

State of Florida



# Public Service Commission

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**DATE:** July 24, 2012  
**TO:** Office of Commission Clerk  
**FROM:** Patti Daniel, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 120004-GU  
Company Name: Florida Public Utilities Company  
Company Code: GU603  
Audit Purpose: A3e:Gas Conservation Cost Recovery  
Audit Control No: 12-010-4-7

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Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

PD/lmd

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

04958 JUL 24 12

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  
Gas Conservation Cost Recovery

**Twelve Months Ended December 31, 2011**

Docket No. 120004-GU  
Audit Control No. 12-010-4-7

**July 19, 2012**

A handwritten signature in cursive script, reading "Kathy L. Welch", written over a horizontal line.

Kathy L. Welch  
Audit Manager

A handwritten signature in cursive script, reading "Iliana H. Piedra", written over a horizontal line.

Iliana H. Piedra  
Reviewer

## Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
1: Increased Conservation Payroll and Associated Costs .....	4
2: Developer Agreements.....	6
3: Non-recoverable Costs Allocated .....	7
Exhibit	
1: True Up .....	8

## 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 January 10, 2012. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Florida Public Utilities Company in support of its 2011 filing for the Gas Conservation Cost Recovery in Docket No. 120004-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**

#### Definition

Utility refers to the Florida Public Utilities Company.  
GCCR refers to the Gas Conservation Cost Recovery.

### **Revenue**

#### Operating Revenues

**Objectives:** The objectives were to determine the actual therms sold for the period January 1, 2011 through December 31, 2011, and whether the Utility applied the Commission approved cost recovery factor to actual therm sales for the GCCR.

**Procedures:** We reconciled the 2011 filing to the Utility's monthly Revenue Reports. We computed the factors by rate code and compared them to the last Commission Order No. PSC 10-0705-FOF-GU. We selected a random sample of residential and commercial customers' bills and recalculated each to verify the use of the correct tariff rate. No exceptions were noted.

### **Expense**

#### Operation and Maintenance Expense

**Objectives:** The objectives were to verify that Operation and Maintenance (O&M) Expense listed on the Utility's CT-3 filing was supported by adequate documentation and that the expenses are appropriately recoverable through the GCCR.

**Procedures:** We traced expenses in the filing to the general ledger. We judgmentally selected a sample of O&M Expenses for testing. The source documentation for selected items was reviewed to ensure the expense was related to the GCCR and that the expense was charged to the correct accounts. We reviewed new builders' agreements to determine they included the appropriate incentive information. During our audit, we determined that several invoices were incorrectly charged to conservation recoverable expenses or to the incorrect division. All adjustments except those in findings one to three were corrected by the Utility in the amended filing included in its revised direct testimony and attached to this report. Payroll is discussed in Audit Finding No. 1. Builders' agreements are discussed in Audit Finding 2. Audit Finding No. 3 discusses non-recoverable expenses.

## **True-up**

**Objective:** The objective was to determine if the True-Up and Interest Provision as filed on Schedule CT-3 was properly calculated.

**Procedures:** We traced the December 31, 2010 True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2011, using the Commission approved beginning balance as of December 31, 2010, the Financial Commercial Paper rates, and the 2011 GCCR revenues and costs. No exceptions were noted.

## **Analytical Review**

**Objective:** The objective was to perform an analytical review of the Utility's GCCR Revenues and Expenses to determine if there were any material changes or inconsistencies from the prior year.

**Procedures:** We compared 2011 to 2010 revenues and expenses. We requested explanations from the Utility for significant variances. Audit Finding No. 1 discusses variances.

## Audit Findings

### **Finding 1: Increased Conservation Payroll and Associated Costs**

**Audit Analysis:** An analytical review of costs charged to conservation recoverable expenses showed large increases in payroll and travel as follows:

**Comparison of Costs**

	Last Rate Case HT/Y 2007	2008	2009	2010	2011	% OF 2010	% OF 2007
<b>GAS CONSERVATION:</b>							
LABOR (including taxes and benefits)	\$ 473,194.00	\$ 488,948.00	\$ 537,466.00	\$ 471,414.00	\$ 853,163.00	180.98%	180.30%
TRAVEL	\$ 8,068.00	\$ 4,040.00	\$ 1,666.00	\$ 25,491.00	\$ 127,016.00	498.28%	1574.32%

