

State of Florida



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

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**DATE:** March 10, 2009  
**TO:** George J. Slemkewicz, Public Utilities Supervisor, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *D*  
**RE:** Docket No: 080366-GU; Company Name: Florida Public Utilities Company;  
Audit Purpose: Rate Case; Company Code: GU603;  
Audit Control No: 08-365-4-1;

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

DNV/tbm

Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey,  
District Offices, File Folder)  
Office of Commission Clerk (2)  
General Counsel  
Office of Public Counsel

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Florida Public Utilities Company  
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DOCUMENT NUMBER - DATE

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FLORIDA PUBLIC SERVICE COMMISSION  
DIVISION OF REGULATORY COMPLIANCE  
BUREAU OF AUDITING

*Miami District Office*

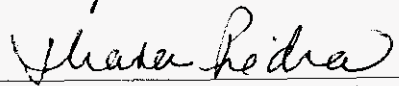
FLORIDA PUBLIC UTILITIES COMPANY  
GAS DIVISION

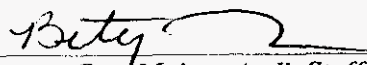
RATE CASE


HISTORICAL TEST YEAR ENDED DECEMBER 31, 2007  
FORECAST TEST YEAR ENDING DECEMBER 31, 2009


DOCKET NO. 080366-GU  
AUDIT CONTROL NO. 08-365-4-1

  
Yen Ngo, Audit Manager

  
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**DIVISION OF REGULATORY COMPLIANCE  
AUDITOR'S REPORT**

**March 4, 2009**

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

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated December 31, 2008. We have applied these procedures to the 2009 projected costs on the attached schedules which were prepared by Florida Public Utilities Company-Gas Division in support of its filing for rate relief in Docket No. 080366-GU.

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

# I. OBJECTIVES AND PROCEDURES

## RATE BASE

**A. Objective – General:** 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.

1. We reconciled the rate base balances supporting schedules and traced those to the general ledger.
2. We obtained supporting documentation for all adjustments in 2007 and 2009, recalculated them, traced amounts to the ledgers, and reviewed prior orders.
3. We reviewed the board of director’s minutes, the internal audit reports and the external audit workpapers.

**B. Objective - Utility Plant:** To verify plant additions, retirements and adjustments from the last historic year through December 31, 2007 and obtain supporting documentation for the plant forecast for calendar years 2008 and 2009. To review the utility continuing property records and determine if they are in compliance with Commission Rule 25-6.014(3), Florida Administrative Code.

1. We sampled plant additions for the period July 1, 2004 through December 31, 2008 for compliance with the stated objectives above.
2. We verified that the utility properly recorded retirements when a capital item was removed or replaced.
3. We sampled construction project additions and the corresponding source documentation.
4. We obtained the supporting documentation for the forecasted plant and verified the projects with the staff engineer.

**C. Objective - Customer Advances:** To determine that additions to Customer Advances from July 1, 2004 through December 31, 2008 are properly recorded in compliance with Commission rules.

1. We sampled Customer Advance additions for the period July 1, 2004 through December 31, 2008 for compliance with the stated objectives above and traced them to contracts.
2. We recalculated the forecast amounts for 2008 and 2009.

3. We compared the 2008 forecast to the actual.

**D. Objective - Accumulated Depreciation:** To determine that accruals to accumulated depreciation in 2007 are properly recorded in compliance with Commission rules and 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.

1. We traced the accumulated depreciation schedules to the corresponding plant in service schedules.
2. 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.
3. We verified that the utility properly recorded retirements to accumulated depreciation when the corresponding plant was removed or replaced.
4. We recalculated a sample of accumulated depreciation account balances as of December 31, 2007.

**E. Objective - Working Capital:** To determine that the utility's working capital balance is properly calculated in compliance with Commission rules, 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.

1. We traced the working capital accounts to the general ledger, and reviewed any allocations of common accounts.
2. We reviewed Commission rules and prior orders to determine if accounts were properly included in the working capital allowance. We recalculated the utility's working capital balance as of December 31, 2007.
3. We reviewed the transactions in miscellaneous deferred debits, other deferred credits, accrued liabilities and materials and supplies for non-regulated items.

## II. NET OPERATING INCOME

**A. Objective - General:** 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 audits.

1. We reconciled the following individual components of net operating income (NOI) balances to the utility's general ledger for the 12-month

period ended December 31, 2007.

2. We recalculated the adjustments, traced the components to the ledger and reviewed them with the last rate case.

**B. Objective - Revenues:** To determine that revenues in 2007 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.

1. 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.
2. We obtained the December entry for the unbilled revenue calculation and traced the components to source documentation.

**C. Objective - Operation and Maintenance Expenses (O&M):** To determine that operation and maintenance expenses in 2007 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 allocated corporate costs were correctly allocated between gas, electric, propane and merchandising and jobbing operations. To determine if advertisements included were image enhancing or should have been included in conservation or fuel cost recovery. To determine if refunds were properly recorded.

1. We sampled O&M expense items from the general ledger based on auditor judgment.
2. We reviewed the sample for the proper utility system, classification, amount, period and recurring nature.
3. We examined invoices and supporting documentation to determine if the above objectives were met.
4. We obtained the detail for direct and allocated salaries and other expenses. We reviewed the allocation methodology and recomputed clearing amounts.
5. We compared uncollectible expense to the four year average of uncollectible amounts to revenue. We recalculated the uncollectible factor for 2007 used by the utility and reviewed the 2009 forecast calculation.

6. We reviewed supporting documentation for the 2009 forecast items that were based on direct forecasts as opposed to trended forecasts. We reviewed the Over and Above adjustments included in the 2009 forecast for supporting documentation and reasonable calculations. (Over and Above adjustments are adjustments the company made that were higher than the adjustments based on trending.)

**D. Objective - Taxes-Other-Than-Income:** To determine that taxes other than income tax expense in 2007 is properly recorded and in compliance with Commission rules and reasonable and prudent for ongoing utility operations.

1. We recalculated regulatory assessment fees and reconciled them to the general ledger.
2. We obtained the property tax bills to determine if the amounts booked reflect the discount amount and were related to utility property.
3. We reviewed the percent of payroll tax to total salaries for reasonableness.

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

1. We recalculated depreciation expense for the period using Commission approved rates.

### III. CAPITAL STRUCTURE

**A. Objective - General:** 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 in compliance with Commission rules 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 ratios. To verify that the cost rates are appropriate. To determine how the rate base adjustments are adjusted in the capital structure.

1. We reconciled the following individual components of capital structure to balances in the utility's general ledger as of December 31, 2007.
2. We recalculated the overall weighted cost of capital for the test year ended 2007.



**B. Objective - Long-Term-Debt:** To determine that long-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

1. We compared actual long-term debt balances and interest rates to the actual 2007 debt.

**C. Objective - Short-Term-Debt:** To determine that short-term debt balances represent actual obligations of the utility's parent and that they are properly recorded in compliance with Commission rules.

