rate of the Utility should be reduced by .65%.

Reconciliation to Rate Base

Class of Capital	Utility/CUC 13-Month Average	Utility Direct Adjustments	CUC Adjusted Average	CUC % of Total	CUC Pro-Rata Adjustment	CUC Allocation	Utility Direct	Utility's Reconciled to Rate Base Per Staff	Utility's Reconciled to Rate Base Per Filing	Difference
Common Equity	\$ 221,064,275		\$ 221,064,275	60.26%	\$ 194,578,658	\$ 26,485,617	\$ -	\$ 26,485,617	\$ 32,803,609	\$ (6,317,992)
Long Term Debt	\$ 107,065,343	\$ -	\$ 107,065,343	29.18%	\$ 94,237,890	\$ 12,827,454	\$ -	\$ 12,827,454	\$ 21,612,974	\$ (8,785,520)
Short Term Debt	\$ 38,737,153	\$ -	\$ 38,737,153	10.56%	\$ 34,096,071	\$ 4,641,082	\$ -	\$ 4,641,082	\$ -	\$ 4,641,082
Customer Deposit	\$ 7,629,696	\$ (7,629,696)	\$ -	0.00%	\$ -	\$ -	\$ 7,629,696	\$ 7,629,696	\$ 7,628,340	\$ 1,356
Def Income Tax	\$ 8,376,321	\$ (8,376,321)	\$ -	0.00%	\$ -	\$ -	\$ 8,376,321	\$ 8,376,321	\$ 8,154,499	\$ 221,822
Tax Credit	\$ 82,546	\$ (82,546)	\$ -	0.00%	\$ -	\$ -	\$ 82,546	\$ 82,546	\$ 82,545	\$ 1
Total	\$ 382,955,334	\$ (16,088,562)	\$ 366,866,772	100.00%	\$ 322,912,619	\$ 43,954,153	\$ 16,088,562	\$ 60,042,715	\$ 70,281,967	\$ (10,239,251)

Weighted Cost Rate Per Staff

Class of Capital	County's Reconciled to RB Per Staff	Ratio	Cost Rate	Weighted Cost
Common Equity	26,485,617	44.11%	10.85%	4.79%
Long Term Debt	12,827,454	21.36%	7.16%	1.53%
Short Term Debt	4,641,082	7.73%	1.78%	0.14%
Customer Deposit	7,629,696	12.71%	6.00%	0.76%
DIT	8,376,321	13.95%	0.00%	0.00%
Tax Credit	82,546	0.14%	9.01%	0.01%
Total	60,042,715	100.00%		7.23%
			Per Filing	7.88%
			Difference	-0.65%

Finding 9: Expense Sample Scope Limitation

Audit Analysis: The Utility's expenses consist of a combination of direct and allocated expenses from FPUC and CUC. We selected a sample of expense for the year. The source documentation provided was insufficient to determine if the amounts were proper.

Effect on the Filing: This is for information purpose only.

Exhibits

Exhibit 1: Rate Base

FLORIDA PUBLIC UTILITIES COMPANY
 NATURAL GAS
AVERAGE RATE OF RETURN
 For the 12 Months Ending December 31, 2010
 RATE BASE

SCHEDULE 2
 PAGE 1 OF 2

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	PLANT IN SERVICE	NET PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
PER BOOKS	\$150,417,129	(\$44,226,322)	\$106,190,806	\$0	\$2,431,727	\$108,622,533	(\$457,247)	\$108,165,286
FPSC ADJUSTMENTS:								
ELIMINATIONS TO WORKING CAPITAL	\$0	\$0	\$0			\$0	(\$2,141,361)	(\$2,141,361)
ELIMINATE ACQUISITION ADJ.	(\$34,503,288)	\$0	(\$34,503,288)			(\$34,503,288)		(\$34,503,288)
RATE REFUND PENDING - 2009	\$0		\$0			\$0	\$42,330	\$42,330
ELIM. COMMON PLANT	(\$1,876,631)	\$595,630	(\$1,281,001)			(\$1,281,001)		(\$1,281,001)
TOTAL FPSC ADJUSTMENTS	(\$36,379,919)	\$595,630	(\$35,784,289)	\$0	\$0	(\$35,784,289)	(\$2,099,031)	(\$37,883,320)
FPSC ADJUSTED	\$114,037,210	(\$43,630,692)	\$70,406,517	\$0	\$2,431,727	\$72,838,244	(\$2,556,278)	\$70,281,967
FLEX RATE REVENUES	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
ADJUSTED FOR FLEX RATE REVENUES	\$114,037,210	(\$43,630,692)	\$70,406,517	\$0	\$2,431,727	\$72,838,244	(\$2,556,278)	\$70,281,967
PROFORMA ADJUSTMENTS								
ACQUISITION ADJUSTMENT	\$34,679,776	(\$776,408)	\$33,903,368			\$33,903,368		\$33,903,368
TRANSACTION & TRANSITION COSTS							\$1,821,821	\$1,821,821
TOTAL PRO FORMA ADJUSTMENTS	\$34,679,776	(\$776,408)	\$33,903,368	\$0	\$0	\$33,903,368	\$1,821,821	\$35,725,189
PRO FORMA ADJUSTED	\$148,716,986	(\$44,407,100)	\$104,309,885	\$0	\$2,431,727	\$106,741,612	(\$734,457)	\$106,007,156

