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DATE: June 20, 2008

TO: Timothy J. Devlin, Director, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance and Consumer Assistance

RE: Docket No. 070626-EI; Company Name: Florida Power & Light Company; Audit Purpose: Audit accounting for funds expended in connection with FPL Sunshine Energy Program; Company Code: EI801; Audit Control No.: 08-086-4-1

Attached is the final audit report with the information that is no longer held as confidential. This redaction is based on the company's recent request for confidentiality. I am sending copies of this report to the same recipients as the earlier audit memo. There are confidential work papers associated with this audit.

Attachment

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

Mr. Wade Litchfield
Florida Power & Light Company
215 S. Monroe St., Suite 810
Tallahassee, FL 32301-1859

Natalie Smith
Florida Power & Light Company
215 S. Monroe St., Suite 810
Tallahassee, FL 32301-1859

Marguerite.

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE BUREAU OF AUDITING

Miami District Office

Florida Power and Light Company
Sunshine Energy Program Audit

Twelve Months Ended December 31, 2007

DOCKET #070626-EI
AUDIT CONTROL NO. 08-086-4-1

Kathy L. Welch
Audit Manager

Iliana Piedra
Accounting Specialist

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DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT

May 29, 2007

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. We have applied these procedures to the Florida Power and Light Company Sunshine Energy program, Docket Number 070626-EI.

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

OBJECTIVES AND PROCEDURES:

Florida Power and Light's Sunshine Energy program uses two contractors, Green Mountain (residential) and Sterling Planet (commercial) to purchase TRECs (Tradable Renewable Energy Credits) and to market the program. Costs that exceed the program revenues are charged to the Conservation Program.

Objective: To verify that the filing amounts agree with the general ledger.

Procedure: We scheduled all increases in the general ledger accounts and reconciled them to the filing.

Objective: To determine the reasonableness of FPL's administrative charge of $.65.

Procedure: We obtained a file of all charges made to the Conservation True-Up Schedules which are over the amount paid to Green Mountain. In 2007, FPL has exceeded the $.65 charge by $14,100 due to the introduction of the Commercial program. We obtained and reviewed a list of all employees charged to the Green Power Pricing program and selected some to trace to source documents. We obtained job descriptions for employees whose salary was charged to the program at more than 15% of the total salary to determine what they did for the program.

We obtained and reviewed invoices charged to outside services, advertising, and other charges. FPL pays directly for advertising which is done in combination with other FPL conservation programs. Audit Finding Five discusses the findings from the sample.

Objective: To determine for 2007 the amount spent on in-state and out-of state Tradable Renewable Energy Credits (TRECs) and whether there is a proper accounting for these purchases.

Procedure: We obtained the attestation statements from Green Mountain that show each TREC purchased, the period, source of power, and supplier. We also obtained a ledger excerpt from Green Mountain that showed the total cost by year since 2003 without supplier information. We obtained contracts with several of the suppliers. Green Mountain blacked out the actual cost per TREC based on confidentiality requests by their suppliers. Several contracts were not supplied because of these confidentiality requests. Audit Finding Four and Six discuss the TRECs.

Objective: For the solar projects, to determine the amount spent by project and whether there is proper accounting for each of these projects. Also, to determine if the developers contributed to the projects.

Procedure: Green Mountain provided the costs of the projects done by Green Mountain. We obtained, reviewed and compared the contracts to these project costs. We reviewed pictures of the projects. We also obtained supporting documentation for the project done by FPL at the Miami Science Museum. We reviewed the Green

Mountain contract with FPL and the Commission Order to determine the requirements of each. Audit Finding Three discusses the projects.

Objective: To determine by year, the amounts retained by Green Mountain for marketing, administration and other.

Procedure: We requested ledger detail from Green Mountain. Green Mountain did not believe that this information was required to be provided based Section 16.2, Inspection of Relevant Records, the audit clause in the contract. They did provide a schedule of marketing, project costs, and green tag costs in total by year from 2003 to early 2008. They then separately provided a list of project costs and a list of green tag costs which would indicate the rest is marketing. According to Green Mountain, they have operated at a loss over the life of the contract and have never determined its overhead related to the contract. Audit Finding Two discusses the costs paid by Green Mountain for TRECs and projects compared to total costs.

Objective: To determine if Green Mountain has an effective accounting system necessary to accurately track revenue and expenses associated with the Sunshine Energy program.