1. We compared actual short-term debt balances and interest rates to the actual 2007 debt.

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

1. We compared actual deferred tax balances to supporting documentation. We reconciled the common equity components and the investment tax credit components and recalculated the investment tax credit rate.

**E. Objective - Customer Deposits:** To determine that customer deposit balances represent actual obligations of the utility and are properly recorded in compliance with Commission rules.

1. We compared actual deposits to supporting documentation.

## AUDIT FINDING NO. 1

### SUBJECT: CUSTOMER ADVANCES

**AUDIT ANALYSIS:** The utility made an error in the customer advance forecast for 2009. The 2009 forecast was calculated by applying the 2007 historical average amount to the 2009 customer growth and inflation factor of 1.0274. The utility should have used the 2008 forecast average amount and the 2009 customer growth and inflation factor of 1.0274. The difference indicates an understatement to customer advances of \$87,449.

#### Utility 2009 Forecast Calculation

|                                    |                  |
|------------------------------------|------------------|
| 2007 Historical Average            | (\$1,615,122.00) |
| 2009 Customer Growth and Inflation | <u>1.0274</u>    |
| Utility 2009 Forecast Calculation  | (\$1,659,376.34) |

#### Staff 2009 Forecast Calculation

|                                    |                  |
|------------------------------------|------------------|
| 2007 Historical Average            | (\$1,615,122.00) |
| 2008 Customer Growth and Inflation | <u>1.0527</u>    |
| 2008 Forecast Calculation          | (\$1,700,238.93) |

|                                    |                  |
|------------------------------------|------------------|
| 2009 Customer Growth and Inflation | 1.0274           |
| Staff 2009 Forecast Calculation    | (\$1,746,825.48) |

|   |                    |
|---|--------------------|
| Difference between Utility and Staff Forecast Calculation | <u>(87,449.13)</u> |
|---|--------------------|

We compared actual 2008 customer advances to the forecast. Our comparison shows the 2008 actual customer advances were greater than the forecast by \$444,840. Since customer advances are a credit, if the actual amount is used, rate base would be reduced. If this amount is trended to 2009, there is an understatement of customer advances of \$544,478 for 2009. The calculation follows:

#### 2008 -

|   |                    |
|---|--------------------|
| Staff 2008 Actual Customer Advances Average | (\$2,145,079)      |
| Utility 2008 Forecast per Filing            | <u>(1,700,239)</u> |
| Difference - Understated 2008               | (\$444,840)        |

#### 2009 -

|  |               |
|--|---------------|
| 2008 Actual per Above                              | (\$2,145,079) |
| 2009 Customer Growth and Inflation Factor          | <u>1.0274</u> |
| Staff 2009 Forecast Calculation using 2008 actuals | (\$2,203,854) |

|                                  |               |
|----------------------------------|---------------|
| Utility 2009 Forecast per Filing | (\$1,659,376) |
|----------------------------------|---------------|

|                               |                  |
|-------------------------------|------------------|
| Difference - Understated 2009 | <u>(544,478)</u> |
|-------------------------------|------------------|

**EFFECT ON THE GENERAL LEDGER:** None.

**EFFECT ON THE FILING:** Customer Advances need to be increased by \$87,449 for 2009 due to an error in the 2009 forecast calculation. The Commission should review the difference between the actual 2008 customer advances and the forecasted amount in the filing.

## **AUDIT FINDING NO. 2**

### **SUBJECT: ADVERTISING**

**AUDIT ANALYSIS:** FPUC paid \$13,000 a quarter or \$52,000 in 2007 for a contract with St. Joe Arvida homes. The contract with the developer states:

“The Company and the Owner agree that it shall be in the best interest of each that the Owner conduct a program of promoting the use of natural gas appliances in the Project. To aid Owner’s promotions, the Company shall supply to the Owner support for sales of natural gas appliances including, but not limited to, personnel being available to answer questions from home buyers and collateral marketing and sales brochures and materials and shall pay to the Owner for cooperative advertising the following sums...”

“Owner acknowledges that the Cooperative Advertising Payment is being made to Owner to promote the Company and the use of natural gas by residents and businesses in the Project. Newspaper advertisements of a size equal to or greater than one-half page prepared by or for Owner for the sale of residential or commercial units in the Project shall include the Company’s logo in the Advertising Material. Owner will display in Owner’s sales center and will include in information packets a reasonable amount of the Company’s promotional materials.”

Because the advertisement only includes the FPUC logo, it does not meet the requirements of Commission rule 25-17.015(5) for recovery through the conservation clause. Similar contracts between FPUC and the developers now contain requirements that the advertisements meet the rule requirements and are included in the conservation clause. The contract expires in December 2010. The company states that if it decides to pursue a future contract with the developer, it will make sure that the advertising qualifies for recovery in the conservation clause.

Since it does not currently qualify for recovery through the conservation clause, the utility has charged this contract to base rates through account 913.1, Promotional Advertising. The amount was trended to \$56,238 in the 2009 forecast. However, the contract did escalate in 2008 to \$92,000. The Commission should consider whether the advertising benefits the ratepayers and should be recovered through base rates.

**EFFECT ON THE GENERAL LEDGER:** There is no effect since the ledger for 2007 expenses is already closed.

**EFFECT ON THE FILING:** If the Commission determines that these costs should not be included in base rates, \$56,238 should be removed from the expenses for 2009.

**AUDIT FINDING NO. 3**

**SUBJECT: ACCOUNTS PAYABLE NOT RECORDED**

**AUDIT ANALYSIS:** Review of the clearing accounts for 903, Customer Records and Collection, showed charges from the company that prepares and mails the bills for only 11 months. The December bill was paid in January 2008 and was not accrued when the utility did its journal entry to record its payables. The December invoice totaled \$42,018.21 that was charged to the clearing account and \$162.52 charged directly to the West Palm Beach Gas division account 913.3. The clearing account was allocated at 54% to gas or \$22,689.83. The clearing amounts were trended up by 8.15% for 2009 to \$24,539.05.

**EFFECT ON THE GENERAL LEDGER:** There is no effect since the ledger for 2007 expenses is already closed and the problem will be eliminated by 2009.

**EFFECT ON THE FILING:** The gas expenses should be increased by \$24,701.57 to reflect the allocation of the clearing account amount of \$24,539.05 and the \$162.52 of direct costs.

**AUDIT FINDING NO. 4**

**SUBJECT: MERCHANDISING AND JOBBING ALLOCATION**

**AUDIT ANALYSIS:** FPUC found an error in allocating non-regulated payroll based on customer counts and time studies. When preparing the MFRs, FPUC estimated the impact of the error and increased account 912.1 Selling Expenses by \$100,000 for 2009. Subsequent to the filing, FPUC calculated the full effect and prepared two journal entries in December 2008 which increased gas expenses by \$24,881. The utility trended the payroll costs in this account at 5.5% from 2008 to 2009. The actual increase trended is \$26,249. This is \$73,751 less than projected.

