

State of Florida



**Public Service Commission**

Office of Auditing and Performance Analysis  
Bureau of Auditing  
Miami District Office

**Auditor's Report**

Florida Public Utilities Company  
Gas Conservation Cost Recovery

**Twelve Months Ended December 31, 2012**

Docket No. 130004-GU  
Audit Control No. 13-004-4-5  
**July 19, 2013**

A handwritten signature in blue ink, appearing to read "Kathy L. Welch", written over a horizontal line.

Kathy L. Welch  
Audit Manager

A handwritten signature in blue ink, appearing to read "Bety Maitre", written over a horizontal line.

Bety Maitre  
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Yen N. Ngo  
Audit Staff

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Iliana H. Piedra  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economics in its audit service request dated January 3, 2013. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Florida Public Utilities Company in support of its 2012 filing for the Gas Conservation Cost Recovery Clause in Docket No. 130004-GU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definition

Utility refers to the Florida Public Utilities Company.

GCCR refers to the Gas Conservation Cost Recovery Clause.

### **Revenue**

**Objectives:** The objectives were to determine the actual therms sold for the period January 1, 2012, through December 31, 2012, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the GCCR.

**Procedures:** We reconciled the 2012 filing to the Utility's general ledger and monthly billing system reports. We compared therm usage times the correct tariff rate to the revenue recorded in the ledger. We selected a random sample of residential and commercial customers' bills and recalculated each to verify the use of the correct tariff rate. Finding 1 and 2 discuss errors in revenues.

### **Expense**

**Objectives:** The objectives were to determine whether operation and maintenance (O&M) expense listed on Schedule CT-3 of the Utility's filing was supported by adequate documentation and that the expenses were appropriately recoverable through the GCCR clause.

**Procedures:** We traced expenses in the filing to the general ledger. We judgmentally selected a sample of expenses for testing. The source documentation for selected items was reviewed to ensure the expense was related to the GCCR clause and that the expense was charged to the correct accounts. We traced incentives to Commission Order No. PSC-10-0551-PAA-EG. Advertisements were tested for compliance with Rule 25-17.015(5), F.A.C. No exceptions were noted.

### **True-up**

**Objective:** The objective was to determine if the True-Up and Interest Provision as filed on Schedule CT-3 was properly calculated.

**Procedures:** We traced the December 31, 2011, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2012, using the Commission approved beginning balance as of December 31, 2011, the Financial Commercial Paper rates, and the 2012 GCCR revenues and costs. Finding 3 discusses the errors in the true-up.

## Audit Findings

### **Finding 1: Conservation Revenue**

**Audit Analysis:** The Utility had been billing a customer at the Large Commercial rate instead of the Small Commercial Transportation rate. The Utility corrected this customer's bills from 2006 through 2012. In December, 2012, the Utility made an adjustment to the general ledger for this billing correction. The adjustment reduced Large Commercial revenues, Conservation revenues, and Purchased Gas Adjustment (PGA) revenues for the amount that had been billed and increased revenues based on the correct bill. However, in preparing the entry, the Utility correctly billed the reversal of booked revenues, but when booking the corrected PGA revenues, it charged PGA revenues to the conservation account. Therefore, Conservation revenues were overstated and PGA revenues were understated. A summary follows:

**2006-2012 Correction**

Type	Originally Billed	Account Booked (A)	Corrected Bill	Account Booked (B)	Overbilling
Base	\$ (138,541.69)	4015	\$ (18,868.33)	4015	\$ 119,673.36
Conservation	\$ (11,758.02)	4953	\$ (1,175.81)	4953	\$ 10,582.21
PGA	\$ (311,572.87)	4010	\$ (31,158.17)	4953	\$ 280,414.70
	\$ (461,872.58)		\$ (51,202.31)		\$ 410,670.27

The amounts originally billed were debited to the accounts shown in (A) above. The corrected bill amounts were credited to the amounts shown in (B) above. Therefore, \$31,158.17 was credited to account 4953, which is a conservation account, instead of account 4010, which is a PGA account.

