State of Florida

ORIGINAL

Public Service Commission

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

DATE: October 28, 1999

TO: Division of Water and Wastewater (Binford)

FROM: Division of Auditing and Financial Analysis (Vandiver)

RE: Docket No. 990535-WU; Florida Public Utilities
Rate Case Audit Report
Audit Control No. 99-221-4-1

Attached is the final audit report for the utility state 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, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Auditing and Financial Analysis (Devlin/Causseaux/File Folder
Miami District Office (Welch)
Division of Records and Reporting
Division of Legal Services
Research and Regulatory Review (Harvey)

Mr. John T. English
Florida Public Utilities Company
P. O. Box 3395
West Palm Beach, FL 33402-3395

Messer Law Firm
Attention: Norman Horton
P. O. Box 1878
Tallahassee, FL 32302

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING SERIVCES
Miami District Office

FLORIDA PUBLIC UTILITIES COMPANY
FERNANDINA WATER DIVISION

RATE CASE AUDIT

TWELVE MONTHS ENDED DECEMBER 31, 1998
AND FORECASTED ENDED DECEMBER 31, 2000

AUDIT CONTROL NO. 99-221-4-1

DOCKET NO. 990535-WU

Yen Ngo, Audit Staff

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Ruth Young, Audit Staff

Iliana Piedra, Audit Staff

Raymond Grant, Audit Manager

Kathy L. Welch, Audit Supervisor

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DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT

October 21, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended December 31, 1998 and forecasted period ended December 31, 2000, for Florida Public Utilities Company. These schedules were prepared by the utility as part its petition for rate relief in Docket No. 990535-WU. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. And selective analytical review procedures were applied.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

Confirmed - Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

RATE BASE: For the year ended December 31, 1998, examined account balances for utility plant in service by testing construction and improvement requisitions for specific plant accounts. Tested contributions in aid of construction for specific plant accounts for compliance with the company's tariff. Traced developer agreements to the Advance for Construction account and the CIAC accounts. Reviewed accumulated depreciation and depreciation expense account. Tested additions to accumulated depreciation and depreciation expense and amortization of CIAC for proper rates and calculation. For the years 1999 and 2000, obtained all documentation related to projected plant additions, recalculated accumulated amortization and determined the reasonableness of the forecast methodology for CIAC and Advances for Construction. Recalculated CIAC amortization.

Compiled working capital accounts. Reviewed accounts used in the calculation to determine if the utility made adjustments that were made in the prior rate case and prior surveillance report audits. Reviewed the allocation methodology for accounts allocated from other divisions. For the forecast, reviewed forecast methodology for reasonableness.

NET OPERATING INCOME: Compiled utility revenue. Traced revenue to revenue and rate reports and examined several bills to determine it followed the tariff. For the year 2000, obtained and reviewed backup related to customer growth. Examined operating and maintenance expense accounts. Based on an analytical review, selected certain accounts to test invoices and journal entries for reasonableness. Reviewed allocation methodology. For the forecast, determined the reasonableness of forecast methodology, compared to actual history, and obtained supporting documentation for items not trended.

Reviewed costs allocated to a new division (garbage and sewer billing). Reviewed taxes other than income taxes, and current income taxes.

Obtained detail for rate case expenses.

COST OF CAPITAL: Reviewed the company prepared reconciliation of rate base to capital structure. Verified that all non-regulated and non-utility assets were removed from Common Equity at the parent level, and that treasury stock was also removed. Verified that the cost rates used were appropriate.

MISCELLANEOUS: Read external auditors workpapers. Read Board of Directors Minutes. Prepared 13 month trial balance and recalculated all 13 month averages where appropriate. Prepared an analytical review of plant and expense accounts.

EXCEPTIONS

AUDIT EXCEPTION NO. 1

SUBJECT: UNRECORDED CIAC AND ACCUMULATED AMORTIZATION

STATEMENT OF FACT: Order 17441 states:

"Rule 25-30.115, Florida Administrative Code, requires water and sewer utilities to maintain accounts and records in conformity with the 1984 NARUC uniform system of accounts. At present Florida Public Utilities Company does not maintain account 271 for its contributions in aid of construction. The utility has been netting CIAC against the primary plant account to which it relates. Although this treatment of CIAC is not in accordance with Commission policy, this method was allowed in the utility's last rate case in Docket No. 800059-W. The utility was allowed to continue this system of accounting in order to keep its water utility records consistent with those of its electric and gas operations. Henceforth, to assure that all CIAC is recognized on the utility's books, we will require the utility to maintain its accounts and records in accordance with the 1984 NARUC uniform system of accounts."

The utility did start the CIAC account but many items, especially contributed plant were recorded as a credit to plant instead of to CIAC.

OPINION: The amounts were determined from the ledgers and tax return information and are summarized on the following worksheet. From 1986 to 1998, $490,350.29 was not recorded in the 271 account. Accumulated amortization on the amount is $93,647.10 for 1998 and $117,534.92 for the projected year 2000. Amortization expense is $11,260.30 for 1998 and $11,943.91 for 2000.

The entry to the books should be:

101.331	Mains	202,113.09	
101.333	Services	213,478.33	
101.334	Meters	11,202.00	
101.335	Hydrants	63,556.87	
2710.343	CIAC Main Capacity		202,113.09
2710.345	CIAC Service Capacity		213,478.33
2710.346	CIAC Meter Installation		11,202.00
2710.348	CIAC Hydrant Expense		63,556.87
	CIAC Accumulated Amortization	93,647.10	
	Depreciation Expense	11,260.30	
	CIAC Amortization Expense		11,260.30
	Accumulated Depreciation		93,647.10

The entry to the filing for the year 2000 should be:

101.331	Mains	202,113.09	
101.333	Services	213,478.33	
101.334	Meters	11,202.00	
101.335	Hydrants	63,556.87	
2710.343	CIAC Main Capacity		202,113.09
2710.345	CIAC Service Capacity		213,478.33
2710.346	CIAC Meter Installation		11,202.00
2710.348	CIAC Hydrant Expense		63,556.87
	CIAC Accumulated Amortization	117,534.92	
	Depreciation Expense	11,943.91	
	CIAC Amortization Expense		11,943.91
	Accumulated Depreciation		117,534.92

COMPANY: FPUC WATER
TITLE: CIAC CHARGED DIRECTLY TO PLANT
TEST YEAR: DEC. 31, 1998 FTY 12/31/00

	MAINS	SERVICES	HYDRANTS	MAINS	METERS	HYDRANTS	SERVICES	
YEAR	343.00	345.00	348.00	331.00	334.00	335.00	333.00	TOTAL
1986	23,773.00	106,795.00	14,089.00					144,657.00
1987	25,780.53	62,049.33	5,195.14					93,025.00
1988	706.00	2,471.00						3,177.00
1989	5,280.68	1,036.00	3,889.32					10,206.00
1990	45,103.88	2,471.00	15,496.41					63,071.29
1991				70,495.00		16,204.00	25,965.00	112,664.00
1992				1,397.00				1,397.00
1993				(7,700.00)		517.00		(7,183.00)
1994								0.00
1995				1,269.00				1,269.00
1996								0.00
1997				9,462.00		2,494.00	9,820.00	21,776.00
1998				26,546.00	11,202.00	5,672.00	2,871.00	46,291.00
	100,644.09	174,822.33	38,669.87	101,469.00	11,202.00	24,887.00	38,656.00	490,350.29
	2.300%	2.500%	2.200%	2.300%	5.000%	2.200%	2.500%	
				202,113.09		63,556.87	213,478.33	