**EFFECT ON THE GENERAL LEDGER:** Since this is a forecast item, it does not affect the general ledger.

**EFFECT ON THE FILING:** 2009 gas expenses should be reduced by \$73,751.

**AUDIT FINDING NO. 5**

**SUBJECT: OFFICERS PAYROLL**

**AUDIT ANALYSIS:** The forecast for account 920, Administrative and General Salaries, included an increase of 11.5% for 2008 and 2009. This was based on a study done during the electric rate case that showed that the officers' salaries were lower than the rest of the industry. However, in 2008, the officers were given a 8% increase and in 2009 a 3% increase has been authorized. The utility has revised its estimated increase for these three employees from \$164,259 to \$78,500 for the two years. The difference of this times the 52% allocation to natural gas results in a decrease of \$44,594.68.

**EFFECT ON THE GENERAL LEDGER:** Since this is a forecast item, it does not affect the general ledger.

**EFFECT ON THE FILING:** 2009 expenses should be reduced by \$44,594.68.

**AUDIT FINDING NO. 6**

**SUBJECT: FORECAST FOR OFFICE UTILITY EXPENSE**

**AUDIT ANALYSIS:** In calculating the increase for 2008 and 2009 for account 921.4, Office Utility Expense, the utility annualized the actual four months of 2008 that it had available when the forecast was prepared. This expense includes electric expenses, as well as telephones, cell phones, and beepers. Using this annualization, it arrived at a forecast of \$143,828 for 2008. The utility then trended this amount up by 7% for customer growth and inflation. The 7% was for trending from 2007 to 2009. In this instance, 2008 had already been increased and a 2.74% increase from 2008 to 2009 should have been used. The direct forecast for this account of \$153,896 should be revised to \$147,768.89 ( $\$143,828 \times 1.0274$ ) or a reduction of \$6,127.11.

**EFFECT ON THE GENERAL LEDGER:** Since this is a forecast item, it does not affect the general ledger.

**EFFECT ON THE FILING:** 2009 expenses should be reduced by \$6,127.11.



## AUDIT FINDING NO. 7

### SUBJECT: MEDICAL EXPENSE FORECAST

**AUDIT ANALYSIS:** In its calculation of direct medical costs for account 926.5, Employee Benefits Medical, the utility included an adjustment for the increase in medical costs it expects to incur between 2010 and 2012. To do this, FPUC projected a 15% increase over the 2009 balance for each year. The utility wanted to include the average of the three years' increases in addition to the 11.4% increase used in 2008 and the 6.5% increase used in 2009. The rates used in 2008 and 2009 were based on an e-mail from the utility's insurance company. The e-mail also predicted an increase starting in 2010 of 10-15%.

In its calculation of this increase, the utility made an error in calculating the average increase for 2010 to 2012. In addition, the utility did not allocate the increase to natural gas, but included the entire increase in the filing for this rate case. When this amount is calculated correctly, the direct forecast for 2009 increases from \$1,307,212 to \$1,341,427. This is an increase of \$34,215 to natural gas.

|                 | Consolidated        |
|-----------------|---------------------|
| 2009            | \$ 1,603,829        |
| 2010            | \$ 1,844,404        |
| 2011            | \$ 2,121,064        |
| 2012            | \$ 2,439,224        |
| Avg Expense     | \$ 2,002,130        |
| Natural Gas %   | 67%                 |
| Increase to Gas | <u>\$1,341,427</u>  |
| Per Filing      | <u>\$ 1,307,212</u> |
| Difference      | <u>\$34,215</u>     |

However, staff has concerns whether the utility should be allowed to project its insurance costs to 2012. All other expenses were projected through 2009. In addition, the utility based its projection on an e-mail from the insurance company that provided a range of 10-15%. We believe that the decision to increase for years after the test year and to use 15% should be evaluated in more detail.

However, if the Commission decides to accept the three year additional expense through 2012, the calculation should be increased by \$34,215. If the projections for 2010-2012 are disallowed, the filing expense should be reduced by \$232,647 (2009 forecast of \$1,603,829 times 67%=\$1,074,565 less filing of \$1,307,212).

**EFFECT ON THE GENERAL LEDGER:** Since this is a forecast item, it does not affect the general ledger.

**EFFECT ON THE FILING:** If it is determined that an increase of 15% a year and an adjustment to increase costs for the average increase from 2010 to 2012 is reasonable, the 2009 expenses should be increased by \$34,215. If the projections for 2010-2012 are disallowed, the expense in the filing should be decreased to \$1,074,565. The net adjustment is a decrease of \$232,647.

## **AUDIT FINDING NO. 8**

### **SUBJECT: PROPERTY TAX ADJUSTMENT FOR NON REGULATED AND COMMON**

**AUDIT ANALYSIS:** The property taxes associated with the common plant located in South Florida were all booked to the South Florida natural gas division, even though the common plant is allocated to all divisions. In addition, property taxes for the portion of non-regulated plant located in the natural gas division which were removed in the rate base adjustments were not removed in the property tax expenses.

The estimated common plant that is not natural gas is 46% in 2007. The estimated portion of the natural gas division that is non-regulated is 1.9% in 2007.

Since 2007 taxes were trended up for 2009 by 6.97%, we have also trended our adjustments up by 1.0697. However, the company also added in an "over and above" adjustment for the increase in property tax in 2008. We allocated this increase to natural gas and common on the following schedule and then allocated the increase using the same methodology used in 2007 to non-natural gas and non-regulated.

The schedules on the following pages detail the estimate property tax adjustments for 2007 and 2009.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:** There is no effect on the general ledger.

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:** The 2007 historical and 2009 forecasted years should be reduced by \$68,824 and \$77,852, respectively.

**Calculations of Common Plant Property Tax Adjustment (Division 100)**

| Description                             | Personal<br>Property | Real<br>Property |
|---|----------------------|------------------|
| South Florida Before Allocation         | \$ 661,691           |                  |
| % of Common That is Taxable Note A      | <u>3.63%</u>         |                  |
| Common Property Taxes                   | \$ 24,019            | \$ 80,899        |
| Percentage Not Natural Gas              | <u>46.00%</u>        | <u>46.00%</u>    |
| <b>Common - Not Natural Gas Portion</b> | <b>\$ 11,049</b>     | <b>\$ 37,213</b> |

**Calculation of Non-Regulated Plant Property Tax in Natural Gas (Divisions 121 & 123)**

|                                       |                  |                |
|---------------------------------------|------------------|----------------|
| South Florida Before Allocation       | \$ 661,691       |                |
| Less : Common Personal Property Taxes | <u>\$ 24,019</u> |                |
| South Florida Personal Property Taxes | \$ 637,672       | \$78,555       |
| Central Florida                       | <u>334,577</u>   | <u>31,359</u>  |
| Total                                 | \$972,249        | \$109,914      |
| Percentage Not regulated              | <u>1.90%</u>     | <u>1.90%</u>   |
| <b>Non-regulated Portion</b>          | <b>\$18,473</b>  | <b>\$2,088</b> |