Exhibit 2: Income Statement

FLORIDA PUBLIC UTILITIES COMPANY
 NATURAL GAS
AVERAGE RATE OF RETURN
 For the 12 Months Ending December 31, 2010
 INCOME STATEMENT

SCHEDULE 2
 PAGE 2 OF 2

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	OPERATING REVENUES	O & M GAS EXPENSE	O & M OTHER	DEPREC. & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	D.I.T. (NET)	I.T.C. (NET)	GAIN/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
PER BOOKS	\$62,045,080	\$ 24,885,716	\$16,250,686	\$5,763,835	\$2,149,024	\$4,203,422				\$53,252,683	\$8,792,397
FPSC ADJUSTMENTS:											
1) INTEREST SYNCHRONIZATION						\$32,476				\$32,476	(\$32,476)
2) ELIMINATE FUEL REVENUES AND EXPENSES	\$ (22,805,137)	\$ (22,805,137)				\$0				(\$22,805,137)	\$0
3) ELIMINATE CONSERVATION	(\$2,079,231)	(\$2,080,579)				\$520				(\$2,080,059)	\$828
4)NON-UTILITY DEPRECIATION EXPENSE				(\$116,691)		\$45,014				(\$71,677)	\$71,677
5) ELIMINATE AEP REVENUES AND EXPENSES	(\$550,304)			(\$547,552)		(\$1,061)				(\$548,614)	(\$1,690)
6) RATE REFUND PENDING	\$0					\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
TOTAL FPSC ADJUSTMENTS	(\$25,434,672)	(\$24,885,716)	\$0	(\$664,243)	\$0	\$76,948	\$0	\$0	\$0	(\$25,473,012)	\$38,340
FPSC ADJUSTED	\$36,610,408	\$0	\$16,250,686	\$5,099,592	\$2,149,024	\$4,280,370	\$0	\$0	\$0	\$27,779,671	\$8,830,737
FLEX RATE REVENUES - DEFICIT/(SURPLUS)	\$0					\$0				\$0	\$0
ADJUSTED FOR FLEX RATE REVENUES	\$36,610,408	\$0	\$16,250,686	\$5,099,592	\$2,149,024	\$4,280,370	\$0	\$0	\$0	\$27,779,671	8,830,737
ACQUISITION ADJ. - AMORT EXP (DEDUCTIBLE)				\$87,228		(\$33,648)				\$53,580	(\$53,580)
ACQUISITION ADJ. - AMORT EXP (NON-DEDUCTIBLE)				\$1,077,384		\$0				\$1,077,384	(\$1,077,384)
TRANSACTION/TRANSITION COSTS - AMORT EXP (DEDUCTIBLE)				\$238,368		(\$91,950)				\$146,418	(\$146,418)
TRANSITION COSTS - AMORT EXP (NON-DEDUCTIBLE)				\$203,064		\$0				\$203,064	(\$203,064)
TOTAL PRO FORMA ADJUSTMENTS	\$0	\$0	\$0	\$1,606,044	\$0	(\$125,599)	\$0	\$0	\$0	\$1,480,445	(\$1,480,445)

