

PUBLIC SERVICE COMMISSION

Nuclear Power Plant Cost Recovery,
Florida Energy Efficiency and Conservation Act,
and Selected Administrative Activities



Sherrill F. Norman, CPA
Auditor General

The Public Service Commission and Executive Director

Pursuant to Chapter 350, Florida Statutes, the Public Service Commission is to consist of five Commissioners appointed to 4-year terms by the Governor, subject to confirmation by the Senate, from nominees recommended by the Florida Public Service Commission Nominating Council. The following individuals served as Commission members during the period of our audit:

Art Graham	From July 16, 2010 Chair from January 2, 2014
Ronald A. Brisé	From July 23, 2010 Chair from January 2, 2012, through January 1, 2014
Eduardo E. Balbis	From November 24, 2010, through January 1, 2015
Julie Imanuel Brown	From January 2, 2011
Lisa Polak Edgar	From January 2, 2005
Jimmy Patronis	From January 2, 2015

The Executive Director is selected by Commission members and advises the Commissioners on all technical, administrative, and policy matters under the Commission's jurisdiction. In addition, the Executive Director oversees all Commission divisions and offices, except the General Counsel, and is responsible for the Commission's daily operations, including regulatory, internal management, and budgetary matters. Braulio L. Baez served as Executive Director during the period of our audit.

The team leader was Ryan Marlar, CPA.

Please address inquiries regarding this report to David R. Vick, CPA, Audit Manager, by e-mail at davidvick@aud.state.fl.us or by telephone at (850) 412-2817.

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PUBLIC SERVICE COMMISSION

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SUMMARY

This operational audit of the Public Service Commission (Commission) focused on nuclear power plant cost recovery, the Florida Energy Efficiency and Conservation Act (FEECA), and selected administrative activities. The audit also included a follow-up on the findings noted in our report No. 2013-082. Our audit disclosed the following:

Finding 1: The Commission did not document that audits of nuclear power plant project management internal controls were adequately planned, conducted, and reviewed, or that all requested records were received and reviewed in accordance with Commission policies and procedures. In addition, Commission reports did not adequately describe the extent to which professional auditing standards applied.

Finding 2: To verify the accuracy of utilities' annual Nuclear Cost Recovery Clause and Energy Conservation Cost Recovery Clause hearing filings, the Commission conducted agreed-upon procedures engagements; however, the Commission did not conduct or report the results of the engagements in accordance with applicable professional attestation engagement standards.

Finding 3: The Commission did not fully implement FEECA requirements for natural gas utilities.

Finding 4: The Commission did not adequately monitor utilities' implementation of energy conservation programs, energy audit requirements, and demand-side renewable energy system programs.

Finding 5: The Commission did not always timely cancel purchasing cards upon a cardholder's separation from Commission employment.

BACKGROUND

The Public Service Commission (Commission) is responsible for regulating investor-owned electric utilities, gas utilities, certain water and wastewater utilities, and telecommunications companies in the State. Additionally, the Commission has limited jurisdiction over publicly owned rural electric cooperatives and municipally owned electric and gas utilities. The Commission's regulation of investor-owned electric, natural gas, and water and wastewater utilities is commonly referred to as rate base or rate-of-return regulation, and includes rate setting responsibilities, earnings oversight, monitoring quality of service, and resolving consumer complaints.

NUCLEAR POWER PLANT COST RECOVERY

In 2006, the Legislature enacted legislation¹ to promote utility investment in nuclear electric generation through the establishment of alternative cost recovery mechanisms. Pursuant to State law,² the

¹ Chapter 2006-230, Laws of Florida.

² Section 366.93(2), Florida Statutes.

