

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: October 13, 2017
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 20170150-EI
Company Name: Florida Public Utilities Company
Company Code: EI803
Audit Purpose: A1d: Limited Scope
Audit Control No: 2017-207-4-1

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 are confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

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
Limited Proceeding to
Include Reliability and Modernization Projects in Rate Base

Projected Test Year December 31, 2017

Docket No. 20170150-EI
Audit Control No. 2017-207-4-1
October 4, 2017

A blue ink signature of Yen Ngo, written in a cursive style.

Yen Ngo
Audit Manager

A blue ink signature of Gabriela Leon, written in a cursive style.

Gabriela Leon
Audit Staff

A blue ink signature of Lynn Deamer, written in a cursive style.

Lynn Deamer
Audit Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated July 26, 2017. We have applied these procedures to the attached schedules prepared by Florida Public Utilities Company in support of its filing for Limited Proceeding to Include Reliability and Modernization Projects in Rate Base in Docket No. 20170150-EI.

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

Objectives and Procedures

Background

General

Definitions

FPUC/Utility refers to Florida Public Utilities Company.

FERC refers to the Federal Energy Regulatory Commission.

USoA refers to the FERC Uniform System of Accounts as adopted by Commission Rule 25-6.014-Records and Reports in General, Florida Administrative Code. (F.A.C.).

Background

FPUC has been implementing the FPL Interconnect, Modernization/Safety, and Storm Hardening projects since October 12, 2015 to enhance the Utility's system performance and reliability, and improve outage response times. The projects are to be completed by December 31, 2017. The Utility filed a petition for a limited proceeding for these capital projects on July 3, 2017.

The Utility's last petition for rate relief was granted in Docket No. 20140025-EI, in Order No. PSC-2014-119-4-1-FOF-EI, Petition for Rate Increase, issued December 9, 2014 which established historical rate base and capital structure balances for the Utility as of December 31, 2013.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether the FPL Interconnect, Modernization/Safety, and Storm Hardening construction costs of the plant projects are properly recorded and to determine the completion of these projects as of December 31, 2017.

Procedures: We verified, based on a sample of construction additions in all the projects, that the additions were properly recorded. The testing was based on a random sample that included the selection of the largest amounts per project. The filing shows actual costs of \$10,679,670 and projected costs of \$4,996,733 as of December 31, 2017 for Plant in Service. As of July 31, 2017 we audited an additional \$1,220,009 of actual plant additions. The remaining estimated costs should be completed by December 31, 2017. The FPL Interconnect Project included in the Plant In Service total shows total actual and projected costs of \$2,930,668 in the filing. However, according to the Utility's most current estimate the total costs for this project will increase to \$5,870,000. We also reviewed the bids for the Plant projects still under construction. No exceptions were noticed.

Capital Structure

Long Term Debt-Affiliate

Objectives: The objectives were to determine whether the parent Long-Term Debt (LTD) balances represent actual obligations of the utility, are properly recorded in compliance with the USoA, and to recalculate the 13-month average balance for LTD as of December 31, 2017 .

Procedures: We reconciled the LTD balances and interest rates to the Utility's supporting documentation and to the Chesapeake Utility 10K Report. We traced the LTD obligations for the year 2017 to the original documents and verified the terms, conditions, redemption provisions and interest rates for each bond or note payable. We recalculated the average cost rate and the 13-month average balance for LTD included in the filing. No exceptions were noted.

Long Term Debt – FPUC

Objectives: The objectives were to determine whether Long-Term Debt (LTD) balances represent actual obligations of the utility, are properly recorded in compliance with the USoA, and to recalculate the 13-month average balance for LTD as of December 31, 2017.

Procedures: We reconciled the LTD balance the Utility's supporting documentation and the balance and interest rates were traced to FPUC's prior rate case Docket 140025, ACN 14-119-4-1. We recalculated the average cost rate and the 13-month average balance for LTD included in the filing. No exceptions were noted.

Short Term Debt

Objectives: The objectives were to determine whether Short Term Debt (STD) balances represent actual obligations of the utility, that they are properly recorded in compliance with the USoA, and to recalculate the 13-month average balance for STD as of December 31, 2017.

Procedures: We reconciled the STD balance to the Utility's supporting documentation. We traced the debt and interest rate to FPUC's last rate case Docket 140015, ACN 14-119-4-1. We recalculated the average cost rate and the 13-month average balance for STD included in the filing. No exceptions were noted.

