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: September 23, 2024

TO: Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

FROM: Donna Brown, Bureau Chief, Office of Auditing & Performance Analysis DB

RE: Docket No.: 20240046-GU
Company Name: St. Joe Natural Gas Company, Inc.
Company Code: GU610
Audit Purpose: A1f: Rate Case (PAA)
Audit Control No.: 2024-193-1-1

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 the Commission Clerk. There are no confidential work papers associated with this audit.

Attachment: Audit Report

Cc: Office of Auditing & Performance Analysis

State of Florida

Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing

Auditor's Report

St. Joe Natural Gas Company, Inc.
Rate Case (PAA)

Historical Year Ended December 31, 2023

Docket No. 20240046-GU
Audit Control No. 2024-193-1-1
September 23, 2024

Denise Brown for Yen Ngo

Yen N. Ngo
Audit Manager

Kathryn Guan
Audit Staff

K. Sai Rashmitha

Sai Rashmitha Kolli
Audit Staff

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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 & Finance in its audit service request dated July 8, 2024. We have applied these procedures to the attached schedules prepared by St. Joe Natural Gas Company, Inc. in support of its filing for rate relief in Docket No. 20240046-GU.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definition

SJNG refers St. Joe Natural Gas Company, Inc.

FERC refers to the Federal Energy Regulatory Commission

USOA refers to the FERC Uniform System of Accounts as adopted by Commission Rule 25-7.014 – Records and Reports in General, Florida Administrative Code (F.A.C.)

Background

St. Joe Natural Gas Company, Inc. filed a petition for a permanent rate increase on July 8, 2024, with a historical test year ending December 31, 2023, and a projected test year ending December 31, 2024.

SJNG, located in Port St. Joe, provides natural gas and non-regulated propane services and appliance. The natural gas division has approximately 3,046 customers and fourteen full-time employees.

The Utility's last petition for rate relief was granted by Order No. PSC-2008-0436-PAA-GU, in Docket No. 20070592-GU, using a projected test year of December 31, 2008.

Objective: The objective of this audit was to determine whether the Utility's 2023 historical year end filing in Docket No. 20240046-GU was consistent and in compliance with Section 366.06 – Rates, Procedures for Fixing and Changing, Florida Statutes (F.S.), and Commission Rule 25-7.014(3) – Records and Reports in General.

Procedures: We performed the following specific procedures to satisfy the overall objective identified above.

Analytical Review

Objective: The objective was to perform an analytical review of the Utility's rate case filing using prior annual reports filed with the Commission.

Procedures: Audit staff performed the analytical review comparing the annual percentage changes from 2007 through 2023 for depreciable and amortizable assets, and construction-of-work-in-progress. In addition, we compared the percentage changes for total revenues and total expenses from 2007 through 2023. We requested explanations from the Utility for any significant changes for depreciable and amortizable assets, construction-work-in-progress, revenues, and expenses. The Utility-provided explanations were sufficient and further follow-up was not required.

Rate Base

Utility Plant

Objectives: The objectives were to determine whether Utility Plant in Service (UPIS) exists and is owned by the utility, additions are authentic and recorded at original cost, proper retirements were made when a replacement asset was put into service, and UPIS was properly classified in compliance with the USOA. Additional objectives were to determine whether UPIS balances were properly stated based on Commission-ordered adjustments made in the prior rate case and to determine the 13-month average balance for UPIS as of December 31, 2023.

Procedures: We reconciled plant balances in the MFRs to the Utility's books and records for the period December 31, 2008, to December 31, 2023. We also recalculated the 13-month average balance. We statistically selected, and tested, the plant additions in Account 101 – Plant-in-Service. Finding 2, 3 and 8 discuss our recommendations.

Land & Land Rights

Objectives: The objectives were to verify the land additions, retirements, and adjustments for 2023, and determine whether the Company's property records were maintained in accordance with Commission Rule 25-7.014.

Procedures: We recalculated the land balance from December 31, 2008, to December 31, 2023 and traced the land balance to the general ledger. We requested a list of land purchases since the prior audit and reviewed the deeds supporting the land purchases. No exceptions were noted.

Construction Work in Progress (CWIP)

Objectives: The objectives were to determine whether the CWIP balances were properly stated based on Commission-ordered adjustments in the prior rate case and noted in Order No. PSC-20208-0346-PAA-GU, and to recalculate the 13-month average balance for CWIP as of December 31, 2023.