Exhibit 3: Capital Structure

FLORIDA PUBLIC UTILITIES COMPANY
 NATURAL GAS
 CAPITAL STRUCTURE
 December 31, 2010
 FPSC ADJUSTED BASIS

SCHEDULE 4

AVERAGE	ADJUSTMENTS		ADJUSTED BOOKS	PRO-RATA	SPECIFIC	BALANCE	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
	PER BOOKS	NON-UTILITY						COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
COMMON EQUITY	\$54,333,798	(\$1,281,001)	\$53,052,797	\$14,430,588	(\$34,679,776)	\$32,803,609	46.67%	9.85%	4.60%	10.85%	5.06%	11.85%	5.53%
LONG TERM DEBT	\$26,289,530		\$26,289,530	(\$14,195,000)	\$9,518,444	\$21,612,974	30.75%	6.96%	2.14%	6.96%	2.14%	6.96%	2.14%
SHORT TERM DEBT	\$9,518,444		\$9,518,444		(\$9,518,444)	\$0	0.00%	1.76%	0.00%	1.76%	0.00%	1.76%	0.00%
CUSTOMER DEPOSITS	\$7,628,340		\$7,628,340			\$7,628,340	10.85%	6.21%	0.67%	6.21%	0.67%	6.21%	0.67%
DEFERRED INCOME TAXES	\$8,154,499		\$8,154,499			\$8,154,499	11.60%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	\$82,545		\$82,545			\$82,545	0.12%	8.42%	0.01%	9.01%	0.01%	9.59%	0.01%
TOTAL AVERAGE	\$106,007,156	(\$1,281,001)	\$104,726,155	\$235,588	(\$34,679,776)	\$70,281,967	100.00%		7.42%		7.88%		8.35%

Exhibit 4: Working Capital Assets

Source	Description	Acc No.	Dec-10	13-Mo Avg	Per Filing	Difference
Common	General Disbursements - Cash	11101312	(3,073,102)	(2,183,146)		
Common	Depository Account - Cash	11401310	746,776	176,117		
Common	Working Funds		(2,326,326)	(2,007,029)		
Common	Working Funds	54%	(1,256,216)	(1,083,795)	1,016,034	(2,099,829)
Utility	Imprest Account - Petty Cash	11301350	4,896	3,438		
Utility	Petty Cash - Petty Cash	11701350	(2,100)	9,477		
Utility	Petty Cash - Petty Cash 2	11701351	5,500	4,731		
Utility	Petty Cash - Petty Cash 3	11701352	1,200	1,200		
Utility	Cash		9,496	18,845	18,845	0
Common	Petty Cash - Petty Cash	11701350	500	885		
Common	Petty Cash Allocation	52%	260	460	-	460
Utility	Accounts Receivable - Accounts Receivable	12201420	5,246,748	4,350,051		
Utility	Employee Receivables - Other Accounts Receivable	12901430	61	921		
Utility	Misc Acc Receivable - Other Accounts Receivable	12991430	(2,025)	76,634		
Utility	Acc Receivable - Gas and Other		5,244,784	4,427,606	4,318,899	108,707
Utility	Unbilled Revenue - Accrued Utility Revenue	12751730	2,902,993	2,307,010	2,244,105	62,905
Utility	Provision for Bad Debts	12251440	(96,128)	(77,710)	(86,385)	8,675
Utility	Gasoline Inventory - Plant Materials & Operating	14301540	3,047	13,295		
Utility	Construction/Service Inventory - Plant Materials	14311540	493,004	588,803		
Utility	Cycle Count Adjustment - Plant Materials & Op	14341540	-	(113,309)		
Utility	Physical Inventory Adjustment - Plant Materials &	14351540	11,989	9,431		
Utility	Purchase Price Variance - Plant Materials &	14381540	-	15,690		
Utility	Construction/Service Inventory Clearing - Plant	14391540	25,071	2,217		
Utility	Plant Material & Operating Supplies		533,111	516,128	292,116	224,012
Common	Prepaid Insurance - Prepayments	15101650	14,713	43,152		
Common	Prepaid Maintenance - Prepayments	15201650	20,121	25,773		
Common	Prepaid Other - Prepayments	15501650	7,041	135,234		
Common	Prepaid Insurance - Prepayment		41,875	204,160		
Common	Prepaid Insurance - Prepayments	54%	22,613	110,246	112,648	(2,402)
Utility	Prepaid Insurance - Prepayments	15101650	119,092	43,961		
Utility	Prepaid Other - Prepayments	15501650	46,638	17,553		
Utility	Prepaid Insurance - Prepayments		165,730	61,515	57,378	4,137