Procedure: Green Mountain did not provide the information needed to determine this objective and time precluded following up with legal remedies. We do not usually review contracts to determine the profit made by the contractor but whether the company that enters into the contract competitively bid the contract and obtained the most reasonably priced contract with the best terms. So, as an alternate, we attempted to determine if the contracts FPL had entered into with Green Mountain and Sterling Planet were competitively bid and that FPL made a reasonable choice in selecting a contractor that would provide these services at the most reasonable price. We attempted to obtain the requests for proposals (RFP) sent out by FPL for the residential program in 2002 and the business program in 2005. However, FPL was only able to provide the RFP for the business contract. We obtained and reviewed the bids and an analysis done by FPL. Audit Finding One describes the bidding process. We obtained and reviewed all correspondence with Green Mountain. We obtained and reviewed the attestation statements and the marketing plan which we believed were required to be provided according to the contract.

Objective: To determine whether Green Mountain has met all contractual obligations to FPL.

Procedure: We obtained and read the contract. We reconciled the contract with supporting documentation for the monthly payments. We reviewed the marketing plans and correspondence with Green Mountain. We obtained and reviewed the contracts for the projects and the TREC suppliers.

AUDIT FINDING NO. 1

SUBJECT: BIDDING

STATEMENT OF FACTS: We requested the Request for Proposals (RFP) for both the residential Sunshine Energy program in 2002 and the business program in 2005.

The business RFP states the project objective to be:

"FPL is to provide its commercial customers with a renewable certificate based Green Power option. For the initial program launch FPL plans on offering green-e certified blocks of tags to its commercial customers looking to minimize their environmental footprints. The program has two distinct stages:
Develop a Commercial Green Power offering for FPL territory.
Deliver a comprehensive Commercial Green Power Marketing approach.
Prospective Vendors should understand that their services are primarily to act as FPL's TREC acquisition agent, but their expertise and insight for development of the program will be considered as we review responses."

RFP's were sent to four companies for the business program and only Sterling Planet responded to the request and was granted the contract.

FPL has responded that the "RFP for Green Mountain are not available". However, the Green Mountain bid does appear to list questions from a RFP which are followed by answers. According to FPL, only two vendors submitted bids for the 2002 contract proposal.

The Green Mountain proposal consisted of a response form and six exhibits. Its response included the proposal requirements and guidelines that were probably from the RFP. They stated:

"FPL is to provide its customers with a Green Power option from new renewable sources located in Florida. For the initial program launch and for temporary scalability, FPL can offer certified SERC green tags through a marketer. By mandate, FPL must include a solar capacity mix of .015 kW/participant."

The bid committed to investing $1.5 million in marketing programs in the first two years of the program and stated the following regarding cost:

"Based on the information to date, Green Mountain would provide a 100% usage based product to FPL customers. This product would be comprised of both new and existing renewable supply in the SERC and Florida region. Using a 1,000 kWh usage scenario, we would expect the average customer to pay a premium of less than $10 a month for this product."

The only other bid that FPL provided is a letter from Sterling Planet that says it is in response to FPL's RFP. The two page letter has three pages of possible scenarios attached. The scenarios include residential, small business, commercial, small industrial and industrial. Using the residential line of the proposal, Sterling Planet estimated the customer's bill at $90 and proposed a green rate of 20% of the bill or $18. The three scenarios differ only in the amount of the split that they plan to return to FPL. The first scenario shows 15% being returned to FPL, the second, 30%, and the third 50%.

It does appear that Green Mountain submitted a more complete and complex bid at a lower price.

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

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

AUDIT FINDING NO. 2

SUBJECT: GREEN MOUNTAIN COSTS

STATEMENT OF FACTS: Green Mountain provided a schedule of its revenues and costs in total by year for marketing, green tags and projects from 2003 to February 2008. A summary of the schedule follows:

	2003	2004	2005	2006	2007	JAN-FEB 2008	TOTAL
REVENUE		561,004	2,248,549	2,419,624	3,385,773	623,869	9,238,819
COSTS: GREEN TAGS/SOLAR PROJECTS/MARKETING	121,480	2,194,350	2,678,316	1,701,305	2,069,223	715,055	9,479,729
NET PROFIT (LOSS)	(121,480)	(1,633,346)	(429,767)	718,319	1,316,550	(91,186)	(240,910)

According to Green Mountain, the numbers do not include an estimated $1 million for Green Mountain's corporate overhead in support of the program through 2007. This schedule shows an overall loss without the overhead of $240,910. However in 2007, Green Mountain is showing a profit, before Green Mountain overhead, of $1,316,550. We could not support any of these costs with the information provided from Green Mountain except for the project costs. Based on the above schedule, the costs for the three categories for 2004 to 2007 are $8,643,194. Based on other responses, Green Mountain provided the total project costs and total TREC costs. We have calculated the amount for marketing, direct costs and other general and administrative costs based on these other responses. The general and administrative costs include the salary of the program manager, local office expenses, business travel, research, and a public relations consultant retainer. Green Mountain has estimated that since the contracts inception, they have incurred an additional one million dollars in overhead in addition to the above costs. We have determined the following percent of the three types of costs.