Procedures: We reconciled the CWIP amounts in the MFRs to the Utility's books and records for the period December 31, 2008, to December 31, 2023. We also recalculated the 13-month average balance. In addition, we statistically sampled projects for testing. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether accruals, retirements and adjustments to accumulated depreciation were properly recorded in compliance with the USOA, to determine whether the utility used the depreciation rates established in prior orders, and to determine whether the balances are properly stated based on Commission-ordered adjustments in the prior rate case, and to recalculate the 13-month average balance for accumulated depreciation as of December 31, 2023.

Procedures: We reconciled the accumulated depreciation amounts in the MFRs to the Utility's books and records for the period December 31, 2008, to December 31, 2023. We reconciled the

Commission-ordered balances to the general ledger and MFRs. We recalculated the 13-month average balance. We traced the depreciation rates to the depreciation study orders, Order No. PSC-2013-0174-PAA-GU and Order No. PSC-2018-0368-PAA-GU. We recalculated the 13-month average balance for UPIS to determine that the Utility used the depreciation rates recommended in Order No. PSC-2023-0215-PAA-GU. Findings 4 and 8 discuss our recommendations.

Working Capital

Objectives: The objectives were to determine whether the working capital account balances were properly stated based on Commission Rules and Commission-ordered adjustments in the prior rate case and noted in Order No. PSC-2008-0436-PAA-GU, and to recalculate the 13-month average balance.

Procedures: We recalculated and reconciled the working capital components in the MFRs. We verified that the Working Capital adjustments were consistent with the prior rate case. We determined if the Working Capital accounts were interest bearing, and tested all transactions in clearing accounts, prepayments, miscellaneous deferred debits, other deferred credits, and accrued liabilities. We confirmed those accounts were properly booked and recorded. No exceptions were noted.

Capital Structure

Equity

Objectives: The objectives were to determine whether equity account balances represented the utility's actual equity and to recalculate the 13-month average balance for equity for the historical year ended December 31, 2023.

Procedures: We reconciled the equity balances to the Utility provided support and to the general ledger. We recalculated the 13-month average of the equity balances. Finding 5 discusses our recommendation.

Long-Term Debt

Objectives: The objectives were to recalculate the 13-month average balance for Long-Term Debt as of December 31, 2023. We also were to determine whether the Long-Term Debt balances represented actual obligations of the Utility and were properly recorded.

Procedures: We recalculated the cost rate and the 13-month average balances. We also reconciled long-term debt to support documentation and identified all additions and extinguishments since the last rate proceeding. No exceptions were noted.

Customer Deposits

Objectives: The objectives were to determine whether customer deposit balances represented actual obligations of the utility, determine if customer deposits were properly recorded, and to recalculate the 13-month average customer deposit balance.

Procedures: We reconciled customer deposits to the general ledger. We recalculated the 13-month average balance for customer deposits. Audit staff verified the Utility used the proper interest on customer deposits. No other exceptions were noted.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether the revenues for the historical base year per the Utility's MFRs were representative of the Utility's books and records and to verify that all classes of customer bills are calculated correctly and are in compliance with the tariffed rates. An additional objective was to determine whether unbilled revenues were calculated properly.

Procedures: We requested revenue balances and unbilled revenues by month and rate class. We reconciled the Utility provided support to the general ledger. We requested samples of all classes of customer bills and the tariffs. We recalculated all sample bills for accuracy and compliance with tariffed rates. We recalculated unbilled revenues to verify for accuracy. No exceptions were noted.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether the Operation and Maintenance (O&M) expenses were properly recorded in compliance with the USOA, adequately supported by documentation, and in the correct amount and in the correct period.

Procedures: We recalculated the O&M expenses for 2023, and reconciled them to the MFRs. We verified, based on statistical samples of utility transactions, that the sample transactions were adequately supported by source documentation, were utility in nature, did not include non-utility items, and were recorded consistent with the USOA. We reviewed samples of expenses to ensure that amounts supporting non-utility operations were removed. We verified payroll expense, and confirmed it has been properly recorded and reflected in the MFRs. Audit staff found that the monthly O&M expenses presented in the MFR filing were estimated amounts when they should be actual amounts. Findings 6, 10 and 11 discuss our recommendations.

Depreciation and Amortization

Objectives: The objectives were to determine whether depreciation and amortization expense was properly recorded in compliance with the USOA, and to determine that depreciation and amortization expense accruals were calculated using the proper rates established in prior Commission orders.