Source	Description	Acc No.	Dec-10	13-Mo Avg	Per Filing	Difference
Utility	Environ Regulatory Assets - Other Regulatory Assets	17201823	6,168,012	6,396,186	6,757,008	(360,822)
				-		
Common	Retirement Plans - Other Regulatory Assets	17811823	8,276,002	4,695,407		
Common	Other Regulatory Assets		8,276,002	4,695,407		
Common	Other Regulatory Assets	64%	5,296,641	3,005,060	4,300,418	(1,295,358)
Utility	Unrecovered Piping & Conversion - Misc Deferred Debit	17731860	938,679	975,215	974,759	456
Utility	Regulatory Asset - Miscellaneous Deferred Debits	17991860	63,198	76,323	-	76,323
The following non-utility accounts have same dollar offsetting adjustments (\$0 net effect on rate base)						
Utility	Accounts Receivable-Merchandise - Accounts Receivable	12301420	-	33,075		
Utility	Accounts Receivable-Service - Accounts Receivable	12501420	-	40,561		
Utility	Acc Receivable - Merchandise, Service, and Other		-	73,636	77,754	(4,118)
Utility	Unrecovered Area Expansion Costs - Accounts Rec	17741420	1,129,590	1,303,668	1,305,079	(1,411)
Utility	Appliance Inventory - Merchandise	14211550	-	157,193		
Utility	Merchandise-Leased Equipment - Merchandise	14241550	61,601	61,601		
Utility	Merchandise-Leased Equipment - Amortize Leased	14241551	(28,256)	(27,151)		
Utility	Merchandise		33,345	191,643	205,017	(13,374)
Utility	Deferred Rate Case - Miscellaneous Deferred Debits	17601860	364,699	466,059	466,061	(2)
The following accounts were included after staff reviewed the trial balance:						
Utility	Long-term Accounts Receivable - Accounts Receivable	19111420	-	66,871		
Utility	Prelim Nat Gas Survey & Investigation - Other Prelim Survey&Investigation Chgs	19701832	31,818	2,448		
Utility	Clearing Account - Clearing Accounts	19901840	-	(4,469)		
Utility	Clearing Account - Clearing Accounts 2	19901841	-	102		
Utility	Clearing Account - Miscellaneous Deferred Debits	19901860	-	62		
Utility	Piping & Conversion - Miscellaneous Deferred Debits	19911860	-	3,336		
	Total		31,818	68,349	-	68,349
				-		

Exhibit 5: Working Capital Liabilities

Source	Description	Acc No.	Dec-10	13-Mo Avg	Per Filing	Difference
Utility	AP Hand Accrual - Accounts Payable	21002320	\$ (388,570.34)	\$ (159,796.39)		
Utility	Unmatched Receipts - Accounts Payable	21102320	\$ (78,759.30)	\$ (15,132.23)		
Utility	Gas Bills Payable - Accounts Payable	21122320	\$ (3,081,831.51)	\$ (624,722.16)		
Utility	Total accounts payable		\$ (3,549,161.15)	\$ (799,650.78)		
Common	AP Hand Accrual - Accounts Payable	21002320	\$ (574,962.98)	\$ (5,673,638.40)		
Common	Accounts Payable - NO DRILLDOWN	21022320	\$ (3,161,738.74)	\$ (2,650,742.42)		
	Total accounts payable		\$ (3,736,701.72)	\$ (8,324,380.82)		
	Total allocated accounts payable	54%	\$ (2,017,818.93)	\$ (4,495,165.64)		
Common	401K Payable/Withholding - Accounts Payable	21322320	\$ 133,341.81	\$ 73,484.46		
Common	401K Loan Payable/Withholding - Accounts Payable	21352320	\$ (133,341.81)	\$ (86,251.14)		
Common	United Way Payable/Withholding - Accounts Payable	21412320	\$ (827.04)	\$ (358.70)		
Common	Union Dues Payable/Withholding - Accounts Payable	21442320	\$ (4,725.78)	\$ (1,330.16)		
Common	Savings Bonds Payable/Withholding - Accounts Payable	21452320	\$ (370.00)	\$ 55.00		
Common	Medical/Dental Fees Payable/Withholding - Accounts Payable	21502320	\$ (33,086.34)	\$ 12,259.82		
Common	Life Insurance Payable/Withholding - Accounts Payable	21512320	\$ (41.37)	\$ 2,968.84		
Common	LTD Insurance Payable/Withholding - Accounts Payable	21522320	\$ (136.22)	\$ 864.48		
Common	AD&D Insurance Payable/Withholding - Accounts Payable	21532320	\$ (2.29)	\$ (58.25)		
Common	Dental Only Fees Payable/Withholding - Accounts Payable	21552320	\$ -	\$ 1,202.58		
Common	Other Withholding/Misc - Accounts Payable	21592320	\$ 197.10	\$ (161.57)		
Common	Total Accounts Payable - Withholding		\$ (38,991.94)	\$ 2,675.37		
Common	Total Allocated Accounts Payable - Withholding	52%	\$ (20,275.81)	\$ 1,391.19		
Both	Total Accounts Payable		\$ (5,587,255.89)	\$ (5,293,425.23)	\$ (2,916,737.00)	\$ (2,376,688.23)
Common	Property Taxes - Tax Collections Payable	27812410	\$ -	\$ (713,564.36)		
Common	Total Property Taxes - Tax Collections Payable	Direct	\$ -	\$ (499,420.85)		
Common	Accrued Gross Receipts Tax - Tax Collections Payable	27882410	\$ -	\$ (373,810.52)		
Common	Accrued State Regulatory Tax - Tax Collections Payable	27852410	\$ (0.01)	\$ (92,890.36)		
Common	Total Rev Tax Payable		\$ (0.01)	\$ (466,700.89)		
Common	Total Rev Tax Payable	63%	\$ (0.01)	\$ (294,021.56)		
Common	Federal & FICA Withholding - Tax Collections Payable	27902410	\$ 11,568.81	\$ 1,539.14		
Common	FUTA - Tax Collections Payable	27952410	\$ 1,399.43	\$ (4,921.11)		
Common	FL Taxes Other - SUTA	27FL2411	\$ (568.94)	\$ (21,267.96)		
Common	Wage Tax Payable		\$ 12,399.30	\$ (24,649.93)		
Common	Total Accrued Payroll Taxes	52%	\$ 6,447.64	\$ (12,817.96)		
Common	Franchise Tax - Tax Collections Payable	27822410	\$ -	\$ (635,100.65)		
Common	Accrued Utility Tax - Tax Collections Payable	27892410	\$ -	\$ (329,876.60)		
Common	Total Tax Collect Payable		\$ -	\$ (964,977.26)		
Common	Total Tax Collect Payable	64%	\$ -	\$ (617,585.44)		
Common	Total Accrued Taxes - General		\$ 6,447.63	\$ (1,423,845.81)	\$ (1,478,604.00)	\$ 54,758.19

