

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-**

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**DATE:** December 13, 2007  
**TO:** George J. Slemkewicz, Public Utilities Supervisor, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance  
**RE:** **Company Name:** Florida Public Utilities Company, Electric Division;  
**Audit Purpose:** File & Suspend Rate Case;  
**Docket No:** 070304-EI; **Audit Control No:** 07-262-4-1;

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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 the response to the Commission Clerk. There are confidential work papers associated with this audit.

DNV:sbj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of Commission Clerk (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

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Tallahassee, FL 32317

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



**FLORIDA PUBLIC SERVICE COMMISSION**  
***DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE***  
***BUREAU OF AUDITING***

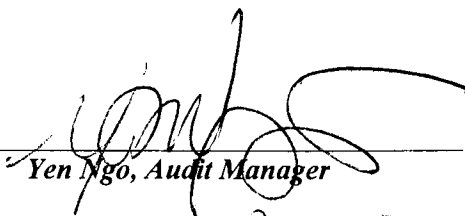
*Miami District Office*

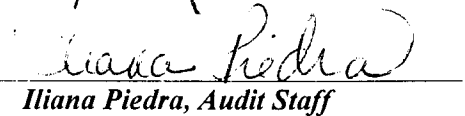
**FLORIDA PUBLIC UTILITIES COMPANY**  
**ELECTRIC DIVISION**

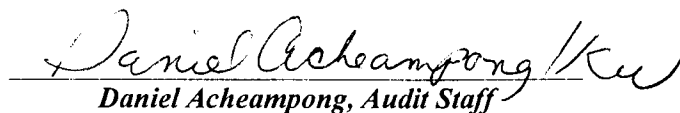
**FILE AND SUSPEND RATE CASE INVESTIGATION**

**AS OF DECEMBER 31, 2006**  
**FORECAST DECEMBER 31, 2008**

**DOCKET NO. 070304-EI**  
**AUDIT CONTROL NO. 07-262-4-1**

  
\_\_\_\_\_  
*Yen Ngo, Audit Manager*

  
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*Iliana Piedra, Audit Staff*

  
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*Daniel Acheampong, Audit Staff*

  
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*Kathy L. Welch, Public Utilities Supervisor*

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**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**December 12, 2007**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED  
PARTIES**

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated September 18, 2007. We have applied these procedures to the 2006 actual and 2008 projected costs on the attached schedules which were prepared by Florida Public Utilities Company-Electric Division in support of its filing for rate relief in Docket No. 070304-EI.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

## OBJECTIVES AND PROCEDURES

### RATE BASE

#### General

*Objective:* To determine that the utility's filing represents its recorded results from continuing operations. To verify, for the historical year, that all adjustments are consistent with the prior rate cases and calculated correctly.

*Procedures:* We reconciled the rate base supporting schedules and traced those to the general ledger. We obtained supporting documentation for all adjustments in 2006, recalculated the adjustments, traced amounts to the ledgers, and reviewed prior orders. We reviewed the board of directors' minutes, the internal audit reports and the external audit workpapers.

#### Utility Plant

*Objective:* To verify plant additions, retirements and adjustments from the last historic year through December 31, 2006 and obtain supporting documentation for the plant forecast for 2007 and 2008. To review the utility continuing property records and determine if they are in compliance with Commission Rule 25-6.014(3), Florida Administrative Code.

*Procedures:* We sampled plant additions for the period January 1, 2003 through December 31, 2006 for compliance with the stated objectives above. We verified that the utility properly recorded retirements when a capital item was removed or replaced. We sampled construction project additions and the corresponding source documentation. We obtained the supporting documentation for the forecast plant but no audit was completed of the data due to time constraints.

#### Customer Advances

*Objective:* To determine that additions to Customer Advances from 2003 to 2006 are properly recorded.

*Procedures:* We sampled Customer Advance additions for the period January 1, 2003 through December 31, 2006 for compliance with the stated objectives above and traced them to contracts.

#### Accumulated Depreciation

*Objective:* To determine that accruals to accumulated depreciation in 2006 are properly recorded in compliance with the NARUC Uniform System of Accounts. To verify that depreciation expense accruals are calculated using the Commission authorized rates and that retirements are properly recorded.

*Procedures:* We traced the accumulated depreciation schedules to the corresponding plant in service schedules. We verified that the utility used Commission authorized rates to depreciate its plant accounts by calculating a sample of accumulated depreciation account balances to test for calculation errors. We verified that the utility properly recorded retirements to accumulated depreciation when the corresponding plant was removed or

replaced. We recalculated a sample of accumulated depreciation account balances as of December 31, 2006.

#### Working Capital

*Objective:* To determine that the utility's working capital balance is properly calculated and consistent with the last order. Also, to determine if any interest earning or bearing accounts or any non-utility items were included in the calculation.

*Procedures:* We traced the working capital accounts to the general ledger, and reviewed any allocations of common accounts. We recalculated the utility's working capital balance as of December 31, 2006.

### **NET OPERATING INCOME**

#### General

*Objective:* To determine that the utility's filing represents its results from continuing operations. To determine that the adjustments to the filing were properly calculated, and consistent with prior orders.

*Procedures:* We reconciled the following individual components of projected net operating income (NOI) balances to the utility's general ledger for the 12-month period ended December 31, 2006. We recalculated the adjustments, traced the components to the ledger and reviewed them with the last rate case.

#### Revenues

*Objective:* To determine that revenues in 2006 are properly recorded in compliance with Commission rules and are based on the utility's Commission approved tariff rates. To verify the calculation of unbilled revenues.

*Procedures:* We traced revenues to the general ledger and utility billing registers and selected a sample of customer bills from each customer rate class on a random basis, and recalculated the bills using the Commission approved tariff rates. We obtained the December entry for the unbilled calculation and traced the components to source documentation.

#### Operation and Maintenance Expenses (O&M)

*Objective:* To determine that operation and maintenance expenses in 2006 are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations. To determine if any costs related to non-regulated operations were included. To determine if any costs were out of period or non-recurring. To determine if corporate costs allocated related to electric operations. To determine if advertisements included are image enhancing or relate to conservation or fuel. To determine if refunds were properly recorded.

*Procedures:* We sampled O&M expense items from the general ledger based on auditor judgment. We reviewed the sample for the proper utility system, classification, amount, period and recurring nature. We examined invoices and supporting documentation to

determine if the above objectives were met. We obtained the detail for direct and allocated salaries. We reviewed the allocation methodology and recomputed clearing amounts. We compared uncollectible expense to the four year average ratio of uncollectible amounts to revenue.

#### Taxes-Other-Than-Income

*Objective:* To determine that taxes other than income tax expense in 2006 is properly recorded and reasonable and prudent for ongoing utility operations.

*Procedures:* We recalculated regulatory assessment fees and reconciled them to the general ledger. We reviewed the property tax bills and determined whether the amount booked reflects the discount amount. We compared the percent of payroll tax to total salaries for reasonableness.

#### Depreciation Expense

*Objective:* To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of plant assets.

*Procedures:* We recalculated depreciation expense for the period using Commission approved rates.

