

State of Florida



Public Service Commission
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COMMISSION
CLERK

DATE: July 1, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 110002-EG
Company Name: Florida Public Utilities Company
Company Code: EI803
Audit Purpose: Energy Conservation Cost Recovery
Audit Control No: 11-005-4-5

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 no confidential work papers associated with this audit.

CJP/kby

Attachments: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

04545 JUL -1 =

FPSC-COMMISSION CLERK

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
Energy Conservation Cost Recovery

The Twelve Months Ended December 31, 2010

Docket No. 110002-EG
Audit Control No. 11-005-4-5

June 29, 2011

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

Kathy L. Welch
Audit Manager

A handwritten signature in cursive script, appearing to read "Iliana H. Piedra", written over a horizontal line.

Iliana H. Piedra
Reviewer

DOCUMENT NUMBER-DATE

04545 JUL-1 =

FPSC-COMMISSION CLERK

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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 January 6, 2011. We have applied these procedures to the attached summary exhibit prepared by Florida Public Utilities Company (FPUC) and to several of its related schedules in support of its filing for the Energy Conservation Cost Recovery Clause (ECCR) in Docket No. 110002-EG.

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

Objectives: Our objectives were to verify that FPUC's filing agreed to the general ledger and that FPUC maintains its accounts and records in conformity with the Code of Federal Regulations (C.F.R.).

Procedures: We reconciled the filing to the general ledger and verified that the costs incurred were proper and expensed to the appropriate account.

Revenue

Objectives: Our objective was to verify that FPUC's ECCR revenues are proper and accurately reflected in the filing.

Procedures: We reconciled the monthly revenues in the filing to FPUC's monthly billing system reports. A sample of customer bills was re-calculated and the conservation factor charged to customers was traced to the rate in Order PSC-09-0794-FOF-EG.¹

Expense

Objectives: Our objective was to verify that FPUC's ECCR costs are proper, accurately reflected in the filing, and in compliance with Rule 25-17.015(5), F.A.C.

Procedures: We selected a sample of charges to the ECCR accounts. We traced the sample to supporting documentation. Customer incentives were traced to the conservation program standards and customer invoices. Advertisements were reviewed and determined to meet criteria stated in Commission Rule 25-17.015(5), F.A.C. Cash Vouchers were traced to invoices and contracts. Payroll entries were traced to costs by employee by hour. We reviewed job descriptions to verify that the employees were performing conservation related tasks. We re-calculated the overhead rates and compared them to prior years.

True-up

Objectives: The objective was to verify that the true-up and interest provision amount at December 31, 2010 was properly calculated.

Procedures: We recalculated the true-up and interest provision amount as of December 31, 2010 using the Commission approved beginning balance as of December 31, 2009, the Commercial paper rates, and the 2010 Energy Conservation Cost Recovery Revenues and Costs.

¹ See Order No. PSC-09-0794-FOF-EG, issued December 1, 2009, Docket No.090002-EG, In Re: Energy conservation cost recovery clause.

Audit Findings

Finding 1: Incentives

Audit Analysis: In October 2010, FPUC began using Parago Promotional Services (Parago) to process its incentive rebates. The invoices from Parago were allocated to electric and gas divisions. The incentives paid, however, can and should be recorded based on whether the actual incentive amount paid is related to an electric program or a gas program. The rebate amounts were agreed to program allowed rebates. In addition, an error in the November 8 to the 14th Parago bill created a credit of \$10,000. The December 6 to the 12th invoice of \$7,573.80 was never paid because of this credit. Therefore, an additional credit of \$2,426.20 remains. The actual differences between the invoices and the ledger amounts are shown below. The total difference is slightly different than the credit amount because of errors in recording other bills. The majority of the difference is because the FPUC allocation charged more incentives to electric than what was actually paid.

