

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  
Purchased Gas Cost Recovery

**Twelve Months Ended December 31, 2013**

Docket No. 130003-GU  
Audit Control No. 13-014-4-2

**July 29, 2013**

A handwritten signature in blue ink, appearing to read "Yen N. Ngo", written over a horizontal line.

Yen N. Ngo  
Audit Manager

A handwritten signature in blue ink, appearing to read "Kathy Welch", written over a horizontal line.

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 Economics in its audit service request dated January. 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 2012 filing for the Purchased Gas Cost Recovery in Docket No. 130003-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.  
PGA refers to the Purchased Gas Cost Recovery .

### **Revenue**

**Objectives:** The objectives were to determine the actual therms sold for the period January 1, 2012, through December 31, 2012, and whether the Utility applied the Commission approved cost recovery factors to actual therms sales for the PGA.

**Procedures:** We reconciled the 2012 filing to the Utility's general ledger by month. We calculated therms times the tariff rates and compared the total to the revenue in the general ledger. 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**

**Objectives:** The objectives were to determine whether the operation and maintenance (O&M) expenses listed on the Utility's Schedule A-2 was supported by adequate documentation and that the expenses are appropriately recoverable through the PGA.

**Procedures:** We reconciled expenses in the filing to the general ledger. We traced a sample of O&M expenses to source documentation to ensure the expenses were related to the PGA clause and that the expenses were charged to the correct accounts. No exceptions were noted.

### **True-up**

**Objective:** The objective was to determine if the True-Up and Interest Provision as filed on Schedule A-2 was properly calculated.

**Procedures:** We traced the December 31, 2011, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2012, using the Commission approved beginning balance as of December 31, 2011, the Non-Financial Commercial Paper rates, and the 2012 PGA revenues and costs. No exceptions were noted.

## **Analytical Review**

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

**Procedures:** We compared 2012 to 2011 revenues and expenses. We requested explanations from the Utility for significant variances. Explanations provided were sufficient. Further follow-up was not required.

## Audit Findings

### **Finding 1: PGA Revenues**

**Audit Analysis:** The Utility had been billing a customer at the Large Commercial rate instead of the Small Commercial Transportation rate. The Utility corrected this customer's bills from 2006 through 2012. In December, 2012, the Utility made an adjustment to the general ledger for this billing correction. The adjustment reduced Large Commercial revenues, Conservation revenues, and Purchased Gas Adjustment (PGA) revenues for the amount that had been billed and increased revenues based on the correct bill. However, in preparing the entry, the Utility correctly billed the reversal of booked revenues, but when booking the corrected PGA revenues, it charged PGA revenues to the conservation account. Therefore, PGA revenues were understated and Conservation revenues were overstated. The conservation audit has also been adjusted. A summary follows:

#### **2006-2012 Correction**

Type	Originally Billed	Account Booked (A)	Corrected Bill	Account Booked (B)	Overbilling
Base	\$ (138,541.69)	4015	\$ (18,868.33)	4015	\$ 119,673.36
Conservation	\$ (11,758.02)	4953	\$ (1,175.81)	4953	\$ 10,582.21
PGA	\$ (311,572.87)	4010	\$ (31,158.17)	4953	\$ 280,414.70
	\$ (461,872.58)		\$ (51,202.31)		\$ 410,670.27

The amounts originally billed were debited to the accounts shown in (A) above. The corrected bill amounts were credited to the amounts shown in (B) above. Therefore, \$31,158.17 was credited to account 4953, which is a conservation account, instead of account 4010, which is a PGA account.

The revised true-up schedule for the PGA on the following page calculates a total difference of \$31,167. \$2 of the difference is for interest related to this error. The Utility also used an incorrect interest rate in January that accounted for a \$4 difference and the remaining \$2 difference relates to rounding.

The adjustment that pertains to the ECCR was noted in the ECCR audit, Docket 130004-EG.

**Effect on the General Ledger:** The following entry should be made:

Account	Account Title	Debit	Credit
4953	Conservation Revenue	\$ 31,158.17	
4010	PGA Revenue		\$ 31,158.17

**Effect on the Filing:** PGA revenues should be increased in the PGA filing by \$31,158.17. Conservation Revenues should be decreased by \$31,158.17. See the revised true-up schedule below.

