

State of Florida



Public Service Commission
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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION
CLERK

DATE: July 24, 2012
TO: Office of Commission Clerk
FROM: Patti Daniel, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120002-EG
Company Name: Florida Public Utilities Company
Company Code: EI803
Audit Purpose: A3²: Energy Conservation Cost Recovery
Audit Control No: 12-010-4-4

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.

PD/lmd
Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE
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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

Twelve Months Ended December 31, 2011

Docket No. 120002-EG
Audit Control No. 12-010-4-4

July 20, 2012

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

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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 10, 2012. 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 2011 filing for the Energy Conservation Cost Recovery in Docket No. 120002-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

Definition

Utility refers to the Florida Public Utilities Company.
ECCR refers to the Energy Conservation Cost Recovery.

Revenue

Operating Revenues

Objectives: The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2011 through December 31, 2011, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the ECCR.

Procedures: We reconciled the 2011 filing to the Utility's monthly Conservation Revenue Reports. We computed the factors by rate code and compared them to the last Commission Order No. PSC 10-0703-FOF-EG. We selected a random sample of residential and commercial customers' bills and recalculated each to verify the use of the correct tariff rate. No exceptions were noted.

Expense

Operation and Maintenance Expense

Objectives: The objectives were to verify that Operation and Maintenance (O&M) Expense listed on the Utility's Schedule CT-3 filing was supported by adequate documentation and that the expenses are appropriately recoverable through the ECCR.

Procedures: We traced expenses in the filing to the general ledger. We judgmentally selected a sample of O&M Expenses for testing. The source documentation for selected items was reviewed to ensure the expense was related to the ECCR and that the expense was charged to the correct accounts. During our audit, we determined that several invoices were incorrectly charged to conservation recoverable expenses or the incorrect division. All adjustments except those in findings one and two were corrected by the Utility in the amended filing included in its revised direct testimony and attached to this report. Payroll is discussed in Audit Finding No. 1. Audit Finding No. 2 discusses non-recoverable expenses.

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, 2010 True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2011, using the Commission approved beginning balance as of December 31, 2010, the Financial Commercial Paper rates, and the 2011 ECCR revenues and costs. No exceptions were noted.

Analytical Review

Objective: The objective was to perform an analytical review of the Utility's ECCR Revenues and Expenses to determine if there were any material changes or inconsistencies from the prior year.

Procedures: We compared 2011 to 2010 revenues and expenses. We requested explanations from the Utility for significant variances. Audit Finding No. 1 discusses payroll variances.

Audit Findings

Finding 1: Increased Conservation Payroll and Associated Costs

Audit Analysis: An analytical review of costs charged to conservation recoverable expenses showed large increases in payroll and travel as follows:

Comparison of Costs					
ELECTRIC CONSERVATION:	Last Rate Case HT/Y 2006	2010	2011	% OF 2010	% OF 2006
LABOR (including taxes and benefits)	\$ 197,094.00	\$ 204,984.00	\$ 371,884.00	181.42%	188.68%
TRAVEL	\$ 9,096.00	\$ 10,121.00	\$ 54,605.00	539.52%	600.32%

The increase in payroll relates to the following:

1. Some of the employees whose salary was allocated 40% to electric and 60% to gas may also do work for Chesapeake and Indiantown and are not charged to those divisions.
2. Marketing Division 400 allocated \$69,624.65 in payroll, including benefits, and taxes and \$20,118.14 of associated costs such as travel, cell phone, and vehicle related expenses to conservation recoverable expenses. Only one employee was listed in this division and the position appears to be related to gas operations business development. This employee could not be found in supporting documentation for prior years.
3. Marketing Division 413 was allocated using a 42% allocation rate. Based on a chart of employees showing allocation based on conservation duties, the employees whose salaries are in this division are shown on the chart at a 25% allocation. Changing this division to 25% would reduce salaries with taxes and benefits by \$5,872 and other costs such as cell phones, vehicles, and uniforms by \$915.59.
4. The Utility has increased the allocation percents for all of its marketing employees in 2011. Changing the allocation percents causes a shift from base rate expenses to conservation recoverable expenses. However, based on our analysis, which follows, the Utility operating and maintenance expenses included in base rates have also increased.