Procedures: We reconciled the depreciation expense from the MFR schedules to the general ledger. We reconciled depreciation a rates from the Utility-provided schedules to Commission Order No. PSC-2020-0485-FOF-GU. We determined that the Utility did not have any amortization expense. We recalculated a sample of depreciation expense and reconciled the plant balances used for recalculation to the general ledger. Findings 4 and 8 discuss our recommendations.

Taxes Other than Income

Objectives: The objectives were to determine whether Taxes Other Than Income (TOTI) was properly recorded and supported by adequate documentation.

Procedures: We reconciled the components of TOTI to the general ledger. We reviewed FPSC Regulatory Assessment Fee (RAF) forms filed by the Utility and recalculated the RAF using the FPSC RAF rate. We reviewed federal unemployment, state unemployment, and FICA taxes as reflected in the MFRs and reconciled them to the general ledger. We also recalculated the Gross Receipt Taxes (GRT) paid by the Utility and reconciled them to the general ledger and supporting documentation. We verified real estate and tangible property taxes incurred by the Utility for the test year and ensured that all property tax expense reflected the maximum discount available. We reviewed the accruals for franchise fees and reconciled them to the general ledger and the MFRs. No exceptions were noted.

Income Taxes

Objective: The objective was to determine whether federal and state income taxes reflected on MFR Schedule G-2 were properly recorded.

Procedures: We recalculated deferred income taxes and the state and the federal income taxes for 2023, and reconciled to MFR Schedule G-2. We verified the state and federal rate, and determined the Utility used the correct federal rate, but incorrect state tax rate. Findings 7 and 9 discuss our recommendations.

Other

External/Internal Audits

Objective: The objective was to determine if there were any exceptions and disclosures noted in any external/internal audits that may be applicable to this case.

Procedures: We requested all external and internal audit reports. We reviewed the external audits and determined that there were no internal audits performed. No further work was performed.

Affiliate Transactions

Objectives: The objectives were to review intercompany charges to and from divisions, affiliated companies, and non-regulated operations, to determine if costs were allocated pursuant to Commission Rules. Additional objectives were to determine the original amounts allocated, whether the methodology was reasonable, and to check for accuracy and consistent application.

Procedures: Audit staff requested a written cost of allocation manual (CAM) and written policies and procedures for affiliate transactions. We examined items that were allocated and recalculated the allocation percentages provided by the Utility. Finding 1 discusses our recommendation.

Audit Findings

Finding 1: Cost Allocation Manual (CAM)

Audit Analysis: Rule 25-6.1351(6), Florida Administrative Code, states "Each **utility** involved in affiliate transactions or in nonregulated activities must maintain a Cost Allocation Manual (CAM). The CAM must be organized and indexed so that the information contained therein can be easily accessed."

The utility operates natural gas, propane gas, and appliance businesses. While the utility provided the how some costs are allocated between its three businesses, it does not have a written CAM. As a result, there is no consistency in how various costs are allocated or in its allocation policies and procedures.

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

Effect on the Filing: The utility should determine the effect on the filing.

Finding 2: Plant-In-Service (PIS)

Audit Analysis: Audit staff performed a statistical sample of PIS and determined that the Utility transferred three trucks, totaling $115,070, to its propane division on March 31, 2021. In addition, the Utility also transferred two trucks in the amount of $113,326 to the propane division on July 31, 2022. Audit staff believes that these trucks should be treated as sales transactions instead of simply removing the trucks from the general ledger. Due to some of the trucks not being fully depreciated at the time of the transfer, audit staff believes the natural gas division should recover some salvage value from the propane division for the receipt of the trucks.

Table 2-1

2021 PIS Transferred From Gas to Propane

Account	Description	Debit	Credit
PIS			
392 · Transportation Equipment	Transferred from Utility Plant - F150 #1FTMF1CF9GKD69654, 2016 to Propane Plant		$ 38,346
392 · Transportation Equipment	Transferred from Utility Plant - F150 #1FTNF1CF0HKC15758, 2018 to Propane Plant		$ 38,954
392 · Transportation Equipment	Transferred 2017 Ford F-150 Truck to Propane, VIN#1FTNF1CF3HKC87117 from NG		$ 37,769
	Total		**$ 115,070**
Acc Dep			
108 · Depreciation	Transferred F150 #1FTMF1CF9GKD69654, 2016 Truck to Propane	$ 24,651	
108 · Depreciation	Transferred F150 #1FTNF1CF0HKC15758, 2018 Truck to Propane	$ 15,303	
108 · Depreciation	Transferred Ford F-150 Truck Vin#1FTNF1CF3HKC87177 To Propane	$ 12,355	
	Total	**$ 52,309**	