Source	Description	Acc No.	Dec-10	13-Mo Avg	Per Filing	Difference
Utility	Federal - Prepaid -Current	24202364	\$ 2,005,900.00	\$ 308,600.00		
Utility	Federal - Accrued -Current	24202365	\$ (2,515,303.00)	\$ (906,899.09)		
Utility	FL - Accrued -Current	24FL2365	\$ (624,908.25)	\$ (159,110.07)		
Utility	Total income taxes		\$ (1,134,311.25)	\$ (757,409.16)		
Common	Federal - Prepaid -Current	24202364	\$ -	\$ 495,030.77		
Common	Federal - Accrued -Current	24202365	\$ 451,012.95	\$ (701,503.05)		
Common	Federal - Accrued -Prior	24202367	\$ 14,747.00	\$ 75,705.92		
Common	FL - Prepaid -Current	24FL2364	\$ 86,100.00	\$ 36,161.54		
Common	FL - Accrued -Current	24FL2365	\$ 424,968.00	\$ 106,637.08		
Common	FL - Accrued -Prior	24FL2367	\$ 14,000.00	\$ 24,916.31		
Common	Total income taxes		\$ 990,827.95	\$ 36,948.57		
Common	Total Allocated income taxes	54%	\$ 535,047.09	\$ 19,952.23		
Both	Total income taxes		\$ (599,264.16)	\$ (737,456.94)	\$ (659,677.00)	\$ (77,779.94)
Utility	Customer Deposits - Accrued Interest	23302370	\$ (362,985.83)	\$ (238,455.74)	\$ (237,988.00)	\$ (467.74)
Common	Customer Deposits - Accrued Interest	23302370	\$ -	\$ 112,958.64		
Common	First Mortgage Bond 1 - Accrued Interest	23B12370	\$ (116,004.22)	\$ (64,694.39)		
Common	First Mortgage Bond 2 - Accrued Interest	23B22370	\$ (66,866.66)	\$ (37,291.02)		
Common	First Mortgage Bond 3 - Accrued Interest	23B32370	\$ (60,533.33)	\$ (149,005.11)		
Common	Undefined Debt - Accrued Interest	23ZZ2370	\$ -	\$ (279,430.60)		
Common	Total accrued interest		\$ (243,404.21)	\$ (417,462.47)		
Common	Total accrued interest - Debt	53%	\$ (129,004.23)	\$ (221,255.11)	\$ (221,255.00)	\$ (0.11)
Utility	Regulatory Liability - Accum Provision for Rate Refunds	26992290	\$ -	\$ (42,330.23)		
Utility	Over-recovered PGC - Unrecovered Purchased Gas Costs	26PG1910	\$ (1,525,377.53)	\$ (2,184,533.35)		
Utility	Accrued Other Expenses - Misc Current & Accrued Liabilities	27792420	\$ (26,549.60)	\$ (18,297.02)		
Utility	Property Taxes - Tax Collections Payable	27812410	\$ -	\$ 21,375.71		
Utility	Franchise Tax - Tax Collections Payable	27822410	\$ (647,507.71)	\$ (116,421.84)		
Utility	Accrued State Regulatory Tax - Tax Collections Payable	27852410	\$ (144,001.00)	\$ (27,682.25)		
Utility	Accrued Gross Receipts Tax - Tax Collections Payable	27882410	\$ (239,132.46)	\$ (23,288.96)		
Utility	Accrued Utility Tax - Tax Collections Payable	27892410	\$ (302,233.41)	\$ (31,071.41)		
Utility	FL Taxes Other - Sales Tax	27FL2413	\$ (77,811.03)	\$ (58,818.26)		
Utility	Total Misc Current & Accrued Liabilities		\$ (2,962,612.74)	\$ (2,481,067.61)		
Common	Self Insurance-Current - Accumulated Provision for Injuries & Damages	26202282	\$ (234,306.74)	\$ (181,535.39)		
Common	Accrued Other Expenses - Misc Current & Accrued Liabilities	27792420	\$ (1,828.10)	\$ (1,808.56)		
Common	Accrued Tax & Audit Fees - Misc Current & Accrued Liabilities	27342420	\$ -	\$ (55,472.75)		
Common	Total Misc Current & Accrued Liabilities		\$ (236,134.84)	\$ (238,816.69)		
Common	Total Allocated Misc Current & Accrued Liabilities	54%	\$ (127,512.81)	\$ (128,961.01)		
Both	Total Misc Current & Accrued Liabilities		\$ (3,090,125.55)	\$ (2,610,028.62)	\$ (2,485,960.00)	\$ (124,068.62)
Utility	Conservation Cost Recovery Liability - Other Deferred Credits	26002530	\$ (165,826.00)	\$ (512,072.09)	\$ (511,553.00)	\$ (519.09)