Commission was to establish, by rule, alternative cost recovery mechanisms designed to allow investor-owned electric utilities (IOUs)³ to recover in rates all costs prudently incurred in the siting, design, licensing, and construction of nuclear power plant projects. In 2008, the Legislature amended the State law⁴ to specify that costs associated with new, expanded, or relocated electrical transmission lines and facilities necessary for nuclear power plant projects were also eligible for recovery. The Legislature further amended the State law⁵ in 2013, in part, to revise the carrying cost on projected nuclear power plant construction cost balances, restrict cost recovery during the combined operating license application process, require Commission approval prior to commencing certain activities and purchases, and establish time frames within which utility activities were to commence after the utility obtained a combined operating license.

Pursuant to State law⁶ and Commission rules,⁷ after the Commission grants a petition for determination of need for a new or expanded nuclear power plant, an IOU may petition the Commission to recover all prudently incurred actual and projected pre-construction costs and the carrying costs on all prudently incurred construction costs. An IOU seeking alternative cost recovery is to annually submit to the Commission for review and approval a true-up for the prior year,⁸ a true-up and projections for the current year,⁹ and projected expenditures for the subsequent year.

The Commission is to conduct an annual Nuclear Cost Recovery (NCR) Clause hearing to determine the reasonableness of projected expenditures and prudence of prior-year expenditures made by the IOU, and the associated carrying costs. The true-up for the previous year, true-up and projections for the current year, and projected expenditures for the subsequent year, as approved by the Commission, are to be included for recovery through the NCR Clause.

For the period January 1, 2009, through December 31, 2015, the Commission authorized two IOUs (Duke Energy Florida and Florida Power and Light) to collect \$1,881,145,056 through the NCR Clause and, according to Commission records, Florida Power and Light used alternative cost recovery to increase generating capacity by a total of 522 megawatts in 2013.¹⁰ Table 1 summarizes the annual Commission-authorized NCR Clause amounts for both these IOUs.

³ During the period July 2013 through February 2015, five IOUs were operating in the State.

⁴ Chapter 2008-227, Laws of Florida.

⁵ Chapter 2013-184, Laws of Florida.

⁶ Section 366.93(2) and (3), Florida Statutes.

⁷ Commission Rule 25-6.0423(6), Florida Administrative Code.

⁸ The true-up for previous years is to be based on actual preconstruction expenditures for the prior year and previously filed expenditures for the prior year and a description of the pre-construction work actually performed during the prior year; or, once construction begins, the utility's final true-up of carrying costs on its construction expenditures, based on actual carrying costs on construction expenditures for the prior year and previously filed carrying costs on construction expenditures for the prior year and a description of the construction work actually performed during the prior year.

⁹ The true-up and projections for the current year is to be based on a comparison of current year actual/estimated expenditures and the utility's previously filed estimated expenditures for the current year and a description of the pre-construction work projected to be performed during the current year; or, once construction begins, its actual/estimated true-up of projected carrying costs on construction expenditures based on a comparison of current year actual/estimated carrying costs on construction expenditures and the previously filed estimated carrying costs on construction expenditures for the current year and a description of the construction work projected to be performed during the current year.

¹⁰ As of June 2015, Duke Energy Florida had not placed any nuclear power plant projects into service.

Table 1
Commission-Authorized NCR Clause
Amounts by IOU by Calendar Year

Year	Duke Energy Florida ^a	Florida Power and Light
2009	\$ 220,311,136	\$220,529,243
2010	206,907,726	62,676,366
2011	163,580,660	31,288,445
2012	85,951,036	196,088,824
2013	142,730,579	151,491,402
2014	174,645,227	43,461,246
2015 ^b	167,195,304	14,287,862
Totals	<u>\$1,161,321,668</u>	<u>\$719,823,388</u>

^a Duke Energy Florida was formerly known as Progress Energy Florida.

^b As of February 2015, subject to further Commission proceedings.

Source: Commission final order records.

When a nuclear power plant is placed into commercial service, an IOU is allowed, pursuant to State law¹¹ and Commission rules,¹² to increase its base rates. If an IOU elects not to complete, or is precluded from completing, a nuclear power plant project, State law¹³ and Commission rules¹⁴ allow the IOU to recover its prudently incurred costs over a period equal to the period during which the costs were incurred or 5 years, whichever is greater.