2022 PIS Transferred From Gas to Propane

Account	Description	Debit	Credit
PIS			
392 · Transportation Equipment	Transferred 2009 Ford F150 to Propane - VIN#1FTPW14V39FB14965		$ 45,732
392 · Transportation Equipment	Transferred 2016 F150 Truck to Propane - VIN#1FTEW1FF3GKD50356		$ 67,594
	Total		**$ 113,326**
Acc Dep			
108 · Depreciation	Transferred 2009 Ford F150 to Propane - VIN#1FTPW14V39FB14965	$ 45,732	
108 · Depreciation	Transferred 2016 F150 Truck to Propane - VIN#1FTEW1FF3GKD50356	$ 47,550	
	Total	**$ 93,282**	

Table 2-2

Calculation of the Sales of Trucks				
Accumulated Depreciation - 2021	$	52,309		
Accumulated Depreciation - 2022	$	93,282		
Total Accumulated Depreciation	$	145,590		
Transporation Equipment - 2021			$	115,070
Transporation Equipment - 2022			$	113,326
Total PIS			$	228,396
Transportation Equipment			$	228,396
Less: Accumulated Depreciation			$	(145,590)
Value of Trucks			$	82,805

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

Effect on the Filing: The book value of the transferred trucks is detailed in Table 2-2. However, audit staff was unable to determine what methodology should be used to determine what salvage value should be included in revenues as a result of the transfer.

Finding 3: Allocation of Land Value and Plant-in-Service (PIS)

Audit Analysis: Audit staff determined that the Utility decreased Account 374 - Land & Land Rights - Distribution by $70,794.75 (65% of $108,915) and $73,477 (35% of the sum of $101,019.66 and $108,915) during 2019. These adjustments were allocated with 35% assigned to Propane and 65% assigned to Natural Gas. The Utility also allocated natural gas PIS to propane. We requested supporting documentation for the basis of these allocations, but the Utility did not provide any documentation to support them.

Table 3-1

Account No.	Description	Date	Allocation %	Amount
381	Meter - Auto Gas Allocation	12/30/16	30%	$ 33,552
374	Land & Land Rights - Distrub.	01/01/19	35%	$ 73,477
375	Building & Improvement	01/01/19	35%	$ 70,795

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

Effect on the Filing: The Utility should determine the effect on the filing.

Finding 4: Depreciation and Amortization

Audit Analysis: Audit staff recalculated the depreciation expense for the historical year ended December 31, 2023, and discovered that the Utility used an incorrect depreciation rate of 1.8% for Account 390 – Structures & Improvement instead of the Commission-approved 7.2%. In addition, 23.93% of Account 390 – Structures & Improvement, was allocated to the Utility's non-regulated operations. As a result of the incorrect depreciation rate, audit staff determined that the total depreciation expense should be decreased by $160. Additionally, the 13-month average of accumulated depreciation for Account – 390 should be increased by $357. See the Tables below for the detailed calculations and adjustments.

Table 4-1

Account Description	Utility Depreciation Rate	Commission Approved Rate
390 - Structures & Improvement	1.8%	2.2%