The increase in payroll relates to the following:

1. Costs for three departments that had not been allocated in the prior years were found to be included in this period.

**New Costs Allocated**

Division	Services	Payroll With Benefits and Tax	Other Allocated Costs	Total Division Costs
GR 410	Fleet Manager	\$ 444.28	\$ 159.47	\$ 603.75
IM 430	Information Management	\$ 4,762.53	\$ 702.84	\$ 5,465.37
PR 431	Propane	\$ 5,380.89	\$ 856.16	\$ 6,237.05
		\$ 10,587.70	\$ 1,718.47	\$ 12,306.17

Conservation employees do have fleet vehicles. According to the Utility there is an employee in the propane division that processes invoices for contractors that relate to the conservation program.

2. Marketing Division 400 allocated \$86,840.06 in payroll, including benefits and taxes, and \$20,118.14 of associated costs such as travel, cell phone, and vehicle related expenses to conservation recoverable expenses. Only one employee was listed in this division and the position appears to be related to gas operations business development. This employee could not be found in supporting documentation for prior years.
3. Marketing Division 413 was allocated using a 42% allocation rate. Based on a chart of employees showing allocation based on conservation duties, the employees whose salaries are in this division are shown on the chart at a 25% allocation. Changing this division to 25% would reduce salaries with taxes and benefits by \$22,621 and other costs such as cell phones, vehicles, and uniforms by \$3,893.
4. The Utility has increased the allocation percents for all of its marketing employees in 2011. Changing the allocation percents causes a shift from base rate expenses to conservation recoverable expenses. However, based on our analysis, which follows, the Utility operating and maintenance expenses included in base rates have also increased.

**Comparison of Expenses In Base Rates**

	<b>Dkt. 080366-GU HT/Y 2007</b>	<b>2010</b>	<b>2011</b>
Total O & M Payroll	\$ 6,680,357	\$ 8,299,300	\$ 9,836,000
Conservation Included	\$ (524,618)	\$ (402,656)	\$ (628,677)
Net Base Rate Payroll	\$ 6,155,739	\$ 7,896,644	\$ 9,207,323
<b>Less Acq. Adj. case: (Dkt. 110133-GU)</b>			
Tag 3	\$ (3,338,850)		
Tag 5	\$ 920,499		
	\$ 3,737,388	\$ 7,896,644	\$ 9,207,323

5. Some of the employees allocated to FPUC's Gas Division's conservation recoverable expenses, may also be working on the Indiantown and Chesapeake Divisions conservation programs. However, no costs were charged to those divisions.

**Effect on the General Ledger:** This finding is included for informational purposes.

**Effect on the Filing:** This finding is included for informational purposes.



## **Finding 2: Developer Agreements**

**Audit Analysis:** The Utility entered into four new developer agreements in 2011. Three of the four agreements contained the incorrect builder conservation rebate allowances. Commission Order No. PSC 10-0551-PAA-EG established rebate allowances on September 2, 2010. One contract included a heater rate of \$400 instead of the \$500 allowed in the order. One had the wrong tankless water heater rate of \$450 instead of \$550. And, the third had the wrong water heater and wrong cooking appliance rates of \$450 and \$100, respectively, instead of the ordered rates of \$550 and \$150. When the Utility begins paying on these contracts they will either not comply with the order or the contract. No payments were made under these contracts in 2011.

The Utility representative has responded that regardless of when the agreements may have been written, the Utility has been paying the rebates using the most recently approved dollar amounts. For each builder/developer that submits rebates using an older affidavit form, the Utility notifies them that the rebates have increased and provides them with a new affidavit form with the new rebate dollar amounts.

Contracts that reference the Commission ordered rates instead of a fixed fee would enable compliance with the Commission ordered rates even if they changed during the time period the contract is in effect.

**Effect on the General Ledger:** This finding is for information purposes.

**Effect on the Filing:** This finding is for information purposes.

### **Finding 3: Non-recoverable Costs Allocated**

**Audit Analysis:** The Utility included two invoices for promotional items in its conservation recoverable costs. The invoices, paid in May, were to Creative Marketing Concepts for \$3,737.65 and to MTN, Inc. for \$9,548.90. These costs were charged to Marketing Division 412 and the costs for this division are allocated 60% to gas and 40% to electric. Therefore, \$7,971.93 should be removed from conservation recoverable costs. True-up interest on this amount is not material and was not adjusted.