<b>Company:</b>	Florida Public Utilities Co. - Gas												
<b>Title:</b>	True-up & Interest Calculations												
<b>Period:</b>	2012												
<b>Interest Rates per Wall Street Journal Commercial Paper</b>													
Interest- first day reporting	January	0.0700%			July	0.1500%							
	February	0.0800%			August	0.1400%							
	March	0.1300%			September	0.1300%							
	April	0.1100%			October	0.1200%							
	May	0.1300%			November	0.1500%							
	June	0.1200%			December	0.1300%							
	Interest- first day reporting of subsequent month				January NEX	0.1000%							
<b>INTEREST RATES</b>													
	<b>JANUARY</b>	<b>FEBRUARY</b>	<b>MARCH</b>	<b>APRIL</b>	<b>MAY</b>	<b>JUNE</b>	<b>JULY</b>	<b>AUGUST</b>	<b>SEPTEMBER</b>	<b>OCTOBER</b>	<b>NOVEMBER</b>	<b>DECEMBER</b>	<b>TOTAL</b>
Beginning	0.070%	0.080%	0.130%	0.110%	0.130%	0.120%	0.150%	0.140%	0.130%	0.120%	0.150%	0.130%	0.130%
Ending	0.080%	0.130%	0.110%	0.130%	0.120%	0.150%	0.140%	0.130%	0.120%	0.150%	0.130%	0.100%	0.100%
Total	0.150%	0.210%	0.240%	0.240%	0.250%	0.270%	0.290%	0.270%	0.250%	0.270%	0.280%	0.230%	0.230%
Average	0.075%	0.105%	0.120%	0.120%	0.125%	0.135%	0.145%	0.135%	0.125%	0.135%	0.140%	0.115%	0.115%
Monthly Average	0.006%	0.009%	0.010%	0.010%	0.010%	0.011%	0.012%	0.011%	0.010%	0.011%	0.012%	0.010%	0.010%
<b>CALCULATION OF TRUE-UP</b>													
TOTAL GAS REVENUES	\$ 2,754,381	\$ 2,245,183	\$ 1,777,185	\$ 1,276,371	\$ 1,184,075	\$ 986,130	\$ 668,525	\$ 638,981	\$ 731,510	\$ 1,107,548	\$ 1,830,185	\$ 1,606,232	\$ 16,806,307
Prior True-up (Note b)	\$ (34,252)	\$ (34,252)	\$ (34,252)	\$ (34,252)	\$ (34,252)	\$ (34,252)	\$ (34,252)	\$ (34,252)	\$ (34,252)	\$ (34,252)	\$ (34,252)	\$ (34,252)	\$ (411,024)
Total gas revenue to current period	\$ 2,720,129	\$ 2,210,931	\$ 1,742,933	\$ 1,242,119	\$ 1,149,823	\$ 951,878	\$ 634,273	\$ 604,729	\$ 697,258	\$ 1,073,296	\$ 1,795,933	\$ 1,571,980	\$ 16,395,283
Gas Cost	\$ 1,051,528	\$ 1,111,250	\$ 938,063	\$ 631,142	\$ 471,967	\$ 1,319,566	\$ 787,810	\$ 922,929	\$ 807,924	\$ 1,119,373	\$ 1,437,431	\$ 1,747,749	\$ 12,346,732
Transportation Cost	\$ 632,107	\$ 458,013	\$ 505,143	\$ 644,130	\$ 382,201	\$ 392,866	\$ 305,070	\$ 311,875	\$ 331,216	\$ 320,061	\$ 719,992	\$ 757,226	\$ 5,759,900
Total Gas Cost	\$ 1,683,635	\$ 1,569,263	\$ 1,443,206	\$ 1,275,272	\$ 854,168	\$ 1,712,432	\$ 1,092,880	\$ 1,234,804	\$ 1,139,140	\$ 1,439,434	\$ 2,157,423	\$ 2,504,975	\$ 18,106,632