**Effect on the General Ledger:** The following entry should be made:

Account	Account Title	Debit	Credit
4953	Conservation Revenue	\$ 31,158.17	
4010	PGA Revenue		\$ 31,158.17

**Effect on the Filing:** Conservation Revenues should be decreased by \$31,158.17. PGA revenues should be increased in the PGA filing by the same amount.

## **Finding 2: Other Billing Issues**

**Audit Analysis:** The Utility did not update the conservation billing rates for six of its rate schedules on January 1, 2012. (GAJPG, GAJ1G, GCV1G, GEN11, GCV41, and GEN90) The customers were billed at the lower 2011 rate until May 1, 2012. The total estimated therms billed in these rate classes were approximately 1,900 a month for four months. We estimate the under-billing to be less than \$150. The true-up is correct because the billed revenues are included in the true-up calculation. The Utility did not bill the customers for the difference.

In addition, when the Utility corrects a bill, the Utility does not always include the correction to the therms in the correction to the billing system. This error causes total therm sales to be incorrect in the filing and the billing register.

The Utility should make sure it has procedures in place to verify the rates used and to include the therms in any billing correction processed.

**Effect on the General Ledger:** This finding is for informational purposes only.

**Effect on the Filing:** This finding is for informational purposes only.

### **Finding 3: True-Up**

**Audit Analysis:** Commission Order No. PSC-12-0612-FOF-GU, issued November 15, 2012 states that the final true-up amount for 2011 was \$564,286. However the utility did not use this amount as its beginning true-up amount in the 2012 filing, but used \$573,895.

Also in its 2012 filing, the Utility included \$2,655,654 of Conservation Expenses. This amount includes some of the adjustments to the general ledger that had already been accounted for in the revised 2011 ending true-up amount, but booked to the General Ledger in 2012. Audit staff reversed these amounts out of the Conservation Expenses for 2012. The correct Conservation Expense recoverable in the 2012 filing is \$2,652,370.

We have also adjusted the revenue in the true-up calculation for the decrease of \$31,158.17 in Finding 1.

The schedule following this finding shows the corrected true-up calculation.

**Effect on the General Ledger:** There is no effect on the ledger.

**Effect on the Filing:** The over-recovery should be \$292,947 which is \$18,254 lower than the \$311,201 reported.

CALCULATION OF TRUE-UP	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
Total Revenues	\$ (404,101)	\$ (341,292)	\$ (330,215)	\$ (300,426)	\$ (277,407)	\$ (243,616)	\$ (225,925)	\$ (211,312)	\$ (239,712)	\$ (262,387)	\$ (331,343)	\$ (341,957)	\$ (3,509,693)
(1/12) of Prior True-Up	\$ 47,024	\$ 47,024	\$ 47,024	\$ 47,024	\$ 47,024	\$ 47,024	\$ 47,024	\$ 47,024	\$ 47,024	\$ 47,024	\$ 47,024	\$ 47,024	\$ 564,286
Cons. Revenue Current	\$ (357,077)	\$ (294,268)	\$ (283,191)	\$ (253,402)	\$ (230,383)	\$ (196,592)	\$ (178,901)	\$ (164,288)	\$ (192,688)	\$ (215,363)	\$ (284,319)	\$ (294,933)	\$ (2,945,407)
Conservation Cost	\$ 217,935	\$ 202,559	\$ 269,872	\$ 189,619	\$ 207,680	\$ 270,996	\$ 114,638	\$ 316,490	\$ 302,419	\$ 275,552	\$ 228,418	\$ 56,192	\$ 2,652,370
True-up this period	\$ (139,142)	\$ (91,709)	\$ (13,319)	\$ (63,783)	\$ (22,703)	\$ 74,404	\$ (64,263)	\$ 152,201	\$ 109,731	\$ 60,189	\$ (55,901)	\$ (238,741)	\$ (293,036)
Interest provision	\$ 29	\$ 30	\$ 17	\$ 11	\$ 3	\$ 1	\$ (3)	\$ (4)	\$ 4	\$ 8	\$ 6	\$ (13)	\$ 90
True-up & interest beginning	\$ 564,286	\$ 378,149	\$ 239,446	\$ 179,121	\$ 68,325	\$ (1,399)	\$ 25,983	\$ (85,308)	\$ 19,866	\$ 82,578	\$ 95,751	\$ (7,169)	\$ 564,286
Prior true-up collected ref.	\$ (47,024)	\$ (47,024)	\$ (47,024)	\$ (47,024)	\$ (47,024)	\$ (47,024)	\$ (47,024)	\$ (47,024)	\$ (47,024)	\$ (47,024)	\$ (47,024)	\$ (47,024)	\$ (564,286)
Net true-up (over)-recovery under	\$ 378,149	\$ 239,446	\$ 179,121	\$ 68,325	\$ (1,399)	\$ 25,983	\$ (85,308)	\$ 19,866	\$ 82,578	\$ 95,751	\$ (7,169)	\$ (292,947)	\$ (292,947)
True-up Per the Filing	\$ 387,759	\$ 249,054	\$ 188,733	\$ 77,937	\$ 8,214	\$ 33,048	\$ (78,244)	\$ 32,764	\$ 95,479	\$ 108,655	\$ 5,737	\$ (311,201)	\$ (311,201)
Difference	\$ (9,610)	\$ (9,608)	\$ (9,612)	\$ (9,612)	\$ (9,613)	\$ (7,065)	\$ (7,064)	\$ (12,898)	\$ (12,901)	\$ (12,904)	\$ (12,906)	\$ 18,254	\$ 18,254