### **CAPITAL STRUCTURE**

#### General

*Objective:* To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded and that the components accurately represent the ongoing utility operations. To verify that non-utility assets, supported by the utility's capital structure, are removed from the capital structure, in the rate base/capital structure reconciliation. To verify that the non-utility investments are removed from equity, prior to the determination of debt/equity ratios. To verify that the cost rates are appropriate. To determine how the rate base adjustments are adjusted in the capital structure.

*Procedures:* We reconciled the following individual components of capital structure to balances in the utility's general ledger as of December 31, 2006. We recalculated the overall weighted cost of capital for the test year ended 2006.

Long-Term-Debt

*Objective:* To determine that long-term debt balances represent actual obligations of the utility's parent and that they are properly recorded.

*Procedures:* We compared actual debt balances and interest rates to the projected debt and to the original loan agreements.

Short-Term-Debt

*Objective:* To determine that short-term debt balances represent actual obligations of the utility's parent and are properly recorded.

*Procedures:* We compared actual debt balances and interest rates to the projected debt and to the original loan agreements.

Accumulated Deferred Income Taxes

*Objective:* To determine that accumulated deferred income taxes are properly stated and calculated based on the recorded differences between utility book and taxable income.

*Procedures:* We compared actual deferred tax balances to the projected taxes. We reconciled the common equity components and the investment tax credit components and recalculated the investment tax credit rate.

Customer Deposits

*Objective:* To determine that customer deposit balances represent actual obligations of the utility and are properly recorded.

*Procedures:* We compared actual deposits to the projected deposits and to the utility records.



**AUDIT FINDING NO. 1**

**SUBJECT: MISSING INVOICES**

**AUDIT ANALYSIS:** The utility was unable to provide invoices and supporting documentation for the following sample items. Because the utility was unable to support these items, they should be removed from rate base.

Acct. No.	Period	Description	Date	JE	Amount	Plant Allocation 2006
<b>2003</b>						
	<b>2003</b>					
100.1070.397	Jul-03	Kubra Data T	8/12/2003		10,000.00	2,900.00
100.1070.397	May-03	Sprint	6/6/2003		46,000.00	13,800.00
114.1070.366	Nov-03	PS & S Elect	12/9/2003		2,650.00	2,650.00
115.1070.366	Aug-03	Sea Coast Gi	9/9/2003		4,900.00	4,900.00
115.1070.366	Aug-03	Oldcastle Pre	9/10/2003		4,177.68	4,177.68
115.1070.366	Sep-03	Hughs Suppl	10/8/2003		17,604.71	17,604.71
115.1070.366	Sep-03	Cooper Powe	10/9/2003		54,154.00	54,154.00
		Total Depreciation Expense			139,486.39	100,186.39
<b>2004</b>						
	<b>2004</b>					
100.1070.376	Dec-04	Several Inv A	1/18/2005	33	111,496.44	33,448.93
114.1070.366	Dec-04	PPO	1/11/2005	33	44,255.60	44,255.60
114.1070.366	Aug-04	Utilicon Servi	9/10/2004		5,206.89	5,206.89
114.1070.366	Aug-04	P Local Non-	8/31/2004	9	3,970.00	3,970.00
114.1070.366	Dec-04	Transfer Cha	1/27/2005	5.33	30,863.16	30,863.16
114.1070.392	Jan-04	Altec Industri	2/11/2004		194,165.98	194,165.98
115.1070.366	Feb-04	Siemens Pov	3/10/2004		149,734.56	149,734.56
115.1070.366	Apr-04	Siemens Pov	5/10/2004		142,325.88	142,325.88
115.1070.366	May-04	Southern Sta	6/8/2004		106,006.49	106,006.49
115.1070.366	Dec-04	Pike Electric	1/11/2005	33	2,027.94	2,027.94
115.1070.366	Dec-04	Zero Voucher	1/18/2005		14,049.23	14,049.23
115.1070.366	May-04	Gateway to A	5/31/2004	3	12,099.00	12,099.00
115.1070.366	Nov-04	David Miller	12/8/2004		30,631.00	30,631.00
115.1070.366	Feb-04	Hughes Supp	3/10/2004		11,945.92	11,945.92
		Total Depreciation Expense			858,778.09	780,730.58
<b>2005</b>						
	<b>2005</b>					
115.1070.366	Aug-05	Pike Electric	9/12/2005		5,584.00	5,584.00
115.1070.370	Mar-05	GE Supply	4/11/2005		11,008.16	11,008.16
115.1070.370	Nov-05	GE Supply	12/13/2005		3,030.24	3,030.24
		Total Depreciation Expense			19,622.40	19,622.40
		Total 2006 Adjustment			1,017,886.88	900,539.37

The depreciation was calculated as follows:

Acct. No.	Period	JE	Plant Allocation				Depreciation Expense			Accumulated	
			2003	2004	2005	2006	2003	2004	2005	2006	Depreciation
Total											
<b>2003</b>											
2003											
100.1070.3913	Jul-03		32%	31%	32%	29%	320.00	620.00	640.00	580.00	2,160.00
100.1070.397	May-03		27%	31%	30%	30%	1,656.00	2,852.00	2,760.00	2,760.00	10,028.00
114.1070.3662	Nov-03						8.83	53.00	53.00	53.00	167.83
115.1070.3662	Aug-03						40.83	98.00	98.00	98.00	334.83
115.1070.3663	Aug-03						34.81	83.55	83.55	83.55	285.47
115.1070.3681	Sep-03						246.47	739.40	739.40	739.40	2,464.66
115.1070.3683	Sep-03						758.16	2,274.47	2,274.47	2,274.47	7,581.56
Total Depreciation Expense							3,065.10	6,720.42	6,648.42	6,588.42	23,022.36
<b>2004</b>											
100.1070.376	Dec-04	33	27%	31%	30%	30%		72.01	836.22	836.22	1,744.45
114.1070.362	Dec-04	33						110.64	1,327.67	1,327.67	2,765.98
114.1070.364.6	Aug-04							91.12	218.69	218.69	528.50
114.1070.3647	Aug-04	9						69.48	166.74	166.74	402.96
114.1070.3657	Dec-04	5.33						97.73	1,172.80	1,172.80	2,443.33
114.1070.3923	Jan-04							18,445.77	18,445.77	18,445.77	55,337.30
115.1070.362	Feb-04							4,117.70	4,492.04	4,492.04	13,101.77
115.1070.362	Apr-04							3,202.33	4,269.78	4,269.78	11,741.89
115.1070.362	May-04							2,120.13	3,180.19	3,180.19	8,480.52
115.1070.3648	Dec-04	33						7.10	85.17	85.17	177.44
115.1070.3656	Dec-04							44.49	533.87	533.87	1,112.23
115.1070.3662	May-04	3						161.32	241.98	241.98	645.28
115.1070.3662	Nov-04							102.10	612.62	612.62	1,327.34
115.1070.3681	Feb-04							459.92	501.73	501.73	1,463.38
Total Depreciation Expense							29,101.83	36,085.27	36,085.27	36,085.27	101,272.37
<b>2005</b>											
115.1070.3657	Aug-05								88.41	212.19	300.61
115.1070.370	Mar-05								330.24	396.29	726.54
115.1070.370	Nov-05								18.18	109.09	127.27
Total Depreciation Expense								436.84	717.57	717.57	1,154.41
Total										43,391.26	125,449.15

**EFFECT ON THE GENERAL LEDGER:**  
to correct the utility's general ledger balances.

The following journal entry should be made

Accumulated Depreciation	125,449.15	
Retained Earnings	818,481.48	
Plant		900,539.34
Depreciation Expense		43,391.26

**EFFECT ON THE FILING:** The plant 13-month average should be reduced by \$900,539.37. The accumulated depreciation 13-month average should be reduced by \$125,449.15. The depreciation expense should be reduced \$43,391.26.