Invoice Date	Natural Gas	Electric	Total Invoice
10/25/10 - 10/31/10	\$ 6,346.48	\$ 2,201.98	\$ 8,548.46
11/01/10 - 11/07/10	\$ 23,109.95	\$ 6,308.85	\$ 29,418.80
11/08/10 - 11/14/10	\$ 13,675.67	\$ 298.68	\$ 13,974.35
Error in 11/8 bill	\$ (10,000.00)		\$ (10,000.00)
12/06/10 - 12/12/10	\$ 7,573.80	\$ -	\$ 7,573.80
11/15/10 - 11/21/10	\$ 2,054.40	\$ 100.09	\$ 2,154.49
11/22/10 - 11/28/10	\$ 11,400.43	\$ 900.81	\$ 12,301.24
11/29/10 - 12/05/10	\$ 9,901.59	\$ -	\$ 9,901.59
12/13/10 - 12/19/10	\$ 9,419.84	\$ 100.09	\$ 9,519.93
Per Invoice detail audit amounts	\$ 73,482.16	\$ 9,910.50	\$ 83,392.66
Per Ledger including accrual	\$ 53,874.19	\$ 31,931.20	\$ 85,805.39
Error in Filing	\$ 19,607.97	\$ (22,020.70)	\$ (2,412.73)

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

Account Number	Account Title	Debit	Credit
FN41-00000-2600-2530	Deferred Over-Recovery Gas	\$ 19,608	
Accounts Payable		\$ 2,413	
FE45-00000-1600-1860	Deferred Under-Recovery Electric		\$ 22,021

Effect on the Filing: Electric conservation expenses should be reduced by \$22,021.

Finding 2: Advertisement Allocation

Audit Analysis: An invoice from SKM Group for \$10,360.08 was charged to conservation expenses (FE44-CV400-5083-909V) in November 2010. The invoice was for media placement of an advertisement relating to the Marianna rate decrease. The ad did mention the energy surveys and a portion of the ad did meet the requirements of Commission Rule 25-17.015(5), F.A.C. FPUC had intended to record 20% of the cost or \$2,072 to conservation. However, due to a clerical error the entire amount was entered causing the conservation expenses to be overstated by \$8,288. The adjustment decreases interest expense by \$3.

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

Account Number	Account Title	Debit	Credit
FE44-CV400-5083-9130	Advertising	\$ 8,288	
	Interest Expense	\$ 3	
FE44-00000-1600-1860	Deferred Under-Recovery Conservation		\$ 8,291

Effect on the Filing: Conservation expenses should be reduced by \$8,288 and \$3 interest for a total of \$8,291.

Finding 3: Gas Rebate Charged to Electric

Audit Analysis: A \$350 gas rebate paid in June was charged to electric because of a clerical error. This rebate should be removed from electric conservation costs and added to gas conservation costs. There is an immaterial effect on interest.

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

Account Number	Account Title	Debit	Credit
FN41-00000-2600-2530	Deferred Over-Recovery Gas	\$350	
FE45-00000-1600-1860	Deferred Under-Recovery Electric		\$350

Effect on the Filing: Conservation expense should be reduced by \$350.

Finding 4: Ad Not Meeting Rule Requirements

Audit Analysis: FPUC paid \$871.25 to Evok Advertising to develop an advertisement for the Marianna High School year book. The ad states: "You are on your way to a Bright Future. Congratulations to the Marianna High School Class of 2011 from your friends at Florida Public Utilities." Rule 25-17.015(5), F.A.C requires ads to:

- (a) Identify a specific problem;
- (b) States how to correct the problem; and
- (c) Provide direction concerning how to obtain help to alleviate the problem.

This ad does not meet these guidelines and should be removed from conservation expenses. The interest expense is immaterial.

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

Account Number	Account Title	Debit	Credit
FE44-CV440-5086-909V	Advertising	\$ 871	
FE44-00000-1600-1860	Deferred Under-Recovery Conservation		\$ 871

Effect on the Filing: Conservation expense should be reduced by \$871.

Exhibits

Exhibit 1: Energy Conservation Recovery True-Up CT-3

COMPANY: FLORIDA PUBLIC UTILITIES - CONSOLIDATED ELECTRIC
 CALCULATION OF TRUE-UP AND INTEREST PROVISION
 FOR MONTHS January-10 THROUGH December-10

