State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: October 11, 2010

TO: John Slemkewicz, Public Utilities Supervisor, Division of Economic Regulation

FROM: Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 100077-EI
Company Name: Florida Power & Light Company
Company Code: EI802
Audit Purpose: Audit of Affiliated Transactions
Audit Control No: 10-207-4-1

RECEIVED-FPSC
10 OCT 11 PM 1:15
COMMISSION CLERK

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 Commission Clerk. There were confidential work papers associated with this audit.

CP/ip
Attachment: Audit Report

cc: (With Attachment)
Office of Auditing and Performance Analysis (Mailhot, Prestwood, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

State of Florida

Public Service Commission

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

Florida Power & Light Company
Review of Transactions between FPL and FPLES

2008 and 2009

Docket No. 100077-EI

Audit Control No. 10-207-4-1

Iliana Piedra
Audit Manager

Gabriela Leon

Bety Maitre

Yen Ngo

Kathy L. Welch
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 Economic Regulation in its audit service request dated July 27, 2010. We have applied these procedures to the transactions between Florida Power & Light Company (FPL) and Florida Power & Light Energy Services (FPLES) for Docket No. 100077-EI.

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.

Objectives and Procedures

Objective: The objective of the audit was to determine if FPL has charged FPLES adequate amounts for rent, furniture, phones, power, supplies, internal audit and external audit fees, website costs, and human resource costs.

Procedures: We reviewed the management fee allocation for 2010. The methodology for the management fee was tested in the last rate case, Docket 080677-EI and no material errors were found. We compared the costs and the methodology used in 2009 to the audit in Docket 080677-EI. The Internal and external audit fees, website costs and human resource costs were included in the management fee and allocated using the Massachusetts method. Rent, furniture, phones, power and supplies were included in overhead calculations for the individual service being allocated and were tested in the cost allocations for each department by obtaining source documentation for the overhead calculations and comparing these calculations to the total costs for the budget unit. FPL appears to be charging fully distributed costs.

Objective: The objective of the audit was to review the allocation of the website costs.

Procedures: The website costs were included in the management fee allocation and therefore allocated using the Massachusetts method.

Objective: The objective of the audit was to review the allocation of billing costs.

Procedures: We obtained and read the procedures manual for the billing and collection departments. We obtained the supporting documentation for the rates and counts used for both the printing and mailing costs and the payment processing costs. We obtained supporting documentation for the costs used to calculate the rate per bill and the associated overhead. We compared the costs used in the calculations to the costs for the budget unit. Since FPL determined a cost per billing line, we verified the average calculation of lines on the bill. We did not find any additional costs that should be allocated. FPL appears to be charging fully distributed costs for this service.

We also interviewed collection personnel to determine if they collect charges for FPLES. We traced a sample of the day's collection reports to actual collections the following day. We determined that the collection representatives are not provided the total charges for FPLES to collect on. If a customer does pay the entire bill, FPLES does get some benefit but the representatives are only told to collect the FPL charges and these are the charges that must be collected so the customer is not turned off. We also reviewed the application of the payments to determine if FPL actually received payment for all of its charges before the remaining payment was applied to FPLES charges for a sample of bills.

We reviewed the costs charged to FPLES for billing inserts and traced to supporting documentation and compared to charges for non-FPL business billing inserts.

Objective: The objective of the audit was to review interrogatories 13 and 14 of Staff's First Set of Interrogatories and verify the information provided. Interrogatories 13 and 14 discuss shared resources of FPL and FPLES and the compensation provided for those services.

Procedures: As shown in other procedures in this report, we did separate audits of bill inserts, billing, payment processing and mailing, and the customer care centers. We reviewed supporting documentation for all of these departments and compared to the budget units costs. Audit Finding 3 discusses charges not billed to FPLES.

We reviewed the management fee allocation for 2010 to determine that all common budget units are allocated using the same methodology, as when they were audited in the last rate case.

We verified that space, furniture and computer equipment, and support payroll were included in overhead rates charged for the common employees, customer care center, billing, and collection, processing, and bill inserts.

We verified employee time allocations to job descriptions and time sheets and reviewed the components of the overhead rates.

Objective: The objective of the audit was to review interrogatory four of Staff's First Set of Interrogatories and verify the information provided. This interrogatory asked whether FPL received compensation for referring customers to affiliate or non-affiliate entities.

Procedure: We determined that the charge to FPLES for the service provided by the call center included all costs by obtaining supporting documentation for all overhead calculations and compared the costs in the overhead allocation to the budget unit report for the call center department.

We also interviewed FPL field representatives to determine if they promote FPLES services or hand out pamphlets or brochures for FPLES. Audit Finding 2 discusses the brochures. We determined that payroll and overhead were charged for these services.

Since FPL is supposed to charge FPLES the higher of cost or market, we attempted to find out what rates the FPLES call center charges other vendors for each completed sale so we could compare to what FPLES is paying FPL based on completed sales. FPL does not believe any comparison to market is appropriate and declined to provide these commissions.

Objective: The objective of the audit was to determine if the allocation of telephone representative's time is allocated to FPLES by reviewing telephone scripts, the allocation methodology, and the time spent on the calls for non-regulated business.