## AUDIT FINDING NO. 2

### SUBJECT: TRUCKS TRANSFERRED FROM WATER

**AUDIT ANALYSIS:** The utility's Plant in Service includes two trucks transferred from its water company, which was sold in March 2003, a 1999 Ford 150 and a 2000 Ford. The transaction occurred in September 2006 when the trucks were discovered during the inventory.

When the electric company booked the acquisition of the trucks, it recorded the difference between the original cost and the accumulated depreciation as a gain. Since the vehicles were transferred to electric plant, the company applied the electric depreciation rate in calculating the depreciation expense from the time the trucks were purchased to the time they were transferred.

The audit recalculation of the depreciation expense revealed a different amount than the company's amount as of December 2006. Below is staff's recalculation of the depreciation expense for the trucks.

1999 Ford Truck (Truck 1)				
	<u>1999</u>	<u>2002</u>		
Depreciation Rate	4.70%	11.30%		
Actual cost	19,410.51			
Date	Depreciation Base	Depreciation Rate	Yearly Depreciation	Book Value
Jul-99	19,410.51	4.70%	456.15	18,954.36
Dec-00	19,410.51	4.70%	912.29	18,042.07
Dec-01	19,410.51	4.70%	912.29	17,129.78
Dec-02	19,410.51	11.30%	2,193.39	14,936.39
Dec-03	19,410.51	11.30%	2,193.39	12,743.00
Dec-04	19,410.51	11.30%	2,193.39	10,549.61
Dec-05	19,410.51	11.30%	2,193.39	8,356.22
Dec-06	19,410.51	11.30%	2,193.39	6,162.84
Total Accumulated Dep.			<u>13,247.67</u>	
2000 Ford Truck (Truck 2)				
	<u>1999</u>	<u>2002</u>		
Depreciation Rate	4.70%	11.30%		
Actual cost	20,098.60			
Date	Depreciation Base	Depreciation Rate	Yearly Depreciation	Book Value
Jul-00	20,098.60	4.70%	472.32	(472.27)
Dec-01	20,098.60	4.70%	944.63	(1,416.90)
Dec-02	20,098.60	11.30%	2,271.14	(3,688.05)
Dec-03	20,098.60	11.30%	2,271.14	(5,959.19)
Dec-04	20,098.60	11.30%	2,271.14	(8,230.33)
Dec-05	20,098.60	11.30%	2,271.14	(10,501.47)
Dec-06	20,098.60	11.30%	2,271.14	(12,772.61)
Total Accumulated Depr.			<u>12,772.66</u>	
Recalculated Accumulated Depr.		Truck 1 Above	13,247.67	
		Truck 2 Above	<u>12,772.66</u>	
			26,020.33	
Company's Accumulated Depr.		Truck 1	(15,897.02)	
		Truck 2	<u>(14,183.23)</u>	
			<u>(30,080.25)</u>	
Difference			<u>(4,059.92)</u>	

**EFFECT ON THE GENERAL LEDGER:** The following journal entries should be made to correct the utility's general ledger balances. (See the differences on page 8 for explanation.)

**Truck 1**

Plant		6.15	
Depreciation Expense		2,193.39	
Accumulated Depreciation		2,649.35	
	Retained Earnings		4,848.89

**Truck 2**

Plant		16.15	
Depreciation Expense		2,271.14	
Accumulated Depreciation		1,410.57	
	Retained Earnings		3,697.86

**EFFECT ON THE FILING:** The plant 13-month average should be increased by \$22.30. The accumulated depreciation 13-month average should be reduced by \$14,532.41 (7,259.59 + 7,273.02). Depreciation expense should be increased by \$4,464.53. See attached schedule for the calculation of these adjustments.

**13-Month Average Effect 2006**

	<u>Truck 1</u>			<u>Truck 2</u>		
	<u>Per Staff</u>	<u>Company</u>	<u>Diff.</u>	<u>Per Staff</u>	<u>Company</u>	<u>Diff.</u>
Beginning Balance	11,054.29		11,054.29	10,501.52		10,501.52
Jan-06	11,237.07		11,237.07	10,690.78		10,690.78
Feb-06	11,419.85		11,419.85	10,880.04		10,880.04
Mar-06	11,602.63		11,602.63	11,069.30		11,069.30
Apr-06	11,785.41		11,785.41	11,258.57		11,258.57
May-06	11,968.20		11,968.20	11,447.83		11,447.83
Jun-06	12,150.98		12,150.98	11,637.09		11,637.09
Jul-06	12,333.76		12,333.76	11,826.35		11,826.35
Aug-06	12,516.54		12,516.54	12,015.61		12,015.61
Sep-06	12,699.33	15,897.02	(3,197.69)	12,204.87	14,183.23	(1,978.36)
Oct-06	12,882.11	15,897.02	(3,014.91)	12,394.14	14,183.23	(1,789.09)
Nov-06	13,064.89	15,897.02	(2,832.13)	12,583.40	14,183.23	(1,599.83)
Dec-06	13,247.67	15,897.02	(2,649.35)	12,772.66	14,183.23	(1,410.57)
13-Month Average	12,150.98	4,891.39	7,259.59	11,637.09	4,364.07	7,273.02

<b>Truck 1</b>			
<b>Per Company</b>			
Plant		19,404.36	
	Accumulated Depreciation		15,897.02
	Gain		3,507.34
<b>Per Staff</b>			
Plant		19,410.51	
Dep Exp		2,193.39	
	Accumulated Depreciation		13,247.67 p.8
	Retained Earnings		8,356.23
<b>Adjustments p.9</b>			
Plant		6.15	
Dep Exp		2,193.39	
	Accu Dep	2,649.35	
	Retained Earnings		<u>4,848.89</u>
<b>Truck 2</b>			
<b>Per Company</b>			
Plant		20,082.45	
	Accumulated Depreciation		14,183.23
	Gain		5,899.22
<b>Per Staff</b>			
Plant		20,098.60	
Dep Exp		2,271.14	
	Accumulated Depreciation		12,772.66 p.8
	Retained Earnings		9,597.08
<b>Adjustments p.9</b>			
Plant		16.15	
Dep Exp		2,271.14	
	Accumulated Depreciation	1,410.57	
	Retained Earnings		<u>3,697.86</u>
<b>Total Adjustments</b>			
Plant		22.30	p. 9
Depreciation Expense		4,464.53	p. 9
	Accumulated Depreciation	4,059.92	p. 8

### AUDIT FINDING NO. 3

#### SUBJECT: UNCOLLECTIBLE EXPENSE

**AUDIT ANALYSIS:** In 2006, the utility expensed \$87,415 to electric operations for uncollectible expense. This amount was increased by \$129,249 in the 2008 forecast for increased fuel rates and a projected increase in consumption. The \$87,415 was determined as follows:

	<b>Marianna</b>	<b>Fernandina</b>	<b>Total</b>
Accounts due over 90 days 12/31/06	59,984.92	62,074.74	122,059.66
Less estimated to be collected by Div. managers		(27,028.15)	(27,028.15)
	<u>59,984.92</u>	<u>35,046.59</u>	<u>95,031.51</u>
Accounts due under 90 days	1,478,790.40	1,608,446.60	3,087,237.00
Percent estimated to be lost	0.22000%	0.90000%	
	<u>3,253.34</u>	<u>14,476.02</u>	<u>17,729.36</u>
Total estimated over and under 90 days	<u>63,238.26</u>	<u>49,522.61</u>	<u>112,760.87</u>
Less beginning balance uncollectible	<u>18,806.00</u>	<u>5,121.00</u>	<u>23,927.00</u>
Net to be accrued	<u>44,432.26</u>	<u>44,401.61</u>	<u>88,833.87</u>
Less propane and merchandising and jobbing			<u>(1,418.87)</u>
			<u>87,415.00</u>

Actual write offs in 2006 were \$58,025 or .184% in Marianna and .101% in Fernandina. The actual write offs were much less than the amount actually accrued by the utility. The average rate of four years of write offs compared to revenue net of industrial customers and interdepartmental revenue is .182% for Marianna and .084% for Fernandina. The average is even less than the actual write offs. If the four year average write off of .00136 is used, uncollectible expense would be reduced by \$33,762. (\$39,450,684 revenue 2006 x average rate .00136=\$53,653; difference between \$53,653-\$84,415 booked above=\$33,762)

**EFFECT ON THE LEDGER:** This entry would be made for the filing only.

**EFFECT ON THE FILING:** Expenses would be reduced by \$33,762.

## AUDIT FINDING NO. 4

### SUBJECT: PUBLIC RELATION EXPENSES

**AUDIT ANALYSIS:** In 2006, the utility paid Curly and Pynn for the following:

1. Developed and integrated a multi media campaign, to educate FPUC customers, which included home energy makeover events, public speaking engagements, letters to the editor of the local newspapers, talking points for employees, etc.
2. Scheduled and organized meetings with the key leadership in both divisions and worked with the division management to assign certain tasks and duties of the team to address the need to educate the public in relation to the fuel increases.
3. Scheduled and organized meetings with the entire staff of each division to educate employees about the fuel increases.

Account 913.4, Information and Instructional Advertising expense includes invoices for Curley and Pynn of \$60,202.52 in Marianna and \$60,203.37 in Fernandina for a total of \$120,405.89. Account 916, Miscellaneous Sales Expense, was credited for an entry made to the 913.4 account of \$5,354.38 for each division. The net amount recorded in the 2006 expenses was \$109,697.13.

The utility increased this amount by 103.4% in 2007 and 103.5% in 2008 for customer growth and inflation. In addition \$29,808 was added for informing the customers about the fuel increase. The total included in the 2008 expenses was \$147,205.

Since the fuel increase is already in effect and the rate case will go into effect in 2008, the need for public relations may not extend for the four or five years that the rate increase will be in effect. We annualized actual costs in account 913.4 as of September 2007. This resulted in an amount of \$67,076 which is significantly less than the \$147,205 projected.

The utility should provide support that establishes the need for these costs to continue during the next four years.

**EFFECT ON THE GENERAL LEDGER:** This finding is provided for informational purposes only.

**EFFECT ON THE FILING:** This finding is provided for informational purposes only. The Commission may decide to amortize costs that are not recurring over the estimated period the new rates will be in effect which would reduce expenses.

**AUDIT FINDING NO. 5**

**SUBJECT: LEGAL AND MAILING**

**AUDIT ANALYSIS:** Included in account 928, Regulatory Commission expense, were costs paid to Messer, Caparello and Self for costs related to obtaining the new fuel contracts of \$16,301.71 for each Marianna and Fernandina and \$1,646.25 for expanding the territory for a total of \$34,249.67 in 2006. The fuel contracts will not be renewed for another ten years. Therefore, these costs may not be recurring. These costs have been trended up by 102.2% in 2007 and 102.3% in 2008.

The utility also included postage and printing costs for mailing a letter regarding increased electric costs in account 923.1, Outside Services, for \$6,609.96. This account was trended up by inflation of 102.2% in 2007 and 102.3% in 2008 for a total of \$6,911.

**EFFECT ON THE GENERAL LEDGER:** This finding is provided for informational purposes only.

**EFFECT ON THE FILING:** This finding is provided for informational purposes only. The Commission may decide to amortize costs that are not recurring over the estimated period the new rates will be in effect which would reduce expenses.



**AUDIT FINDING NO. 6**

**SUBJECT: CUSTOMER SURVEY**

**AUDIT ANALYSIS:** In 2006, the utility charged to account 916, Miscellaneous Sales expense, \$25,600 for a customer survey. The costs were split equally between Marianna and Fernandina. The 916 account was trended up using inflation and customer growth of 103.4% in 2007 and 103.5% in 2008 for a total of \$27,397. The utility plans to continue doing surveys in the future but they may not be as extensive as this one and may cost less. Continuing surveys may only address one aspect of customer service as opposed to the extensive approach used in this one.

Schedule C-7, Operation and Maintenance Expenses, for 2008 shows less in the account due to a credit that was posted to the wrong account as described in the audit finding on public relations costs.

**EFFECT ON THE GENERAL LEDGER:** This finding is provided for informational purposes only.

**EFFECT ON THE FILING:** This finding is provided for informational purposes only. The Commission may decide to amortize costs that are not recurring over the estimated period the new rates will be in effect which would reduce expenses.

**AUDIT FINDING NO. 7**

**SUBJECT: MEMBERSHIP OPPORTUNITY FLORIDA**

**AUDIT ANALYSIS:** Marianna account 930.23, Economic Development includes \$5,000 for membership dues to Opportunity Florida. The utility joined this organization for networking opportunities with other industries.

The 930.23 account was trended up using inflation and customer growth of 103.4% in 2007 and 103.5% in 2008 or a total of \$5,351.

If the Commission does not determine that the membership benefits the customers, these costs should be removed.

**EFFECT ON THE GENERAL LEDGER:** This finding is provided for informational purposes only.

**EFFECT ON THE FILING:** If the Commission does not believe the membership benefits the customers, \$5,351 should be removed from 2008 expenses.