Table 4-2

Acct. No.	Account Title	Depreciation Rates	PIS 2023	Per MFR	Adjustments	Depreciation Expense
DEPRECIABLE ASSETS						
375	Building & Improvements	2.70%	$ 164,838	$ 4,451	$ -	$ 4,451
376.1	Mains - Plastic	3.20%	$ 1,533,658	$ 49,075	$ 2	$ 49,077
376.2	Mains - Steel	3.00%	$ 3,072,346	$ 92,172	$ (2)	$ 92,170
378	M & R Equipment (Distribution)	2.70%	$ 103,447	$ 2,793	$ -	$ 2,793
379	M & R Equipment (City Gate)	1.90%	$ 459,066	$ 8,722	$ -	$ 8,722
380.1	Services - Plastic	3.10%	$ 1,116,897	$ 34,626	$ (2)	$ 34,624
380.2	Services - Steel	8.00%	$ 92,058	$ 7,365	$ -	$ 7,365
381	Meters	3.90%	$ 813,700	$ 31,814	$ (80)	$ 31,734
382	Meter Installation	3.90%	$ 123,047	$ 4,799	$ -	$ 4,799
383	Regulators	3.30%	$ 267,538	$ 8,838	$ (9)	$ 8,829
384	Regulator Installation	3.90%	$ 79,776	$ 3,112	$ (1)	$ 3,111
385	Industrial M & R Equipment	3.70%	$ 53,010	$ 1,963	$ (2)	$ 1,961
387	Other Equipment (Fully Depreciated)	7.10%	$ 13,469	-	-	-
390	Structures & Improvements	2.20%	$ 178,162	$ 3,207	$ 713	$ 3,920
391.1	Office Equipment - Furniture	6.60%	$ 10,904	$ 720	$ -	$ 720
391.2	Office Equipment - Devices	12.00%	$ 24,351	$ 2,921	$ 1	$ 2,922
391.3	Office Equipment - Computers	7.60%	$ 102,642	$ 7,811	$ (10)	$ 7,801
392	Transportation	16.90%	$ 619,177	$ 105,408	$ (767)	$ 104,641
394	Tools, Shop & Garage Equipment	4.90%	$ 61,006	$ 2,990	$ (1)	$ 2,989
396	Power Operated Equipment	6.40%	$ 112,262	$ 7,186	$ (1)	$ 7,185
397	Communication Equipment	20.30%	$ 1,408	$ 286	$ -	$ 286
	TOTAL		$ 9,002,763	$ 380,259	$ (160)	$ 380,099

Table 4-3

Recalculated of Account 390 - Accumulated Depreciation		
Month		**Amount**
Dec-22	$	123,947
Jan-23	$	124,274
Feb-23	$	124,600
Mar-23	$	124,927
Apr-23	$	125,253
May-23	$	125,580
Jun-23	$	125,907
Jul-23	$	126,233
Aug-23	$	126,560
Sep-23	$	126,887
Oct-23	$	127,213
Nov-23	$	127,540
Dec-23	$	127,867
13 Month Average	$	125,907
Per Utility	$	(125,550)
Adjustment	$	357

Table 4-4

Allocation of Depreciation Exp		
Dec 23 AD	$	644,115
Jan 23 AD	$	(550,135)
Dep Exp 2023	$	93,980
Allocation		23.93%
Common Plant Allocation	$	22,489

Table 4-5

Recalculation of 13 Month Average Accumulated Depreciation			
RECALCULATED AD ALLOCATION	13 MONTH AVERAGE	NONUTILITY %	13 MONTH AVG NONUTILITY
387 OTHER EQUIPMENT	$ 13,840	23.93%	$ 3,312
389 LAND AND LAND RIGHTS	$ -	23.93%	$ -
390 STRUCTURES & IMPROVEMENTS	$ 125,907	23.93%	$ 30,130
391 OFFICE FURNITURE	$ 8,114	23.93%	$ 1,942
391 OFFICE EQUIPMENT	$ 11,513	23.93%	$ 2,755
391 COMPUTERS	$ 51,560	23.93%	$ 12,338
392 TRANSPORTATION	$ 281,429	23.93%	$ 67,346
394 TOOLS AND WORK EQUIPMENT	$ 22,783	23.93%	$ 5,452
396 POWER OPERATED EQUIPMENT	$ 76,077	23.93%	$ 18,205
397 COMMUNICATION EQUIPMENT	$ (714)	23.93%	$ (171)
398 MISC. EQUIPMENT	$ -	23.93%	$ -
TOTAL	$ 590,509		$ 141,309
PER UTILITY			$ (141,223)
			$ 86

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

Effect on the Filing: Audit staff determined that the total depreciation expense should be decreased by $160. The 13-month average of accumulated depreciation for Account – 390 should be increased by $357. The total allocated depreciation expense to the common plant was $22,489. The allocated accumulated depreciation of Account - 390 should be increased by $86 ($30,129 – 30,443). The total allocated accumulated depreciation should be increased $86 (141,309 – 141,223) as well.

Finding 5: Cost of Capital

Audit Analysis: Audit staff determined that the Utility recorded two different amounts for the total shareholders equity on MFR Schedule G-1, page 6 and MFR Schedule G-3, page 1. The Utility's filing reflects total shareholders equity totaling $4,375,856 and $4,399,938. However, the actual total shareholders equity should be $4,375,856. The Non-Utility adjustments filed on Schedule G-3, page 1 were incorrect. In addition, the Non-Utility adjustment for Common Equity should be $2,648,805, for Long Term Debt should be $181,596, and for Customer Deposits should be $110,710. The total Non-Utility reductions should be $4,525,712. See table 5-1.