**Effect on the General Ledger:** To correct the ledger, Retained Earnings should be debited by \$7,971.93 and the under-recovery account credited by \$7,971.93.

**Effect on the Filing:** Gas conservation expenses should be reduced by \$7,971.93 which causes a reduction to the under-recovery by the same amount.

Exhibit

**Exhibit 1: True Up**

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY

SCHEDULE CT-3  
PAGE 1 OF 3

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION  
SUMMARY OF EXPENSES BY PROGRAM BY MONTH

FOR MONTHS	January-11 THROUGH December-11												TOTAL
	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	
<b>A. CONSERVATION EXPENSE BY PROGRAM</b>													
1. Full House Residential New Construction	21,140	12,138	14,278	2,848	9,582	10,338	13,582	84,428	28,730	45,187	33,256	211,345	466,784
2. Residential Appliance Replacement	29,324	23,861	17,993	12,586	8,281	8,784	14,534	36,712	70,303	28,389	41,617	388,474	678,638
3. Conservation Education	9,847	5,699	9,439	2,667	3,483	1,429	1,926	1,201	11,126	3,333	6,362	82,089	116,381
4. Space Conditioning													
5. Residential Conservation Service	6,147	3,145	6,726	207	(1,585)	731	15					(6,087)	9,321
6. Residential Appliance Retention	28,029	24,957	24,872	13,589	14,897	9,754	16,971	44,024	68,308	128,044	49,309	481,913	882,487
7. Dealer / Contractor (Inactive)													
10. Commercial Conservation Service	5,647	3,645	6,726	207	(1,585)	730	15					(6,666)	6,721
12													
13. Residential Service Reactivation Program	6,380	3,645	6,726	207	(1,585)		15	350	350		350	(14,784)	1,678
14. Common	179,768	59,436	190,113	268,279	213,178	289,242	166,078	117,657	52,605	105,241	90,581	(684,510)	1,018,678
15. Conservation Demonstration and Development													
<b>21. TOTAL ALL PROGRAMS</b>	<b>286,082</b>	<b>136,624</b>	<b>276,677</b>	<b>290,680</b>	<b>244,647</b>	<b>289,906</b>	<b>213,106</b>	<b>284,370</b>	<b>231,422</b>	<b>309,154</b>	<b>223,485</b>	<b>388,814</b>	<b>3,173,877</b>
<b>22. LESS AMOUNT INCLUDED IN RATE BASE</b>													
<b>23. RECOVERABLE CONSERVATION EXPENSES</b>	<b>286,082</b>	<b>136,624</b>	<b>276,677</b>	<b>290,680</b>	<b>244,647</b>	<b>289,906</b>	<b>213,106</b>	<b>284,370</b>	<b>231,422</b>	<b>309,154</b>	<b>223,485</b>	<b>388,814</b>	<b>3,173,877</b>

EXHIBIT NO. \_\_\_\_\_  
DOCKET NO. 120004-GU  
FLORIDA PUBLIC UTILITIES COMPANY  
(Revised COY-1)  
PAGE 5 OF 18

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY

SCHEDULE CT-3  
PAGE 3 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-11 THROUGH December-11

