

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: June 8, 2020

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, ^{LD}Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20190156-EI
Company Name: Florida Public Utilities Company
Company Code: EI803
Audit Purpose: A1d: Limited Scope
Audit Control No.: 2020-108-1-1

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 no 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
Tallahassee District Office

Auditor's Report

Florida Public Utilities Company
Storm Recovery Cost Audit – Hurricane Michael and Dorian

As of December 31, 2019

Docket No. 20190156-EI
Audit Control No. 2020-108-1-1

June 1, 2020

A handwritten signature in black ink, appearing to read "Debra M. Dobiac".

Debra M. Dobiac
Audit Manager

A handwritten signature in blue ink, appearing to read "Marisa N. Glover".

Marisa N. Glover
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 April 16, 2020. We have applied these procedures to the attached schedule prepared by Florida Public Utilities Company in support of its filing for storm recovery costs in Docket No.20190156-EI.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

FPUC or Utility refers to Florida Public Utilities Company.

Background

On August 7, 2019, the Utility filed a petition for a limited proceeding to recover incremental storm costs totaling \$39,172,503 associated with Hurricane Michael. In this petition the Utility also requests to record these costs as a regulatory asset, which would be amortized over 30 years and recovered through working capital and amortization expense. This methodology of cost recovery will not use a surcharge nor have any effect on the storm reserve. The regulatory asset would be comprised of the incremental storm restoration costs related to Hurricane Michael as per Rule 25-6.0143, Florida Administrative Code (F.A.C.) for costs incurred from October 1, 2018 through June 30, 2019 with proforma adjustments from July 1, 2019 through December 31, 2019. An auditor's report was issued on February 3, 2020 under Audit Control No. (ACN) 2019-329-1-2 that reviewed these costs in the initial filing.

On March 11, 2020, the Utility filed a revised petition to recover incremental storm costs totaling \$41,337,758. This amount includes costs incurred after July 1, 2019 associated with Hurricanes Michael and Dorian with proforma adjustments for costs incurred in 2020. This instant audit's scope was limited to testing those costs incurred between July 1, 2019 and December 31, 2019 and any documentation available for proforma costs incurred in 2020. Please see Exhibit 2 attached to this report for a breakdown of the storm costs incurred as reflected on each petition.

Expense

Payroll, Overhead, and Related Costs

Objectives: The objectives were to determine whether payroll, overtime, and related costs were properly stated, recorded in the period incurred, and related to Hurricane Michael and Dorian.

Procedures: We scheduled payroll, overhead, and related costs by storm, capital, and cost of removal cost types. We selected a judgmental sample of costs for detail testing and traced the amounts to the payroll register and allocation schedules. No exceptions were noted.

Fuel

Objectives: The objectives were to determine whether fuel costs were properly stated, recorded in the period incurred, and related to Hurricane Michael and Dorian.

Procedures: We scheduled fuel costs by storm, capital, and cost of removal cost types. We selected a judgmental sample of costs for detail testing and traced the amounts to the payroll allocation schedules, employee expense reports, or supporting invoices. No exceptions were noted.

Contractors

Objectives: The objectives were to determine whether contractors costs were properly stated, recorded in the period incurred, and related to Hurricane Michael and Dorian.

Procedures: We scheduled contractors' costs by storm, capital, and cost of removal cost types. We selected a judgmental sample of costs for detail testing and traced the amounts to the payroll allocation schedules, employee expense reports, or supporting invoices with cost allocation by work order schedules. No exceptions were noted.

Materials

Objectives: The objectives were to determine whether materials were properly stated, recorded in the period incurred, and related to Hurricane Michael and Dorian.

Procedures: We scheduled materials by storm, capital, and cost of removal cost types. We selected a judgmental sample of costs for detail testing and traced the items to the payroll allocation schedules, employee expense reports, inventory system printouts, or supporting invoices. No exceptions were noted.

Logistics

Objectives: The objectives were to determine whether logistics costs were properly stated, recorded in the period incurred, and related to Hurricane Michael and Dorian.