CUMULATIVE	MAINS	SERVICES	HYDRANTS	MAINS	METERS	HYDRANTS	SERVICES	
YEAR	343.00	345.00	348.00	331.00	334.00	335.00	333.00	TOTAL
1986	23,773.00	106,795.00	14,089.00	0.00	0.00	0.00	0.00	144,657.00
1987	49,553.53	168,844.33	19,284.14	0.00	0.00	0.00	0.00	237,682.00
1988	50,259.53	171,315.33	19,284.14	0.00	0.00	0.00	0.00	240,859.00
1989	55,540.21	172,351.33	23,173.46	0.00	0.00	0.00	0.00	251,065.00
1990	100,644.09	174,822.33	38,669.87	0.00	0.00	0.00	0.00	314,136.29
1991	100,644.09	174,822.33	38,669.87	70,495.00	0.00	16,204.00	25,965.00	426,800.29
1992	100,644.09	174,822.33	38,669.87	71,892.00	0.00	16,204.00	25,965.00	428,197.29
1993	100,644.09	174,822.33	38,669.87	64,192.00	0.00	16,721.00	25,965.00	421,014.29
1994	100,644.09	174,822.33	38,669.87	64,192.00	0.00	16,721.00	25,965.00	421,014.29
1995	100,644.09	174,822.33	38,669.87	65,461.00	0.00	16,721.00	25,965.00	422,283.29
1996	100,644.09	174,822.33	38,669.87	65,461.00	0.00	16,721.00	25,965.00	422,283.29
1997	100,644.09	174,822.33	38,669.87	74,923.00	0.00	19,215.00	35,785.00	444,059.29
1998	100,644.09	174,822.33	38,669.87	101,469.00	11,202.00	24,887.00	38,656.00	490,350.29
	2.300%	2.500%	2.200%	2.300%	5.000%	2.200%	2.500%	

AMORTIZATION BY YEAR:

	MAINS	SERVICES	HYDRANTS	MAINS	METERS	HYDRANTS	SERVICES	
YEAR	343.00	345.00	348.00	331.00	334.00	335.00	333.00	TOTAL
1986	273.39	1,334.94	154.98	0.00	0.00	0.00	0.00	1,763.31
1987	843.26	3,445.49	367.10	0.00	0.00	0.00	0.00	4,655.85
1988	1,147.85	4,252.00	424.25	0.00	0.00	0.00	0.00	5,824.10
1989	1,216.70	4,295.83	467.03	0.00	0.00	0.00	0.00	5,979.56
1990	1,796.12	4,339.67	680.28	0.00	0.00	0.00	0.00	6,816.07
1991	2,314.81	4,370.56	850.74	810.69	0.00	178.24	324.56	8,849.61
1992	2,314.81	4,370.56	850.74	1,637.45	0.00	356.49	649.13	10,179.17
1993	2,314.81	4,370.56	850.74	1,564.97	0.00	362.18	649.13	10,112.38
1994	2,314.81	4,370.56	850.74	1,476.42	0.00	367.86	649.13	10,029.51
1995	2,314.81	4,370.56	850.74	1,491.01	0.00	367.86	649.13	10,044.11
1996	2,314.81	4,370.56	850.74	1,505.60	0.00	367.86	649.13	10,058.70
1997	2,314.81	4,370.56	850.74	1,614.42	0.00	395.30	771.88	10,317.70
1998	2,314.81	4,370.56	850.74	2,028.51	280.05	485.12	930.51	11,260.30
	21,531.33	43,599.97	7,953.21	12,129.06	280.05	2,880.91	5,272.58	93,647.10
1999	2,314.81	4,370.56	850.74	2,333.79	560.10	547.51	966.40	11,943.91
2000	2,314.81	4,370.56	850.74	2,333.79	560.10	547.51	966.40	11,943.91
	26,160.96	52,341.09	9,654.68	16,796.64	1,400.25	3,975.94	7,205.38	117,534.92

AUDIT EXCEPTION NO. 2

SUBJECT: ENGINEERING FEES NOT TRANSFERRED FROM ADVANCES TO CIAC

STATEMENT OF FACT: The company collects engineering fees from developers that are installing and donating mains, services and hydrants. The company has been recording these fees as a debit to cash and a credit to account 252, Advances for Construction. When the engineering fees are incurred they are debited to the 107, Construction Work in Process account.

The tariff states "The company shall charge an inspection fee based upon the actual cost to the Company of inspection of facilities constructed by contributors or independent contractors for connection with the facilities of the Company. Such inspection fee shall be paid by the contributor in addition to all other charges above stated, as a condition precedent to service."

In some instances, the company has not collected enough money to cover the actual engineering fees incurred.

In other instances, the company has not transferred the advance to Contributions in Aid of Construction after the engineering was completed and in two instances this caused the advance for engineering to be refunded to the customer even though costs for engineering were capitalized.

OPINION: Engineering fees that are in the advance account should be transferred to the Contributions in Aid of Construction account. The company should collect additional engineering fees from developers to cover the actual engineering costs where the estimate collected was less than actual. The company should collect the engineering fees of $2,973 for Amelia River and $3,196 for Midland Group that were refunded instead of being charged to Contributions.

The following adjustment should be made (see attached detail by developer):

Advances for Construction	$38,369	
Receivable from Developer	20,649	
Contributions in Aid of Construction		$59,018

ADVANCES FOR ENGINEERING FEES

IR	DEVELOPER	ESTIMATE	ACTUAL	UNDER-COLLECTED
970	ALMOND, AMOS	5,000.00	3,433.00	
712	AMELIA ISLAND HOTEL	3,500.00	1,711.00	
700	AMELIA TRACE	3,630.00	3,209.00	
853	BAPTIST MEDICAL CENTER	3,500.00	2,866.00	
274	CENTREX HOMES	4,000.00	8,262.00	4,262.00
482	CENTREX HOMES	4,000.00	4,204.00	204.00
505	DOTSIE BLDS/OCEAN SND 11	3,000.00	3,933.00	933.00
789	EGMONT PARK		793.00	793.00
782	JANE ADAMS HOUSE	3,500.00	1,800.00	
581	ANTONPOU, MICHAEL	5,000.00	4,144.00	
767	OCEAN REACH JT. VENTURE	3,500.00	3,421.00	
886	RAYONIER		2,193.00	2,193.00
422	RED LIMITED	3,000.00	817.00	
593	RED LIMITED	3,500.00	3,117.00	
813	SELTON, ROBERT	1,500.00	2,274.00	774.00
784	ACQUIPORT	3,500.00	1,351.00	
988	TIGERPOINT		5,321.00	5,321.00
			52,849.00	14,480.00
842	AMELIA RIVER		2,973.00	2,973.00
891	MIDLAND GROUP		3,196.00	3,196.00
			59,018.00	20,649.00

AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: 1999 AND 2000 FORECAST FOR GENERAL PLANT SHARED WITH THE ELECTRIC DIVISION

STATEMENT OF FACTS: I. Included in MFR H-8b, Page 1 of 3, Fernandina electric general plant allocated to water, is an allocation for forecasted power equipment in Account 396.