FLORIDA ENERGY EFFICIENCY AND CONSERVATION ACT

Sections 366.80 through 366.83, and 403.519, Florida Statutes, collectively constitute the Florida Energy Efficiency and Conservation Act (FEECA). The Legislature has specified¹⁵ that it is critical to utilize the most efficient and cost effective demand-side renewable energy systems¹⁶ and conservation systems to protect the health, prosperity, and general welfare of the State and its citizens. The Legislature further specified that the Commission was the appropriate agency to adopt goals and approve plans related to the promotion of demand-side renewable energy systems and the conservation of electric energy and natural gas usage. Pursuant to Commission rules,¹⁷ the Commission is to conduct annual Energy Conservation Cost Recovery (ECCR) Clause hearings during November of each calendar year. Each

¹¹ Section 366.93(4), Florida Statutes.

¹² Commission Rule 25-6.0423(8), Florida Administrative Code.

¹³ Section 366.93(6), Florida Statutes.

¹⁴ Commission Rule 25.6.0423(7), Florida Administrative Code.

¹⁵ Section 366.81, Florida Statutes.

¹⁶ Section 366.82(1)(b), Florida Statutes, defines “demand-side renewable energy” to mean a system located on a customer’s premises generating thermal or electrical energy using State renewable energy resources primarily intended to offset all or part of the customer’s electricity requirements provided the system does not exceed 2 megawatts.

¹⁷ Commission Rule 25-17.015(1), Florida Administrative Code.

utility subject to FEECA and for which the Commission has ratemaking authority may seek to recover its costs for energy conservation programs through the ECCR Clause.

According to the Commission's February 2015 *Annual Report on Activities Pursuant to the Florida Energy Efficiency and Conservation Act*, since FEECA's enactment in 1980, utilities subject to FEECA have implemented conservation programs that have reduced winter peak demand by an estimated 6,506 megawatts and summer peak demand by an estimated 6,871 megawatts. The conservation programs have also reduced total electric energy consumption by an estimated 9,330 gigawatt hours. Since 1981, the State's IOUs have recovered more than \$6 billion of conservation expenditures through the ECCR Clause, with more than \$3 billion of the total conservation expenditures being recovered during the last 10 years.

FINDINGS AND RECOMMENDATIONS

Finding 1: Audits of Nuclear Power Plant Project Management Internal Controls

State law¹⁸ provides that the Commission may perform management and operation audits¹⁹ of any regulated company and may consider the results of such audits in establishing rates. To evaluate internal controls over nuclear power plant project planning, management and organization, costs and scheduling, contractor selection and management, and internal auditing and quality assurance, the Commission, Office of Auditing and Performance Analysis, Performance Analysis Section (Section), conducted annual management and operation audits of IOUs seeking alternative cost recovery for nuclear power plant projects. During the Commission's annual NCR Clause hearings, Section staff submitted its reports as part of staff-sponsored testimony.

As part of our audit, we evaluated Commission policies and procedures related to Section audits of nuclear power plant project management internal controls. In addition, we examined two of the four reports issued by the Section during the period March 2013 through February 2015, and the supporting working papers, to determine whether the audits were conducted in accordance with Commission policies and procedures. Our examination disclosed that for both audits:

- Section staff did not document that all tasks and subtasks included in the audit work plans had been adequately completed and also did not document that all records requested from the utilities had been received and reviewed. Commission policies and procedures specified that an audit work plan should be a comprehensive and detailed plan of action for conducting an audit and that a key component of all audit plans was the audit task section. The audit task section was to provide the information needed to understand the planned direction of the audit and provide a means for staff members to note the results of each work step, and to ensure that all planned work was accomplished. In addition, Commission policies and procedures specified that a Document Summary and Control Log was to be completed for all documents included in the audit and kept updated as document request responses were received.