True-up this period -Over(Under)	\$ 1,036,494	\$ 641,668	\$ 299,727	\$ (33,153)	\$ 295,655	\$ (760,554)	\$ (458,607)	\$ (630,075)	\$ (441,882)	\$ (366,138)	\$ (361,490)	\$ (932,995)	\$ (1,711,349)
Interest provision	\$ 23	\$ 113	\$ 176	\$ 193	\$ 209	\$ 209	\$ 159	\$ 89	\$ 31	\$ (7)	\$ (47)	\$ (100)	\$ 1,048
Current Period True Up	\$ 1,036,517	\$ 641,781	\$ 299,903	\$ (32,960)	\$ 295,865	\$ (760,345)	\$ (458,448)	\$ (629,985)	\$ (441,851)	\$ (366,145)	\$ (361,537)	\$ (933,095)	\$ (1,710,300)
True-up & Interest beg Note a	\$ (152,598)	\$ 918,171	\$ 1,594,204	\$ 1,928,359	\$ 1,929,651	\$ 2,259,768	\$ 1,533,675	\$ 1,109,479	\$ 513,745	\$ 106,147	\$ (225,746)	\$ (553,031)	\$ (152,598)
Prior true-up coll. refunded	\$ 34,252	\$ 34,252	\$ 34,252	\$ 34,252	\$ 34,252	\$ 34,252	\$ 34,252	\$ 34,252	\$ 34,252	\$ 34,252	\$ 34,252	\$ 34,252	\$ 411,024
Total net true-up -Over(Under)	\$ 918,171	\$ 1,594,204	\$ 1,928,359	\$ 1,929,651	\$ 2,259,768	\$ 1,533,675	\$ 1,109,479	\$ 513,745	\$ 106,147	\$ (225,746)	\$ (553,031)	\$ (1,451,874)	\$ (1,451,874)
True-up for the month CO. FILING	\$ 918,167	\$ 1,594,200	\$ 1,928,355	\$ 1,929,647	\$ 2,259,763	\$ 1,533,669	\$ 1,109,473	\$ 513,739	\$ 106,140	\$ (225,753)	\$ (553,038)	\$ (1,483,041)	\$ (1,483,041)
Difference	\$ 4	\$ 4	\$ 4	\$ 4	\$ 5	\$ 6	\$ 6	\$ 6	\$ 7	\$ 7	\$ 7	\$ 31,167	\$ 31,167
<b>CALCULATION OF INTEREST</b>													
Beginning true up and int.	\$ (152,598)	\$ 918,171	\$ 1,594,204	\$ 1,928,359	\$ 1,929,651	\$ 2,259,768	\$ 1,533,675	\$ 1,109,479	\$ 513,745	\$ 106,147	\$ (225,746)	\$ (553,031)	\$ (152,598)
Ending true-up before int	\$ 918,148	\$ 1,594,091	\$ 1,928,183	\$ 1,929,458	\$ 2,259,559	\$ 1,533,466	\$ 1,109,320	\$ 513,656	\$ 106,116	\$ (225,740)	\$ (552,984)	\$ (1,451,774)	\$ (152,598)
Total	\$ 765,550	\$ 2,512,262	\$ 3,522,387	\$ 3,857,817	\$ 4,189,210	\$ 3,793,234	\$ 2,642,995	\$ 1,623,135	\$ 619,861	\$ (119,593)	\$ (778,730)	\$ (2,004,805)	\$ (152,598)
Average true up	\$ 382,775	\$ 1,256,131	\$ 1,761,193	\$ 1,928,909	\$ 2,094,605	\$ 1,896,617	\$ 1,321,498	\$ 811,567	\$ 309,930	\$ (59,797)	\$ (389,365)	\$ (1,002,402)	\$ (152,598)
Interest rate per above	0.006%	0.009%	0.010%	0.010%	0.010%	0.011%	0.012%	0.011%	0.010%	0.011%	0.012%	0.010%	0.010%
Interest per staff	\$ 23	\$ 113	\$ 176	\$ 193	\$ 209	\$ 209	\$ 159	\$ 89	\$ 31	\$ (7)	\$ (47)	\$ (100)	\$ 1,048
True-up for the month per WP	\$ 19	\$ 113	\$ 176	\$ 193	\$ 209	\$ 209	\$ 159	\$ 89	\$ 31	\$ (7)	\$ (47)	\$ (102)	\$ 1,042
Difference	\$ 4	\$ 0	\$ 0	\$ (0)	\$ 0	\$ (0)	\$ (0)	\$ 0	\$ (0)	\$ 0	\$ 0	\$ 2	\$ 6