		% OF COSTS TO TOTAL COST	% OF COST TO PAYMENTS GREEN MT.	% OF COST TO FPL REVENUES
Revenues collected by FPL for Sunshine 2004-2007	9,578,895.00			9,578,895.00
Payments to Green Mountain 2004 to 2007	8,614,950.00		8,614,950.00	
Project costs paid to date	431,504.00	4.99%	5.01%	4.50%
TREC costs 2004-2007	1,803,620.00	20.87%	20.94%	18.83%
Marketing and other costs	6,408,070.00	74.14%	74.38%	66.90%
	8,643,194.00	100.00%	100.33%	90.23%

Therefore, according to Green Mountain's unaudited numbers, 25.95% (5.01% + 20.94%) of the amount paid to Green Mountain has actually gone to projects and

TRECs. The percent of Green Mountain costs for projects and TRECs to FPL Sunshine revenues for the same period amount to 23.33% (4.5% +18.83%). FPL did pay $25,842.48 for one project itself at the Miami Science Museum. If this is added to the cost of the projects, the total spent using the Sunshine Energy funds for projects and TRECs amounts to 23.6% of the revenues of the program for 2004-2007.

Green Mountain has made commitments for an additional $2,476,023 for the existing projects through 2015. If these costs were included the calculation would be as follows:

Unpaid Project Costs	2476023
Paid Project Costs	431,504.00
Miami Science Project	25,842.48
TRECs	1,803,620.00
	4,736,989.48
Revenues	9,578,895.00
Percent of Revenues used for Projects and TRECs	49.45%

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

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

AUDIT FINDING NO. 3

SUBJECT: PROJECT COSTS

STATEMENT OF FACTS: Commission Order PSC-03-1442-TRF-EI states:

"FPL has also committed to the development or purchase of 150 KW of photovoltaic capacity within Florida for every 10,000 participating customers."

According to FPL's contract with Green Mountain:

"Subject to 18.2, Green Mountain commits to supplying FPL with 150 kW of Solar Resource capacity in the Licensed Territory for every 10,000 Customers enrolled in the FPL Green Pricing Program. Green Mountain shall use its commercially reasonable efforts to construct, or cause the construction of, each such 150 kW of Solar Resource capacity within one (1) year after meeting the applicable 10,000 Customers enrolled threshold. To the extent Green Mountain supplies FPL with any new Solar Resource Project in the Licensed Territory, (i) FPL agrees to enter into a power purchase agreement to purchase all Energy generated by the Solar Resource Projects for its Branded Product at FPL's avoided-as available cost, and (ii) Green Mountain agrees to purchase the Green Tags produced by such Solar Resource Projects and sell them to FPL on an as-needed basis in accordance with the terms of this Agreement and Section 15.3. FPL agrees that the contracts to purchase Green Tags from the Solar Resource Projects will be automatically assigned to FPL if Green Mountain defaults in its obligations under such contracts.

Section 18.2 discusses 50 kW to be built within one year after the start date. Section 15.3 discusses the source of Green Tags (TRECs).

As of 2007, FPL had 37,181customers enrolled in the program. For each 10,000 level of customers enrolled, 150 kW's of photovoltaic capacity in Florida should be developed or purchased. Therefore, 450 kW's of photovoltaic capacity in Florida should be developed or purchased now.

Green Mountain supplied the following information related to the projects:

PROJECT	GREEN MT. PAID AS OF FEB. 2008	GREEN MT. FUTURE COMMITMENT	KW'S	
ROTHENBACH PARK	[redacted]		250	[redacted]
SUN SMART SCHOOLS	40,000		8	
THE QUARRY-NAPLES	[redacted]		54	
SUN FUNDS	163,675	68,859	100	
PUBLIX	[redacted]		75	NOT COMPLETED
	431,504	2,476,023	487	
MIAMI SCIENCE MUSEUM			2	PAID FOR BY FPL
			489	

We have reviewed the contracts for these projects. The Rothenbach Park contract [redacted]

[redacted]

Green Mountain and Energy Structures and Systems, Inc. have contracted with each of the four schools on an individual basis. Energy Structures and Systems, Inc. is listed as the solar developer. All of the contracts state that the Solar Developer will construct and make operational the 2 kW solar arrays at the schools. The contracts also state that the SunSmart School Program funds of $8,000 will be paid to the Solar Developer. There is no mention of Green Mountain paying the Solar Developer any funds but Green Mountain provided a response to this audit saying $40,000 was paid for this project and provided a vendor payment history showing payment to Energy Structures and Systems for the $40,000.