**Summary of 2007 Property Tax Adjustments**

|  |                 |
|--|-----------------|
| Common - Non Natural Gas Portion Personal Property | \$ 11,049       |
| Common - Non Natural Gas Portion - Real Property   | \$ 37,213       |
| Non-regulated Portion - Personal Property          | \$ 18,473       |
| Common Non Natural Gas - Real Property             | <u>\$ 2,088</u> |

**2007 Total Adjustments** **\$ 68,824**

Note A: This is the ratio of South Florida common plant to total South Florida Plant

**2009 Property Tax Adjustments**

**Trend Adjustments**

| Description                  | 2009            |
|------------------------------|-----------------|
| 2007 Trend %                 | 106.97%         |
| 2007 Property Tax Adjustment | <u>\$68,824</u> |
| <b>Trend Adjustments</b>     | <b>\$73,621</b> |

**Calculation of Common Plant Property Tax Related to Utility Over & Above Adjustment 2009**

**Total Property Tax for 2007**

| Description   | Amounts            | Percentage of Total Taxes | Over & Above 2009 Allocation |
|---|--------------------|---------------------------|------------------------------|
| South Florida Before Allocation - Personal Property | \$661,691          | 56%                       | \$40,689                     |
| Cental Florida - Personal Property                  | 334,577            | 28%                       | 20,574                       |
| Common Property Taxes - Real Property               | 80,899             | 7%                        | 4,975                        |
| South Florida - Real Property                       | 78,555             | 7%                        | 4,830                        |
| Cental Florida - Real Property                      | <u>31,359</u>      | <u>3%</u>                 | <u>1,928</u>                 |
| <b>Total Taxes</b>                                  | <b>\$1,187,081</b> | <b>100%</b>               | <b>\$72,996</b>              |

**Calculation of Common Plant Property Tax (Division 100)**

| Description                             | Personal Property | Real Property   |
|---|-------------------|-----------------|
| South Florida Before Allocation         | \$ 40,689         |                 |
| % of Common That is Taxable             | <u>3.63%</u>      |                 |
| Common Property Taxes                   | \$ 1,477          | \$ 4,975        |
| Percentage Not Natural Gas              | <u>46.00%</u>     | <u>46.00%</u>   |
| <b>Common - Not Natural Gas Portion</b> | <b>\$ 679</b>     | <b>\$ 2,288</b> |

**Calculation of Non-regulated Plant Property Tax in Natural Gas (Division 121 & 123)**

|                                       |                   |                 |
|---------------------------------------|-------------------|-----------------|
| South Florida Before Allocation       | \$ 40,689         |                 |
| Less : Common Personal Property Taxes | <u>\$ 1,477</u>   |                 |
| South Florida Property Taxes          | \$ 39,212         | 4,830           |
| Cental Florida                        | <u>20,574</u>     | <u>1,928</u>    |
| Total                                 | 59,786            | 6,759           |
| Percentage Not regulated              | <u>1.90%</u>      | <u>1.90%</u>    |
| <b>Non-regulated Portion</b>          | <b>\$1,135.93</b> | <b>\$128.42</b> |

**Summary of 2009 Property Tax Adjustments**

|   |                 |
|---|-----------------|
| Trend Adjustments   | \$73,621        |
| Common - Not Natural Gas Portion Personal Property Over and Above | \$679           |
| Common - Not Natural Gas Portion - Real Property Over and Above   | \$2,288         |
| Non-regulated Portion - Personal Property Over and Above          | \$1,136         |
| Common Not Natural Gas - Real Property Over and Above             | \$128           |
| <b>2009 Total Adjustments</b>                                     | <b>\$77,852</b> |

## AUDIT FINDING NO. 9

### SUBJECT: MISCLASSIFIED OPERATING EXPENSE ALLOCATION

**AUDIT ANALYSIS:** Our analysis of the operating expenses revealed that there were transactions inappropriately allocated between the different companies and divisions.

The utility allocates the expense of the director of marketing based on his salary. However, almost all of his travel we examined relates to electric because his home base is in West Palm Beach. The following invoices were found in 2007 expenses that were allocated 75% to natural gas.

| <b>Date</b> | <b>Description</b>           | <b>Amount</b>  |
|-------------|------------------------------|----------------|
| 9/30/2007   | Petty Cash                   | \$304          |
| 10/18/2007  | American Express             | \$1,162        |
| 9/28/2007   | American Express             | \$1,140        |
|             | Total                        | <u>\$2,610</u> |
|             | % of Natural Gas             | <u>.75</u>     |
|             | <b>2007 Total Adjustment</b> | <b>\$1,957</b> |

The director salary may not be an appropriate methodology for allocation of his travel. His total travel costs were \$8,224 in 2008 and \$6,168 were charged to gas operations. We did not review all of the invoices and some may relate to only gas operations. The company used a projection factor of 6.97% to increase from 2007 to 2009. Staff has recalculated the actual invoices above using the projection factor for the 2009 forecast year as follow:

| <b>Description</b>           | <b>Amount</b>  |
|------------------------------|----------------|
| 2007 Total Adjustment        | \$1,957        |
| Projection Factor            | <u>1.0697</u>  |
| <b>Total 2009 Adjustment</b> | <b>\$2,093</b> |

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

**EFFECT ON FILING:** The 2007 historical and 2009 forecasted years operating expenses should be reduced by \$1,957 and \$2,093 respectively. The analyst should review the other expenses related to the director's travel.

**AUDIT FINDING NO. 10**

**SUBJECT: PROPERTY TAX ADJUSTMENT TO 2009 FORECAST**

**AUDIT ANALYSIS:** The utility is constructing a building for the South Florida Operations Facility that is not scheduled to be placed in service until mid 2010. The company did not include an adjustment to plant for the building and plans to seek recovery at a later date. However, the associated property taxes for this building in the sum of \$114,079 were expensed to the 2009 forecasted year.

Given that the building has yet to be completed and put in service for the fulfillment of current customers of the company, the adjustment should be removed from the 2009 forecast year and combined with the special recovery of the plant at a later date.

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:** There is no effect on the general ledger.

**EFFECT ON THE FILING IF FINDING IS ACCEPTED:** 2009 projected property taxes should be decreased by \$114,079.

**AUDIT FINDING NO. 11**

**SUBJECT: ALLOCATIONS AT THE CENTRAL FLORIDA OFFICE**

**AUDIT ANALYSIS:** The utility has codes that they use to allocate expenses using various methodologies. We reviewed the allocation methodologies for these codes. We determined that there were several codes for the Central Florida gas division that did not seem reasonable because they did not allocate any costs to merchandising and jobbing. All of the codes in question, allocate 87% to natural gas and 13% to propane. The gas operations office has space dedicated to appliance sales and people in the office that work on merchandising and jobbing.