SCHEDULE CT-3

B. CONSERVATION REVENUES	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. RESIDENTIAL CONSERVATION													0
2. CONSERVATION ADJ. REVENUES	(53,971)	(49,502)	(48,969)	(43,299)	(39,005)	(48,511)	(59,101)	(61,263)	(57,458)	(48,174)	(40,020)	(46,467)	(595,740)
3. TOTAL REVENUES	(53,971)	(49,502)	(48,969)	(43,299)	(39,005)	(48,511)	(59,101)	(61,263)	(57,458)	(48,174)	(40,020)	(46,467)	(595,740)
4. PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,034	24,452
5. CONSERVATION REVENUE APPLICABLE	(51,933)	(47,464)	(46,931)	(41,261)	(36,967)	(46,473)	(57,063)	(59,225)	(55,420)	(46,136)	(37,982)	(44,433)	(571,288)
6. CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	31,039	51,009	79,586	59,473	43,584	89,065	48,888	52,411	41,202	38,169	82,281	76,624	693,331
7. TRUE-UP THIS PERIOD (LINE 5 - 6)	(20,894)	3,545	32,655	18,212	6,617	42,592	(8,175)	(6,814)	(14,218)	(7,967)	44,299	32,191	122,043
8. INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	2	0	3	8	11	21	22	18	15	10	15	22	147
9. TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	24,452	1,522	3,029	33,649	49,831	54,421	94,996	84,805	75,971	59,730	49,735	92,011	24,452
9A. DEFERRED TRUE-UP BEGINNING OF PERIOD													
10. PRIOR TRUE-UP COLLECTED (REFUNDED)	(2,038)	(2,038)	(2,038)	(2,038)	(2,038)	(2,038)	(2,038)	(2,038)	(2,038)	(2,038)	(2,038)	(2,034)	(24,452)
11. TOTAL NET TRUE-UP (LINES 7+8+9+9A+10)	1,522	3,029	33,649	49,831	54,421	94,996	84,805	75,971	59,730	49,735	92,011	122,190	122,190

EXHIBIT NO. _____
 DOCKET NO. 110002-EG
 FLORIDA PUBLIC UTILITIES COMPANY
 (JVH-1)
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COMPANY: FLORIDA PUBLIC UTILITIES - CONSOLIDATED ELECTRIC
 CALCULATION OF TRUE-UP AND INTEREST PROVISION
 FOR MONTHS January-10 THROUGH December-10

SCHEDULE CT-3

C.	INTEREST PROVISION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1.	BEGINNING TRUE-UP (LINE B-9)	24,452	1,522	3,029	33,649	49,831	54,421	94,996	84,805	75,971	59,730	49,735	92,011	24,452
2.	ENDING TRUE-UP BEFORE INTEREST (LINES B7+B9+B9A+B10)	1,520	3,029	33,646	49,823	54,410	94,975	84,783	75,953	59,715	49,725	91,996	122,168	122,043
3.	TOTAL BEG. AND ENDING TRUE-UP	25,972	4,551	36,675	83,472	104,241	149,396	179,779	160,758	135,686	109,455	141,731	214,179	146,495
4.	AVERAGE TRUE-UP (LINE C-3 X 50%)	12,986	2,276	18,338	41,736	52,121	74,698	89,890	80,379	67,843	54,728	70,866	107,090	73,248
5.	INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	0.20%	0.20%	0.21%	0.21%	0.23%	0.34%	0.35%	0.28%	0.28%	0.25%	0.25%	0.25%	
6.	INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	0.20%	0.21%	0.21%	0.23%	0.34%	0.35%	0.28%	0.28%	0.25%	0.25%	0.25%	0.25%	
7.	TOTAL (LINE C-5 + C-6)	0.40%	0.41%	0.42%	0.44%	0.57%	0.69%	0.63%	0.56%	0.53%	0.50%	0.50%	0.50%	
8.	AVG. INTEREST RATE (C-7 X 50%)	0.20%	0.21%	0.21%	0.22%	0.29%	0.35%	0.32%	0.28%	0.27%	0.25%	0.25%	0.25%	
9.	MONTHLY AVERAGE INTEREST RATE	0.02%	0.02%	0.02%	0.02%	0.02%	0.03%	0.03%	0.02%	0.02%	0.02%	0.02%	0.02%	
10.	INTEREST PROVISION (LINE C-4 X C-9)	2	0	3	8	11	21	22	18	15	10	15	22	147

EXHIBIT NO. _____
 DOCKET NO. 110002-EG
 FLORIDA PUBLIC UTILITIES COMPANY
 (JVH-1)
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