Comparison of Expenses In Base Rates

	Dkt. 070304-EI 2006	2010	2011
Total O & M Payroll	\$ 2,835,068	\$ 4,322,146	\$ 4,514,672
Conservation Included	\$ (197,094)	\$ (204,984)	\$ (371,884)
Net Base Rate Payroll	\$ 2,637,974	\$ 4,117,162	\$ 4,142,788

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

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

Finding 2: Non-recoverable Costs Allocated

Audit Analysis: The Utility included two invoices for promotional items in its conservation recoverable costs. The invoices, paid in May, were to Creative Marketing Concepts for \$3,737.65 and to MTN, Inc. for \$9,548.90. These costs were charged to Marketing Division 412 and the costs for this division are allocated 60% to gas and 40% to electric. Therefore, \$5,314.62 should be removed from conservation recoverable costs for electric. True-up interest on this amount is not material and was not adjusted.

Effect on the General Ledger: To correct the ledger, Retained Earnings should be debited by \$5,314.62 and the under-recovery account credited by \$5,314.62.

Effect on the Filing: Gas conservation expenses should be reduced by \$5,314.62 which causes a reduction to the under-recovery by the same amount.

Exhibit

Exhibit 1: True Up

COMPANY: FLORIDA PUBLIC UTILITIES - CONSOLIDATED ELECTRIC

SCHEDULE CT-3
PAGE 1 OF 3

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

A. CONSERVATION EXPENSE BY PROGRAM	FOR MONTHS												TOTAL
	January-11	February-11	March-11	April-11	May-11	June-11	July-11	August-11	September-11	October-11	November-11	December-11	
1. Common	64,864	58,201	64,748	51,651	78,942	79,584	37,570	76,454	48,699	86,023	35,799	5,853	668,418
2. Residential Energy Survey	13,369	18,868	17,573	8,246	6,911	2,615	7,895	16,476	22,330	5,285	26,160	(13,970)	131,676
3. Loan Program (discontinued but remains open)	0	(10)	(10)	(10)	0	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(100)
4. Commercial Energy Survey	(481)	2,035	(500)	879	(618)	0	0	1,926	0	0	0	28,145	31,466
5. Low Income Education	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Commercial Heating & Cooling Upgrade	0	0	0	0	0	0	0	0	0	0	0	0	0
7. Residential Heating & Cooling Upgrade	8,190	3,645	6,728	207	(1,185)	0	15	1,327	3,480	2,143	1,082	15,393	38,965
8. Commercial Indoor Efficient Lighting Rebate	8,180	3,646	6,728	207	(1,185)	0	15	749	749	0	0	(13,466)	3,623
9. Commercial Window Film Installation Program	0	0	0	0	0	0	0	0	0	0	0	0	0
10. Commercial Chiller Upgrade Program	0	0	0	0	0	0	0	0	0	0	0	0	0
11. Solar Water Heating Program	0	0	0	0	0	0	0	0	0	1,532	0	599	2,131
12. Solar Photovoltaic Program	0	0	0	0	0	0	0	0	0	10,835	0	34,211	46,046
13. Electric Conservation Demonstration and Development	0	0	0	0	0	0	0	0	10,000	0	187	10,000	20,187
14. Affordable Housing Builders and Providers	0	0	0	0	0	0	0	0	0	0	0	0	0
15.													0
16.													0
17.													0
18.													0
19.													0
20.													0
21.													0
22.													0
21. TOTAL ALL PROGRAMS	90,162	86,185	95,267	61,279	82,965	82,169	45,485	96,921	85,248	85,808	63,198	66,755	941,462
22. LESS AMOUNT INCLUDED IN RATE BASE													
23. RECOVERABLE CONSERVATION EXPENSES	90,162	86,185	95,267	61,279	82,965	82,169	45,485	96,921	85,248	85,808	63,198	66,755	941,462

EXHIBIT NO. _____
DOCKET NO. 120002-EG
FLORIDA PUBLIC UTILITIES COMPANY
(CDY-2)
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CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-11 THROUGH December-11