We obtained a building layout and the employees payroll charges for 2007. We prepared an analysis that shows the amount of space and the payroll allocation for each employee. This schedule shows that based on square footage times the payroll allocation for the employees using the square footage, 71.5% of the space would be allocated to gas, 14.54% to merchandising and jobbing, 7.35% to propane, 4.06% to capital accounts, and 2.55% to conservation. A utility representative has suggested that adjusted gross profit which allocates 81% to natural gas would be a more appropriate method. However, staff does not believe costs should be based on whether or not you are making a profit on your different lines of business. If costs are not allocated correctly, the profit is not accurate. The time and space used is much more representative of the cost of the line of business. Further, the allocations relate to the utilities for the building which would relate more closely to an allocation using square footage.

The following are the codes that we believe should be re-allocated.

|       |   |
|-------|---|
| COMCF | Communications Line Central Florida     |
| FPCP  | FPL Sanford Office                      |
| OFCLF | Office Supplies Central Office          |
| SBTCF | Telephone Central Office                |
| WSGCF | Water, Sewer and Garbage Central Office |

We have asked the utility to prepare a report of all invoices charged using these codes. The original response provided inaccurate data. The utility personnel have been attempting to prepare a corrected response but at the time this report was completed we did not have the information available.

While we do not have a listing of all the expenses, we know some of the expenses because they were included in the samples we reviewed. We have annualized some of these items to estimate the costs. These estimates follow:



| Account   | Vendor       | Amount     | Annualized  | Utility<br>Allocation<br>87/13 | Staff<br>Allocation<br>71.5/28.5 | Difference  | Trend<br>Factor | Trended<br>Difference |
|-----------|--------------|------------|-------------|--------------------------------|----------------------------------|-------------|-----------------|-----------------------|
| 4020.888  | Landpro      | \$1,465.00 | \$17,580.00 | \$15,294.60                    | \$12,569.70                      | \$2,724.90  | 1.0697          | \$2,914.83            |
| 4010.9162 | Cleaning     | \$1,495.00 | \$17,940.00 | \$15,607.80                    | \$12,827.10                      | \$2,780.70  | 1.0815          | \$3,007.33            |
| 4010.xxx  | Volusia Cty. | \$742.87   | \$8,914.38  | \$7,755.51                     | \$6,373.78                       | \$1,381.73  | 1.0815          | \$1,494.34            |
| 4010.xxx  | FPL          | \$1,978.21 | \$23,738.52 | \$20,652.51                    | \$16,973.04                      | \$3,679.47  | 1.0815          | \$3,979.35            |
|           |              | \$5,681.08 | \$68,172.90 | \$59,310.42                    | \$48,743.62                      | \$10,566.80 |                 | \$11,395.84           |

Based on the initial response provided by the utility, there appear to be many more invoices that are allocated using these codes.

In addition to these expenses, we believe two other invoices were inappropriately included in the filing. An invoice for a lawn treatment for the propane fill up area of \$560 (trended \$599.03) was charged to natural gas. An invoice for landscaping for \$2,319.78 (trended \$2,481.47) is not a monthly charge and is probably not re-occurring.

**EFFECT ON THE GENERAL LEDGER:** Since 2007 is already closed, the general ledger should not be adjusted. However, the allocation methodology in 2009 should be adjusted.

**EFFECT ON THE FILING:** The filing should be reduced by at least \$14,476.34 (\$11,395.84+599.03+2481.47). This amount should be increased when the utility provides all of the accounts allocated using these codes.

## AUDIT FINDING NO. 12

### SUBJECT: EDP COMMON ALLOCATION

**AUDIT ANALYSIS:** In the "Allocation of Common Plant Schedule", the utility used Florida Public Utilities (FPU) Electronic Data Processing (EDP) equipment instead of the total of FPU and Propane amounts to calculate the allocation of the common EDP for the Northwest Electric, Northeast Electric, South Florida Natural Gas, and Central Florida Natural Gas divisions. As a result, these allocations were understated while the allocations to the propane divisions were overstated for 2007 and 2008. Since the company used the 2008 allocation in forecasting the 2009 common plant, the 2009 EDP equipment allocation to South Florida Natural Gas and Central Florida Natural Gas were understated as well. Also, the accumulated depreciation and depreciation expense related to the EDP equipment were understated for both divisions.

Below is the recalculation of the allocation that should have been used to allocate common EDP equipment, accumulated depreciation and depreciation expense.

#### Recalculation of 2007 EDP Allocation

| Division              | No. of Customers Billed | 2007 Allocation % | Based on 6/06 Common EDP |
|-----------------------|-------------------------|-------------------|--------------------------|
| <b>FPU</b>            |                         |                   |                          |
| Northwest Electric    | 12,708                  | 13%               | \$ 363,479               |
| Northeast Electric    | 14,755                  | 16%               | \$ 447,360               |
| South Fla NG          | 32,102                  | 35%               | \$ 978,600               |
| Central Fla NG        | 18,243                  | 20%               | \$ 559,200               |
| West Fla NG           | -                       | 0%                | \$ -                     |
| Merchandising         | 2,184                   | 2%                | \$ 55,920                |
|                       |                         | 0%                | \$ -                     |
| <b>Propane</b>        |                         |                   |                          |
| South Fla Propane     | 6,216                   | 7%                | \$ 195,720               |
| Central Fla Propane   | 2,779                   | 3%                | \$ 83,880                |
| Northeast Fla Propane | 1,569                   | 2%                | \$ 55,920                |
| West Fla Propane      | 2,134                   | 2%                | \$ 55,920                |

The following schedule takes the total EDP equipment from the filing for each of the three years and allocates them using the 52% used by the utility and then by the 55% determined above (35%+20% natural gas). The difference is the adjustment needed to the filing by year.