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
8. CONSERVATION REVENUES													
1. RESIDENTIAL CONSERVATION													
2. CONSERVATION ADJ. REVENUES	(313,992)	(251,494)	(247,662)	(208,102)	(190,855)	(189,242)	(150,327)	(150,965)	(155,249)	(181,723)	(188,714)	(240,343)	(2,426,358)
3. TOTAL REVENUES	(313,992)	(251,494)	(247,662)	(208,102)	(190,855)	(189,242)	(150,327)	(150,965)	(155,249)	(181,723)	(188,714)	(240,343)	(2,426,358)
4. PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	(15,075)	(15,075)	(15,075)	(15,075)	(15,075)	(15,075)	(15,075)	(15,075)	(15,075)	(15,075)	(15,075)	(15,075)	(180,894)
5. CONSERVATION REVENUE APPLICABLE	(328,701)	(266,569)	(262,737)	(223,177)	(205,930)	(204,317)	(165,402)	(166,040)	(170,324)	(176,798)	(213,789)	(255,418)	(2,607,252)
6. CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	285,082	136,524	278,677	290,680	244,647	299,006	213,106	264,370	231,422	309,154	223,485	398,814	3,173,677
7. TRUE-UP THIS PERIOD (LINE 5 - 6)	(42,675)	(130,045)	13,940	89,413	48,717	114,689	47,704	98,330	61,088	132,356	9,696	143,398	666,616
8. INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	(41)	(84)	(68)	(41)	(26)	(11)	2	6	9	17	30	32	(134)
9. TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	(180,894)	(208,946)	(323,670)	(294,613)	(219,188)	(146,400)	(18,647)	46,134	169,547	235,729	383,177	407,978	(180,894)
9A. DEFERRED TRUE-UP BEGINNING OF PERIOD													
10. PRIOR TRUE-UP COLLECTED (REFUNDED)	16,869	16,075	15,075	15,075	15,075	16,075	15,075	15,075	16,075	15,075	15,075	15,075	180,894
11. TOTAL NET TRUE-UP (LINES 7+8+9+9A+10)	(208,645)	(323,570)	(294,613)	(210,168)	(146,400)	(18,647)	46,134	169,547	235,729	383,177	407,978	586,481	566,681

EXHIBIT NO. \_\_\_\_\_  
DOCKET NO. 120004-GU  
FLORIDA PUBLIC UTILITIES COMPANY  
(Revised CDY-1)  
PAGE 6 OF 18

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY

SCHEDULE CT-J

CALCULATION OF TRUE-UP AND INTEREST PROVISION

PAGE 3 OF 3

FOR MONTHS January-11 THROUGH December-11

C. INTEREST PROVISION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. BEGINNING TRUE-UP (LINE B-2)	(180,894)	(208,545)	(323,670)	(294,813)	(210,168)	(148,400)	(16,847)	46,134	168,547	236,729	383,177	407,978	(180,894)
2. ENDING TRUE-UP BEFORE INTEREST (LINES B7+B8+B9A+B10)	(208,504)	(333,515)	(284,565)	(210,125)	(148,374)	(16,636)	48,132	189,639	235,720	383,160	407,948	566,448	886,819
3. TOTAL BEG. AND ENDING TRUE-UP	(389,398)	(632,060)	(608,235)	(504,938)	(358,542)	(163,054)	28,485	265,773	395,267	616,329	791,125	974,427	386,721
4. AVERAGE TRUE-UP (LINE C-3 X 50%)	(194,699)	(316,030)	(304,118)	(252,469)	(179,271)	(81,527)	14,243	132,887	197,634	308,165	395,563	487,214	192,861
5. INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	0.25%	0.25%	0.25%	0.20%	0.19%	0.18%	0.16%	0.12%	0.07%	0.04%	0.03%	0.03%	
6. INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	0.25%	0.25%	0.20%	0.19%	0.18%	0.16%	0.12%	0.07%	0.04%	0.03%	0.03%	0.07%	
7. TOTAL (LINE C-5 + C-6)	0.50%	0.50%	0.45%	0.39%	0.35%	0.32%	0.28%	0.19%	0.11%	0.07%	0.06%	0.10%	
8. AVG. INTEREST RATE (C-7 X 50%)	0.25%	0.25%	0.23%	0.20%	0.18%	0.16%	0.14%	0.10%	0.06%	0.04%	0.03%	0.05%	
9. MONTHLY AVERAGE INTEREST RATE	0.021%	0.021%	0.019%	0.016%	0.015%	0.013%	0.012%	0.008%	0.005%	0.003%	0.003%	0.005%	
10. INTEREST PROVISION (LINE C-4 X C-9)	(41)	(58)	(58)	(41)	(28)	(11)	2	9	9	17	30	32	(134)

EXHIBIT NO. \_\_\_\_\_  
 DOCKET NO. 120004-GJ  
 FLORIDA PUBLIC UTILITIES COMPANY  
 (Revised COPY-1)  
 PAGE 7 OF 18