Source	Description	Acc No.	Dec-10	13-Mo Avg	Per Filing	Difference
Utility	Deferred Environmental Costs - Other Deferred Credits	28102530	\$ (5,611,068.93)	\$ (431,620.69)		
Utility	Deferred Environmental Liability - Other Deferred Credits	28152530	\$ 198,119.91	\$ 15,403.60		
Utility	Deferred Environmental Liability - Other Deferred Credits 2	28152531	\$ (6,169,751.00)	\$ (475,398.85)		
Utility	Total environmental liabilities		\$ (11,582,700.02)	\$ (891,615.93)		
Common	Deferred Environmental Liability - Other Deferred Credits	28152530	\$ -	\$ 130,872.55		
Common	Deferred Environmental Liability - Other Deferred Credits 2	28152531	\$ -	\$ (5,921,723.54)		
Common	Deferred Environmental Costs - Other Deferred Credits	28102530	\$ -	\$ (5,179,448.24)		
Common	Total allocated environmental liabilities		\$ -	\$ (10,970,299.23)		
Both	Total environmental liabilities		\$ (11,582,700.02)	\$ (11,861,915.16)	\$ (6,255,408.00)	\$ (5,606,507.16)
Common	Accrued Payroll - Misc Current & Accrued Liabilities	27102420	\$ (367,730.00)	\$ (684,100.91)		
Common	Accrued PTO - Misc Current & Accrued Liabilities	27112420	\$ (1,598,046.62)	\$ (1,640,941.18)		
Common	Accrued Bonus - Misc Current & Accrued Liabilities	27142420	\$ (122,152.72)	\$ (9,396.36)		
Common	Accrued Severance - Misc Current & Accrued Liabilities	27162420	\$ (185,732.49)	\$ (37,207.35)		
Common	Total accrued compensation		\$ (2,273,661.83)	\$ (2,371,645.79)		
Common	Total allocated accrued compensation	52%	\$ (1,182,304.15)	\$ (1,233,255.81)	\$ (1,235,134.00)	\$ 1,878.19
Utility	Storm Reserve - Accum Provision for Property Insurance	28052281	\$ (798,204.36)	\$ (61,784.95)		
Common	Storm Reserve - Accum Provision for Property Insurance	28052281	\$ -	\$ (2,403,790.98)		
Common	Allocated Storm Reserve		\$ -	\$ (733,419.08)		
Both	Total Storm Reserve		\$ (798,204.36)	\$ (795,204.03)	\$ (794,858.00)	\$ (346.03)
Common	Accrued Pensions - Accum Provision for Pensions & Benefits	29002283	\$ (12,347,955.34)	\$ (8,575,796.88)		
Common	Allocated Accrued Pension & Benefits	52%	\$ (6,420,936.78)	\$ (4,459,414.38)		
Common	Accrued OPRB (Current) - Accum Provision for Pensions & Benefits	27332283	\$ (154,852.00)	\$ (59,372.62)		
Common	Other Post Retirement Benefits - Accum Provision for Pensions & Benefits	29202283	\$ (2,926,051.11)	\$ (2,480,777.82)		
Common	OPRB-Retiree Claims - Accum Provision for Pensions & Benefits	29212283	\$ 53,394.90	\$ 12,023.90		
Common	OPRB-Retiree Life Ins - Accum Provision for Pensions & Benefits	29232283	\$ 456.46	\$ 175.56		
Common	OPRB-Retiree Contributions - Accum Provision for Pensions & Benefits	29242283	\$ (1,898.60)	\$ 523.82		
Common	Allocated Other Post Retirement		\$ (3,028,950.35)	\$ (2,527,427.15)		
Common	Allocated Other Post Retirement	54%	\$ (1,635,633.19)	\$ (1,364,810.66)		
Both	Total Pension & Benefits		\$ (8,056,569.97)	\$ (5,824,225.04)	\$ (5,595,486.00)	\$ (228,739.04)
				\$ -		
				\$ -		
The following non-utility account has a same dollar offsetting adjustment (\$0 net effect on rate base)						
Utility	Merchandise Downpayments Billed in Advance - Customer Deposits	22132350	\$ -	\$ (114,280.95)	\$ (124,323.00)	\$ 10,042.05
	Total Liabilities		\$ (31,547,792.53)	\$ (30,865,420.54)	\$ (22,516,983.00)	\$ (8,348,437.54)
	Total Assets + Liabilities		\$ (9,995,165.84)	\$ (12,028,974.48)	\$ (457,247.00)	\$ (11,571,727.48)