Table 5-1

Cost of Capital	Non-Utility Adjustment Per MFR	Adjustment	Non-Utility Adjustment Per Auditor
Common Equity	$(2,730,834)	$ 82,029	$(2,648,805)
Long Term Debt	$ (186,196)	$ 4,600	$ (181,596)
Long Term Debt - Nonutility	$(1,573,734)	$ -	$(1,573,734)
Customer Deposits	$ -	$ (110,710)	$ (110,710)
Deferred Credits - FCPC	$ -	$ -	$ -
Deferred Income Taxes	$ -	$ -	$ -
Propane Deposits	$ (10,867)	$ (0)	$ (10,867)
Total	**$(4,501,631)**	**$ (24,081)**	**$(4,525,712)**

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

Effect on the Filing: Audit staff determined the total shareholders equity to be $4,375,856. In addition, the Non-Utility adjustment for Common Equity should be $2,648,805, $181,596 for Long-Term Debt and $110,710 for Customer Deposits. The total Non-Utility reductions should be $4,525,712.

Finding 6: O&M Expenses

Audit Analysis: Audit staff recalculated the O&M expenses, and reconciled the expenses reflected on MFR Schedule G-2, pages 10 through 19 to the general ledger. While reconciling MFR Schedule G-2, we determined the Utility used estimated monthly O&M expenses. The Utility should report actual monthly O&M expenses instead of monthly estimated expenses. After recalculating, audit staff determined that there was an immaterial ($25) variance between the total O&M expenses per audit staff and the MFR. See Table 6-1.

Table 6-1

2023	O&M Expense Estimated	Adjustments	O&M Expense Actual
January	$ 120,507	$ 8,424	$ 128,931
February	$ 120,507	$ (10,125)	$ 110,382
March	$ 120,507	$ (8,759)	$ 111,748
April	$ 120,507	$ (15,585)	$ 104,922
May	$ 120,507	$ 7,832	$ 128,339
June	$ 120,507	$ 2,438	$ 122,945
July	$ 120,507	$ (4,481)	$ 116,026
August	$ 120,507	$ 4,079	$ 124,586
September	$ 120,507	$ (9,816)	$ 110,691
October	$ 120,507	$ (6,847)	$ 113,660
November	$ 120,507	$ (16,455)	$ 104,052
December	$ 120,505	$ 49,269	$ 169,774
TOTAL	**$ 1,446,082**	**$ (25)**	**$ 1,446,057**

The Finding is for informational purposes only.

Finding 7: State Tax Rate

Audit Analysis: The state tax rate used by the Utility was 4.6% per MFR Schedule G-2. Audit staff verified and confirmed the correct state tax rate should be 5.5%. The Utility did not provide any support for the use of the incorrect tax rate. In addition, audit staff was unable to determine the effect on the filing due to the Utility's use of the 4.6% rate instead of the 5.5% rate.

This finding is for informational purposes only.

Finding 8: Allocation of Common Plant

Audit Analysis: Audit staff reviewed MFR Schedule F-1 and noticed that the adjustments listed for common plant allocated and accumulated depreciation – utility plant were for the year ended 2023. The Utility's adjustments were $216,805 and 125,229 for 2022. Audit staff recalculated the rate of return using the correct 2023 adjustment for common plan allocated and accumulated depreciation – utility plant in the amounts of $275,578 and $141,309, respectively. See Table 8-1.

Table 8-1

UTILITY PLANT	AVERAGE PER BOOKS	ADJUSTMENT	ADJUSTED AVERAGE
PLANT IN SERVICE	$ 9,253,814		$ 9,253,814
COMMON PLANT ALLOCATED		$ (275,578)	$ (275,578)
CONSTRUCTION WORK IN PROGRESS	$ 158,646		$ 158,646
TOTAL PLANT	$ 9,412,460	$ (275,578)	$ 9,136,882
DEDUCTIONS			
ACCUM. DEPR. - UTILITY PLANT	$ (6,180,338)	$ 141,309	$ (6,039,115)
CUSTOMER ADVANCES FOR CONST.			
TOTAL DEDUCTIONS	$ (6,180,338)	$ 141,309	$ (6,039,115)
PLANT NET	$ 3,232,122	$ (134,269)	$ 3,097,767
ALLOWANCE FOR WORKING CAPITAL			
BALANCE SHEET METHOD	$ 1,047,906	$ (948,051)	$ 99,855
TOTAL RATE BASE	$ 4,280,028	$ (1,082,406)	$ 3,197,622
NET OPERATING INCOME	$ (305,268)		$ (305,268)
RATE OF RETURN	-7.13%	0.00%	-9.55%

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

Effect on the Filing: The Rate of Return in the Rate Base schedule was increased to (9.55%) instead of (7.13%).