The power equipment forecasted was a Trencher/Backhoe for $56,000. Of that amount 33% is allocated to the water division starting January 1, 1999. The amount in the water division is $18,480. It was included in 12 months of the 13 month average. The equipment is also included in the forecast for 2000 for the same amount.

Company source documentation shows that the initial forecast for the power equipment was deferred and other items were included in its place. The other items were for the electric division use only.

II. MFR H-8b, page 3 of 3 is Fernandina electric transportation equipment that is allocated to water. Starting in June 1999, the company included $5,610 (which is 33% of the total cost) for a new vehicle in account 3922. This amount was also carried forward to the 2000 forecast. The Company calculated the cost based on an estimate of $17,000. The source documentation provided by the company shows that the actual cost in 1999 was $13,458.

III. The company did not forecast any additions to Fernandina electric general plant or transportation equipment for the year 2000 except for the continuation of what was forecast in 1999. However, the company provided staff with a signed letter from the Division Manager that there would be three vehicles replaced in 2000 which would be allocated to water at 33%. Each of the vehicles is estimated by the company to cost $15,000.

OPINIONS: I. As the company deferred the purchase of the Trencher/Backhoe in 1999, it should not be included n the plant forecast for 1999 or 2000. Staff's calculation on the attached pages shows the amount be reduced for plant in service and the changes to accumulated depreciation and depreciation expense.

II. The transportation equipment forecast for 1999 and 2000 should be reduced to reflect the actual cost of the new vehicle. The accumulated depreciation and depreciation expense should also be changed. Staff's calculations are on the attached schedules.

III. The new vehicles are not included in the 2000 forecast nor are the old vehicles retired.

RECOMMENDATION: The following changes should be included in the MFR's for the power equipment in account 396 and the vehicle included in account 3922.

1999

Debit Accumulated Depreciation	788	
Credit Plant in Service - Year end		(18,989)
Credit Plant in Service - 13 Mos Average		(17,332)
Credit Depreciation Expense		(788)

2000

Debit Accumulated Depreciation	797	
Credit Plant in Service - Year end		(18,989)
Credit Plant in Service - 13 Mos Average		(18,989)
Credit Depreciation Expense		(797)

COMPANY: FPUC - FERNANDIAN WATER
TITLE: 1999 AND 2000 FORECASTED GENERAL PLANT SHARED WITH THE ELECTRIC DIVISION
PERIOD: 1999 AND 2000
DATE: OCTOBER 20, 1999

	Account No.396 Power Equipment MFR H-8b $56,000 @ 33%	Account No 396 Power Equipment Staff Calculation Less$56,000 @33%	Difference		Electric Deprec Rate(1)	Depreciation Expense	
12/31/98	9,745	9,745	0				
1/31/99	28,225	9,745	(18,480)		4.20%	(64.68)	
2.28/99	28,225	9,745	(18,480)		4.20%	(64.68)	
3/31/99	28,225	9,745	(18,480)		4.20%	(64.68)	
4/30/99	28,225	9,745	(18,480)		4.20%	(64.68)	
5/31/99	28,225	9,745	(18,480)		4.20%	(64.68)	
6/30/99	28,225	9,745	(18,480)		4.20%	(64.68)	
7/31/99	28,225	9,745	(18,480)		4.20%	(64.68)	
8/31/99	28,225	9,745	(18,480)		4.20%	(64.68)	
9/30/99	28,225	9,745	(18,480)		4.20%	(64.68)	
10/31/99	28,225	9,745	(18,480)		4.20%	(64.68)	
11/30/99	28,225	9,745	(18,480)		4.20%	(64.68)	
12/31/99	28,225	9,745	(18,480)	a	4.20%	(64.68)	
13 mos Avg	26,803	9,745	(17,058)	b	Total	(776.16)	c
12/31/99	28,225	9,745	(18,480)				
1/31/00	28,225	9,745	(18,480)		4.20%	(64.68)	
2.28/00	28,225	9,745	(18,480)		4.20%	(64.68)	
3/31/00	28,225	9,745	(18,480)		4.20%	(64.68)	
4/30/00	28,225	9,745	(18,480)		4.20%	(64.68)	
5/31/00	28,225	9,745	(18,480)		4.20%	(64.68)	
6/30/00	28,225	9,745	(18,480)		4.20%	(64.68)	
7/31/00	28,225	9,745	(18,480)		4.20%	(64.68)	
8/31/00	28,225	9,745	(18,480)		4.20%	(64.68)	
9/30/00	28,225	9,745	(18,480)		4.20%	(64.68)	
10/31/00	28,225	9,745	(18,480)		4.20%	(64.68)	
11/30/00	28,225	9,745	(18,480)		4.20%	(64.68)	
12/31/00	28,225	9,745	(18,480)	d	4.20%	(64.68)	
13 mos Avg	28,225	9,745	(18,480)	e	Total	(776.16)	f

(1) Since the asset is on the books of the electric division, the company calculated depreciaiton expense forecast using the electric rates according to Order PSC-99-0954-PAA-EI.

COMPANY: FPUC - FERNANDIAN WATER
TITLE: 1999 AND 2000 FORECASTED GENERAL PLANT SHARED WITH THE ELECTRIC DIVISION
PERIOD: 1999 AND 2000
DATE: OCTOBER 20, 1999

	Account 3922 Transp Equip MFR H-8b $17,000@ 33% Vehile 51717	Account 3922 Transp Equip Staff Calculation Less$1542@33% Vehicle 51717 **	Difference	Electric Deprec Rate(2)	
12/31/98	2893	2893	0	4.10%	0.00
1/31/99	2893	2893	0	4.10%	0.00
2.28/99	2893	2893	0	4.10%	0.00
3/31/99	2893	2893	0	4.10%	0.00
4/30/99	2893	2893	0	4.10%	0.00
5/31/99	2893	2893	0	4.10%	0.00
6/30/99	5610	5101	(509)	4.10%	(1.74)
7/31/99	5610	5101	(509)	4.10%	(1.74)
8/31/99	5610	5101	(509)	4.10%	(1.74)
9/30/99	5610	5101	(509)	4.10%	(1.74)
10/31/99	5610	5101	(509)	4.10%	(1.74)
11/30/99	5610	5101	(509)	4.10%	(1.74)
12/31/99	5610	5101	(509) g	4.10%	(1.74)
13 mos Avg	4356	4,082	(274) h	Total	(12.17) i

**	Estimated Cost	15,000
	Actual Cost	13,458
		1,542
	At 33%	33.00%
		509

12/31/99	5,610	5,101	(509)		
1/31/00	5,610	5,101	(509)	4.10%	(1.74)
2.28/00	5,610	5,101	(509)	4.10%	(1.74)
3/31/00	5,610	5,101	(509)	4.10%	(1.74)
4/30/00	5,610	5,101	(509)	4.10%	(1.74)
5/31/00	5,610	5,101	(509)	4.10%	(1.74)
6/30/00	5,610	5,101	(509)	4.10%	(1.74)
7/31/00	5,610	5,101	(509)	4.10%	(1.74)
8/31/00	5,610	5,101	(509)	4.10%	(1.74)
9/30/00	5,610	5,101	(509)	4.10%	(1.74)
10/31/00	5,610	5,101	(509)	4.10%	(1.74)
11/30/00	5,610	5,101	(509)	4.10%	(1.74)
12/31/00	5,610	5,101	(509) j	4.10%	(1.74)
13 mos Avg	5,610	5,101	(509) k	Total	(20.87) l

(2) Since the asset is on the books of the electric division, the company calculated depreciaiton expense forecast using the electric rates. The rates were changed as of January 1, 1999. According to order PSC-99-0954-PAA-EI the rate should be 13% However, the company forecast used the old rate inadvertently. Therefore, staff's adjustment is calculated using the rate in the forecast.