Procedure: We observed calls for new service that came in to the FPL call center and calls that were received by FPLES from FPL at the FPLES call center. We determined if the calls followed the scripts provided and if the average time per call used to allocate costs appeared reasonable. We read the business plan and procedures manual for the customer care center. We determined if FPL call center employees promoted FPLES services and whether FPLES was identified as an affiliate company. Audit Finding 1 discusses the transfer of the call.

Objective: The objective of the audit was to determine if FPL has transferred any confidential customer information to FPLES. We were also to determine if FPL employees' salaries are adequately allocated to FPLES and whether working for both companies gives FPLES access to confidential data.

Procedures: We obtained FPL's confidentiality agreements with its employees. We reviewed the procedures manuals for the departments reviewed. We observed the call center representatives and how the information was transferred to the FPLES call center. Audit Finding 1 discusses the confidential information transferred. We interviewed the employees who charged time to both FPL and FPLES to determine how confidential information was handled. No problems were found.

Objective: The objective of the audit was to determine if FPL employees promote the products or services of FPLES by interviewing FPL staff and reviewing customer files and the business plan for customer service.

Procedures: We reviewed the business plan for the field representatives and the call center. We interviewed field employees and employees charged to both FPL and FPLES on whether they promote products and what kind of literature they disperse to customers. We observed the FPL call center employees to determine if they promoted any products or services of FPLES. Audit Findings 1 and 2 discuss the results of the interviews.

Audit Finding 1

Subject: Transfer of Calls to FPLES

Audit Analysis: After a customer calls the FPL customer care center to establish electric service and the process is completed by the FPL customer service representative, the representative then explains to the customer that they will be transferred in order to receive their confirmation number. This is the same as their FPL account number.

The FPL customer service representative does not indicate to the customer that they will be transferred to a non-regulated company, which is FPLES.

Once the call is transferred to FPLES, the FPLES representative does indicate that they work for FPLES and explains that they will be providing the customer with the confirmation number. The customer information received by FPLES is the customer's name, address, phone number, and the date of connection. Then the FPLES representative asks if they may have the e-mail address to e-mail the confirmation number within 24 hours. Following this the FPLES representative asks if they may provide information on FPLES's move related services. These services are offered to the customer based on the type of premises, geography, and customer type and customer profile.

The transfer of the call from FPL to FPLES may lead the customer to believe they will be transferred to another FPL representative. The FPL representative does not mention that they will be offered some products or services after the customer is transferred. It is possible that if the customer was offered the confirmation number by the FPL representative and then asked if they wanted to be transferred to a non-regulated subsidiary, that they might reject the offer.

Customers may think that FPLES is a regulated company because the name includes FPL. FPLES is receiving the benefit of being connected to a customer of FPL. FPLES would have to spend considerably more time and money to obtain this same level of benefit.

Although FPLES claims it does not keep any of the information on the customer which the FPLES representative sees on the screen and the FPLES representatives sign confidentiality agreements, the name, address and phone number are transferred to FPLES. When FPL provides customer names to Commission staff, they are classified as confidential information.

Effect on the General Ledger: For informational purposes only.

Effect on the Filing: For informational purposes only.

Audit Finding 2

Subject: Field Representatives Marketing Material

Audit Analysis: FPL Services, LLC (FPL Services) is a non-regulated subsidiary of Florida Power & Light Company (FPL) that provides analysis, design, implementation and installation of energy conservation measures through the implementation of energy performance based contracts (Performance Contracting Programs).

During the interview of FPL field representatives, some employees were asked to provide a copy of the informational handouts furnished to customers. Two of the handouts obtained from FPL employees were marketing materials from FPL Services. The FPL Services material did not state that FPL Services is a subsidiary of FPL in either of the handouts. These handouts are furnished to governmental and industrial customers serviced by FPL.

Under the FPL Group corporate structure, FPL Services and FPL Energy Services are the two entities that offer Performance Contracting Programs. FPL Services contracts with customers within FPL's service territory and FPLES contracts with the customers outside FPL's service territory. The marketing material obtained from FPL field representatives does not mention FPL Energy Services (FPLES) as a provider. These handouts may be considered marketing material for FPLES since the only difference between the two companies is their service territory. Customers may have other locations outside the service territory.

Both FPL Services and FPLES are charged a portion of the overhead for the Customer Service Field Operations Division. The field representatives that provide these handouts work in that division.

Effect on the General Ledger: For informational purposes only.

Effect on the Filing: For informational purposes only.

Audit Finding 3

Subject: Billing and Mailing

Audit Analysis: FPL did not bill FPLES for the gas bill printing and payment processing costs in 2008. They did not book these billing costs in 2008 and the first month of 2009. The average cost for the 11 months of 2009 was $2,494.10. Therefore 2009 is understated by approximately $2,494.10 and 2008 is understated by approximately $29,929.20 ($2,494.10 x 12).

Effect on the General Ledger: FPL's costs should be reduced by approximately $2,494.10 in 2009 and $29,929.20 for 2008.

Effect on the Filing: The answers to the interrogatories show what was charged to FPLES but additional amounts of $2,494.10 in 2009 and $29,929.20 in 2008 should be charged.