Finding 9: Deferred Income Taxes

Audit Analysis: Audit staff recalculated the MFR Schedule G-2 and determined that the deferred income taxes for the Utility was incorrect. The Utility filed the estimated deferred income taxes with the amount of $89,518 on MFR Schedule G-2, page 26, which contained the actual deferred tax expenses with the total of state income tax and federal income tax. The accountant from the Utility could not provide the supporting documentation to show how the estimated deferred income were derived. Similarly, the Utility's accountant could not provide how the estimated tax depreciation and amortization were calculated. Therefore, audit staff could not recalculate the state income tax, the federal income tax, and the deferred tax expenses due to lack of information from the Utility. In addition, the Utility does not allocate total income tax liability between the different divisions of the company.

The Finding is for informational purposes only.

Finding 10: Allocation for Director's Fee

Audit Analysis: Audit staff determined the Utility had no allocation for Account 930.03 - Director's Fees, which totaled $30,000. The Utility stated that its director's fee has been paid on behalf of the Utility since prior to 2000, and it has not been adjusted for the new appliance and propane divisions. Audit staff believes that this fee should be allocated between the natural gas, appliance, and propane divisions.

This finding is for informational purposes only.

Finding 11: Allocation for Advertising Expenses

Audit Analysis: Audit staff determined the Utility's allocation methodology for advertising expenses was calculated incorrectly. The Utility's advertising expenses for 2023 totaled $1,454 for three transactions which included a Chamber of Commerce advertisement in the amount of $500, promotional hats in the amount of $734.45, and $250.00 for Partners in Education at Port St. Joe Elementary.

The Chamber of Commerce expense was allocated based on the number of customers for natural gas and propane in 2022. The number of customers in 2022 was 3,071 for natural gas and 484 for propane, which totals 3,555. The Utility estimated the portion related to the regulated utility and propane operations in the amount of $470, and $30, respectively. However, the actual percentage for natural gas was 86.39%, and as a result, the allocated Chamber of Commerce advertising expense for natural gas operations should be $432. The Utility had a $38 overstated expense. See Table 11-1.

Table 11-1

Division	Number of Customers	% of Total Customers	Advertising Expenses per Audit	Advertising Expenses per Utility	Adjustment
Natural Gas	3,071	86.39%	$432	$470	($38)
Propane	484	13.61%	$68	$30	
Total	3,555	100.00%	$500	$500	

The utility's advertising expenses also included the purchase of promotional hats in the amount of $734.45. However, the Utility did not allocate nor had no allocation method for this expense. Audit staff believes that this advertising expense be reduced and allocated between the natural gas, appliance, and propane divisions.

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

Effect on the Filing: The Utility should determine the effect on the filing.

Exhibits

Exhibit 1: Rate Base

SCHEDULE F-1 | CALCULATION OF INTERIM RATE RELIEF - RATE OF RETURN | PAGE 1 OF 1

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: ST. JOE NATURAL GAS COMPANY

DOCKET NO: 20240046-GU

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13-MONTH AVERAGE RATE BASE FOR INTERIM RATE RELIEF.

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA + 1: 12/31/23
WITNESS: STITT

LINE NO.	UTILITY PLANT	AVERAGE PER BOOKS		ADJUSTMENT	ADJUSTED AVERAGE	
1	PLANT IN SERVICE	$9,253,814		0	9,253,814	
2	COMMON PLANT ALLOCATED	$0	*	(216,805)	(216,805)	($216,805)
3	ACQUISITION ADJUSTMENT	$0		0	0	
4	PROPERTY HELD FOR FUTURE USE	$0		0	0	
5	CONSTRUCTION WORK IN PROGRESS	$158,646		0	158,646	
6	TOTAL PLANT	$9,412,460		(216,805)	9,195,655	
	DEDUCTIONS					
7	ACCUM. DEPR. - UTILITY PLANT	($6,180,338)	*	125,229	(6,055,109)	$125,229
8	CUSTOMER ADVANCES FOR CONST.	$0		0	0	
9		$0		0	0	
10		$0		0	0	
11		$0		0	0	
12	TOTAL DEDUCTIONS	($6,180,338)		125,229	(6,055,109)	
13	PLANT NET	$3,232,122		(91,576)	3,140,546	
	ALLOWANCE FOR WORKING CAPITAL					
14	BALANCE SHEET METHOD	$1,047,906		(948,051)	99,855	
15	TOTAL RATE BASE	$4,280,028		(1,039,627)	3,240,401	($91,576)
16	NET OPERATING INCOME	($305,268)		0	(305,268)	
17	RATE OF RETURN	-7.13%			-9.42%	