COMPANY:	FPUC - FERNANDIAN WATER
TITLE:	1999 AND 2000 FORECASTED GENERAL PLANT SHARED WITH THE ELECTRIC DIVISION
PERIOD:	1999 AND 2000
DATE:	OCTOBER 20, 1999

Recommended changes to the MFR's :

1999

Credit Plant in Service - Year end	(18,989)	(a+g)
Credit Plant in Service - 13 Mos Average	(17,332)	(b+h)
Credit.Depreciaiton Expense	(788)	(c+i)
Debit Accumulated Depreciation	788	(c+i)

2000

Credit Plant in Service - Year end	(18,989)	(d+j)
Credit Plant in Service - 13 Mos Average	(18,989)	(e+k)
Credit Depreciaiton Expense	(797)	(d+l)
Debit Accumulated Depreciation	797	(d+l)

AUDIT DISCLOSURE NO. 2

SUBJECT: FORECASTED PLANT IN SERVICE FOR 2000

STATEMENT OF FACTS: MFR Schedule A-5 is a detailed list of the plant items forecast for the year end 2000. In the middle of the audit, the company revised this forecast. The revision did not change the forecast in total, but changed the mix of the items forecast. Therefore, we audited the revised schedule as the original no longer applied. The company did not prepare a revised schedule of accumulated depreciation and depreciation expense for forecast 2000.

Out of $1,522,421, $1,000,000 was revised. The company forecast $980,000 for the #3 Water Works Plant. It provided a memo from the Florida Public Utility Company Division Manager outlining a cost estimate. The company did not provide any outside source documentation (bids, estimates, contracts or approval by the Board of Directors) for this forecast at the time the audit was completed.

Opinion: The company's forecast of $980,000 is not corroborated by outside source documentation at this time. Accumulated depreciation and depreciation expense forecasted for 2000 needs to be revised either to (1) delete the effects of the $980,000 or (2)to reflect the correct mix of plant accounts of the revised additions, whichever is appropriate.

Recommendation: The company should be advised to submit outside source documentation.

AUDIT DISCLOSURE NO. 3

SUBJECT: 1999 AND 2000 FORECAST TRANSPORTATION EQUIPMENT DEPRECIATION AMOUNTS

STATEMENT OF FACTS: The depreciation expense forecast in 1999 for transportation equipment is $16,558 and the amount included for 2000 is $22,842. These amounts are on MFR B-13, pages 1 and 2.

Prior to 1999, the depreciation on transportation equipment was recorded so it followed the work performed by the service technicians that were using the vehicles. For instance, if the technician performed work on a capital item, the depreciation expense was charged to the capital item. If the technician performed work that was charged to an operating expense, the depreciation was charged to the same expense. The depreciation expense for transportation equipment does not show up in the depreciation account.

Our audit of the expense or plant forecast did not show any reduction in expense or asset accounts for this expense. We asked the company to explain. It stated that there was no reduction in either capital and/or expense accounts for the transportation equipment depreciation, and that the amounts should be removed from MFR B-13, pages 1 and 2.

Opinion: The forecasted depreciation expense on Schedules B-13, pages 1 and 2 need to be revised to reflect the above amount.

	1999 Deprec. Exp. B-13	2000 Deprec. Exp. B-13	2000 Accum.Deprec A-1
MFR	376,729	414,259	(3,063,781)
Less:Transp. Equip	(16,558)	(22,842)	39,400
	360,181	391,417	(3,024,381)

Recommendation: The following journal entries to the MFRs are needed:

The year 2000 Rate Base and Net Operating Income schedules need to be adjusted on a cumulative basis as follows:

Accumulated Depreciation	39,400	
Depreciation Expense		22,842
Retained Earnings		16,558

AUDIT DISCLOSURE NO. 4

SUBJECT: WORKING CAPITAL ACCRUED TAXES - AD VALOREM

STATEMENT OF FACTS: The company did not include the portion of Account 2360 related to Fernandina Water- Taxes Accrued Ad Valorem in the calculation of the working capital allowance. The company explained it inadvertently omitted this account.

The 13 month average amount for the 1998 test year is a credit of $36,259. The forecasted amount would be $38,173 for 1999 and $40,189 for 2000 using the CPI and Customer Growth factor of 1.0528 for each year.

AUDIT RECOMMENDATION: The working capital allowance should be reduced by the above amounts in order to reflect the proper use of the Accrued Taxes account.

AUDIT DISCLOSURE NO. 5

SUBJECT: WORKING CAPITAL ACCRUED INTEREST PAYABLE

STATEMENT OF FACTS: The projection basis used for account 2370.1 and 2370.2 is the CPI and Customer Growth factor of 1.0528 for 1999 and 2000.

The 13 month average amount is $47,104 for 1998. The company forecast is $49,591 for 1999 and $52,209 for 2000.

The 13 month average amount for Account 231 - Notes Payable is $577,601 for 1998. The company forecast is $1,023,532 for 1999 and $1,655,306 for 2000. This represents an increase of 72.2% for 1999 and 61.72% for 2000.

AUDIT OPINION: If the accrued interest payable is forecast based on the notes payable forecast, the working capital allowance would be reduced by $31,522 (47,104 * 1.722 = $81,113 less 49,591) for 1999 and $78,967 ($81,113 * 1.6172 less $52,209) for 2000. Rate Base would be reduced by the same amount.

AUDIT DISCLOSURE NO. 6

SUBJECT: WORKING CAPITAL TRENDING METHODOLOGY

STATEMENT OF FACTS: The projection basis for the following accounts was based on the CPI and Customer Growth factor of 1.0528.

Account 2320.8 - Accounts Payable Payroll
Account 2320.5,6,7 Accrued Taxes Payroll
Account 2420.2.3 Payroll Taxes Payable
Account 2420.1 Vacation Pay Accrual

The company used this factor (rounded to 1.053) to project salaries and wages. However, for the year 2000 additional wages for an additional employee were projected also.
OPINION: If these additional wages are included in the calculation, the wage increase factor for the year 2000 increases to 1.1122. See the following page for this calculation.

A schedule which details the calculation for the difference in the 2000 trended amount, using the 1.1122 is attached.

RECOMMENDATION: The working capital allowance would be reduced by $3,053 if the 2000 factor is changed.

FORECASTED PAYROLL FOR 1999	421,600
CPI,CG FACTOR	1.0530
FORECASTED WAGES FOR 2000 PRIOR TO NEW EMPLOYEE ADDITION	443,945
WAGES FOR NEW EMPLOYEE	24,960
FORECASTED WAGES FOR 2000	468,905

INCREASE IN FORECAST FROM 1999 TO 2000 (468,905 - 421,600)	47,305
ACTUAL % INCREASE FROM 1999 TO 2000 (47,305/421,600)	11.22%

ACCOUNT		1998 AMOUNT WATER		STAFF 1999 TRENDED	STAFF 2000 TRENDED	COMPANY 2000 TRENDED	DIFF.
2320.8	ACCOUNTS PAY PAYROLL	(17,498)		(18,425)	(20,493)	(19,395)	1,098
2320.5,6,7	ACCRUED TAXES PAYROLL	(363)		(382)	(425)	(402)	23
2420.2,3	PAYROLL TAXES PAYABLE	(880)		(927)	(1,031)	(975)	56
2420.1	VACATION PAY ACCRUAL	(29,899)		(31,484)	(35,016)	(33,140)	1,876
	TOTAL ADJUSTMENT TO WORKING CAPITAL - REDUCE WORKING CAPITAL BY						$3,053

Staff trended for 2000 used 1.1122 factor.