Procedures: We scheduled logistics costs by storm, capital, and cost of removal cost types. We selected a judgmental sample of costs for detail testing and traced the items to the payroll allocation schedules, employee expense reports, or supporting invoices. No exceptions were noted.

Other Costs

Objectives: The objectives were to determine whether other costs were properly stated, recorded in the period incurred, and related to Hurricane Michael and Dorian.

Procedures: We scheduled other costs by storm, capital, and cost of removal cost types. We selected a judgmental sample of costs for detail testing and traced the items to the supporting invoices. No exceptions were noted.

Other

Non-Incremental Costs

Objectives: The objective was to determine whether the non-incremental costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143, Florida Administrative Code (F.A.C.).

Procedures: We scheduled payroll and overhead costs by storm, capital, and cost of removal cost types. We traced the amounts to the payroll schedule, supporting documentation, and removed the capitalized payroll costs. No exceptions were noted.

Capitalizable Costs

Objectives: The objectives were to determine whether the capitalizable costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143(1) (d), F.A.C.

Procedures: We scheduled capitalizable costs by capital, and cost of removal cost types. We noted that the capitalizable costs tested under ACN 2019-329-1-2 included proforma adjustments. In the instant audit, we noted that the actual capitalizable costs were less than the prior proforma estimates and ensured that the Utility included for recovery only those costs that are allowed by the applicable Rule. No exceptions were noted.

Actual Costs Subsequent to December 31, 2019

Objectives: The objective is to review actual storm costs that were recorded subsequent to December 31, 2019.

Procedures: We requested and reviewed the supporting journal entries and documentation for the actual costs recorded between December 31, 2019 and May 29, 2020. No exceptions were noted.

Audit Findings

None

Exhibits

Exhibit 1: Storm Cost Recovery for Incremental Expenses

Line No.	Description	Reference	Total	Storm Reserve Balance
1	Pro-Storm Reserve Balance			N/A
2	Estimated Storm Related Restoration Costs			
3	Regular Payroll		\$ 609,196	
4	Overtime Payroll		\$ 490,433	
5	Payroll Overhead Allocations		\$ 371,902	
6	Department Cost Allocation on Capital		\$ 46,027	
7	Employee Expenses		\$ 77,555	
8	Contractor Costs		\$ 57,147,169	
9	Logistics		\$ 1,754,780	
10	Fuel		\$ 1,475,235	
11	Equipment Rental		\$ 232,334	
12	Materials		\$ 4,813,193	
13	Call Center Costs		\$ 26,516	
14	Uncollectible Account Expense		\$ 120,321	
15	Other		\$ 165,297	
16	Subtotal-Storm Related Restoration Costs	Lines 3:15	\$ 67,329,959	
17	Less: Estimated Non-Incremental Costs			
18	Regular Payroll		\$ (113,316)	
19	Overtime Payroll		\$ (11,827)	
20	Payroll Overhead Allocations		\$ (60,039)	
21	Subtotal-Estimated Non-Incremental Costs	Lines 17:20	\$ (185,182)	
22	Less: Capitalizable Costs		\$ (27,398,298)	
23	Total Recoverable Restoration Costs - System	lines (16+21+22)	\$ 39,746,479	
24	Jurisdictional Factor		100%	
25	Total Recoverable Restoration Costs-Retail	lines (23+24)	\$ 39,746,479	\$ 39,746,479
26	Net Recoverable Retail Restoration Costs	line 25 -line 1		\$ 39,746,479
27	Bond Issuance Costs			
28	Beginning Balance for Recovery	line 26-line 27		\$ 39,746,479
29	Plus: Interest on Unamortized Reserve Deficiency Balance thru 12/19			\$ 1,591,279
30	Plus: Amount to Replenish Reserve			
31	Retail Storm Recovery Amount before Regulatory Assessment Fee	lines 28:30		\$ 41,337,758
<p>(a) Docket 20180061-EI addressed recovery of the recovery of a \$1.5M reserve balance. No additional reserve is requested here.</p> <p>(b) Non-incremental storm costs were never recorded in Storm Work Orders. Estimated costs from 10-10-18 to 12-2-18 for the NW division are included in restoration costs and removed in non-incremental costs. Additional non-incremental costs were incurred in other months but could not be estimated since we do not recorded non-incremental as storm.</p>				
13-Month Average Calculation:				
	December		\$ 41,337,758	
	January		\$ 40,993,277	
	February		\$ 40,648,795	
	March		\$ 40,304,314	
	April		\$ 39,959,833	
	May		\$ 39,615,351	
	June		\$ 39,270,870	
	July		\$ 38,926,389	
	August		\$ 38,581,907	
	September		\$ 38,237,426	
	October		\$ 37,892,945	
	November		\$ 37,548,463	
	December		\$ 37,203,982	
	13-Month Average		\$ 39,270,870	

