

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:** August 13, 2020

**TO:** Office of Commission Clerk

**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

**RE:** Docket No.: 20200039-GU  
Company Name: St. Joe Natural Gas Company, Inc.  
Company Code: GU610  
Audit Purpose: A1d: Limited Scope  
Audit Control No.: 2020-147-1-1

---

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

St. Joe Natural Gas Company, Inc.  
Storm Recovery Cost Audit – Hurricane Michael

**As of September 30, 2019**

Docket No. 20200039-GU  
Audit Control No. 2020-147-1-1  
**August 10, 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

## Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
1: Third-Party Storm Expense.....	4
2: Incremental Expenses .....	5
Exhibits	
1: Storm Cost Recovery for Incremental Expenses .....	6

## 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 May 22, 2020. We have applied these procedures to the attached schedule prepared by St. Joe Natural Gas Company, Inc. in support of its filing for storm recovery costs in Docket No. 20200039-GU.

The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

SJNG or Utility refers to St. Joe Natural Gas Company, Inc.

#### Background

On January 24, 2020, the Utility filed a petition for a limited proceeding to recover incremental storm costs totaling \$381,512 associated with Hurricane Michael. In this petition, the Utility requests to record these costs in Account 228.1 – Accumulated Provision for Property Insurance, which would be amortized over 48 months. 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 September 30, 2019.

### **Expense**

#### Third-Party Storm Expense

**Objectives:** The objectives were to determine whether third-party storm expense were properly stated, recorded in the period incurred, and related to Hurricane Michael.

**Procedures:** We traced the third-party storm transactions to the supporting invoices and applicable schedules. Finding 1 discusses our recommended adjustment to Third-Party Storm Expense.

#### Incremental Expense

**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 Operation and Maintenance (O&M) expenses for the twelve months ending September 30, 2016, September 30, 2017, and September 30, 2018 from the General Ledger. We calculated a three year average for O&M expenses and compared it to the Utility's as filed in their petition. We subtracted the audit average from the audit O&M expenses for the twelve months ending September 30, 2019. Finding 2 discusses our recommended adjustment to Incremental Expenses

#### 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 the net activity of UPIS from October 1, 2018 through September 30, 2019. We determined that the UPIS activity was not included with the incremental storm costs, and the Utility is not asking for a base rate change in this proceeding. No further work performed.

## Audit Findings

### **Finding 1: Third-Party Storm Expense**

**Audit Analysis:** According to the Utility's Attachment B to the petition, Account 906 – Direct Third Party Expense had a balance of \$135,956, which agreed with the general ledger. Audit staff traced all the storm cost transactions recorded in this account to its supporting documentation, and found that one invoice for \$16,596 was not utility related. The Utility stated that this invoice should be removed because it was for materials and labor for the installation of water heaters, which should be included with non-utility expense. We determined that the third-party storm expense should be \$119,360 ( $\$135,956 - \$16,596$ ).

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

**Effect on the Filing:** The Third-Party Storm Expense should be reduced by \$16,596.

## Finding 2: Incremental Expenses

**Audit Analysis:** According to the Utility's Attachment B to the petition, the three-year average of the 2016, 2017, and 2018 O&M expenses is \$1,124,688 and the 2019 O&M expenses total \$1,367,324. Audit staff determined that the three-year average of the 2016, 2017, and 2018 O&M expenses is \$1,124,688 and the 2019 O&M expenses total \$1,365,525 as shown in Table 1-1.