AUDIT DISCLOSURE NO. 7

SUBJECT: REVENUE ALLOCATION METHODOLOGY

STATEMENT OF FACT: The company used a revenue allocation factor of 6.0% without Flo-Gas and contract work and 5.6% with Flo-Gas and contract work in 1998. These allocations were used in both working capital, customer deposits and expense accounts. The amounts allocated were then trended to arrive at the forecast for 2000. Expenses were trended at 5.28% for each 1999 and 2000. (Customer Growth and Inflation)

In computing these numbers, the company excluded fuel revenues, purchased gas adjustment revenues, and large use customer revenue such as OSS and GSLD. The reason for the exclusion is that large use customers fluctuate and fuel and PGA revenues are not included in base rates. However, many accounts that are allocated using this factor are affected by the total revenues, not just the base such as accounts receivable, payable, accrued taxes, and customer deposits.

In calculating the revenue for the water division, the company eluded industrial revenues and reduced revenues by all pumping and treatment expenses since they were believed to be similar to the cost of gas or the cost of fuel.

If total revenues are used for the calculation using the financial statements, the percent would be 2.57% without Flo-Gas or contract work and 2.43% with Flo-Gas and contract work. A schedule showing the detailed numbers is attached.

A schedule detailing the effect of the difference in working capital and expense follow. Using the total revenue allocation would reduce water expenses for 1998 by $18,147.06 and for 2000 by $20,113.96. Working capital would be increased by $122,798 in 1998 and $136,100 in 2000.

Changing customer deposits to 7.95% of Fernandina deposits amounts to $53,750. Changing the cost of capital for these numbers causes cost of capital to be 11.06% for 1998 and 9.09% for 2000. (Included removal of dividends in another exception)

ALLOCATION BASED ON TOTAL REVENUES

	AMOUNT	% OF TOTAL	% W/O FLO	FERNANDINA ONLY
MARIANA ELECTRIC	17,351,524	22.40%	23.68%	
FERNANDINA ELECTRIC	21,795,867	28.14%	29.75%	92.05%
FERNANDINA WATER	1,882,151	2.43%	2.57%	7.95%
GAS WEST PALM	25,546,631	32.98%	34.87%	
GAS SANFORD	4,191,645	5.41%	5.72%	
GAS DELAND	2,499,127	3.23%	3.41%	
	73,266,945		100.00%	100.00%
FLO GAS	4,126,984	5.33%		
GARBAGE AND SEWER	69,212	0.09%		
	77,463,141	100.00%		

SOURCE: FINANCIAL STATEMENTS

ACCOUNT NUMBER	ACCOUNT	FPUC AMOUNT	RATE USED COMPANY	AMOUNT COMPANY	RATE USED STAFF	AMOUNT STAFF	DIFF.	STAFF AMT TRENDED 1999	STAFF AMT TRENDED 2000	COMPANY AMOUNT 2000	DIFF.
1310	CASH	(277,770)	6.00%	(16,666)	2.57%	(7,139)	(9,527)	(7,301)	(7,472)	(17,443)	(9,971)
1240,1280	OTHER INVESTMENT	10,393	6.00%	624	2.57%	267	357	267	267	900	633 (B)
1650.2, 4	PREPAY INS	234,936	6.00%	14,096	2.57%	6,038	8,058	6,175	6,319	14,753	8,434
1860.1	OTHER WIP	9,167	6.00%	550	2.57%	236	314	0	0	20	20 (A)
2320.1, .99	ACCOUNTS PAY	(733,441)	6.00%	(44,006)	2.57%	(18,849)	(25,157)	(19,845)	(20,892)	(48,776)	(27,884)
2320.11	ACCOUNTS PAY - OTHER	(48,143)	6.00%	(2,888)	2.57%	(1,237)	(1,651)	(1,303)	(1,371)	(3,201)	(1,830)
2360.3,4,8,9	ACCRUED TAXES	(672,018)	6.00%	(40,321)	2.57%	(17,271)	(23,050)	(18,183)	(19,143)	(44,691)	(25,548)
2380	ACCRUED DIV - PREF	(2,740)	6.00%	(165)	2.57%	(70)	(95)	(70)	(70)	(165)	(95)
2280	ACCRUED INSURANCE	(2,045,762)	6.00%	(122,746)	2.57%	(52,576)	(70,170)	(55,352)	(58,275)	(136,050)	(77,775)
2420.3	AUDIT FEE ACCRUAL	(54,798)	6.00%	(3,287)	2.57%	(1,408)	(1,879)	(1,483)	(1,561)	(3,644)	(2,083)
							(122,798)				(136,100)

(A) - COMPANY TRENDED $25 REDUCTION BY MONTH, THEREFORE, STAFF TRENDING IS $0
(B) - PROJECTION CONSTANT PER SCHEDULE H-11

YEAR 1998

	BOOK BALANCES	% OF TOTAL	RECONCILED TO RATE BASE	RATIO TO TOTAL	RATES	WEIGHTED COST
LONG TERM DEBT	22,857,374	41.32%	2,035,168	39.98%	9.94%	3.97%
SHORT TERM DEBT	6,346,154	11.47%	565,047	11.10%	6.24%	0.69%
PREFERRED STOCK	600,000	1.08%	53,423	1.05%	4.75%	0.05%
COMMON EQUITY	25,511,637	46.12%	2,271,497	44.63%	13.52%	6.03%
TOTAL	55,315,165	100.00%	4,925,135			
CUSTOMER DEPOSITS			53,750	1.06%	6.31%	0.07%
ITC-3%			619	0.01%	0.00%	0.00%
ITC-4,7 10%			110,537	2.17%	11.11%	0.24%
TOTAL-RATE BASE			5,090,041	100.00%		11.06%
				PER CO. SCHEDULE		10.97%

EQUITY RATE:

EQUITY	25,511,637		
TOTAL	55,315,165	46.12%	

YEAR 2000

	BOOK BALANCES	% OF TOTAL	RECONCILED TO RATE BASE	RATIO TO TOTAL	RATES	WEIGHTED COST
LONG TERM DEBT	22,932,419	34.89%	2,801,820	34.19%	9.91%	3.39%
SHORT TERM DEBT	14,032,308	21.35%	1,714,429	20.92%	6.49%	1.36%
PREFERRED STOCK	600,000	0.91%	73,306	0.89%	4.75%	0.04%
COMMON EQUITY	28,163,237	42.85%	3,440,906	41.99%	9.85%	4.14%
TOTAL	65,727,964	100.00%	8,030,461			
CUSTOMER DEPOSITS			53,750	0.66%	6.30%	0.04%
ITC-3%			619	0.01%	0.00%	0.00%
ITC-4,7 10%			110,537	1.35%	9.16%	0.12%
TOTAL-RATE BASE			8,195,367	100.00%		9.09%
				PER CO. SCHEDULE		9.10%

