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From:	Keating, Beth [BKeating@gunster.com]
Sent:	Thursday, August 09, 2012 10:45 AM
To:	Filings@psc.state.fl.us
Cc:	'Napier, Michelle'; Lee Eng Tan; Devlin Higgins
Subject:	Docket No. 120002-EG
Attachments:	20120809103841764.pdf

Attached for electronic filing, please find Florida Public Utilities Company's Response to Audit No. 12-010-4-4 in the referenced docket.

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a. Person responsible for this electronic filing:

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b. Docket No. 120002-EG - In re: Energy Conservation Cost Recovery Clause

c. On behalf of: Florida Public Utilities Company

d. There are a total of pages: 6

e. Description: Audit Response

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August 9, 2012

Electronic Filing

Ms. Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 120002-EG – Conservation Cost Recovery Clause

Dear Ms. Cole:

Attached for filing, please find the Florida Public Utilities Company's response to Commission Staff Audit Control No. 12-010-4-4 filed in this Docket on July 24, 2012.

Thank you for your assistance with this filing. As always, please don't hesitate to let me know if you have any questions whatsoever.

Sincerely,

Beth Keating

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MEK

2011 Florida Public Utilities Company Electric Response to Audit Findings

Audit Control No. 12-010-4-4

Finding 1: Increased Conservation Payroll and Associated Costs:

The Company believes that this Audit Finding confirms that the Company's new Demand Side Management (DSM) programs, approved in December 2010 (see Docket No. 100158-EG and Order No. PSC-10-0678-PAA-EG) and implemented for the 2011 conservation period, have been well received by customers. The Company has responded, through specific and deliberate efforts, to realign and reorganize itself to the current market conditions and the new DSM programs. The Company took many specific actions subsequent to the merger between Florida Public Utilities Company and Chesapeake Utilities so that current customers could receive assistance that would help them reduce costs and conserve energy during the worst economic conditions since the Great Depression. Comparing the 2011, 2010 and 2006 data contained in the respective conservation filings confirms staff's analysis that labor and travel costs have increased; however, the level of incentives increased in 2011, as compared to 2010 and 2006, respectively, by $67,943 (an increase of about 142%) and $102,903 (an increase of about 795%) (see attached spreadsheet). Therefore, the increase in payroll has resulted in substantially more customers taking advantage of these conservation programs. Thus, the Company believes that its efforts to create and implement new DSM programs for 2011 have been even more successful than what the Company anticipated.

1. The Company's payroll allocations are reviewed each year. The Company inadvertently did not allocate payroll of approximately $165,432 to the Florida Division of Chesapeake Utilities Corporation which would reduce the amounts charged to Florida Public Utilities Electric and Natural Gas divisions by $44,936, and $120,496 respectively. The Company has since corrected this allocation.

   The Company did not allocate to Indiantown because the percentage was immaterial (less than ½ of a percent).

2. Mr. Kevin Webber is the Vice President of Gas Operations and Business Development (Marketing Department 400), which is a new position for Florida Public Utilities. Although part of his responsibilities include Gas Operations, he is also directly responsible for business development for all of the Company's Utilities (electric, natural gas and propane). Before the new Marketing Director was hired in 2011, Mr. Webber was directly responsible for the Company's marketing strategy, which included electric conservation activities. Mr. Webber remains significantly involved with the development of the marketing and electric conservation efforts, and the new Marketing Director, who is responsible for all electric conservation activities, reports directly to Mr. Webber. See Organizational Chart attached. Therefore, the Company believes that it is appropriate for

payroll and the associated employee expenses of this position be charged to electric conservation expense.

3. The conservation-related positions in Marketing Department 413 were realigned and reorganized for 2011. Payroll allocations were updated to be in line with the new job responsibilities which were determined to be 42% conservation-relate. The Company retained an outside consultant to validate the 2011 allocation percentages and job functions of all conservation-related positions.

4. Audit Finding 1, subpart 4, provides a chart comparing 2006 data from the Company's last rate case, the historic year data, with FERC Form 2 data from 2010 and 2011. The report concludes that "the Utility operating and maintenance expenses included in base rates have also increased." The Company disagrees with this conclusion for several reasons.

   First, base rates are set on Projected Test Year data, not historic year data. Second, consistent with the Commission's decision, in Docket No. 110133-GU, the Company has not yet been allowed to consolidate the regulatory filings and records of Florida Public Utilities Company and Florida Division of Chesapeake Utilities Corporation. As such, comparisons of pre-merger accounting data with current accounting data present a difficult, "apples to oranges" task. The difficulty is exacerbated, in part, by the following: (1) FPUC now uses Chesapeake's financial system instead of the FPUC financial system used prior to the merger; and (2) employees now charge all of their time to FPUC and allocations are made to Chesapeake.

   Finally, the Company fully recognizes that it has the burden to demonstrate, in its next base rate proceeding, that the merger-related savings, approved by the Commission in the above-referenced Docket, continue to be realized. The Company does not, however, believe that this particular audit finding falls within the scope of this Docket, nor is it within the stated scope of the Audit itself. (*See* Purpose and Objective and Procedures of Audit Report). Again, as explained above, the Company believes that the data used in the chart is not comparable and cannot be used to make any determination of O&M payroll changes. The 2010 and 2011 payroll data contains many items that are not recurring and several adjustments would need to be made in order to ensure comparability with appropriate comparison data. Thus, the Company believes that the Audit Finding 1, subpart 4, in not appropriately addressed in this proceeding.

Finding 2: Non-recoverable Costs Allocated:

The Company will make the adjustment for these non-recoverable costs in 2012, reducing electric conservation expense and under-recovery account for $5,314.62.

Year	Program	Labor/Payroll	Travel	Rebates	Percentage Change Labor/Payroll	Percentage Change Travel	Percentage Change Rebates
2006	Electric Programs	$197,094	$9,096	$12,950			
2010	Electric Programs	$204,984	$10,121	$47,910	4.0%	11.3%	270.0%
2011	Electric Programs	$371,884	$54,605	$115,853	81.4%	439.5%	141.8%
	Change from 2006	88.7%	500.3%	794.6%			
	Other	($44,936)					
2011 Adjusted		$326,948	$54,605	$115,853	59.5%	439.5%	141.8%
	Change from 2006	65.9%	500.3%	794.6%			

Florida Public Utilities Company

GAS OPERATIONS & BUSINESS DEVELOPMENT

Kevin Webber
VP Gas Operations and Business Development

- **Mark Cutshaw** — *Electric General Manager, NE*
- **Buddy Shelley** — *Electric General Manager, NW*
- **Barry Kennedy** — *Director, Gas Operations*
- **Bob Hill** — *Director, Propane Operations*
- **Aleida Socarras** — *Director, Marketing & Sales*
- **John McClelland** — *Business Development Mgr*
- **Bonnie Erdek** — *Contracts & Community Administrator*

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