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
8. CONSERVATION REVENUES													
1. RESIDENTIAL CONSERVATION													
2. CONSERVATION ADJ. REVENUES	(80,735)	(68,489)	(83,632)	(83,593)	(59,181)	(71,190)	(78,875)	(68,932)	(75,981)	(65,219)	(50,876)	(59,829)	(789,452)
3. TOTAL REVENUES	(80,735)	(68,489)	(83,632)	(83,683)	(59,181)	(71,190)	(78,876)	(68,932)	(75,981)	(65,219)	(50,876)	(59,829)	(796,462)
4. PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	7,666	7,555	7,556	7,665	7,555	7,556	7,555	7,556	7,556	7,555	7,555	7,552	90,657
6. CONSERVATION REVENUE APPLICABLE	(73,180)	(60,934)	(46,297)	(40,098)	(51,636)	(63,626)	(71,122)	(61,377)	(68,426)	(47,664)	(43,321)	(51,977)	(704,795)
8. CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	90,182	88,166	96,267	81,279	82,966	82,189	45,485	98,821	85,248	85,809	83,198	69,755	941,462
7. TRUE-UP THIS PERIOD (LINE 6 - 8)	16,982	28,231	48,870	15,241	3,329	18,364	(25,636)	16,544	16,822	38,144	19,877	15,878	236,687
8. INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	20	23	26	26	26	26	20	13	8	10	17	18	230
9. TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	90,957	100,104	117,823	159,184	166,876	190,875	201,710	188,540	176,542	185,817	218,416	228,756	90,857
9A. DEFERRED TRUE-UP BEGINNING OF PERIOD													
10. PRIOR TRUE-UP COLLECTED (REFUNDED)	(7,555)	(7,555)	(7,556)	(7,555)	(7,555)	(7,555)	(7,556)	(7,555)	(7,556)	(7,555)	(7,555)	(7,552)	(90,657)
11. TOTAL NET TRUE-UP (LINES 7+8+9+9A+10)	100,104	117,823	159,184	186,876	190,875	201,710	188,540	176,542	185,817	218,416	228,756	236,897	236,897

EXHIBIT NO. _____
DOCKET NO. 12002-EG
FLORIDA PUBLIC UTILITIES COMPANY
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CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-11 THROUGH December-11

C. INTEREST PROVISION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. BEGINNING TRUE-UP (LINE B-9)	90,657	100,134	117,823	169,164	188,876	190,875	201,710	168,540	176,542	185,817	218,416	228,766	90,657
2. ENDING TRUE-UP BEFORE INTEREST (LINES B7+B8+B9+B10)	100,084	117,620	158,138	188,850	190,550	201,684	188,520	176,529	185,809	216,496	228,738	236,881	238,867
3. TOTAL BEG. AND ENDING TRUE-UP	193,741	217,804	276,961	326,014	357,526	392,359	370,230	345,069	362,361	402,223	445,154	465,638	327,324
4. AVERAGE TRUE-UP (LINE C-3 X 50%)	95,371	108,952	138,481	163,007	178,763	196,180	185,115	172,636	181,176	201,112	222,577	232,818	163,662
5. INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	0.25%	0.25%	0.25%	0.20%	0.18%	0.16%	0.16%	0.12%	0.07%	0.04%	0.06%	0.09%	
6. INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	0.25%	0.25%	0.25%	0.18%	0.18%	0.16%	0.12%	0.07%	0.04%	0.06%	0.09%	0.07%	
7. TOTAL (LINE C-5 + C-6)	0.50%	0.50%	0.46%	0.38%	0.35%	0.32%	0.28%	0.19%	0.11%	0.13%	0.16%	0.16%	
8. AVG. INTEREST RATE (C-7 X 50%)	0.25%	0.25%	0.23%	0.20%	0.18%	0.16%	0.14%	0.10%	0.06%	0.07%	0.09%	0.08%	
9. MONTHLY AVERAGE INTEREST RATE	0.321%	0.021%	0.019%	0.016%	0.015%	0.015%	0.012%	0.008%	0.005%	0.005%	0.008%	0.007%	
10. INTEREST PROVISION (LINE C-4 X C-9)	23	23	28	26	25	26	20	13	8	10	17	16	220

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