ACCOUNT NUMBER	ACCOUNT	FPUC AMOUNT	CONSOLIDATED AMOUNT	ALLOC. RATE USED CO.	AMOUNT ALLOCATED CO.	ALLOC. RATE BY STAFF	AMOUNT STAFF	DIFFERENCE	STAFF AMT. TRENDED FOR 1999	STAFF AMT. TRENDED FOR 2000	CO. AMOUNT FOR 2000	DIFFERENCE
100.1840.9232	OUTSIDE SERVICE LEGAL	2,515.50		6.00%	150.93	2.57%	64.65	86.28	68.06	71.66	167.29	95.63
100.1849.9232	OUTSIDE SERVICE LEGAL		688.00	5.60%	38.53	2.43%	16.72	21.81	17.60	18.53	42.70	24.17
100.1840.9233	OUTSIDE SERVICE OTHER	4,000.00		6.00%	240.00	2.57%	102.80	137.20	108.23	113.94	266.01	152.07
100.1849.9233	OUTSIDE SERVICE OTHER		114,283.00	5.60%	6,399.85	2.43%	2,777.08	3,622.77	2,923.71	3,078.08	7,093.51	4,015.43
100.1840.9251	INJURIES AND DAMAGES	293,936.98		6.00%	17,636.22	2.57%	7,554.18	10,082.04	7,953.04	8,372.96	19,547.77	11,174.81
100.1849.9251	INJURIES AND DAMAGES		50,552.42	5.60%	2,830.94	2.43%	1,228.42	1,602.51	1,293.28	1,361.57	3,137.78	1,776.21
100.1840.9302	MISC. GENERAL EXPENSE	55,603.79		6.00%	3,336.23	2.57%	1,429.02	1,907.21	1,504.47	1,583.91	3,697.83	2,113.92
100.1840.93022	INDUSTRY ASSOCIATION DUES	145.00		6.00%	8.70	2.57%	3.73	4.97	3.92	4.13	9.64	5.51
100.1849.9302	MISC. GENERAL EXPENSE		21,522.61	5.60%	1,205.27	2.43%	523.00	682.27	550.61	579.69	1,335.91	756.22
	TOTAL	356,201.27	187,046.03		31,846.65		13,699.59	18,147.06	14,422.93	15,184.46	35,298.44	20,113.98

AUDIT DISCLOSURE NO. 8

SUBJECT: DIVIDENDS PAYABLE INCLUDED IN EQUITY

STATEMENT OF FACT: To arrive at the equity numbers on the D-1 schedules, it is necessary to add:

Common Stock
Premium on Common Stock
Misc. Paid in Capital
Retained Earnings
Treasury Stock (debit balance therefore reduces equity for stock owned)
Capital Stock Expense (debit balance)
Accumulated. Dividends on Common Stock

The investment in Flo-Gas, the $10,000 of common stock related to Flo-Gas and the retained earnings of Flo-Gas, were not included in the capital accounts.

Dividends on Common stock were not included in the calculation of equity in the electric Rate Of Return report calculation. Since expenses were already adjusted for this amount, and thus retained earnings, this is only a payable account and should not be included in equity. The following schedule recalculates the cost of capital after removing the dividends account. Removing the account reduces 1998 cost of capital to 10.95%. The company used 10.97%. For the year 2000, the cost of capital rate would be 9.05% instead of the 9.10% used by the company.

YEAR 1998

	BOOK BALANCES	% OF TOTAL	RECONCILED TO RATE BASE	RATIO TO TOTAL	RATES	WEIGHTED COST
LONG TERM DEBT	22,857,374	41.32%	1,988,931	39.07%	9.94%	3.88%
SHORT TERM DEBT	6,346,154	11.47%	552,210	10.85%	6.24%	0.68%
PREFERRED STOCK	600,000	1.08%	52,209	1.03%	4.75%	0.05%
COMMON EQUITY	25,511,637	46.12%	2,219,891	43.61%	13.52%	5.90%
TOTAL	55,315,165	100.00%	4,813,240			
CUSTOMER DEPOSITS			165,645	3.25%	6.31%	0.21%
ITC-3%			619	0.01%	0.00%	0.00%
ITC-4,7 10%			110,537	2.17%	11.11%	0.24%
TOTAL-RATE BASE			5,090,041	100.00%		10.95%
				PER CO. SCHEDULE		10.97%

EQUITY RATE:

	EQUITY	25,511,637	
	TOTAL	55,315,165	46.12%

YEAR 2000

	BOOK BALANCES	% OF TOTAL	RECONCILED TO RATE BASE	RATIO TO TOTAL	RATES	WEIGHTED COST
LONG TERM DEBT	22,932,419	34.89%	2,762,780	33.71%	9.91%	3.34%
SHORT TERM DEBT	14,032,308	21.35%	1,690,540	20.63%	6.49%	1.34%
PREFERRED STOCK	600,000	0.91%	72,285	0.88%	4.75%	0.04%
COMMON EQUITY	28,163,237	42.85%	3,392,961	41.40%	0.00%	0.00%
TOTAL	65,727,964	100.00%	7,918,566			
CUSTOMER DEPOSITS			165,645	2.02%	6.30%	0.13%
ITC-3%			619	0.01%	0.00%	0.00%
ITC-4,7 10%			110,537	1.35%	9.16%	0.12%
TOTAL-RATE BASE			8,195,367	100.00%		4.97%
				PER CO. SCHEDULE		9.10%

AUDIT DISCLOSURE NO. 9

SUBJECT: NON-RECURRING CHEMICALS

STATEMENT OF FACT: The company paid Environmental Recovery in August of 1998 $3,380 for Sulfite Hydrogen.

OPINION: According to Gerald Edwards, the staff engineer, these costs are non-recurring. Removal would result in $3,747.77 for the year 2000 since the account was increased by 5.3% for 1999 and again for 2000 in the forecasted filing.

AUDIT DISCLOSURE NO. 10

SUBJECT: MAINTENANCE BEING REVIEWED BY ENGINEER

STATEMENT OF FACT: The company paid $7,935 for yearly tank maintenance to Utility Service Company. It was charged to account 4020.6756. This account was increased by 5.3% for 1999 and 5.3% for 2000.

This account was also charged with $1,300 for instructions on how to remove asbestos. It was paid to AO, Inc.

OPINION: The staff engineer, Gerald Edwards, was asked to determine the reasonableness of the expenses. He is still following up on these items.

DISCLOSURE NO. 11

SUBJECT: PROJECTED SALARIES AND WAGES

STATEMENT OF FACT: The company projected that account 601 Salaries & Wages-Employees and 603 Salaries & Wages-Officers will increase by Customer Growth and Inflation of 5.3% 1999 and customer growth and inflation of 5.3% in 2000 plus $32,500 for a new position to be added in January 2000.