Exhibit 2: Storm Costs By Petitions

Florida Public Utilities Company
Storm Restoration Costs
Dkt. No: 20190156-EI

Description	ACN: 2019-329-1-2			Activity			ACN 2020-108-1-1			
	Per GL		Per Audit	6/30/2019 - 12/31/2019			Per GL		Proformas	Per Audit
	Michael	Proformas		Michael	Proformas	Total	Michael	Dorian		
	6/30/2019						12/31/2019		12/31/2019	
Regular Payroll	\$ 453,239	\$ 113,316	\$ 566,555	145,739	(113,316)	32,423	\$ 598,978	\$ 10,218		\$ 609,196
Overtime Payroll	469,603	11,827	481,430	16,266	(11,827)	4,439	485,869	4,564		490,433
Payroll Overhead Allocations	285,433	60,039	345,472	84,553	(60,039)	24,515	369,986	1,916		371,902
Department Cost Allocation	40,433		40,433	5,594	-	5,594	46,027	-		46,027
Employee Expenses	67,980		67,980	-	-	-	67,980	9,576		77,555
Contractor Costs	53,266,838	1,259,864	54,526,703	174,821	1,676,605	1,851,426	53,441,659	769,040	2,936,470	57,147,169
Logistics	1,437,896		1,437,896	3,656	15,000	18,656	1,441,552	298,229	15,000	1,754,781
Fuel	1,441,964		1,441,964	(74)	-	(74)	1,441,890	33,345		1,475,235
Equipment Rental	232,334		232,334	-	-	-	232,334	-		232,334
Materials	5,802,187	810,467	6,612,654	749,323	(2,561,788)	(1,812,465)	6,551,510	13,004	(1,751,320)	4,813,193
Call Center Costs	26,516		26,516	-	-	-	26,516	-		26,516
Uncollectible	120,321		120,321	-	-	-	120,321	-		120,321
Other	129,542		129,542	-	-	-	129,542	35,755		165,298
Sub-total	\$ 63,774,285	\$ 2,255,513	\$ 66,029,799	\$ 1,179,880	\$(1,055,364)	\$ 124,515	\$ 64,954,165	\$ 1,175,646	\$ 1,200,149	\$ 67,329,960
Interest	792,630	754,227	1,546,856	780,067	(752,726)	27,342	1,572,697	17,081	1,501	1,591,279
Sub-total	\$ 64,566,915	\$ 3,009,740	\$ 67,576,655	\$ 1,959,947	\$(1,808,090)	\$ 151,857	\$ 66,526,862	\$ 1,192,727	\$ 1,201,650	\$ 68,921,239
Less Capitalized Costs	(25,881,859)	(2,337,109)	(28,218,968)	(1,516,439)	2,337,109	820,670	(27,398,298)	-	-	(27,398,298)
Less Non Incremental Costs	-	(185,182)	(185,182)	(185,182)	185,182	(0)	(185,182)	-	-	(185,182)
Total	\$38,685,055	\$ 487,450	\$ 39,172,505	\$ 258,326	\$ 714,200	\$ 972,527	\$ 38,943,382	\$ 1,192,727	\$ 1,201,650	\$ 41,337,759