**AUDIT FINDING NO. 8**

**SUBJECT: OFFICE WALL**

**AUDIT ANALYSIS:** Marianna's account 935, Maintenance of General Plant, included \$2,219 to construct a wall in the office in March 2006. The account was trended up using inflation and customer growth of 103.4% in 2007 and 103.5% in 2008 for a total of \$2,375. This amount should be capitalized in account 114.1010.39, Structures and Improvements and depreciated at 2%

<b>MONTH</b>	<b>PLANT BALANCE</b>	<b>DEPRECIATION EXPENSE</b>	<b>ACCUMULATED DEPRECIATION</b>
MARCH	2,219.00	3.70	3.70
APRIL	2,219.00	3.70	7.40
MAY	2,219.00	3.70	11.10
JUNE	2,219.00	3.70	14.79
JULY	2,219.00	3.70	18.49
AUGUST	2,219.00	3.70	22.19
SEPTEMBER	2,219.00	3.70	25.89
OCTOBER	2,219.00	3.70	29.59
NOVEMBER	2,219.00	3.70	33.29
DECEMBER	2,219.00	3.70	36.98
TOTAL	<u>22,190.00</u>	<u>36.98</u>	
13-MONTH AVERAGE	<u>1,706.92</u>	<u>2.84</u>	<u>15.65</u>

**EFFECT ON THE GENERAL LEDGER:** The following entry should be made:

	<b>DEBIT</b>	<b>CREDIT</b>
Depreciation Expense	37	
Plant	2,219	
Accumulated Depreciation		37
Retained Earnings		2,219

**EFFECT ON THE FILING:** Expenses in 2008 should be reduced by \$2,375. Plant in 2006 should be increased by the average of \$1,707. Average accumulated depreciation should be increased by \$16. Depreciation expense should be increased by \$37.

**AUDIT FINDING NO. 9**

**SUBJECT: TRAVEL**

**AUDIT ANALYSIS:** Marianna's account 588.2, Other Distribution Expense, includes \$677.69 of airline expenses for the wife of its safety contractor. This account was trended up by payroll and customer growth of 106.8% in 2007 and 106.8% in 2008 for a total of \$773.

**EFFECT ON THE GENERAL LEDGER:** This finding has no effect on balance sheet accounts in 2006 so no adjustment is necessary to the ledger.

**EFFECT ON THE FILING:** Expenses should be reduced by \$773 in 2008.

**AUDIT FINDING NO. 10**

**SUBJECT: TRANSFORMER PAD**

**AUDIT ANALYSIS:** Fernandina's account 595.3, Maintenance of Transformers, included \$2,400 to remove a pad and set a new transformer at the Ritz Carlton Hotel in August 2006. The account was trended up using payroll and customer growth of 106.8% in 2007 and 106.8% in 2008 for a total of \$2,738. This amount should be capitalized to account 115.1010.368 and depreciated at 4.2%.

Month	Plant	Depreciation Expense	Accumulated Depreciation
August	2,400.00	8.40	8.40
September	2,400.00	8.40	16.80
October	2,400.00	8.40	25.20
November	2,400.00	8.40	33.60
December	2,400.00	8.40	42.00
Total	<u>12,000.00</u>	<u>42.00</u>	
13-month average	<u>923.08</u>	<u>3.23</u>	<u>9.69</u>

**EFFECT ON THE GENERAL LEDGER:** The following entry should be made:

	DEBIT	CREDIT
Depreciation Expense	42	
Plant	2,400	
Accumulated Depreciation		42
Retained Earnings		2,400

**EFFECT ON THE FILING:** Expenses should be reduced by \$2,738 in 2008. Plant in 2006 should be increased by the average of \$923. Average accumulated depreciation should be increased by \$10. Depreciation expense should be increased by \$42.

**AUDIT FINDING NO. 11**

**SUBJECT: MOVING EXPENSES**

**AUDIT ANALYSIS:** The utility paid moving expenses for the new Division Manager. A deposit on a rental house and two months rent were paid in January 2006. The total costs for this expense report were \$3,734.21 and were allocated to the following accounts:

	2006	2007	2008
115.4010.580 Fernandina Operation Supervision	1,172.81	1,237.31	1,305.37
115.4010.901 Fernandina Customer Account Supervision	1,136.16	1,198.65	1,264.57
115.4020.590 Fernandina Distribution Maintenance	1,136.16	1,198.65	1,264.57
995.4010.901 Propane	219.91		
115.1430.1 Fernandina	69.17		
	<u>3,734.21</u>	<u>3,634.61</u>	<u>3,834.52</u>

Moving costs may not be recurring. The utility should provide support that establishes the need for these costs to continue during the next four years.

**EFFECT ON THE GENERAL LEDGER:** This finding is provided for informational purposes only.

**EFFECT ON THE FILING:** This finding is provided for informational purposes only. The Commission may decide to amortize costs that are not recurring over the estimated period the new rates will be in effect which would reduce expenses.

**AUDIT FINDING NO. 12**

**SUBJECT: SUBSTATION MAINTENANCE**

**AUDIT ANALYSIS:** In it's "over and above" expenses included in 2008 projected test year expenses on filing C-7, Operation and Maintenance Expenses, the utility included an amount for annual inspection and maintenance of the substations. The utility proposes to implement this program because lack of maintenance has caused failures. We could not determine if some of the expenses found in 2006 may not have occurred if this program had been in effect sooner. The utility did not make any allowance in it's "over and above" calculation for a decrease in repairs. Some of the higher costs in 2006 are:

<b>Account</b>	<b>Date</b>	<b>Vendor</b>	<b>Description</b>	<b>Amount</b>
115.4020.570	4/7/2006	Megaway	Eng. Serv. For Stepdown Station	2,400.00
115.4020.570	7/7/2006	Tempaco		4,675.02
115.4020.570	6/23/2006	Hughes Supply		4,152.46
115.4020.592	5/3/2006	Industrial Electronics	Breaker and Relay testing for outage	3,483.90
115.4020.592	3/1/2006	GE International	AIP Substation Transformer failed	9,416.00
				<u>24,127.38</u>

Engineering staff needs to determine if these costs will be recurring if an inspection and testing maintenance program is implemented.

The utility should provide support that establishes the need for these costs to continue during the next four years.

**EFFECT ON THE GENERAL LEDGER:** This finding is provided for informational purposes only.

**EFFECT ON THE FILING:** This finding is provided for informational purposes only. The Commission may decide to amortize costs that are not recurring over the estimated period the new rates will be in effect which would reduce expenses.

**AUDIT FINDING NO. 13**

**SUBJECT: STORM RESERVE**

**AUDIT ANALYSIS:** Commission Order PSC-04-0369-AS-EI allowed for an annual increase to the storm reserve of \$121,625 with additional increases if the utility did not spend the \$22,641 projected for economic development. In 2006, the amount applied to the storm reserve for economic development was \$16,758. In its projected expenses for account 924 for 2008, the utility proposed an increase to the annual accrual to the reserve to \$203,880 plus the \$16,758 of unused economic development costs calculated in 2006. The \$16,745 should be removed as it should not be recurring in the future.

The utility has included \$5,000 of economic development costs in its 2006 test year which were trended up to \$5,351. It has also included an additional \$10,350 for economic development in its estimate of over and above expenses on C-7, Operations and Maintenance Expenses, for 2008 for its Fernandina division.

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the general ledger since these expenses are forecast.

**EFFECT ON THE FILING:** The 2008 forecast should be reduced by the \$16,758 for economic development costs. The Commission may put a similar recommendation in this rate order for the new economic development forecast of \$15,701, but if the order is worded the same, costs will only go to the storm reserve if they are not expensed as planned in the economic development forecast. The new storm allowance accruals should also be reviewed for reasonableness by staff engineers.