Salaries were trended from 1995 through 1998 . The utility salaries trend as follows:

Increase in Salaries-1996 over 1995	9.87%
Increase in Salaries-1997 over 1996	7.51%
Increase in Salaries-1998 over 1997	(3.37%)
Average Increase	4.67%
Customer Growth & Inflation	5.30%
Difference	0.63%
Total Salaries	$431,929.00
Difference using historical growth compared to CPI & customer growth	$2,721.15

In response to staff auditor's request, the company stated that it determined that an additional employee was needed because:

1. No additional employee was added for over 8 years while customer growth exceeded 30% over the same period.

2. Employees were borrowed from the electric division on a consistent basis.

3. Deterioration in the level of customer service.

DISCLOSURE NO. 12

SUBJECT: PROJECTED GENERAL LIABILITY INSURANCE EXPENSE

STATEMENT OF FACT: The company projected total company general liability insurance expense of $294,000 for 1999 and for the year 2000. The general liability insurance premium decreased from $294,176 for the 9/1/98/-9/1/99 policy to $258,334 for the 9/1/99-9/1/00 policy. The premium decreased because the company's Treasurer called AEGIS and asked if there were any safety programs that the company could participate in to reduce their premiums. In September 1999, AEGIS rewrote the policy and reduced the premium. Insurance was allocated to water at 6.9%, which is based on plant.

OPINION: Premiums were reduced as follows:

	1999	2000
General Liability Ins. Projected Per Co.	$294,000.00	$294,000.00
General Liability Ins. Premium	$294,176.00	$258,334.00
Difference	($176.00)	$35,666.00
Allocation %	6.9%	6.9%
Reduce Projected Amount By	($12.14)	$2,460.95

RECOMMENDATION: The general liability insurance premium projected for the year 2000 is $35,666 more than premium for the 9/1/99-9/1/00 policy. Expense for the year 2000 should be reduced by $2,460.95.

AUDIT DISCLOSURE NO. 13

SUBJECT: PLUMBING EXPENSES

STATEMENT OF FACTS: In 1998, the company paid a total of $17,705 to Don Hardin Plumbing for miscellaneous repair to water lines, replacing and repairing sheetrock inside the customer's residence. The expenses were recorded in account 137.401.6755 Miscellaneous Expense.

On MFR, Schedule B-3 page 3 of 3, the company made an adjustment to reduce account 137.401.6755 Miscellaneous Expense by $17,705 for non-recurring expenses. The company amortized this amount over five years and increased miscellaneous expense account by $3,541.00.

Plumbing Expenses	$17,705.00
Divided by 5 years	5
Amortized Expense	$3,541.00

OPINION: The utility usually only maintains lines to the meter and does not usually perform repairs on inside plumbing.

AUDIT DISCLOSURE NO. 14

SUBJECT: LEGAL FEES

STATEMENT OF FACTS: The Fernandina Beach Electric Division Surveillance audit, AFAD No.99-081-4-1, contains an audit exception disallowing legal fees of $7,796.72 from the surveillance schedules filed because these fees were for the water division not electric. A description of the legal fees follows:

Date	Payee	Description	Amount
4/15/98	Elarbee Thompson & Trapnell	Professional Serv.Rendered for Lead Waterman Promotion	$315.00
8/14/98	Elarbee Thompson & Trapnell	Professional Serv.Rendered for Lead Waterman Promotion	$5,972.72
9/22/98	James F. Scarce	Lead Waterman Arbitration	$1,509.00
			$7,796.72

OPINION: These legal fees were not included in the expenses for the water rate case. An adjustment should be made to increase expenses. The forecasted amount would be $8,210 for 1999 and $8,645 for 2000 using customer growth and inflation factor of 5.3%. However, the expenses may be non-recurring and may need to be amortized over five years.

AUDIT DISCLOSURE NO. 15

SUBJECT: TRANSPORTATION EXPENSE

STATEMENT OF FACTS:

1. In January 1998, the company recorded transportation expenses of $13,979 in account 115.1840 Transportation Clearing.

Date	G/L	Vendor	Amount
12/12/97	1/98	Tyler Truck Repair	$9,528.66
		Times Fernandina Allocation % for Jan.	38.39%
		Amount To Remove From Test Year Expense	$3,658.00

2. In February 1998, the company recorded transportation expenses of $9,528.66 the in Transportation clearing account . These expenses were for the rental of bucket trucks and a digger derrick.

Date	Vendor	Description	Amount
02/13/98	Global Rental	60ft. Bucket Truck	$2,568.00
02/04/98	Global Rental	60ft. Bucket Truck	$2,568.00
02/27/98	Global Rental	Digger Derrick	$3,927.50
03/13/98	Global Rental	60ft. Bucket Truck	$2,568.00
03/26/98	Global Rental	Digger Derrick	$3,477.50
04/10/98	Global Rental	60 ft. Bucket Truck	$2,568.00
04/24/98	Global Rental	Digger Derrick	$3,477.50
05/08/98	Global Rental	60 ft. Bucket Truck	$2,568.00
06/05/98	Global Rental	60 ft. Bucket Truck	$2,568.00
06/19/98	Global Rental	Digger Derrick	$3,477.50
07/17/98	Global Rental	Digger Derrick	$3,477.50
08/14/98	Global Rental	Digger Derrick	$3,477.50
09/11/98	Global Rental	Digger Derrick	$3,477.50
10/09/98	Global Rental	Digger Derrick	$3,477.50
11/06/98	Global Rental	Digger Derrick	$3,477.50
12/04/98	Global Rental	Digger Derrick	$3,477.50

Transportation Expense	$50,633.00
Times Composite Allocation % for 1998 Water	26.84%
Amount To Remove From Test Year Expense	$13,590.00

OPINION:

1. The Tyler truck repair invoice is for a major repair which may not be recurring. It may need to be removed from test year expenses and amortized from test year expenses and amortized over five years.

2. Bucket trucks are normally used for installing and repairing electric lines and Digger Derrick are used for digging holes and then placing ploes in the ground. Although all company trucks owned by Florida Public Utilities Company in Fernandina are allocated using the clearing account whether or not they are specifically for water or electric, rental of trucks does not appear to qualify under this allocation methodology. Rental of bucket trucks and digger derrick probably occurred because of a electric repair or installation and should be charged directly to the repair or construction work-in -progress account. Transportation expense of $13,590 related to the rental of these trucks should be removed from 1998 expense. The forecasted amount would be $14,310 for 1999 and $15,069 for 2000 using the customer growth and inflation factor of 5.3%.

AUDIT DISCLOSURE 16

SUBJECT: **DEPRECIATION EXPENSE ADJUSTMENTS ON MFR SCHEDULE B-3**

STATEMENT OF FACTS: According to MFR B-3, Page 3 of 3, an additional $18,723 for 1998 was added to depreciation expense for "...transportation equipment shared by the Fernandina Beach Electric Division." The back up on MFR B-13, page 3 of 3 shows that this amount is not for depreciation on transportation equipment, but for other general plant items, except transportation items, shared by the Fernandina Beach Electric Division.

The company used the same terminology on B-3, pages 1 and 2 of 3, indicating that $18,862 and $18,814 were added to depreciation expense for 1999 and 2000 respectively. The back up on MFR B-13, pages 1 and 2 shows that these amounts are not for depreciation equipment, but for other general plant items, except transportation items, shared by the Fernandina Beach Electric Division.

The company accounts for depreciation on transportation equipment in either a capital account or a particular expense account wherever work was done. The depreciation expense is debited to an electric clearing account and allocated to water capital and/or expense accounts based on the service technicians transportation tickets. The depreciation expense for transportation equipment does not show up in the depreciation account.

The company explained that the description for this company adjustment to operating income on Schedule B-3, pages 1, 2 and 3 is incorrect. The description should be increase in depreciation expense on equipment shared by the Fernandina Beach Electric Division except for transportation equipment.