¹⁸ Section 350.117(2), Florida Statutes.

¹⁹ Section 350.117, Florida Statutes, defines "management and operation audit" to mean an appraisal of management performance, including a testing of adherence to governing policy and profit capability; adequacy of operating controls and operating procedures; and relations with employees, customers, the trade, and the public generally. Reports on nuclear expanded power uprate and new construction projects, issued by the Commission, Performance Analysis Section, were titled as *Review of Project Management Internal Controls for Nuclear Plant Uprate and Construction Projects*.

In response to our audit inquiry, Commission management indicated that Section staff documents completion of the tasks and subtasks they believe are noteworthy. According to Commission management, because of the volume of records requested, Section staff do not always document the receipt and review of all records requested from a utility. Commission management stated that the audit work performed is ultimately memorialized in the report.

- Supervisory review of the audit working papers was not documented. Commission policies and procedures specified that, at the supervisor's discretion, all working papers were to be reviewed on a periodic basis throughout the audit and that complete working paper reviews were to be performed both before the first draft of the audit report was reviewed and at the conclusion of the audit. The working paper reviews were to be documented in the working papers with the supervisor's initials and dates. Commission management indicated, in response to our audit inquiry, that the supervisor for each audit was heavily involved in the audit process, but did not document the review of the audit working papers.
- Section staff did not document that a risk analysis had been completed as part of audit planning. To concentrate audit resources on areas with the greatest risk, Commission policies and procedures required that Section staff perform a risk analysis as part of audit planning. The risk analysis was to include determining the risks associated with each area of the utility being audited, identifying vulnerabilities by looking for weaknesses in internal controls, estimating the severity of the vulnerabilities, and selecting audit areas based upon the severity of the vulnerabilities while considering audit resources. In response to our audit inquiry, Commission management indicated that the risk analysis is implicit in the tasks incorporated into the audit work plan.
- Section staff did not document that a preliminary review and analysis had been completed. Commission policies and procedures required that a preliminary review and analysis of utility information be conducted to identify areas of potential concern and to assist in the development of the audit work plan. In response to our audit inquiry, Commission management indicated that Section staff perform a preliminary review and analysis for each audit, but that the review and analysis is not documented in the working papers.
- The reports did not include a statement regarding whether the audit was conducted in accordance with generally accepted government auditing standards (GAGAS).²⁰ Commission policies and procedures specified that Section audits were to comply with GAGAS field work and reporting standards for performance audits. Those standards require auditors to issue audit reports communicating the results of each completed audit and that the report include a statement about whether the audit was conducted in accordance with all GAGAS requirements. In response to our audit inquiry, Commission management indicated that it uses GAGAS as a guideline, but that, because of the nature of its audits, conformance to GAGAS requirements is difficult.

Documentation demonstrating that audits have been adequately planned and conducted, all records requested were received and reviewed, and working papers were adequately reviewed, would provide the Commission greater assurance that observations regarding nuclear project management internal controls are appropriate and complete. In addition, clear communication of the auditing standards followed, including any modifications to those standards, is necessary for the Commission, Commission staff, utilities, and other interested parties to appropriately consider the context of audit results.

Recommendation: We recommend that Commission management ensure that adequate documentation is maintained to demonstrate that audits of nuclear power plant project

²⁰ GAGAS represent the standards and guidance included in *Government Auditing Standards* issued by the Comptroller General of the United States to provide a framework for conducting high quality audits with competence, integrity, objectivity, and independence. Section policies and procedures required that Section audits comply with GAGAS field work and reporting standards and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors related to planning, performing and communicating the results of the engagement.

management internal controls are adequately planned, conducted, and reviewed, and that all requested records are received and reviewed in accordance with Commission policies and procedures. Additionally, to provide report users with the information necessary to properly evaluate audit results, we recommend that Commission management ensure that reports clearly describe the professional auditing standards followed.