Exhibit

**Exhibit 1: True Up**

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY

SCHEDULE CT-3  
PAGE 1 OF 3

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION  
SUMMARY OF EXPENSES BY PROGRAM BY MONTH

FOR MONTHS		January-12	THROUGH	December-12										
A. CONSERVATION EXPENSE BY PROGRAM		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1.	Full House Residential New Construction	64,817	19,698	28,322	14,817	17,347	32,808	12,381	85,773	15,585	20,396	19,426	14,485	325,665
2.	Residential Appliance Replacement	19,787	20,231	48,484	20,422	42,638	58,963	32,383	70,934	85,068	66,175	64,016	89,685	604,776
3.	Conservation Education	4,051	13,389	11,537	5,363	8,085	6,333	4,451	10,441	3,690	13,097	16,385	15,769	110,591
4.	Space Conditioning					658	226							1,126
5.	Residential Conservation Service	2,130	2,130	(2,130)	8,391	2,131	2,130	2,130	3,750	4,489	283	4,249	10,095	37,778
6.	Residential Appliance Retention	31,279	31,754	37,477	37,630	43,070	67,181	(15,098)	73,182	128,204	83,471	89,804	78,658	662,561
7.	Dealer / Contractor (Inactive)													
10.	Commercial Conservation Service			656	834	484	884	484	484	464	1,267	484	1,253	7,093
12.														
13.	Residential Service Reactivation Program	300	5,132	1,050	700	4,782		700	350	2,452	1,214	1,315	2,045	20,040
14.	Common	95,571	110,225	148,896	103,482	90,305	102,172	74,708	97,449	62,468	83,785	71,809	(158,782)	879,698
15.	Conservation Demonstration and Development							2,500			684	1,150	1,912	6,426
<b>21. TOTAL ALL PROGRAMS</b>		<b>217,935</b>	<b>202,559</b>	<b>269,672</b>	<b>189,619</b>	<b>207,680</b>	<b>289,448</b>	<b>114,638</b>	<b>322,323</b>	<b>302,420</b>	<b>275,552</b>	<b>228,418</b>	<b>58,192</b>	<b>2,655,654</b>
<b>22. LESS AMOUNT INCLUDED IN RATE BASE</b>														
<b>23. RECOVERABLE CONSERVATION EXPENSES</b>		<b>217,935</b>	<b>202,559</b>	<b>269,672</b>	<b>189,619</b>	<b>207,680</b>	<b>289,448</b>	<b>114,638</b>	<b>322,323</b>	<b>302,420</b>	<b>275,552</b>	<b>228,418</b>	<b>58,192</b>	<b>2,655,654</b>

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CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-12 THROUGH December-12