Conclusion: The description on B-3 should be changed. This does not effect the amounts in the MFR's.

AUDIT DISCLOSURE NO. 17

SUBJECT: TAXES OTHER THAN INCOME TAX FORECAST

STATEMENT OF FACT: The company forecast $107,783 of regulatory assessment fees for the year 2000 on B-15 page 1. If forecasted revenues of $2,242,875 were multiplied by the 4.5% regulatory assessment fee rate, the forecasted taxes are $100,929.38 and the filing is overstated by $6,854. The revenues after the increase of $2,893,351 at the 4.5% rate equal taxes of $130,300.79. Compared to the filing amount of $137,026 taxes are overstated by $6,725. The company explanation was that it determined taxes before revenues.

To project payroll tax, the company used the CPI and customer growth increase since that is what it used to increase payroll. However, in the 2000 forecast, it added an additional employee. Payroll increased by 1.0325% in the 1999 forecast and 1.185% in the 2000 forecast. If taxes were increased in the same manner, taxes would be $29,819 for 1999 and $35,335 for 2000. The company forecast for 2000 was $29,816. It is understated by $5,519.

Actual franchise tax paid is based on revenue. If franchise taxes had been forecast based on the percent increase in forecast revenue of 1.015% for 1999 and 1.026% for 2000, the forecast franchise tax would be $101,383 in 2000. Because the company collects the franchise tax and then pays it, the revenue projection and the expense projection both contain $121,900 (See Filing schedule E-2). Therefore, the net effect of the numbers being wrong is zero. However, if staff changes the revenue amount and then changes the taxes collected in the revenue calculation, the expense would be wrong and would also need to be adjusted.

EXHIBITS

Schedule of Water Rate Base

Company: Florida Public Utilities Company
Fernandina Beach Water Division
Docket No.: 990535-WU
Schedule Year Ended: December 31, 2000
Interim [ ] Final [x]
Historic [ ] or Projected [x]

Florida Public Service Commission

Schedule: A-1
Page 1 of 3
Preparer: Jennifer Starr

Explanation: Provide the calculation of average rate base for the test year, showing all adjustments.
All non-used and useful items should be reported as plant held for future use.

Line No.	(1) Description	(2) Per Books Average Balance 12/31/00	(3) Utility Adjustments	(4) Adjusted Average Balance 12/31/00	(5) Supporting Schedules
1	Utility Plant in service	14,162,200	382,305	14,544,505	A-5
2	Utility Plant in service-Common	-	218,686	218,686	H-6
3	Utility Land & Land Rights	1,717	22,670	24,387	A-5
4	Utility Land & Land Rights-Common	-	14,703	14,703	H-6
5	Less: Non-Used & Useful Plant	-	-	-	A-7
6	Construction Work in Progress	245,538	(245,538)	-	A-18
7	Construction Work in Progress-Common	-	-	-	H-6
8	Less: Accumulated Depreciation	(3,063,781)	(182,253)	(3,246,034)	A-9
9	Less: Accumulated Depreciation-Common		(68,954)	(68,954)	H-7
10	Less: CIAC	(3,603,453)		(3,603,453)	A-12
11	Accumulated Amortization fo CIAC	654,597		654,597	A-14
12	Acquisition Adjustments			-	-
13	Accum. Amort. Of Acq. Adjustments			-	-
14	Less: Advances For Construction	(571,360)		(571,360)	A-19
15	Working Capital Allowance	228,290		228,290	A-17
16	Total Rate Base	8,053,748	141,619	8,195,367	

Schedule of Requested Cost of Capital
13-Month Average Balance

Company: Florida Public Utilities Company
Fernandina Beach Water Division
Docket No: 990535-WU
Schedule Year Ended: December 31, 2000
Historic [ ] or Projected [X]

Florida Public Service Commission

Schedule: D-1
Page 1 of 3
Preparer: George Bachman

Explanation: Provide a schedule which calculates the requested Cost of Capital on a 13-month average basis. If a year-end basis is used submit an additional schedule reflecting year-end calculations.

Line No.	(1)	(2)	(3)	(4)	(5)	(6)
1	Class of Capital	Reconciled To Requested Rate Base	Ratio	Cost Rate	Weighted Cost	Water Annual Interest Expense
2	Long-Term Debt	2,754,685	33.61%	9.91%	3.33%	272,989
3	Short-Term Debt	1,685,443	20.57%	6.49%	1.33%	109,385
4	Preferred Stock	72,075	0.88%	4.75%	0.04%	
5	Common Equity	3,408,110	41.59%	9.97%	4.15%	
6	Customer Deposits	177,772	2.17%	6.30%	0.14%	11,200
7	ITC - 3% - Zero Cost	383	0.00%	0.00%	0.00%	
8	ITC - 4%, 7%, 10% - Weighted Cost	96,899	1.18%	9.16%	0.11%	4,680
9	Total	8,195,367	100.00%		9.10%	398,254

10

11

12 ITC Rate Computation

13

Line No.	Description		Amount	Ratio	Cost	Total Weighted Cost	Debt Only Weighted Cost
15	Long-Term Debt		2,754,685	34.78%	9.91%	3.45%	3.45%
16	Short-Term Debt		1,685,443	21.28%	6.49%	1.38%	1.38%
17	Preferred Stock		72,075	0.91%	4.75%	0.04%	----
18	Common Equity	(A)	3,408,110	43.03%	9.97%	4.29%	----
19	Total	(B)	7,920,313	100.00%		9.16%	4.83%

20

21

22 Return on Common Equity

23

24 Equity Ratio (Common Equity / Total Debt) = (A)/(B) = 0.430300

25

26 0.789/Equity Ratio = 0.018336

27

28 Return on Common Equity =.0814 + (0.789/Equity Ratio) = 9.97%

Supporting Schedules: D-2, D-3, D-4, D-5, D-7
Recap Schedules: A-1, A-2, C-3

Schedule of Water Net Operating Income

Company: Florida Public Utilities Company
Fernandina Beach Water Division
Schedule Year Ended: December 31, 2000
Interim [ ] Final [x]
Historic [ ] or Projected [X]

Florida Public Service Commission

Schedule: B-1
Page 1 of 3
Docket No.: 990535-WU
Preparer: Cheryl Martin

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

Line No.	(1) Description	(2) Balance Per Books	(3) * Utility Test Year Adjustments	(4) Utility Adjusted Test Year	(5) * Requested Revenue Adjustment	(6) Requested Annual Revenues	(7) Supporting Schedule(s
1	OPERATING REVENUES	2,242,875	621	2,243,496	649,855	2,893,351	B-4
2	Operation & Maintenance	1,066,013	9,436	1,075,449	1,384	1,076,833	B-5
3	Depreciation, net of CIAC Amort.	336,283	18,814	355,097		355,097	B-13
4	Amortization						
5	Taxes Other Than Income	453,156		453,156	64,492	517,648	B-15
6	Provision for Income Taxes	(11,013)	(10,397)	(21,410)	219,751	198,341	C-1
7	OPERATING EXPENSES	1,844,439	17,853	1,862,292	285,627	2,147,919	
8	NET OPERATING INCOME	398,436	(17,232)	381,204	364,228	745,432	
9	RATE BASE	8,053,748	141,619	8,195,367		8,195,367	A-1
10	RATE OF RETURN	4.95%		4.65%		9.10%	

11 * See Schedule B-3 for adjustments.