



GUNSTER
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August 27, 2013

E-PORTAL

Ms. Ann Cole, Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 120311-GU: -- Petition for approval of positive acquisition adjustment to reflect the acquisition of Indiantown Gas Company by Florida Public Utilities Company.

Dear Ms. Cole:

Attached for filing, please find Florida Public Utilities Company's Response to the Staff Audit Report (Audit Control No. 13-121-4-1) issued August 7, 2013.

Thank you for your assistance with this filing. As always, please do not hesitate to contact me if you have any questions or concerns.

Kind regards,

A handwritten signature in black ink that reads "Beth Keating".

Beth Keating
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*Attorneys for the Florida Public Utilities
Company/Indiantown Division*

Cc:/ Andrew Maurey (PSC)
Patricia Christensen (OPC)

Docket No. 120311-GU: -- Petition for approval of positive acquisition adjustment to reflect the acquisition of Indiantown Gas Company by Florida Public Utilities Company.

Florida Public Utilities Company-Indiantown Division

Responses to Surveillance Audit Findings

Finding 1: Utility Plant in Service:

The Company agrees that the invoice should have been recorded in 2012 and not 2013.

Finding 2: Working Capital:

The Company agrees that the working capital on the 2012 Surveillance Report was understated by \$36,033.

Finding 3: June 30, 2010 ESR Expenses:

Since this finding is referencing expenses prior to the acquisition by Florida Public Utilities, the Company is not able to confirm the expenses included in the June 30, 2010 Surveillance Report and therefore, we are unable to determine if this adjustment is appropriate.

Finding 4: June 30, 2010 Allocated Costs:

Since this finding is referencing expenses prior to the acquisition by Florida Public Utilities, the Company is not able to confirm the expenses included in the June 30, 2010 Surveillance Report; and therefore, we are unable to determine if this finding is appropriate. The Company notes, however, that just as it is possible there could have been decreases to expenses as the auditor noted, it is also possible that there could have been additional adjustments to increase expense if allocations included in the June 30, 2010 ESR were audited for a rate case proceeding.

Finding 5: 2011 Expenses:

Account 912-Demonstrating and Selling Expenses: These expenses were for the general marketing of Florida Public Utilities within the city of Indiantown, they should not have been recorded to account 912 but to account 916, Miscellaneous Sales Expense, since this is not directly related to demonstrating and selling.

Account 913-Advertising- These sponsorships allowed us to have booth space at each event and advertise on behalf of Florida Public Utilities to promote our services and were appropriately charged to account 913. The purchase of the children's artwork related to the logo should have been recorded as miscellaneous sales expense, account 916.

Account 923-Outside Services-The Company agrees that these costs are nonrecurring.

Account 904-Uncollectible Accounts- The Company initially recorded a reserve for Indiantown post acquisition without any history to determine a recovery ratio and reserved for all accounts over 60 days, which is less than one-percent of the total revenues for the year as an estimate for an adequate bad debt reserve. This estimate, although addressing only receivables greater than 60 days, would also cover bad debts from receivables that are less than 60 days that would subsequently be written off. The Company has since implemented a methodology to better reflect bad debt that is likely to be recovered, as well as debt written off based on past experience, and has also implemented a more thorough review of reserves.

Finding 6: 2012 Divisions Not Allocated:

The Company agrees with this finding and will make the necessary adjustment going forward.

Finding 7: 2012 Expenses That Are Non-Recurring:

Bad Debt Write-off \$22,260.01: This write-off and transaction was due to discovered theft from a prior period, 2011, that occurred before the Company transitioned Indiantown into the Company's billing system. The Company recorded both the revenues and related bad debt to the general ledger in 2012. Since both transactions relate to a prior period and both were recorded in 2012, there was no impact on net operating income as a result of this prior period transaction.

Upon further review of this transaction, both the revenues and related bad debt expense should have been both removed from the surveillance report for the period ending December 31, 2012. As previously stated, these transactions occurred in 2011, and accordingly regardless of whether the bad debt expense would have been considered unusual, it would not have impacted the 2012 period. It would not be appropriate to just remove the bad debt expense without removing the related revenue entry as well from 2012.

The Company agrees with all other expenses listed under this finding (Contract with Geoffroy, Environmental Clean-up contract and CSX) as non-recurring in nature.

Finding 8: Accumulated Depreciation:

The Company agrees with the accumulated depreciation adjustments and will make the necessary adjustment to the accumulated depreciation balances.

Finding 9: Depreciation Expense:

The Company agrees that the allocation of common depreciation expense was not included in the 2012 ESR.