Exhibit 6: Staff Adjusted Rate Base

RATE BASE PER STAFF

SCHEDULE 2
PAGE 1 OF 2

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	PLANT IN SERVICE	NET PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
PER BOOKS	\$151,596,891	(\$44,028,525)	\$107,568,366	\$0	\$2,360,503	\$109,928,869	(\$12,028,974)	\$97,899,895
FPSC ADJUSTMENTS:								
ELIMINATIONS TO WORKING CAPITAL	\$0	\$0	\$0			\$0	(\$2,132,499)	(\$2,132,499)
ELIMINATE ACQUISITION ADJ.	(\$34,503,288)	\$0	(\$34,503,288)			(\$34,503,288)		(\$34,503,288)
RATE REFUND PENDING - 2009	\$0		\$0			\$0	\$42,330	\$42,330
ELIM. COMMON PLANT	(\$1,883,979)	\$623,947	(\$1,260,032)			(\$1,260,032)		(\$1,260,032)
REMOVE NON UTILITY MATERIALS AND SUP.							(\$3,691)	(\$3,691)
TOTAL FPSC ADJUSTMENTS	(\$36,387,267)	\$623,947	(\$35,763,320)	\$0	\$0	(\$35,763,320)	(\$2,093,860)	(\$37,857,180)
FPSC ADJUSTED	\$115,209,624	(\$43,404,578)	\$71,805,046	\$0	\$2,360,503	\$74,165,549	(\$14,122,834)	\$60,042,715
FLEX RATE REVENUES	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
ADJUSTED FOR FLEX RATE REVENUES	\$115,209,624	(\$43,404,578)	\$71,805,046	\$0	\$2,360,503	\$74,165,549	(\$14,122,834)	\$60,042,715
PROFORMA ADJUSTMENTS								
ACQUISITION ADJUSTMENT	\$34,679,776	(\$776,408)	\$33,903,368			\$33,903,368		\$33,903,368
TRANSACTION & TRANSITION COSTS							\$1,821,821	\$1,821,821
TOTAL PRO FORMA ADJUSTMENTS	\$34,679,776	(\$776,408)	\$33,903,368	\$0	\$0	\$33,903,368	\$1,821,821	\$35,725,189
PRO FORMA ADJUSTED	\$149,889,400	(\$44,180,986)	\$105,708,414	\$0	\$2,360,503	\$108,068,917	(\$12,301,013)	\$95,767,905