Green Mountain also has a contract with the Quarry in Naples. The Solar Developer in this contract is Centex Homes. [redacted] The contract states:

[redacted]

The Sun Funds program provides a rebate to customers who install solar system for the following amounts:

2 kW	3,000
3 kW	4,500
4 kW	6,000
5 kW	7,500
6 kW	9,000
7 kW	10,500

This is a small percent of the cost for the total project costs.

We did not review the Publix Supermarket contract since it is not in the actual costs.

The amount Green Mountain has paid for the above projects is not the entire cost of building the 487 kW's and some of the 487 kWh are not complete. According to the contract, Green Mountain has one year after attaining the 10,000 to complete the project. Legal staff needs to determine if these projects meet the requirements of the order and the contract.

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

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

AUDIT FINDING NO. 4

SUBJECT: FLORIDA TREC'S

STATEMENT OF FACTS: Commission Order PSC-03-1442-TRF-EI requires the following:

"FPL's initial TREC purchases will be "associated with new (after 1988) and existing renewable energy facilities in the Southeastern Electric Reliability Council (SERC) geographic area, Florida, and such other geographic areas as FPL and its TREC supplier mutually agree." As the market for TRECs develops in Florida, FPL anticipates purchasing additional TRECs associated with in-state renewable resources. However, FPL has committed to us that FPL will have a preference for "affordable TRECs from facilities within Florida."

According to FPL's contract with Green Mountain:

"Green Mountain will acquire and supply to FPL the amount of Green Tags required under this Agreement from generators of Green Electricity located within FPCC, SERC, and additional geographic areas that are mutually approved by FPL and Green Mountain. Green Mountain will use commercially reasonable efforts to (i) obtain as many of the Green Tags as is commercially reasonable from Green Electricity generated within the State of Florida and (ii) obtain a minimum of fifteen percent (15%) of the Green Tags from New Renewable Resources located within the State of Florida by the beginning of the calendar year 2005 (on a going-forward basis); provided, however, there will be no penalty to Green Mountain under this Agreement nor will it be considered a Default if Green Mountain is unable to comply with this provision."

Based on the attestation statements reviewed for 2007, 25% of the TRECs were from Florida sources. The attestation statements for prior years show a higher percent of Florida TRECs purchased.

According to the contract Green Mountain cannot be penalized for not providing more Florida TRECs.

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

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

AUDIT FINDING NO. 5

SUBJECT: CONTRIBUTIONS

STATEMENT OF FACTS: In 2007, FPL paid $10,000 to the Palm Beach Zoo and $5,000 for the Honda Classic and included these costs in the Green Energy Program costs in the CT schedules for the conservation program. FPL has responded that these costs are appropriate for the program because:

"The sponsorship at the Palm Beach Zoo allowed FPL Sunshine Energy an opportunity to promote the Sunshine Energy Program through brochures, banners, and community events. Also, it allowed us an opportunity to educate customers about Sunshine Energy and sell blocks to those who were interested. The Zoo's primary interest is the preservation of animals in the environment. Customers that sign up for FPL's Sunshine Energy Program have a keen interest in preserving the environment. This group seemed like a good segment to approach with an environmentally sensitive program.

The Honda Classic provided another opportunity to advertise Sunshine Energy to a demographic group that would tend to purchase green energy-higher income and people that attend event. Honda provides Hybrid vehicles, which benefit the environment with higher gas mileage. They are advertised as green. This event offered an opportunity to bring together green products like the Sunshine Energy Program and Honda's hybrid vehicles."

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

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AUDIT FINDING NO. 6

SUBJECT: FPL ENERGY

STATEMENT OF FACTS: In 2007, Green Mountain purchased 74,658 TRECs from FPL Energy's Horse Hollow wind farm in Texas.

FPL's contract with Green Mountain provides special terms if Solar Green Tags (TRECs) are purchased from FPL or an Affiliated FPL Group Company.

We requested supporting documentation for these TRECs. FPL responded that:

"Green Mountain made wind tag purchases from FPL Energy-owned facilities through third parties or brokers. None of the purchases were made directly with FPLEnergy, and FPLEnergy did not invoice Green Mountain for any purchases."

Because this response was received the last week of field work, we were unable to follow up on this response.

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

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