|                                    | Total Common | 2007        | 2008           | 2009           |
|------------------------------------|--------------|-------------|----------------|----------------|
| <b>Plant</b>                       |              |             |                |                |
| 391.3                              | \$           | 658,174     | \$ 752,151     | \$ 996,010     |
| 391.305                            | \$           | 1,748,710   | \$ 1,839,120   | \$ 2,031,290   |
| <b>Accumulated Depreciation</b>    |              |             |                |                |
| 391.3                              | \$           | (153,159)   | \$ (165,347)   | \$ (151,304)   |
| 391.305                            | \$           | (1,208,694) | \$ (1,400,544) | \$ (1,584,278) |
| <b>Depreciation Exp.</b>           |              |             |                |                |
| 391.3                              | \$           | 72,451      | \$ 82,804      | \$ 103,207     |
| 391.305                            | \$           | 193,984     | \$ 203,408     | \$ 217,319     |
| <b>Allocated by Utility at 52%</b> |              |             |                |                |
|                                    | Total Common | 2007        | 2008           | 2009           |
| <b>Plant</b>                       |              |             |                |                |
| 391.3                              | \$           | 342,250     | \$ 391,119     | \$ 517,925     |
| 391.305                            | \$           | 909,329     | \$ 956,342     | \$ 1,056,271   |
| <b>Accumulated Depreciation</b>    |              |             |                |                |
| 391.3                              | \$           | (79,643)    | \$ (85,980)    | \$ (78,678)    |
| 391.305                            | \$           | (628,521)   | \$ (728,283)   | \$ (823,825)   |
| <b>Depreciation Exp.</b>           |              |             |                |                |
| 391.3                              | \$           | 37,675      | \$ 43,058      | \$ 53,668      |
| 391.305                            | \$           | 100,872     | \$ 105,772     | \$ 113,006     |
| <b>Allocated by Staff at 55%</b>   |              |             |                |                |
|                                    | Total Common | 2007        | 2008           | 2009           |
| <b>Plant</b>                       |              |             |                |                |
| 391.3                              | \$           | 361,996     | \$ 413,683     | \$ 547,806     |
| 391.305                            | \$           | 961,791     | \$ 1,011,516   | \$ 1,117,210   |
| <b>Accumulated Depreciation</b>    |              |             |                |                |
| 391.3                              | \$           | (84,237)    | \$ (90,941)    | \$ (83,217)    |
| 391.305                            | \$           | (664,782)   | \$ (770,299)   | \$ (871,353)   |
| <b>Depreciation Exp.</b>           |              |             |                |                |
| 391.3                              | \$           | 39,848      | \$ 45,542      | \$ 56,764      |
| 391.305                            | \$           | 106,691     | \$ 111,874     | \$ 119,525     |
| <b>Difference</b>                  |              |             |                |                |
|                                    | Total Common | 2007        | 2008           | 2009           |
| <b>Plant</b>                       |              |             |                |                |
| 391.3                              | \$           | 19,745      | \$ 22,565      | \$ 29,880      |
| 391.305                            | \$           | 52,461      | \$ 55,174      | \$ 60,939      |
|                                    | \$           | 72,207      | \$ 77,738      | \$ 90,819      |
| <b>Accumulated Depreciation</b>    |              |             |                |                |
| 391.3                              | \$           | (4,595)     | \$ (4,960)     | \$ (4,539)     |
| 391.305                            | \$           | (36,261)    | \$ (42,016)    | \$ (47,528)    |
|                                    | \$           | (40,856)    | \$ (46,977)    | \$ (52,067)    |
| <b>Depreciation Exp.</b>           |              |             |                |                |
| 391.3                              | \$           | 2,174       | \$ 2,484       | \$ 3,096       |
| 391.305                            | \$           | 5,820       | \$ 6,102       | \$ 6,520       |
|                                    | \$           | 7,993       | \$ 8,586       | \$ 9,616       |

**EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:**

The utility does not allocate common plant in its ledger. It is only done in the filing.

**EFFECT ON FILING IF FINDING IS ACCEPTED:** Plant, Depreciation Expense, and Accumulated Depreciation should be increased as followed

|                          | 2007        | 2008        | 2009        |
|--------------------------|-------------|-------------|-------------|
| Plant                    | \$ 72,207   | \$ 77,738   | \$ 90,819   |
| Accumulated Depreciation | \$ (40,856) | \$ (46,977) | \$ (52,067) |
| Depreciation Expense     | \$ 7,993    | \$ 8,586    | \$ 9,616    |

SCHEDULE G-1(1) (B-2)

CALCULATION OF THE PROJECTED TEST YEAR RATE BASE

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13-MONTH AVERAGE RATE BASE FOR THE HISTORIC BASE YEAR, THE HISTORIC BASE YEAR PLUS ONE, AND THE PROJECTED TEST YEAR.

TYPE OF DATA SHOWN:  
 HISTORIC BASE YEAR DATA: 12/31/07  
 PROJECTED YEAR: 12/31/08  
 PROJECTED TEST YEAR: 12/31/09  
 WITNESS: Mesite

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY  
 CONSOLIDATED NATURAL GAS DIVISION

DOCKET NO: 080366-GU

| L/N                  | ACCT | DESCRIPTION   | (1)                                  | (2)                                  | (3)   | (4)   | (5)                     | (6)  | (7)  | (8)                     | (9)   | (10) | (11) |
|----------------------|------|---|--------------------------------------|--------------------------------------|---|---|-------------------------|--|--|-------------------------|---|------|------|
|                      |      |   | BASE YEAR<br>12/31/07<br>(PER BOOKS) | 12/31/07<br>ADJUSTMENTS<br>(See B-2) | HISTORIC<br>BASE 12/31/07<br>ADJUSTED<br>AVERAGE YEAR | HISTORIC<br>BASE YR + 1<br>12/31/08<br>UNADJUSTED | 12/31/08<br>ADJUSTMENTS | HISTORIC<br>BASE YR + 1<br>12/31/08 ADJUSTED<br>AVERAGE YEAR | PROJECTED<br>TEST YEAR<br>12/31/09<br>UNADJUSTED | 12/31/09<br>ADJUSTMENTS | PROJECTED<br>TEST YEAR<br>12/31/09 ADJUSTED<br>AVERAGE YEAR |      |      |
| <b>UTILITY PLANT</b> |      |   |                                      |                                      |   |   |                         |  |  |                         |   |      |      |
| 1                    |      | 1010 Plant In Service - Utility                               | 97,425,925                           | (3,753,653)                          | 93,672,272  | 106,914,293                                       | (3,753,653)             | 103,160,640  | 114,125,907                                      | (1,320,850)             | 112,805,057   |      |      |
| 2                    |      | 1070 CWIP - Utility   | 2,835,239                            |                                      | 2,835,239   | 826,026   |                         | 826,026  | 324,942  |                         | 324,942   |      |      |
| 3                    |      | 1070 CWIP - Allocated Common                                  | 121,454                              |                                      | 121,454   | 44,579  |                         | 44,579   | 34,485   |                         | 34,485  |      |      |
| 4                    |      | 1140 Acquisition Adjustment                                   | 1,816,579                            | (552,803)                            | 1,263,776   | 1,816,579   | (552,803)               | 1,263,776  | 1,816,579  | (552,803)               | 1,263,776   |      |      |
| 5                    |      | 1180 Plant In Service - Allocated Common                      | 2,888,025                            |                                      | 2,888,025   | 3,081,654   |                         | 3,081,654  | 3,494,938  |                         | 3,494,938   |      |      |
| 6                    |      | <b>TOTAL PLANT</b>  | <b>105,087,222</b>                   | <b>(4,306,456)</b>                   | <b>100,780,766</b>                                    | <b>112,683,131</b>                                | <b>(4,306,456)</b>      | <b>108,376,675</b>   | <b>119,796,851</b>                               | <b>(1,873,653)</b>      | <b>117,923,198</b>  |      |      |
| <b>DEDUCTIONS</b>    |      |   |                                      |                                      |   |   |                         |  |  |                         |   |      |      |
| 7                    |      | 1080 Accumulated Reserve - Utility                            | (31,977,603)                         | 466,889                              | (31,510,714)  | (34,149,602)                                      | 466,889                 | (33,682,713)   | (36,271,398)                                     | 435,315                 | (35,836,083)  |      |      |
| 8                    |      | 1150.1 Accumulated Amortization - Acquisition Adjustment      | (390,238)                            | (92,214)                             | (482,452)   | (421,275)   | (92,214)                | (513,489)  | (452,331)  | (92,214)                | (544,545)   |      |      |
| 9                    |      | 1190 Accumulated Reserve - Allocated Common                   | (1,004,274)                          |                                      | (1,004,274)   | (1,149,531)                                       |                         | (1,149,531)  | (1,269,018)                                      |                         | (1,269,018)   |      |      |
| 10                   |      | 2520 Customer Advances for Construction                       | (1,615,122)                          |                                      | (1,615,122)   | (1,700,239)                                       |                         | (1,700,239)  | (1,659,376)                                      |                         | (1,659,376)   |      |      |
| 11                   |      | <b>TOTAL DEDUCTIONS</b>                                       | <b>(34,987,237)</b>                  | <b>374,675</b>                       | <b>(34,612,562)</b>                                   | <b>(37,420,647)</b>                               | <b>374,675</b>          | <b>(37,045,972)</b>  | <b>(39,652,123)</b>                              | <b>343,101</b>          | <b>(39,309,022)</b>   |      |      |
| 12                   |      | <b>PLANT - NET</b>  | <b>70,099,985</b>                    | <b>(3,931,781)</b>                   | <b>66,168,204</b>                                     | <b>75,262,484</b>                                 | <b>(3,931,781)</b>      | <b>71,330,703</b>  | <b>80,144,728</b>                                | <b>(1,530,552)</b>      | <b>78,614,176</b>   |      |      |
| 13                   |      | <b>ALLOWANCE FOR WORKING CAPITAL<br/>BALANCE SHEET METHOD</b> | <b>(3,069,725)</b>                   | <b>(3,579,507)</b>                   | <b>(6,649,232)</b>                                    | <b>(2,046,013)</b>                                | <b>(4,281,375)</b>      | <b>(6,327,388)</b>   | <b>(196,500)</b>                                 | <b>(4,670,456)</b>      | <b>(4,866,956)</b>  |      |      |
| 14                   |      | <b>TOTAL RATE BASE</b>  | <b>67,030,260</b>                    | <b>(7,511,288)</b>                   | <b>59,518,972</b>                                     | <b>73,216,471</b>                                 | <b>(8,213,156)</b>      | <b>65,003,315</b>  | <b>79,948,228</b>                                | <b>(6,201,008)</b>      | <b>73,747,220</b>   |      |      |
| 15                   |      | <b>NET OPERATING INCOME</b>                                   | <b>3,902,175</b>                     | <b>48,642</b>                        | <b>3,950,817</b>                                      | <b>2,484,320</b>                                  | <b>255,671</b>          | <b>2,739,991</b>   | <b>849,244</b>                                   | <b>(513,323)</b>        | <b>335,922</b>  |      |      |
| 16                   |      | <b>RATE OF RETURN</b>   | <b>5.82%</b>                         |                                      | <b>6.64%</b>  | <b>3.39%</b>                                      |                         | <b>4.22%</b>   | <b>1.06%</b>                                     |                         | <b>0.46%</b>  |      |      |