Common Equity

Objectives: The objectives were to determine whether equity account balances represent actual equity, are properly recorded in compliance with the USoA and to recalculate the 13-month average balance for equity as of December 31, 2017.

Procedures: We traced the equity account balances and adjustments to the Utility's supporting documentation. We recalculated the 13-month average balance for equity included in the filing. No exceptions were noted.

Customer Deposit

Objectives: The objectives were to determine whether Customer Deposit (CD) balances represent actual obligations of the utility, are properly recorded in compliance with the USoA, and to recalculate the 13-month average balance for CD as of December 31, 2017.

Procedures: We reconciled the CD balance to the general ledger. We recalculated the interest on the CD based on Commission Rule 25-6.097, F.A.C. We recalculated the average cost rate and the 13-month average balance for CD included in the filing. No exceptions were noted.

Deferred Income Taxes

Objectives: The objectives were to determine whether Accumulated Deferred Income Tax (ADIT) balances are properly stated, are calculated based on the recorded differences between utility book and taxable income, and to recalculate the 13-month average balance for ADIT as of December 31, 2017.

Procedures: We reconciled the ADIT balances to the general ledger. We recalculated the 13-month average balance included in the filing. No exceptions were noted.

Net Operating Income

Other Expenses

Objectives: The objectives were to determine whether operation and maintenance (O & M) expenses included in the filing were properly recorded in compliance with Commission rules and were reasonable and ongoing for utility operations.

Procedures: We reconciled O & M Expenses-Other to the Utility's supporting documentation. The Utility also provided additional corporate costs, These costs were traced to invoices and reviewed for proper account, proper amount, and test period. See Audit Finding 1.

Depreciation Expense

Objectives: The objectives were to determine whether depreciation expense is properly calculated and recorded in compliance with the USoA and to determine that depreciation expense is calculated using the depreciation rates established in Commission Order No. PSC-2015-0575-PAA- EI.

Procedures: We traced the depreciation rates used by the Utility to the Order. We randomly recalculated depreciation expenses to verify that the utility is using the correct depreciation rates. No exceptions were noticed.

Taxes Other than Income

Objectives: The objective was to determine whether Taxes Other Than Income (TOTI) reported in the filing is properly recorded in compliance with the UsoA as of December 31, 2017.

Procedures: We obtained the supporting documentation for the estimated property tax, and recalculated the property tax. We traced adjustments to Taxes Other Than Income to supporting documentation. No exceptions were noticed.

Audit Findings

Finding 1: Operation and Maintenance Expense-Other

Audit Analysis: The Utility's filed Exhibit MDC-1 page 5 of 7-Net Operating Income shows Operation and Maintenance Expenses – Other of \$50,000 for projected test year ending December 31, 2017. The most current amount as of July 31, 2017 is \$94,528.38. This amount is comprised of two components, corporate salaries totaling \$53,505; and expenses for legal, consulting, printing, and postage totaling \$82,026.75 which will be amortized over two years or \$41,023 per year.

Total Corporate Salaries booked was \$72,223, however, the Utility removed \$18,718 since this amount was recovered in the last rate case leaving \$53,505 to be recovered in this docket. Staff tested the month of March 2017 and traced the salaries to the Utility's support documentation for Corporate Salaries without exception. The Utility provided a list of employee's names and their titles. The Utility did not provide the calculation and the duties performed by these employees for this proceeding. When audit staff questioned the Utility as to whether these costs were applicable to this proceeding, we were told that corporate salaries were not costs incurred to prepare the filing or complete this docket. They were included because they were increased costs over the last rate case. Audit staff removed this amount from recovery.

The Utility expenses totaling \$82,046.75 consists of legal fees of \$45,861.75, consulting fees of \$23,050 and printing and postage expenses of \$13,135 as shown in the table following this finding.

Staff tested the actual costs related to the legal fees of \$31,361.75 and consulting fees of \$13,050.00. Of the \$31,361.75 of actual legal fees, staff could not determine if the three invoices that totaled \$8,320.50 (\$3,183.00 + \$2,456.25 + \$2,681.25) were related to this proceeding since the description stated "Legal fees-Regulatory" and did not provide any more description. Therefore, audit staff removed these from the calculation in the table following this finding.

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: Based on our work performed, O & M Other should be \$36,863.13. This amount still contains an estimate applicable to the remainder of 2017 and technical staff should determine the appropriate amount for recovery.