**AUDIT FINDING NO. 14**

**SUBJECT: MEDICAL BENEFIT FORECAST**

**AUDIT ANALYSIS:** In the 2008 projected expenses in C-7, Operation and Maintenance Expenses, for account 926.2, Employee Benefits, Medical, the utility included an 11.4% increase in its medical benefits for 2008. The utility has received a revised estimate from Cigna Health Care which indicates a 34.78% increase in 2008 insurance expense. This would increase the projection from \$543,969 to \$650,336 or an increase of \$106,367 computed as follows. The utility has not re-filed this schedule.

2006 Expense	438,333.00
Increase 2007	110.0800%
2007 Projection	<u>482,516.97</u>
New 2008 Increase	134.78%
New 2008 Projection	<u>650,336.37</u>
Projection in Filing	<u>543,969.00</u>
Difference	106,367.37

**EFFECT ON THE GENERAL LEDGER:** This finding is for informational purposes only.

**EFFECT ON THE FILING:** This finding is for informational purposes only.

**AUDIT FINDING NO. 15**

**SUBJECT: OVERHEAD IN OVER AND ABOVE FORECAST**

**AUDIT ANALYSIS:** The utility added several salaries in its “over and above” expense increases on C-7, Operation and Maintenance Expenses, for its 2008 expense projection for new positions and wage increases. The salary computations included a 37-38% overhead calculation. This calculation included vacation, holiday and sick leave which do not increase the base pay. Based on actual 2006 costs, we determined the actual 2006 overhead for pension, taxes and insurance to be 30.65%.

The following is a schedule of the salaries included and the overhead that were provided in supporting documentation for its “over and above” expenses in its 2008 forecast:

Account	A Direct		C Corporate	D Divided by 1.37	E Corporate Costs Allocated		F Allocation	G Amount Electric Used	H Note A Difference Staff/Utility Corporate	Total All
	Marianna	Fernandina			Benefits	Allocation				
4010.580	56,497.00									
4020.5932		5,949.00								
4020.5942		6,163.00								
4010.5931	38,304.50	38,304.50								
4010.5881	10,454.50	10,454.50								
4010.928	9,995.50	9,995.50								
4010.920			51,531.00	37,613.87	13,917.13	40.00%	5,566.85	(955.39)		
4010.903			56,992.00	41,600.00	15,392.00	35.00%	5,387.20	(924.56)		
4010.920			82,200.00	60,000.00	22,200.00	40.00%	8,880.00	(1,524.00)		
4010.92			95,066.00	69,391.24	25,674.76	40.00%	10,269.90	(1,762.54)		
4010.9251			33,280.00	24,291.97	8,988.03	32.00%	2,876.17	(493.61)		
Salary Survey	21,691.00	21,691.00								
	<u>136,942.50</u>	<u>92,557.50</u>								
Divided by 1.37	99,233.70	67,070.65								
Benefits Utility	37,708.80	25,486.85								
Benefits Staff	30,415.13	20,557.15	Note B							
Difference	<u>7,293.68</u>	<u>4,929.69</u>							<u>5,660.10</u>	<u>17,883.47</u>

Note A: Column (D (payroll without overhead) x .3065 overhead rate staff x Column F (allocation rate corporate))-Column G (used by company)

Note B: Amount above without benefits x .3065 overhead rate staff

**EFFECT ON THE GENERAL LEDGER:** There is no effect on the general ledger.

**EFFECT ON THE FILING:** Expenses for 2008 should be reduced by \$17,883.47.

## AUDIT FINDING NO. 16

### SUBJECT: ALLOCATION OF CLEARING

**AUDIT ANALYSIS:** The utility puts several expenses in its 1840 clearing accounts. These accounts are not allocated to all divisions but instead are charged to the divisions through the payroll entry. The allocation through payroll does not allocate as much expense to non-regulated operations as the regular allocation process. The accounts are all payroll related costs. Based on the payroll allocation used by the utility in 2006, 26% of payroll relates to propane and merchandising and jobbing. The following schedule shows how much of the costs were removed using the payroll entry instead of allocating the expenses using payroll and how it effects the electric allocation. The amounts shown below as removed were credits to the clearing accounts from the payroll journal entries. The total costs are the costs charged to the clearing accounts. The amounts charged to the electric division are the net of the first two amounts times the rates used by the utility. Staff used the total costs times the payroll allocation rate to determine what it would have charged and compared it to the amount that did get charged to electric. We then trended up the difference using the trend factors for the individual accounts.

Account	Type	Removed Non-Reg and Cons.	Total Costs	Charged Electric Co. Methodology	Charged Electric 25% Payroll Alloc.	Difference	Trend Factors	2008 Difference
925.2	Gen. Liab.	87,770.00	574,386.04	189,736.02	143,596.51	46,139.51	106.8/106.8	52,627.83
926.1	Pension	181,835.00	1,396,952.00	425,290.95	349,238.00	76,052.95	105.8/110	88,510.42
926.2	Medical	232,370.00	1,625,883.63	487,688.07	406,470.91	81,217.16	110.08/134.78	120,339.47
926.4	401K	2,490.00	17,259.28	5,169.25	4,314.82	854.43	106.8/106.8	974.58
		<u>504,465.00</u>	<u>3,614,480.95</u>	<u>1,107,884.29</u>	<u>903,620.24</u>	<u>204,264.05</u>		<u>262,452.31</u>

Expenses allocated to electric would decrease by \$204,264.05 if the utility allocated the total account based on the payroll allocated.

**EFFECT ON THE GENERAL LEDGER:** If this methodology is accepted, the utility method would change going forward but 2006 would not be affected.

**EFFECT ON THE FILING:** If this methodology is accepted, expenses for 2008 should be reduced by \$262,452.31.

**AUDIT FINDING NO. 17**

**SUBJECT: COMPARISON OF 2007 TO FORECAST**

**AUDIT ANALYSIS:** The 2007 expenses as of September 30, 2007 were annualized and compared to the forecast on schedule C-7 (2007), Operation and Maintenance Expenses, of the filing. The actual annualized costs were \$488,245.33 less than the filing expenses for 2007. Many of the differences related to accounts that had “over and above” expenses. The “over and above” expenses total \$574,896 in 2007. The only over and above amounts that appear to have been substantially incurred were the general liability account 925.2 and the maintenance of underground lines account 594.2. A schedule showing the computation follows.

**EFFECT ON THE GENERAL LEDGER:** This finding is for informational purposes only and does not affect booked expenses in 2006.