FLORIDA PUBLIC SERVICE COMMISSION  
 COMPANY: FLORIDA PUBLIC UTILITIES COMPANY  
 CONSOLIDATED NATURAL GAS DIVISION  
 DOCKET NO.: 080368-GU

EXPLANATION: PROVIDE THE AMOUNT OF INTEREST EXPENSE USED TO CALCULATE NET OPERATING INCOME TAXES ON SCHEDULE NO. C-21. EXPLAIN ANY ADJUSTMENTS TO INTEREST EXPENSE IN DETAIL GIVING AMOUNT OF CHANGE AND REASON FOR CHANGE. IF THE BASIS FOR ALLOCATING INTEREST USED IN TAX CALCULATION DIFFERS FROM THE BASIS USED IN ALLOCATING CURRENT INCOME TAXES PAYABLE, THE DIFFERING BASIS SHOULD BE CLEARLY IDENTIFIED.

TYPE OF DATA SHOWN:  
 HISTORIC YEAR ENDED: 12/31/2007  
 WITNESS: CAMFIELD, COX

INTEREST IN TAX EXPENSE CALCULATION

| LINE NUMBER                                  | DESCRIPTION           | 2007<br>13-MO AVERAGE<br>TOTAL COMPANY | ALLOCATED<br>TO GAS | 2007<br>13-MO AVERAGE<br>CONSOLIDATED GAS | 2007<br>COST RATE<br>(%) | 2007<br>INTEREST EXPENSE<br>CONSOLIDATED GAS |
|--|-----------------------|--|---------------------|---|--------------------------|--|
| 1  | Long Term Debt        | 50,535,952                             | 45.8%               | 23,181,901                                | 8.01%                    | 1,854,224                                    |
| 2  | Short-Term Debt       | 4,500,154                              | 45.8%               | 2,082,534                                 | 4.15%                    | 86,574                                       |
| 3  | Preferred Stock       | 600,000                                | 45.8%               | 274,995                                   | 4.75%                    |  |
| 4  | Common Equity         | 47,816,182                             | 45.8%               | 21,915,362                                | 11.25%                   |  |
| 5  | Customer Deposits *   | 5,627,676                              | 100%                | 5,627,676                                 | 6.09%                    | 342,848                                      |
| 6  | Deferred Taxes *      | 6,286,004                              | 100%                | 6,286,004                                 | 0.00%                    |  |
| 7  | ITC at Zero Cost *    | -                                      | 100%                | -   | 0.00%                    |  |
| 8  | ITC at Overall Cost * | 190,499                                | 100%                | 190,499                                   | 9.32%                    | 17,749                                       |
| <b>TOTAL CAPITALIZATION</b>                  |                       | <b>115,556,468</b>                     |                     | <b>59,518,973</b>                         |                          | <b>2,300,395</b>                             |
| <b>CONVENTIONAL CAPITALIZATION (1)-(4)</b>   |                       | <b>103,452,288</b>                     |                     |   |                          |  |
| <b>GAS RATE BASE</b>                         |                       | <b>59,518,973</b>                      |                     |   |                          |  |
| <b>GAS-SPECIFIC CAPITAL ITEMS (5)-(8)</b>    |                       | <b>12,104,180</b>                      |                     |   |                          |  |
| <b>GAS RATE BASE LESS GAS-SPECIFIC ITEMS</b> |                       | <b>47,414,793</b>                      |                     |   |                          |  |
| <b>CAPITALIZATION ALLOCATED TO GAS</b>       |                       | <b>45.8%</b>                           |                     |   |                          |  |

\* GAS SPECIFIC CAPITAL ITEMS

SUPPORTING SCHEDULES:

RECAP SCHEDULES: C-20

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE THE CALCULATION OF JURISDICTIONAL NET OPERATING INCOME FOR THE PROJECTED TEST YEAR AND THE PROJECTED YEAR.