* did not allocate NU on 2023 ESR

Exhibit 2: Net Operating Income

SCHEDULE F-4	CALCULATION OF INTERIM RATE RELIEF - NET OPERATING INCOME	PAGE 1 OF 1
FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: PROVIDE THE CALCULATION OF NET OPERATING INCOME PER BOOKS FOR THE HISTORIC BASE YEAR AND ANY ADJUSTMENTS MADE TO THE HISTORIC BASE YEAR FOR INTERIM PURPOSES.	TYPE OF DATA SHOWN: HISTORIC BASE YEAR DATA + 1 12/31/23
COMPANY. ST. JOE NATURAL GAS COMPANY		WITNESS. STITT
DOCKET NO. 20240046-GU		

NET OPERATING INCOME - HISTORIC BASE YEAR +1 ENDED 12/31/23

LINE NO	DESCRIPTION	(1) TOTAL COMPANY PER BOOKS	(2) ADJUSTMENTS	(3) COMPANY ADJUSTED	(4) REVENUE ADJUSTMENT	(5) N.O.I. REQUIREMENT
	OPERATING REVENUE.					
1	OPERATING REVENUES	$2,264,906	($545,105)	$1,719,801	$0	$1,719,801
	OPERATING EXPENSES.					
2	O & M GAS EXPENSE	$545,105	($545,105)	$0	$0	$0
3	OPERATION & MAINTENANCE	$1,446,002	$0	$1,446,002	$0	$1,446,002
4	DEPRECIATION & AMORTIZATION	$381,751	$0	$381,751	$0	$381,751
5		$0	$0	$0	$0	$0
	TAXES OTHER THAN INCOME TAXES					
6	REVENUE RELATED	$175,461	$0	$175,461	$0	$175,461
7	INTEREST CHARGES	$21,774	$0	$21,774	$0	$21,774
	INCOME TAXES					
8	-FEDERAL	$0	$0	$0	$0	$0
9	-STATE	$0	$0	$0	$0	$0
	DEFERRED INCOME TAXES - NET.					
10	-FEDERAL	$0	$0	$0	$0	$0
11	STATE	$0	$0	$0	$0	$0
12	INVESTMENT TAX CREDIT	$0	$0	$0	$0	$0
13	TOTAL OPERATING EXPENSES	$2,570,174	($545,105)	$2,025,068	$0	$2,025,068
14	OPERATING INCOME	($305,260)	$0	($305,260)	$0	($305,260)

Exhibit 3: Capital Structure

SCHEDULE G-3 | CALCULATION OF THE PROJECTED TEST YEAR - COST OF CAPITAL | PAGE 1 OF 11

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: ST JOE NATURAL GAS COMPANY

DOCKET NO: 20240046-GU

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13 MONTH AVERAGE COST OF CAPITAL FOR THE HISTORIC BASE YEAR + 1.

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA + 1: 12/31/23
WITNESS: STITT

LINE NO.	DESCRIPTION	PER BOOKS	ADJUSTMENTS SPECIFIC	ADJUSTMENTS PRO RATA	ADJUSTED	RATIO	COST RATE	WEIGHTED COST
1	COMMON EQUITY	4,399,938	(2,730,834)	0	1,669,104	50.09%	10.00%	5.01%
2	LONG TERM DEBT	300,000	(186,196)	0	113,804	3.42%	6.50%	0.22%
3	LONG TERM DEBT - NONUTILITY	1,573,734	(1,573,734)	0	0	0.00%	0.00%	0.00%
4	CUSTOMER DEPOSITS	182,895	0	0	182,895	5.49%	2.00%	0.11%
5	DEFERRED CREDITS - FCPC	409,330	0	0	409,330	12.28%	0.00%	0.00%
6	DEFERRED INCOME TAXES	956,843	0	0	956,843	28.72%	0.00%	0.00%
7	PROPANE DEPOSITS	10,867	(10,867)	0	0	0.00%	0.00%	0.00%
8	TOTAL	7,833,607	(4,501,631)	0	3,331,976	100.00%		5.34%