**EFFECT ON THE FILING:** This finding is for informational purposes only.

ACCOUNT	114-Marianna 115-Fernandina		TOTAL	ANNUALIZED	PER C-7	DIFFERENCE	OVER AND
	AMOUNT Sep-07	AMOUNT Sep-07			2007		ABOVE
4010 562		4,756.00	4,756.00	6,341.33	42,501.00	(36,159.67)	25,000.00
4010 566		119.00	119.00	158.67	12,116.00	(11,957.33)	12,000.00
4010 580	98,455.00	119,760.00	218,215.00	290,953.33	380,422.00	(89,468.67)	56,408.00
4010 582	8,818.00	36,581.00	45,399.00	60,532.00	94,672.00	(34,140.00)	45,000.00
4010 5831	39,118.00	24,084.00	63,202.00	84,269.33	54,913.00	29,356.33	
4010 5832	27,502.00	9,613.00	37,115.00	49,486.67	65,562.00	(16,075.33)	
4010 5841	446.00	8,853.00	9,299.00	12,398.67	3,723.00	8,675.67	
4010 5842		22,821.00	22,821.00	30,428.00	27,504.00	2,924.00	
4010 585	8,989.00	1,556.00	10,545.00	14,060.00	12,770.00	1,290.00	
4010 586	121,401.00	73,266.00	194,667.00	259,556.00	273,056.00	(13,500.00)	
4010 5871	33,686.00	6,523.00	40,209.00	53,612.00	55,585.00	(1,973.00)	
4010 5872	6,761.00	24,352.00	31,113.00	41,484.00	44,010.00	(2,526.00)	
4010 5881	48,757.00	36,792.00	85,549.00	114,065.33	105,926.00	8,139.33	
4010 5882	23,191.00	67,550.00	90,741.00	120,988.00	155,533.00	(34,545.00)	50,800.00
4010 5883	1,937.00	3,015.00	4,952.00	6,602.67	11,129.00	(4,526.33)	
4010 589	784.00		784.00	1,045.33	1,053.00	(7.67)	
4010 901	23,942.00	36,282.00	60,224.00	80,298.67	73,765.00	6,533.67	1,428.00
4010 9011	14,189.00	16,197.00	30,386.00	40,514.67	49,056.00	(8,541.33)	
4010 902	109,682.00	101,161.00	210,843.00	281,124.00	295,709.00	(14,585.00)	
4010 903	194,643.00	221,881.00	416,524.00	555,365.33	524,917.00	30,448.33	
4010 9031	89,511.00	102,227.00	191,738.00	255,650.67	275,807.00	(20,156.33)	1,349.00
4010 904	17,038.00	15,277.00	32,315.00	43,086.67	87,590.00	(44,503.33)	175.00
4010 905	31,979.00	17,418.00	49,397.00	65,862.67	80,765.00	(14,902.33)	
4010 9051	5,644.00	6,445.00	12,089.00	16,118.67	16,804.00	(685.33)	
4010 9131	300.00		300.00	400.00		400.00	
4010 9132	3,620.00		3,620.00	4,826.67	1,589.00	3,237.67	
4010 9133	2,657.00	2,552.00	5,209.00	6,945.33	8,504.00	(1,558.67)	
4010 9134	50,307.00	50,169.00	100,476.00	133,968.00	154,148.00	(20,180.00)	28,800.00
4010 916		571.00	571.00	761.33	13,699.00	(12,937.67)	
4010 920	321,766.00	435,331.00	757,097.00	1,009,462.67	1,071,369.00	(61,906.33)	58,302.00
4010 9211	4,248.00	4,280.00	8,528.00	11,370.67	10,867.00	503.67	
4010 9212	2,382.00	2,404.00	4,786.00	6,381.33	7,111.00	(729.67)	
4010 9213	3,377.00	3,388.00	6,765.00	9,020.00	8,113.00	907.00	
4010 9214	27,347.00	24,363.00	51,710.00	68,946.67	34,425.00	34,521.67	
4010 9215	40,259.00	40,579.00	80,838.00	107,784.00	93,308.00	14,476.00	
4010 9216	1,088.00	2,690.00	3,778.00	5,037.33	6,913.00	(1,875.67)	5,200.00
4010 8231	4,215.00	7,049.00	11,264.00	15,018.67	18,306.00	(3,287.33)	
4010 9232	8,323.00	8,839.00	17,162.00	22,882.67	40,283.00	(17,400.33)	
4010 9233	74,022.00	78,440.00	152,462.00	203,282.67	226,660.00	(23,377.33)	82,150.00
4010 924	87,462.00	33,430.00	120,892.00	161,189.33	181,238.00	(20,048.67)	
4010 9251	43,976.00	51,421.00	95,397.00	127,196.00	114,957.00	12,239.00	632.00
4010 9252	230,710.00	227,879.00	458,589.00	611,452.00	475,595.00	135,857.00	133,000.00
4010 9261	146,372.00	151,861.00	298,233.00	397,644.00	365,497.00	32,147.00	
4010 9262	164,069.00	171,618.00	335,687.00	447,582.67	488,303.00	(40,720.33)	
4010 9263	19,503.00	20,997.00	40,500.00	54,000.00	54,000.00	0.00	
4010 9264	6,463.00	6,693.00	13,156.00	17,541.33	6,157.00	11,384.33	

ACCOUNT	114-Marianna 115-Fernandina		TOTAL	ANNUALIZED	PER C-7	DIFFERENCE	OVER AND
	AMOUNT	AMOUNT			2007		ABOVE
	Sep-07	Sep-07					
4010 928	56,323.00	60,226.00	116,549.00	155,398.67	133,967.00	21,431.67	
4010 9302	29,746.00	28,334.00	58,080.00	77,440.00	79,227.00	(1,787.00)	
4010 93022	3,189.00	2,246.00	5,435.00	7,246.67	4,539.00	2,707.67	
4010 93023	5,000.00		5,000.00	6,666.67	15,170.00	(8,503.33)	10,000.00
4010 931	4,299.00	4,333.00	8,632.00	11,509.33	8,490.00	3,019.33	
4020 570		61,912.00	61,912.00	82,549.33	102,430.00	(19,880.67)	
4020 571		24,152.00	24,152.00	32,202.67	80,603.00	(48,400.33)	
4020 573		0.00	0.00	0.00	461.00	(461.00)	
4020 590	26,242.00	69,337.00	95,579.00	127,438.67	146,674.00	(19,235.33)	2,856.00
4020 591		1,962.00	1,962.00	2,616.00	10,411.00	(7,795.00)	
4020 592	6,803.00	22,070.00	28,873.00	38,497.33	75,455.00	(36,957.67)	
4020 5931	2,153.00	12,206.00	14,359.00	19,145.33	46,044.00	(26,898.67)	
4020 5932	449,993.00	224,682.00	674,675.00	899,566.67	1,032,586.00	(133,019.33)	53,248.00
4020 5933	73,662.00	19,777.00	93,439.00	124,585.33	137,755.00	(13,169.67)	
4020 5941	10,051.00	6,492.00	16,543.00	22,057.33	7,968.00	14,089.33	
4020 5942	248.00	166,223.00	166,471.00	221,961.33	143,039.00	78,922.33	5,748.00
4020 5951	33,720.00	8,043.00	41,763.00	55,684.00	68,893.00	(13,209.00)	
4020 5952	7,949.00	10,669.00	18,618.00	24,824.00	7,451.00	17,373.00	
4020 5953		37,099.00	37,099.00	49,465.33	58,267.00	(8,801.67)	
4020 596	8,113.00	24,741.00	32,854.00	43,805.33	52,438.00	(8,632.67)	
4020 597	14,305.00	17,186.00	31,491.00	41,988.00	37,647.00	4,341.00	
4020 598	34,525.00	22,538.00	57,063.00	76,084.00	73,927.00	2,157.00	
4020 935	31,710.00	44,513.00	76,223.00	101,630.67	167,932.00	(66,301.33)	2,800.00
	<u>2,946,970.00</u>	<u>3,149,824.00</u>	<u>6,096,794.00</u>	<u>8,129,058.67</u>	<u>8,617,304.00</u>	<u>(488,245.33)</u>	<u>574,896.00</u>