B. CONSERVATION REVENUES	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. RESIDENTIAL CONSERVATION													
2. CONSERVATION ADJ. REVENUES	(404,101)	(341,292)	(330,215)	(300,428)	(277,407)	(243,818)	(225,925)	(211,312)	(239,712)	(262,397)	(331,343)	(373,115)	(3,540,853)
3. TOTAL REVENUES	(404,101)	(341,292)	(330,215)	(300,428)	(277,407)	(243,818)	(225,925)	(211,312)	(239,712)	(262,397)	(331,343)	(373,115)	(3,540,853)
4. PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	47,825	47,825	47,825	47,825	47,825	47,825	47,825	47,825	47,825	47,825	47,825	47,825	573,895
5. CONSERVATION REVENUE APPLICABLE	(356,281)	(293,467)	(282,390)	(252,603)	(229,582)	(195,991)	(178,100)	(163,487)	(191,887)	(214,562)	(283,518)	(325,290)	(2,966,958)
6. CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	217,935	202,559	289,872	189,819	207,680	268,445	114,638	322,323	302,420	275,552	228,418	58,102	2,655,654
7. TRUE-UP THIS PERIOD (LINE 5 - 6)	(138,346)	(90,908)	(12,518)	(62,884)	(21,902)	72,655	(63,462)	158,836	110,533	60,890	(55,100)	(269,098)	(311,304)
8. INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	30	28	22	13	4	2	(3)	(3)	7	11	7	(15)	103
9. TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	573,895	387,759	249,054	188,733	77,937	8,214	33,048	(78,244)	32,764	95,479	108,855	5,737	573,895
9A. DEFERRED TRUE-UP BEGINNING OF PERIOD													
10. PRIOR TRUE-UP COLLECTED (REFUNDED)	(47,825)	(47,825)	(47,825)	(47,825)	(47,825)	(47,825)	(47,825)	(47,825)	(47,825)	(47,825)	(47,825)	(47,825)	(573,895)
11. TOTAL NET TRUE-UP (LINES 7+8+9+9A+10)	387,759	249,054	188,733	77,937	8,214	33,048	(78,244)	32,764	95,479	108,855	5,737	(311,201)	(311,201)

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SCHEDULE CT-3  
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CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-12 THROUGH December-12

C. INTEREST PROVISION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. BEGINNING TRUE-UP (LINE B-9)	573,895	337,759	249,054	188,733	77,837	8,214	33,048	(78,244)	32,784	95,478	108,655	5,737	573,895
2. ENDING TRUE-UP BEFORE INTEREST (LINES B7+B8+B8A+B10)	397,729	249,026	188,711	77,824	8,210	33,044	(78,241)	32,787	95,472	108,644	5,730	(311,188)	(311,304)
3. TOTAL BEG. AND ENDING TRUE-UP	981,624	636,785	437,765	266,557	86,047	41,258	(45,193)	(45,457)	128,238	204,123	114,385	(305,448)	262,591
4. AVERAGE TRUE-UP (LINE C-3 X 50%)	480,812	318,393	218,883	133,329	43,074	20,629	(22,598)	(22,739)	64,118	102,062	57,193	(152,725)	131,296
5. INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	0.07%	0.08%	0.13%	0.11%	0.13%	0.12%	0.15%	0.14%	0.13%	0.12%	0.15%	0.13%	
6. INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	0.08%	0.13%	0.11%	0.13%	0.12%	0.15%	0.14%	0.13%	0.12%	0.15%	0.13%	0.10%	
7. TOTAL (LINE C-5 + C-6)	0.15%	0.21%	0.24%	0.24%	0.25%	0.27%	0.29%	0.27%	0.25%	0.27%	0.28%	0.23%	
8. AVG. INTEREST RATE (C-7 X 50%)	0.08%	0.11%	0.12%	0.12%	0.13%	0.14%	0.15%	0.14%	0.13%	0.14%	0.14%	0.12%	
9. MONTHLY AVERAGE INTEREST RATE	0.006%	0.009%	0.010%	0.010%	0.010%	0.011%	0.012%	0.011%	0.010%	0.011%	0.012%	0.010%	
10. INTEREST PROVISION (LINE C-4 X C-9)	30	20	22	13	4	2	(3)	(3)	7	11	7	(15)	103

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