VO#	Vendor	Invoice Description	Utility Amoun	Audit Amount
505793	Gunster Yoakl	Legal Fees-Regulatory	\$ 3,183.00	\$ -
508047	Gunster Yoakl	Legal Fees-Regulatory	\$ 2,456.25	\$ -
517505	Gunster Yoakl	Legal Fees-Regulatory	\$ 2,681.25	\$ -
525850	Gunster Yoakl	Legal Fees-ESTAR Petition	\$ 3,600.00	\$ 3,600.00
537863	Gunster Yoakl	Legal Fees-ESTAR Petition	\$ 4,194.37	\$ 4,194.37
539803	Gunster Yoakl	Legal Fees-ESTAR/Limited Prc	\$ 4,709.38	\$ 4,709.38
546667	Gunster Yoakl	Legal Fees-Limited Proceedir	\$ 5,681.25	\$ 5,681.25
554996	Gunster Yoakl	Legal Fees-Limited Proceedir	\$ 4,856.25	\$ 4,856.25
		Total actual costs through July 2017	\$ 31,361.75	\$ 23,041.25
		Estimated costs to complete	\$ 14,500.00	\$ 14,500.00
			\$ 45,861.75	\$ 37,541.25
505190	Kathy Welch	Consulting	\$ 2,745.00	\$ 2,745.00
511235	Kathy Welch	Consulting	\$ 180.00	\$ 180.00
523944	Kathy Welch	Consulting	\$ 90.00	\$ 90.00
531982	Kathy Welch	Consulting	\$ 2,047.50	\$ 2,047.50
538625	Kathy Welch	Consulting	\$ 427.50	\$ 427.50
546666	Kathy Welch	Consulting	\$ 5,580.00	\$ 5,580.00
553584	Kathy Welch	Consulting	\$ 1,980.00	\$ 1,980.00
		Total actual costs through July 2017	\$ 13,050.00	\$ 13,050.00
		Estimated costs to complete	\$ 10,000.00	\$ 10,000.00
			\$ 23,050.00	\$ 23,050.00
		Print and mailing fees for the customer noti	\$ 4,778.00	\$ 4,778.00
		Postage for the Customer notice	\$ 8,357.00	\$ 8,357.00
		Total costs of the Limited Proceeding	\$ 82,046.75	\$ 73,726.25
		Total costs of this proceeding amortized over 2 years	\$ 41,023.38	\$ 36,863.13

Exhibits

Exhibit 1: Adjusted Rate Base

Schedule B-1

**ADJUSTED RATE BASE
FOR ADDITIONS REQUESTED IN THE LIMITED PROCEEDING**

Exhibit MDC-1 Page 2 of 7
Docket No.: 0

FLORIDA PUBLIC SERVICE COMMISSION
COMPANY: Florida Public Utilities Company
Consolidated Electric Division

EXPLANATION:

Provide a schedule of the 13-month average adjusted rate base for the test year, the prior year and the most recent historical year. Provide the details of all adjustments on Schedule B-2.

Type of Data Shown:
Projected Test Year Ended December 31, 2017

Line No.	(1) Plant in Service	(2) Accumulated Provision for Depreciation and Amortization	(3) Net Plant in Service (1 - 2)	(4) CWP - No AFUDC	(5) Plant Held For Future Use	(6) Nuclear Fuel - No AFUDC (Net)	(7) Net Utility Plant	(8) Working Capital Allowance	(9) Other Rate Base Items	(10) Total Rate Base
1	System Per Books (B-3)	10,679,670	(209,778)	10,469,892	1,380,404	0	0	11,850,296		11,850,296
2	Jurisdictional Factors	100%	100%	100%	100%	100%	100%	100%	100%	100%
3	Jurisdictional Per Books	10,679,670	(209,778)	10,469,892	1,380,404	-	-	11,850,296	-	11,850,296
4	<u>Adjustments:</u>									
5										-
6										-
7										-
8										-
9										-
10										-
11										-
12										-
13										-
14										-
15										-
16										-
17										-
18										-
19										-
20										-
21										-
22										-
23										-
24										-
25										-
26										-
27										-
28	Total Adjustments	-	-	-	-	-	-	-	-	-
29										-
30	Adjusted Jurisdictional	10,679,670	(209,778)	10,469,892	1,380,404	-	-	11,850,296	-	11,850,296

Exhibit 2: Net Operating Income

Schedule C-1 (2017)

ADJUSTED JURISDICTIONAL NET OPERATING INCOME FOR ADDITIONS REQUESTED IN THE LIMITED PROCEEDING

Exhibit MDC-1 Page 4 of 7
Docket No.: 0

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION Provide the calculation of jurisdictional net operating income for the test year, the prior year and the most recent historical year.