EXHIBITS

ADJUSTED RATE BASE

FLORIDA PUBLIC SERVICE COMMISSION

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:  
Historic Year Ended 12/31/2006  
Witness: Jim Mesite, Cheryl Martin

COMPANY: FLORIDA PUBLIC UTILITIES

Consolidated Electric Division

DOCKET NO.: 070304-EI

Line No.	(1) Plant in Service	(2)* Accumulated Provision for Depreciation and Amortization	(3) Net Plant in Service (1 - 2)	(4) CWIP - 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	72,376,983	(32,199,482)	40,177,500	1,461,603	-	-	41,639,104	(1,682,506)	-	39,956,598	
2	100%	100%	100%	100%	100%	100%	100%	100%	100%		
3	72,376,983	(32,199,482)	40,177,500	1,461,603	-	-	41,639,104	(1,682,506)	-	39,956,598	
4	<b>Adjustments:</b>										
5	(67,783)	33,370	(34,413)	(7,343)	-	-	(41,756)	-	-	(41,756)	
6	Eliminate Interest Bearing Cash Per 2003 Rate Case Proceeding								(24,312)	-	(24,312)
7	Eliminate 1/2 Deferred Rate Case Expense Per 2003 Rate Case Proceeding								(116,540)	-	(116,540)
8	Eliminate Fuel Under-Recovery Per 2003 Rate Case Proceeding								(1,716,749)	-	(1,716,749)
9											
10											
11											
12											
13	<b>Total Adjustments</b>										
	\$ (67,783)	\$ 33,370	\$ (34,413)	\$ (7,343)	\$ -	\$ -	\$ (41,756)	\$ (1,857,601)	\$ -	\$ (1,899,357)	
14											
15	<b>Adjusted Jurisdictional</b>										
	\$ 72,309,200	\$ (32,166,112)	\$ 40,143,087	\$ 1,454,260	\$ -	\$ -	\$ 41,597,348	\$ (3,540,107)	\$ -	\$ 38,057,241	
16											
17	* Includes Account 2520 - Customer Advances for Construction										

Supporting Schedules: B-2 (2006), B-3 (2006), B-7 (2006), B-9 (2006)

Recap Schedules: B-2 (2006)

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FLORIDA PUBLIC SERVICE COMMISSION  
 COMPANY: FLORIDA PUBLIC UTILITIES  
 Consolidated Electric Division  
 DOCKET NO.: 070304-EI

## 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 Shown:

Historic Year Ended 12/31/2006  
 Witness: Mehrdad Khojasteh, Cheryl Martin

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	Operating Revenues:							
2	Sales of Electricity	47,452,526		47,452,526	100%	47,452,526	(30,359,021)	17,093,505
3	Other Operating Revenues	1,074,705		1,074,705	100%	1,074,705	(759,903)	314,802
4	Total Operating Revenues	<u>48,527,231</u>		<u>48,527,231</u>	100%	<u>48,527,231</u>	<u>(31,118,924)</u>	<u>17,408,307</u>
5								
6	Operating Expenses:							
7	Operation & Maintenance:							
8	Fuel			-	100%	-	-	-
9	Purchased Power	30,606,436		30,606,436	100%	30,606,436	(30,606,436)	-
10	Other	8,163,711		8,163,711	100%	8,163,711	(456,411)	7,707,300
11	Depreciation & Amortization	2,722,498		2,722,498	100%	2,722,498	(11,398)	2,711,100
12	Decommissioning Expense			-	100%	-	-	-
13	Taxes Other Than Income Taxes	3,982,172		3,982,172	100%	3,982,172	(22,079)	3,960,093
14	Income Taxes	772,895		772,895	100%	772,895	8,498	781,393
15	Deferred Income Taxes-Net	(195,788)		(195,788)	100%	(195,788)	-	(195,788)
16	Investment Tax Credit-Net	(32,322)		(32,322)	100%	(32,322)	-	(32,322)
17	(Gain)/Loss on Disposal of Plant			-	100%	-	-	-
18	Total Operating Expenses	<u>46,019,602</u>		<u>46,019,602</u>	100%	<u>46,019,602</u>	<u>(31,087,826)</u>	<u>14,931,776</u>
19								
20	Net Operating Income	<u>2,507,629</u>		<u>2,507,629</u>	100%	<u>2,507,629</u>	<u>(31,098)</u>	<u>2,476,531</u>

Supporting Schedules: C-2, C-4, C-5, C-7

Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION  
 COMPANY: FLORIDA PUBLIC UTILITIES  
 Consolidated Electric Division  
 DOCKET NO.: 070304-EI

EXPLANATION: Provide the company's 13-month average cost of capital for the test year, the prior year, and historical base year.

Type of Data Shown:  
 Historic Year Ended 12/31/06  
 Witness: Doreen Cox, Robert Camfield

Line No.	Class of Capital	(A) Company Total Per Books	(B) Specific Adjustments	(C) Pro Rata Adjustments	(D) System Adjusted	(E) Jurisdictional Factor	(F) Jurisdictional Capital Structure	(G) Ratio	(H) Cost Rate	(I) Weighted Cost Rate	(J) Interest Expense
<b>Regulatory Capital Structure, 2006</b>											
1.	Long Term Debt	50,443,237			50,443,237	31.33%	15,801,612	0.4152	8.03%	3.33%	1,268,418
2.	Short Term Debt	3,309,077			3,309,077	31.33%	1,036,586	0.0272	7.29%	0.20%	75,536
3.	Preferred Stock	600,000			600,000	31.33%	187,953	0.0049	4.75%	0.02%	
4.	Common Equity	44,943,721			44,943,721	31.33%	14,078,859	0.3699	11.50%	4.25%	
5.	Customer Deposits	2,136,661			2,136,661		2,136,661	0.0561	6.07%	0.34%	129,626
6.	Deferred Income Taxes	4,674,449			4,674,449		4,674,449	0.1228	0.00%	0.00%	
7.	Tax Credits-Zero Cost	0			0		0	0.0000	0.00%	0.00%	
8.	Tax Credits-Weighted Cost	141,120			141,120		141,120	0.0037	9.55%	0.04%	
9.	TOTAL	106,248,266			106,248,266		38,057,241	1.0000		8.18%	1,473,580

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Class of Capital	Company Total Per Books	Ratio	Cost Rate	Weighted Cost Rate	
<b>Conventional Capital Structure, 2006</b>					
10.	Long Term Debt	50,443,237	0.5080	8.03%	4.08%
11.	Short Term Debt	3,309,077	0.0333	7.29%	0.24%
12.	Preferred Stock	600,000	0.0060	4.75%	0.03%
13.	Common Equity	44,943,721	0.4526	11.50%	5.21%
14.	TOTAL	99,296,036	1.0000		9.55%

Rate Base	\$38,057,241
Direct Components	\$6,952,231
	\$31,105,010
Jurisdictional Factor	31.33%

Common Equity excludes Flo-Gas