**Table 1-1**

O&M Expenses	3 YR AVG	Incremental Storm Costs	9/30/2019
B-OPERATIONS:870 · Operation Supervision & Enginee	\$ 107,278	\$ 10,918	\$ 118,197
B-OPERATIONS:871 · Distribution Load Dispatching	38,372	9,655	48,027
B-OPERATIONS:874 · Mains & Services Expenses	30,363	4,370	34,733
B-OPERATIONS:874.1 · Mains & Serv. Exp - Line Locate	33,386	7,322	40,708
B-OPERATIONS:875 · M&R Station - General	8,767	-	7,787
B-OPERATIONS:876 · M&R Station - Industrial	4,623	88	4,711
B-OPERATIONS:877 · M&R Station - City Gate	7,830	-	7,133
B-OPERATIONS:878 · M&R System	47,745	22,799	70,544
B-OPERATIONS:879 · Customer Installation Expenses	65,649	38,478	104,127
B-OPERATIONS:880 · Other Expenses	37,523	10,372	47,895
B-OPERATIONS:881 · Rents	8,988	-	8,971
C-MAINTENANCE:886 · Maint. - Structure	8,830	-	4,877
C-MAINTENANCE:887 · Maint. - Mains	7,583	6,759	14,342
C-MAINTENANCE:889 · Maint. - M&R - General	2,783	4,761	7,544
C-MAINTENANCE:890 · Maint. - M&R - Industrial	173	28	201
C-MAINTENANCE:891 · Maint. - M&R City Gate	407	218	624
C-MAINTENANCE:892 · Maint. - Services	13,401	2,192	15,592
C-MAINTENANCE:894 · Maint. - Other Equipment	17,615	7,577	25,192
D-CUSTOMER ACCOUNTS:902 · Meter Reading Expenses	6,328	-	5,799
D-CUSTOMER ACCOUNTS:903 · Cust. Records & Coll. Expenses	120,529	16,609	137,137
D-CUSTOMER ACCOUNTS:904 · Uncollectible Accounts	9,031	-	1,314
D-CUSTOMER ACCOUNTS:906 · Customer Service & Information	-	135,956	135,956
D-CUSTOMER ACCOUNTS:908 · Customer Assist. & Conservation	164,864	-	129,847
E-SALES EXPENSE:913 · Advertising Expenses	3,863	-	2,118
F-ADMIN & GENERAL:920 · Admin. & General Salaries	90,912	314	91,226
F-ADMIN & GENERAL:921 · Office Supplies & Expenses	20,719	6,526	27,245
F-ADMIN & GENERAL:923 · Outside Services Employed	38,641	-	10,182
F-ADMIN & GENERAL:924 · Property Insurance	42,101	-	41,271
F-ADMIN & GENERAL:926 · Employee Pensions & Benefits	96,919	23,711	120,631
F-ADMIN & GENERAL:928 · Regulatory Commission Expenses	36,061	-	36,651
F-ADMIN & GENERAL:930 · Misc. General Expense:930.01 · Meals & Entertainment	814	-	453
F-ADMIN & GENERAL:930 · Misc. General Expense:930.02 · Other	20,982	-	24,974
F-ADMIN & GENERAL:930 · Misc. General Expense:930.03 · Director's Fees	22,333	11,298	30,000
F-ADMIN & GENERAL:932 · Maintenance of General Plant	9,275	242	9,517
<b>TOTAL</b>	<b>\$ 1,124,688</b>	<b>\$ 320,192</b>	<b>\$ 1,365,525</b>
Per Filing:		<u>\$ 321,012</u>	
Variance:		(820)	

We noted that the 2019 expense in Account 892 – Maintenance Services was \$16,412 in the filing while the general ledger only had an amount of \$15,592, which is a variance of \$820 (\$16,412 - \$15,592). We also noted that when the three-year average was greater than the 2019 expenses, the costs were not incremental, and therefore, not included for recovery per Rule 25-6.0143, F.A.C.