TYPE OF DATA SHOWN:  
 HISTORIC YEAR ENDED: 12/31/2007  
 PROJECTED YEAR ENDED: 12/31/2008  
 PROJECTED TEST YEAR ENDED: 12/31/2008  
 WITNESS: LUNDGREN

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY  
 CONSOLIDATED NATURAL GAS DIVISION  
 DOCKET NO.: 080386-GU

| Line No. | (1)<br>2007<br>Total<br>Company<br>Per Books | (2)<br>2007<br>Commission<br>Adjustments<br>(C-2) | (3)<br>2007<br>Company<br>Adjustments<br>(C-2) | (4)<br>2007<br>Adjusted<br>Amount<br>(1)+(2)+(3) | (5)<br>2008<br>Total<br>Company<br>Per Books | (6)<br>2008<br>Commission<br>Adjustments<br>(C-2) | (7)<br>2008<br>Company<br>Adjustments<br>(C-2) | (8)<br>2008<br>Adjusted<br>Amount<br>(5)+(6)+(7) | (9)<br>2009<br>Total<br>Company<br>Per Books | (10)<br>2009<br>Commission<br>Adjustments<br>(C-2) | (11)<br>2009<br>Company<br>Adjustments<br>(C-2) | (12)<br>2009<br>Adjusted<br>Amount<br>(9)+(10)+(11) |
|----------|--|---|--|--|--|---|--|--|--|--|---|---|
| 1        | <b>OPERATING REVENUES</b>                    |   |  |  |  |   |  |  |  |  |   |   |
| 2        | 23,744,649                                   | -   | -  | 23,744,649                                       | 22,838,116                                   | -   | -  | 22,838,116                                       | 22,225,975                                   | -  | -   | 22,225,975  |
| 3        | 30,017,462                                   | (30,017,462)                                      | -  | -  | 47,211,588                                   | (47,211,588)                                      | -  | -  | 71,338,482                                   | (71,338,482)                                       | -   | -   |
| 4        | 2,393,460                                    | (2,393,460)                                       | -  | -  | 2,519,483                                    | (2,519,483)                                       | -  | -  | 2,577,059                                    | (2,577,059)  | -   | -   |
| 5        | -  | -   | -  | -  | -  | -   | -  | -  | -  | -  | -   | -   |
| 6        | 2,106,338                                    | -   | -  | 2,106,338  | 2,010,549                                    | -   | -  | 2,010,549  | 1,936,054                                    | -  | -   | 1,936,054   |
| 7        | 1,533,487                                    | -   | -  | 1,533,487  | 1,485,253                                    | -   | -  | 1,485,253  | 1,441,002                                    | -  | -   | 1,441,002   |
| 8        | 5,054,830                                    | (2,707,492)                                       | -  | 2,347,338  | 2,868,919                                    | (536,154)   | -  | 2,332,765  | 2,897,600                                    | (581,714)  | -   | 2,315,886   |
| 9        | -  | -   | -  | -  | -  | -   | -  | -  | -  | -  | -   | -   |
| 10       | 64,850,026                                   | (35,118,414)                                      | -  | 29,731,612                                       | 78,933,908                                   | (50,267,226)                                      | -  | 28,666,682                                       | 102,418,152                                  | (74,497,235)                                       | -   | 27,918,917  |
| 11       | <b>OPERATING EXPENSES</b>                    |   |  |  |  |   |  |  |  |  |   |   |
| 13       | 14,217,572                                   | 24,621  | -  | 14,242,193                                       | 15,315,594                                   | -   | (271,227)                                      | 15,044,367                                       | 17,033,929                                   | -  | 628,639   | 17,660,568  |
| 14       | 1,082,821                                    | -   | -  | 1,082,821  | 1,143,174                                    | -   | (26,491)                                       | 1,114,683  | 1,192,395                                    | -  | 150,841   | 1,343,236   |
| 15       | 32,319,861                                   | (32,319,861)                                      | -  | -  | 46,964,487                                   | (46,964,487)                                      | -  | -  | 70,965,083                                   | (70,965,083)                                       | -   | -   |
| 16       | 2,292,190                                    | (2,292,190)                                       | -  | -  | 2,506,886                                    | (2,506,886)                                       | -  | -  | 2,564,174                                    | (2,564,174)  | -   | (0)   |
| 17       | 6,070  | -   | -  | 6,070  | -  | -   | -  | -  | -  | -  | -   | -   |
| 18       | 2,998,939                                    | (108,001)   | -  | 2,890,938  | 3,219,198                                    | (112,821)   | -  | 3,106,377  | 3,438,481                                    | (112,821)  | 62,830  | 3,388,490   |
| 19       | 1,568,494                                    | (514,774)   | -  | 1,053,720  | 1,595,623                                    | (541,903)   | -  | 1,053,720  | 1,610,471                                    | (556,751)  | 56,798  | 1,110,518   |
| 20       | -  | -   | -  | -  | -  | -   | -  | -  | -  | -  | -   | -   |
| 21       | 5,716,755                                    | (144,333)   | -  | 5,572,422  | 5,800,787                                    | (251,336)   | -  | 5,549,431  | 5,982,350                                    | (372,486)  | -   | 5,609,864   |
| 22       | 1,279,509                                    | 187,482   | -  | 1,466,991  | 1,628,432                                    | 41,471  | 112,784  | 1,782,687  | 587,119                                      | 27,876   | (337,581)                                       | 277,413   |
| 23       | -  | -   | -  | -  | -  | -   | -  | -  | -  | -  | -   | -   |
| 24       | (494,988)                                    | -   | -  | (494,988)  | (1,687,732)                                  | -   | -  | (1,687,732)                                      | (1,772,431)                                  | -  | -   | (1,772,431)   |
| 25       | -  | -   | -  | -  | -  | -   | -  | -  | -  | -  | -   | -   |
| 26       | (39,372)                                     | -   | -  | (39,372)   | (36,841)                                     | -   | -  | (36,841)   | (34,663)                                     | -  | -   | (34,663)  |
| 27       | 60,947,851                                   | (35,167,058)                                      | -  | 25,780,795                                       | 76,449,588                                   | (50,335,962)                                      | (186,934)                                      | 25,926,691                                       | 101,566,908                                  | (74,543,439)                                       | 559,527   | 27,582,995  |
| 28       | 3,902,175                                    | 48,842  | -  | 3,950,817  | 2,484,320                                    | 68,737  | 186,934  | 2,739,991  | 849,244                                      | 46,204   | (559,527)                                       | 335,922   |
| 29       |  |   |  |  |  |   |  |  |  |  |   |   |
| 30       | RATE BASE                                    |   |  | 59,518,973                                       |  |   |  | 65,003,315                                       |  |  |   | 73,747,220  |
| 31       | RETURN ON RATE BASE                          |   |  | 6.64%  |  |   |  | 4.22%  |  |  |   | 0.46%   |

SUPPORTING SCHEDULES: G-1 (B-2) G-2(C-2,C-3,C-5,C-17,C-18,C-19,C-22,C-20,C-30)

RECAP SCHEDULES: A-1