Exhibit 7: Staff Adjusted Income Statement

INCOME STATEMENT PER STAFF

SCHEDULE 2
PAGE 2 OF 2

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	OPERATING REVENUES	O & M GAS EXPENSE	O & M OTHER	DEPREC. & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	D.I.T. (NET)	I.T.C. (NET)	GAIN/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
PER BOOKS	\$66,100,167	\$28,089,474	\$16,423,372	\$5,763,835	\$2,530,030	\$4,291,217				\$57,097,928	\$9,002,239
FPSC ADJUSTMENTS:											
1) INTEREST SYNCHRONIZATION						\$196,523				\$196,523	(\$196,523)
2) ELIMINATE FUEL REVENUES AND EXPENSES	\$ (26,033,739)	\$ (25,908,328)				(\$48,373)				(\$25,956,701)	(\$77,038)
3) ELIMINATE CONSERVATION	(\$2,088,331)	(\$2,084,725)				(\$1,391)				(\$2,086,116)	(\$2,215)
4) NON-UTILITY DEPRECIATION EXPENSE				(\$126,186)		\$48,677				(\$77,509)	\$77,509
5) ELIMINATE AEP REVENUES AND EXPENSES	(\$995,094)			(\$990,117)	(\$4,975)	\$0				(\$995,092)	(\$2)
6) RATE REFUND PENDING	(\$256,659)					(\$99,006)				(\$99,006)	(\$157,653)
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
						\$0				\$0	\$0
TOTAL FPSC ADJUSTMENTS	(\$29,373,823)	(\$27,993,053)	\$0	(\$1,116,303)	(\$4,975)	\$96,430	\$0	\$0	\$0	(\$29,017,901)	(\$355,922)
FPSC ADJUSTED	\$36,726,344	\$96,421	\$16,423,372	\$4,647,532	\$2,525,055	\$4,387,647	\$0	\$0	\$0	\$28,080,027	\$8,646,317
FLEX RATE REVENUES - DEFICIT/(SURPLUS)	\$0					\$0				\$0	\$0
ADJUSTED FOR FLEX RATE REVENUES	\$36,726,344	\$96,421	\$16,423,372	\$4,647,532	\$2,525,055	\$4,387,647	\$0	\$0	\$0	\$28,080,027	\$8,646,317
ACQUISITION ADJ. - AMORT EXP (DEDUCTIBLE)				\$87,228		(\$33,648)				\$53,580	(\$53,580)
ACQUISITION ADJ. - AMORT EXP (NON-DEDUCTIBLE)				\$1,077,384		\$0				\$1,077,384	(\$1,077,384)
TRANSACTION/TRANSITION COSTS - AMORT EXP (DEDUCTIBLE)				\$238,368		(\$91,950)				\$146,418	(\$146,418)
TRANSITION COSTS - AMORT EXP (NON-DEDUCTIBLE)				\$203,064		\$0				\$203,064	(\$203,064)
TOTAL PRO FORMA ADJUSTMENTS	\$0	\$0	\$0	\$1,606,044	\$0	(\$125,599)	\$0	\$0	\$0	\$1,480,445	(\$1,480,445)
PRO FORMA ADJUSTED	\$36,726,344	\$96,421	\$16,423,372	\$6,253,576	\$2,525,055	\$4,262,048	\$0	\$0	\$0	\$29,560,472	\$7,165,872

Exhibit 8: Staff Adjusted Capital Structure

CAPITAL STRUCTURE PER STAFF

SCHEDULE 4

AVERAGE	PER BOOKS	PRO-RATA	BALANCE	RATIO (%)	COST RATE (%)	WEIGHTED COST (%)
COMMON EQUITY	\$221,064,268	(\$194,578,651)	\$26,485,617	44.11%	10.85%	4.79%
LONG TERM DEBT	\$107,065,342	(\$94,237,888)	\$12,827,454	21.36%	7.18%	1.53%
SHORT TERM DEBT	\$38,737,153	(\$34,096,071)	\$4,641,082	7.73%	1.76%	0.14%
CUSTOMER DEPOSITS	\$7,629,696		\$7,629,696	12.71%	6.00%	0.76%
DEFERRED INCOME TAXES	\$8,376,321		\$8,376,321	13.95%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	\$82,546		\$82,546	0.14%	9.01%	0.01%
TOTAL AVERAGE	\$382,955,325	(\$322,912,610)	\$60,042,715	100.00%		7.23%