Type of Data Show n:
Projected Test Year Ended December 31, 2017

COMPANY: FLORIDA PUBLIC UTILITIES
Consolidated Electric Division

Line No.	(1) Total Company Per Books	(2) Non- Electric Utility	(3) Total Electric (1)-(2)	(4) Jurisdictional Factor	(5) Jurisdictional Amount (3)x(4)	(6) Jurisdictional Adjustments (Schedule C-2)	(7) Adjusted Jurisdictional Amount (5)+(6)
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							

Exhibit 3: Net Operating Income Adjustments

Schedule C-2 (2017)

**NET OPERATING INCOME ADJUSTMENTS
FOR ADDITIONS REQUESTED IN THE LIMITED PROCEEDING**

Exhibit MDC-1 Page 5 of 7

Docket No.: 0

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: FLORIDA PUBLIC UTILITIES
Consolidated Electric Division

EXPLANATION: Provide a schedule of net operating income adjustments for the test year, the prior year and the most recent historical year. Provide the details of all adjustments on Schedule C-3.

Type of Data Show n:
Projected TYE December 31, 2017

Line No.	Jurisdictional Amount Schedule c1 Col. 5	Adjustments					Total Adjustments	Adjusted Jurisdictional NOI
		(1) Proforma Depreciation & Property Tax	(2) Interest Synchronization					
1	Operating Revenues:							
2	Sales of Electricity						-	-
3	Other Operating Revenues						-	-
4	Total Operating Revenues	-	-	-	-	-	-	-
5								
6	Operating Expenses:							
7	Operation & Maintenance:							
8	Fuel (nonrecoverable)	-					-	-
9	Purchased Power	-					-	-
10	Other	50,000					-	50,000
11	Depreciation	302,093	159,260				159,260	461,353
12	Amortization						-	-
13	Decommissioning Expense	-					-	-
14	Taxes Other Than Income Taxes	214,052	91,511				91,511	305,564
15	Income Taxes	(218,391)	(96,735)	(63,087)			(159,822)	(378,213)
16	Deferred Income Taxes-Net						-	-
17	Investment Tax Credit-Net	-					-	-
18	(Gain)/Loss on Disposal of Plant	-					-	-
19								
20	Total Operating Expenses	347,755	154,036	(63,087)	-	-	90,949	438,704
21								
22	Net Operating Income	(347,755)	(154,036)	63,087	-	-	(90,949)	(438,704)

Exhibit 4: Cost of Capital – 13 Month Average

Schedule D-1a

COST OF CAPITAL - 13-MONTH AVERAGE

Exhibit MDC-1 Page 6 of 7

Docket No.: 0

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the company's 13-month average cost of capital for the test year.

Type of Data Show n:

COMPANY: Florida Public Utilities Company
Consolidated Electric Division

Projected Test Year Ended December 31, 2017

13-Month Average Projected 2017

Line No.	(A) Class of Capital	(B) Company Total Per Books	(C) Specific Adjustments	(D) Pro Rata Adjustments	(E) System Adjusted	(F) Jurisdictional Factor	(G) Pro-Rata Allocation	(H) Jurisdictional Capital Structure	(I) Ratio	(J) Cost Rate	(K) Weighted Cost Rate	(L) Limited Proceeding Rate Base	(M) Limited Proceeding Interest Expense (K * I)
Regulatory Capital Structure													
1	Long Term Debt	181,785,487			181,785,487	100%	7.09%	11,662,275	0.1482	4.62%	0.68%	1,756,088	81,131
2	Long Term Debt - FPU only	6,892,095			6,892,095	100%	24.99%	1,722,335	0.0219	12.25%	0.27%	259,346	31,770
3	Short Term Debt	202,326,109			202,326,109	100%	7.09%	14,352,824	0.1824	1.82%	0.33%	2,161,224	39,334
4	Preferred Stock	0			0	100%	7.09%	0	0.0000	0.00%	0.00%	-	0
5	Common Equity	465,355,473	4,575,651		469,931,124	100%	7.09%	33,336,469	0.4236	10.25%	4.34%	5,019,749	
6	Customer Deposits	3,209,653			3,209,653	100%		3,209,653	0.0408	2.34%	0.10%	483,304	11,309
7	Deferred Income Taxes	14,415,006			14,415,006	100%		14,415,006	0.1832	0.00%	0.00%	2,170,587	0
8	ITC-Zero Cost	0			0	100%		0	0.0000	0.00%	0.00%	-	0
9	ITC- Weighted Cost	0			0	100%		0	0.0000	5.34%	0.00%	-	0
11	TOTAL	873,983,823	4,575,651		878,559,474			78,698,562	1.0000		5.72%	11,850,296	163,545
14		Company Total			Cost			Weighted					
15	Class of Capital	Per Books	Ratio		Rate			Cost Rate					
Conventional Capital Structure 2017													
18	Long Term Debt	181,785,487	0.2111		4.62%			0.98%				78,698,565	
19	Long Term Debt-FPU only	6,892,095	0.0080		12.25%			0.10%				17,624,659	
20	Short Term Debt	202,326,109	0.2350		1.82%			0.43%				61,073,906	
21	Preferred Stock	0	0.0000		0.00%			0.00%				-	
22	Common Equity	469,931,124	0.5458		10.25%			5.59%				183,298,235	
23	TOTAL	860,934,815	1.0000		7.10%			7.10%				61,073,906	244,372,141
											Non Electric FPUC Average Rate Base	183,298,235	
											Electric FPUC Average Rate Base	61,073,906	
											Net	244,372,141	
											ProRata FPUC Factor	24.99%	

Exhibit 5: Plant Projects

Florida Public Utilities Company
 Limited Proceeding Electric
 Modernization & Storm Hardening Initiatives

Exhibit MDC-2 Page 1 of 2
 Docket No.: 0

Initiative	Project	Cost Completed	2017 Forecast	Total	Revenue Requirement
FPL Interconnect	FPL Interconnect	\$ 941,208	\$ 1,989,460	\$ 2,930,668	\$ 307,291
Install New SCADA at JLT and SD	Modernization/Safety	\$ 1,058,910		\$ 1,058,910	\$ 139,862
Loop Underground Feed in Amelia Park Subdivision NE Division	Modernization/Safety	\$ 38,255		\$ 38,255	\$ 4,318
Miscellaneous Underground Cable Replacement Northwest Division	Modernization/Safety	\$ 10,867	\$ 100,000	\$ 110,867	\$ 8,919
Purchase and Install Electronic Recloser NW Division	Modernization/Safety	\$ 124,961	\$ 25,000	\$ 149,961	\$ 19,951
Replace Conduit/Cable-Forrest Ridge Condos NE Division	Modernization/Safety	\$ 225,929		\$ 225,929	\$ 30,586
SHN Reclosers NE Division	Modernization/Safety		\$ 100,000	\$ 100,000	\$ 8,481
Substation Voltage Regulators NW Division	Modernization/Safety	\$ 198,183	\$ 60,000	\$ 258,183	\$ 29,918
Apalachicola River Crossing	Storm Hardening		\$ 1,500,000	\$ 1,500,000	\$ 119,597
Decayed Pole Replacements from Osmose Pole Inspections Both Divisions	Storm Hardening	\$ 572,919	\$ 150,000	\$ 722,919	\$ 108,797
Extend Underground Feeder #312 Airport to S. Fletcher -Cond./SW. NE Division	Storm Hardening	\$ 701,257	\$ -	\$ 701,257	\$ 86,423
Overhead Reconductor Along South Fletcher (Atlantic to Sadler) NE Division	Storm Hardening	\$ 580,320	\$ 952,273	\$ 1,532,592	\$ 151,732
Phase Down HWY-73	Storm Hardening	\$ 40,939		\$ 40,939	\$ 5,895
RE-Build AIP Substation NE Division	Storm Hardening	\$ 3,124,123		\$ 3,124,123	\$ 436,157
Replace 69KV Pole with Concrete NE Division	Storm Hardening	\$ 2,550,431		\$ 2,550,431	\$ 346,621
Storm Harden Prison Feeder From Substation to High School NW Division	Storm Hardening	\$ 76,481		\$ 76,481	\$ 10,973
Storm Hardening -Jackson County Hospital Feeder NW Division	Storm Hardening		\$ 120,000	\$ 120,000	\$ 8,350
		\$ 10,244,782	\$ 4,996,733	\$ 15,241,515	\$ 1,823,869