

State of Florida



Public Service Commission

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

Revised 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
August 27, 2013

A blue ink signature of Yen N. Ngo, written over a horizontal line.

Yen N. Ngo
Audit Manager

A blue ink signature of Kathy Welch, written over a horizontal line.

Kathy Welch
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures..... 2

Audit Findings

 1: PGA Revenues 4

Exhibit

 1: True Up 6

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 .

Revised filing refers to the March 1, 2013 revised filing made on March 6, 2013.

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 revised 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 revised 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 in the revised filing 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. 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.

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.

Company: Florida Public Utilities Co. - PGA
 Title: True-up & Interest Calculations
 Period: 2012

Interest Rates per Wall Street Journal Commercial Paper:

| | | | | |
|-------------------------------|----------|---------|-----------|---------|
| 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 2013 0.1000%

| | JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER | TOTAL |
|-----------------|---------|----------|--------|--------|--------|--------|--------|--------|-----------|---------|----------|----------|-------|
| 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% | |
| 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% | |
| 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% | |
| 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% | |
| 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% | |

CALCULATION OF TRUE-UP

| | | | | | | | | | | | | | |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|----------------|----------------|----------------|----------------|------------------|------------------|------------------|-------------------|
| 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 | <u>2,720,129</u> | <u>2,210,931</u> | <u>1,742,933</u> | <u>1,242,119</u> | <u>1,149,823</u> | <u>951,878</u> | <u>634,273</u> | <u>604,729</u> | <u>697,258</u> | <u>1,073,296</u> | <u>1,795,933</u> | <u>1,571,980</u> | <u>16,395,283</u> |
| 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 | 1,829,845 | 12,428,828 |
| 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 | 2,587,071 | 18,188,728 |
| 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) | (1,015,091) | (1,793,445) |
| Interest provision | 23 | 113 | 176 | 193 | 209 | 209 | 159 | 89 | 31 | (7) | (47) | (104) | 1,044 |
| 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) | (1,015,195) | (1,792,400) |
| 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) | (1,533,974) | (1,533,974) |
| True-up for the month 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) | (1,565,125) | (1,565,125) |
| Difference | 4 | 4 | 4 | 4 | 5 | 6 | 6 | 6 | 7 | 7 | 7 | 31,151 | 31,151 |

Exhibit

Exhibit 1: True Up

REVISED 03/01/2013

| 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 | | | | | | | | | | |
| | | CURRENT MONTH | | | | YEAR-TO-DATE | | | | |
| | | ACTUAL | ESTIMATE | DIFFERENCE | | ACTUAL | ESTIMATE | DIFFERENCE | | |
| | | | | | | | | | | |
| | | | | AMOUNT | % | | | AMOUNT | % | |
| TRUE-UP CALCULATION | | | | | | | | | | |
| 1 | PURCHASED GAS COST | Sch. A-1 Line 4, Estimate include Sch. A-1 Line 10 | \$ 1,829,645 | \$ 3,077,352 | \$ 1,247,507 | 40.5 | \$ 12,428,828 | \$ 30,772,522 | \$ 18,343,694 | 59.6 |
| 2 | TRANSPORTATION COST | Sch. A-1 Lines 1, 2, 3, 5, 6 | \$ 757,228 | \$ 540,661 | \$ (216,566) | (40.1) | \$ 5,759,902 | \$ 3,780,382 | \$ (1,969,540) | (52.0) |
| 3 | TOTAL COST | | \$ 2,587,071 | \$ 3,618,013 | \$ 1,030,942 | 28.5 | \$ 18,188,730 | \$ 34,562,884 | \$ 16,374,154 | 47.4 |
| 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 | \$ (1,048,248) | \$ (38,951) | \$ 1,007,297 | (2588.1) | \$ (1,024,593) | \$ (457,613) | \$ 1,366,980 | (288.7) |
| 8 | INTEREST PROVISION -THIS PERIOD | Line 21 | \$ (106) | \$ 65 | \$ 171 | 263.1 | \$ 1,053 | \$ 805 | \$ (247) | (30.7) |
| 9 | BEGINNING OF PERIOD TRUE-UP AND INTEREST: over/(under) | | \$ (553,038) | \$ 649,853 | \$ 1,202,891 | 185.1 | \$ (152,698) | \$ 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 | \$ (1,565,141) | \$ 645,218 | \$ 2,210,359 | 342.6 | \$ (1,565,125) | \$ 645,219 | \$ 2,210,344 | 342.6 |
| MEMO: Unbilled Over-recovery | | | 1,703,494 | | | | | | | |
| Over/(under)-recovery Book Balance | | | 150,353 | | | | | | | |
| INTEREST PROVISION | | | | | | | | | | |
| 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 + 5 | \$ (1,565,035) | \$ 645,153 | \$ 2,210,188 | 342.6 | | | | |
| 14 | TOTAL (12+13) | Add Lines 12 + 13 | \$ (2,118,073) | \$ 1,295,006 | \$ 3,413,079 | 263.6 | | | | |
| 15 | AVERAGE | 50% of Line 14 | \$ (1,059,036) | \$ 647,503 | \$ 1,706,539 | 263.6 | | | | |
| 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 | \$ (106) | \$ 65 | \$ 171 | 263.1 | | | | |

Beginning of period True-up & Interest (Line 9) comes from the most recently filed E-4 if we do not flux down. If we flux 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 overfunder recovery estimated on Schedule E-4 regardless if we flux down.