## Exhibit

### Exhibit 1: True Up

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY		CALCULATION OF TRUE-UP AND INTEREST PROVISION								SCHEDULE A-2	
FOR THE PERIOD OF: JANUARY 2012 THROUGH DECEMBER 2012											
CURRENT MONTH: DECEMBER											
		ACTUAL	ESTIMATE	DIFFERENCE		ACTUAL	ESTIMATE	DIFFERENCE			
				AMOUNT	%			AMOUNT	%		
<b>TRUE-UP CALCULATION</b>											
1	PURCHASED GAS COST	Sch. A-1 Line 4, Estimate Include Sch. A-1 Line 10	\$ 1,747,749	\$ 3,077,352	\$ 1,329,603	43.2	\$ 12,346,732	\$ 30,772,522	\$ 18,425,790	59.9	
2	TRANSPORTATION COST	Sch. A-1 Lines 1, 2, 3, 5, 6	\$ 757,228	\$ 540,661	\$ (216,565)	(40.1)	\$ 6,759,902	\$ 3,790,362	\$ (1,969,540)	(52.0)	
3	TOTAL COST		\$ 2,504,976	\$ 3,618,013	\$ 1,113,037	30.8	\$ 18,108,634	\$ 34,562,884	\$ 16,456,250	47.6	
4	FUEL REVENUES (NET OF REVENUE TAX)		\$ 1,575,074	\$ 3,613,313	\$ 2,038,239	56.4	\$ 16,775,150	\$ 34,518,284	\$ 17,741,134	51.4	
5	TRUE-UP - (COLLECTED) OR REFUNDED*		\$ (34,251)	\$ (34,251)	\$ -	0.0	\$ (411,013)	\$ (411,013)	\$ -	0.0	
6	FUEL REVENUE APPLICABLE TO PERIOD	Add Lines 4 + 5	\$ 1,540,823	\$ 3,579,062	\$ 2,038,239	57.0	\$ 16,364,137	\$ 34,105,271	\$ 17,741,134	52.0	
7	TRUE-UP - OVER(UNDER) - THIS PERIOD	Line 6 - Line 3	\$ (964,152)	\$ (38,951)	\$ 925,201	(2375.3)	\$ (1,742,498)	\$ (457,613)	\$ 1,284,885	(280.8)	
8	INTEREST PROVISION - THIS PERIOD	Line 21	\$ (102)	\$ 65	\$ 167	256.9	\$ 1,053	\$ 806	\$ (247)	(30.7)	
9	BEGINNING OF PERIOD TRUE-UP AND INTEREST: over/(under)		\$ (553,038)	\$ 649,853	\$ 1,202,891	185.1	\$ (182,598)	\$ 691,013	\$ 843,611	122.1	
10	TRUE-UP COLLECTED OR (REFUNDED)	Reverse of Line 5	\$ 34,251	\$ 34,251	\$ -	0.0	\$ 411,013	\$ 411,013	\$ -	0.0	
10a	FLEX RATE REFUND (if applicable)		\$ -	\$ -	\$ -	0.0	\$ -	\$ -	\$ -	0.0	
11	TOTAL ACTUAL/ESTIMATED TRUE-UP: over/(under)	Add Lines 7 + 8 + 9 + 10 + 10a	\$ (1,483,041)	\$ 645,218	\$ 2,128,259	329.9	\$ (1,483,030)	\$ 645,219	\$ 2,128,249	329.9	
MEMO: Unbilled Over-recovery			1,703,494								
Over/(under)-recovery Book Balance			289,453								
<b>INTEREST PROVISION</b>											
12	BEGINNING TRUE-UP AND INTEREST	Line 9	\$ (553,038)	\$ 649,853	\$ 1,202,891	185.1					
13	ENDING TRUE-UP BEFORE INTEREST	Add Lines 12 + 7 + 8	\$ (1,482,939)	\$ 645,153	\$ 2,128,092	329.9					
14	TOTAL (12+13)	Add Lines 12 + 13	\$ (2,035,977)	\$ 1,295,006	\$ 3,330,983	257.2					
15	AVERAGE	50% of Line 14	\$ (1,017,989)	\$ 647,503	\$ 1,665,492	257.2					
16	INTEREST RATE - FIRST DAY OF MONTH		0.00130	0.00130	-	0.0					
17	INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH		0.00100	0.00100	-	0.0					
18	TOTAL	Add Lines 16 + 17	0.00230	0.00230	-	0.0					
19	AVERAGE	50% of Line 18	0.00115	0.00115	-	0.0					
20	MONTHLY AVERAGE	Line 19 / 12 mos.	0.00010	0.00010	-	0.0					
21	INTEREST PROVISION	Line 15 x Line 20	\$ (102)	\$ 65	\$ 167	256.9					

Beginning of period True-up & Interest (Line 9) comes from the most recently filed E-4 if we do not flex down. If we flex down, the beginning of the period True-up & Interest (Line 9) comes from the prior periods end of period net true-up. The prior period write-off will be the estimated over/under recovery estimated on Schedule E-4 regardless if we flex down.