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

**Effect on the Filing:** The Incremental Expenses should be reduced by \$820.

## Exhibits

### Exhibit 1: Storm Cost Recovery for Incremental Expenses

ST JOE NATURAL GAS COMPANY, INC. O&M EXPENSES - ST JOE GAS	A Storm Var	B Post Storm Oct '18 - Sep 19	C Pre Storm 3 Yr Avg (16-17-18)
<b>D-OPERATIONS</b>			
870 - Operation Supervision & Engineer	\$10,918	\$118,197	\$107,278
871 - Distribution Load Dispatching	\$9,855	\$48,027	\$38,372
874 - Maint & Services Expenses	\$4,370	\$34,733	\$30,363
874.1 - Maint & Serv. Exp - Line Locals	\$7,322	\$40,708	\$33,386
875 - M&R System - General (1.3 yr avg)		\$7,787	\$8,767
876 - M&R Station - Industrial	\$88	\$4,711	\$4,623
877 - M&R Station - City Gate (1.3 yr avg)		\$7,133	\$7,830
878 - M&R System	\$22,789	\$70,644	\$47,745
879 - Customer Installation Expenses	\$38,478	\$104,127	\$65,849
880 - Other Expenses	\$10,372	\$47,895	\$37,523
881 - Resto		\$8,971	\$8,988
<b>Total B-OPERATIONS</b>	<b>\$104,002</b>	<b>\$492,832</b>	<b>\$390,525</b>
<b>C-MAINTENANCE</b>			
886 - Maint - Structures (1.3 yr avg)		\$4,877	\$8,830
887 - Maint - M&R	\$8,759	\$14,342	\$7,583
890 - Maint - M&R - General (District & Farm Top Stations)	\$4,781	\$7,544	\$2,783
890 - Maint - M&R - Industrial	\$28	\$201	\$173
891 - Maint - M&R City Gate	\$218	\$624	\$407
892 - Maint - Services	\$3,012	\$16,412	\$13,401
894 - Maint - Other Equipment	\$7,577	\$25,192	\$17,815
<b>Total C-MAINTENANCE</b>	<b>\$22,364</b>	<b>\$69,194</b>	<b>\$50,792</b>
<b>D-CUSTOMER ACCOUNTS</b>			
895 - Cust. Records & Coll. Expenses	\$16,809	\$137,137	\$120,529
904 - Uncollectible Accounts		\$1,314	\$9,031
908 - Direct 3rd Party Expense	\$135,956	\$135,956	\$0
909 - Customer Assist. & Conservation		\$129,847	\$184,884
<b>Total D-CUSTOMER ACCOUNTS</b>	<b>\$162,665</b>	<b>\$410,053</b>	<b>\$300,752</b>
<b>E-SALES EXPENSE</b>			
		\$2,118	\$3,883
<b>F-ADMIN &amp; GENERAL</b>			
900 - Admin. & General Salaries	\$314	\$91,226	\$90,912
921 - Office Supplies & Expenses	\$6,528	\$27,245	\$20,719
923 - Outside Services Employed (1.3 yr avg)		\$10,182	\$38,841
924 - Property Insurance		\$42,248	\$42,101
925 - Employee Pensions & Benefits	\$23,711	\$120,631	\$88,919
929 - Regulatory Commission Expenses		\$38,851	\$38,081
930 - Misc. General Expense	\$11,288	\$55,427	\$44,129
932 - Maintenance of General Plant	\$242	\$9,517	\$9,275
<b>Total F-ADMIN &amp; GENERAL</b>	<b>\$42,091</b>	<b>\$393,127</b>	<b>\$378,758</b>
<b>Operations</b>	<b>\$104,002</b>		
<b>Maintenance</b>	<b>\$22,364</b>		
<b>3rd Party Direct Expenses</b>	<b>\$152,565</b>		
<b>Admin &amp; General</b>	<b>\$42,091</b>		
<b>TOTAL Above 3 Yr O&amp;M Expenses</b>	<b>\$321,012</b>		
<b>REMAINING EXPENSES TO BE PAID</b>			
1 2" PE Main Bches	\$20,000		
2 M&R #1 replace regulator	\$250		
3 Retire SL	\$12,500		
4 Replace Canal Crossing Signs	\$1,300		
5 Fitzpatrick Fence	\$2,000		
6 354 R81 Housing Rental Expense -	\$5,250		
7 Projected Legal Costs	\$19,000		
<b>TOTAL ESTIMATE TO BE DONE</b>	<b>\$60,600</b>		
<b>GROSS TO RECOVER</b>	<b>\$381,512</b>		