Finding 2: Agreed-Upon Procedures Engagements

The Commission is to conduct ongoing auditing and monitoring of prior-year nuclear power plant project construction costs and related contracts.²¹ The Commission, Office of Auditing and Performance Analysis, Bureau of Auditing (Bureau), was to conduct agreed-upon procedures engagements in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA)²² as part of the Commission's auditing and monitoring program. The reports on the agreed-upon procedures indicated that the Commission, Office of Industry Development and Market Analysis, specified the objectives of each engagement. The objectives generally included verifying whether the IOUs appropriately identified and recorded the prior-year costs included in filings made pursuant to the annual NCR Clause hearing. During the Commission's NCR Clause hearing, Bureau staff submitted the reports on agreed-upon procedures as part of staff-sponsored testimony.

Similarly, the Bureau was to conduct agreed-upon procedures engagements in accordance with AICPA attestation standards, generally for the purpose of verifying whether the IOUs appropriately identified and recorded the prior-year costs included in filings made pursuant to the annual ECCR Clause hearings for electric utilities. The reports on agreed-upon procedures indicated that the Commission, Division of Economics, specified the objectives for each of those engagements. Bureau staff filed the reports on agreed-upon procedures with the Commission Clerk for inclusion in the Commission's ECCR Clause hearings for electric utilities.

Among other things, the AICPA attestation standards for agreed-upon procedures engagements specify that:

- The practitioner and the specified party (i.e., the party wishing to engage the practitioner and intending to use the report) should agree upon the nature, timing, and extent of the procedures performed or to be performed by the practitioner.
- The specified party take responsibility for the sufficiency of the agreed-upon procedures.
- The practitioner should perform appropriate agreed-upon procedures, such as execution of a sampling plan after agreeing on relevant parameters; comparison of documents, schedules, or analyses with certain specified attributes; and performance of mathematical computations.
- The practitioner and the specified party agree upon the criteria to be used in the determination of findings.
- The practitioner should report all findings from application of the agreed-upon procedures. The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement unless the definition of materiality is agreed to by the specified party. Any agreed-upon materiality limits should be described in the practitioner's report.

²¹ Commission Rule 25-6.0423(6)(c)2., Florida Administrative Code.

²² AT Section 201, *Agreed-Upon Procedures Engagements*.

- The practitioner's report should be in the form of procedures and findings. Among other elements, the practitioner's report should contain a statement that the practitioner was not engaged to and did not conduct an examination, review, or audit of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported.

As part of our audit, we reviewed Commission policies and procedures for requesting, planning, conducting, and reporting on agreed-upon procedures engagements related to NCR Clause and ECCR Clause hearings. In addition, we examined the reports and working papers for seven agreed-upon procedures engagements (four related to NCR Clause hearings and three related to ECCR Clause hearings), conducted by the Bureau during the period March 2013 through February 2015, to determine whether the engagements were performed in accordance with Commission policies and procedures and AICPA attestation standards. We found that:

- For two of the seven engagements, Bureau staff did not document that the division or office requesting the engagement took responsibility for the sufficiency of the agreed-upon procedures. Although Commission policies and procedures required Bureau staff to obtain and document approval of the procedures from the division requesting the engagement, the policies and procedures did not require that Bureau staff document that the requesting division take responsibility for the sufficiency of the procedures.
- An agreement between Bureau staff and the requesting division or office regarding the nature, timing, and extent of the procedures was not documented for any of the seven engagements. Additionally, for one of the seven engagements Bureau staff were unable to perform an agreed-upon procedure because the procedure required verifying the accuracy of a utility filing that was due after the date the report on agreed-upon procedures was due. Although Commission policies and procedures required Bureau staff to develop procedures to satisfy the objectives of the division requesting the engagement, the policies and procedures did not require that Bureau staff and the requesting division agree upon the nature, timing, and extent of the procedures.
- For all seven engagements, Bureau staff did not always document in the report on agreed-upon procedures, nor in the working papers, sampling parameters such as population size, number of items and amounts sampled, and the methodology for selecting samples. Although Commission policies and procedures required working papers to be organized and understandable, and required staff to ensure that documentation of sampling plans was sufficiently informative, the policies and procedures did not contain guidance for documenting relevant sampling parameters.
- Bureau staff did not obtain agreement from the requesting office or division regarding the criteria to be used in the determination of findings for any of the seven engagements. In addition, for all seven engagements, the report on agreed-upon procedures, the working papers, and communications with the office or division requesting the engagement did not define materiality or describe limits on exceptions to be reported. However, for six of the seven engagements, the working papers included exceptions, and differences notated by Bureau staff as immaterial, that were not disclosed in the report on agreed-upon procedures. For example, we noted that the reports did not disclose:
 - A \$210,337 unreconciled difference between a utility's filing and general ledger.
 - A \$2,283 difference between a utility's payroll report and general ledger notated as immaterial.
 - Invoices that did not meet test criteria and were not addressed elsewhere in the working papers.

Although Commission policies and procedures provided guidance regarding the consideration of materiality in planning the engagement, the policies and procedures did not include guidance for

documenting the materiality limits agreed upon by Bureau staff and the office or division requesting the engagement.

- The reports on agreed-upon procedures for all seven engagements contained the term “audit” to describe the work performed. Commission policies and procedures on reporting specified that use of the term “audit” was to be limited to engagements where Bureau staff had performed sufficient verification procedures to substantiate the documents being audited, and that most engagements would result in an agreed-upon procedures report as described in AICPA attestation standards. However, Commission policies and procedures also required the use of standard report language that included the term “audit.” In addition, while the reports did not indicate that the engagements were performed in accordance with AICPA attestation standards for reporting, Commission policies and procedures did not consistently describe the AICPA attestation standards to be adhered to. Consequently, for the seven engagements, we could not determine whether the reports appropriately included all the elements required by the AICPA attestation standards, including, for example, a statement that Bureau staff were not engaged to and did not conduct an examination, review, or audit of the subject matter.
- Our audit procedures also disclosed that Commission policies and procedures related to engagements conducted by the Bureau had not been updated since 2006. As a result, the policies and procedures included references to other Commission processes, organizational units, and professional standards that were no longer valid.

In response to our audit inquiry, Commission management indicated that, as a matter of practice, the Commission does not attempt to follow all the AICPA attestation standards because of the cost of compliance. Although not disclosed in reports on agreed-upon procedures, Commission management stated that, because of the unique nature of the engagements, compliance with the AICPA attestation standards is not feasible.

Commission adherence to professional standards for the conduct of agreed-upon procedures engagements would provide greater assurance that such engagements will appropriately verify whether the IOUs identified and recorded prior-year costs included in the filings made pursuant to NCR Clause and ECCR Clause hearings. In addition, by using the term “audit” to describe the work performed, and by not disclosing defined materiality limits, report users may place undue reliance on the procedures performed and conclusions presented in the report.

Recommendation: We recommend that Commission management enhance policies and procedures to clearly communicate the AICPA attestation standards the agreed-upon procedures engagements are to be performed in accordance with, include steps to verify that all applicable standards are adhered to, and reflect current Commission processes and organizational units. Additionally, to provide users of Bureau reports with the information necessary to properly evaluate the results, we recommend that Commission management revise the standard reports to comply with applicable professional standards and to disclose any departures from applicable standards and the reasons for such departures.

Finding 3: FEECA Implementation for Natural Gas Utilities

State law²³ requires the Commission to adopt appropriate goals for increasing the efficiency of energy consumption and increasing the development of demand-side renewable energy systems. Specifically, the goals should include those designed to:

²³ Section 366.82(2), Florida Statutes.

- Increase the conservation of expensive resources, such as petroleum fuels.
- Reduce and control the growth rates of electric consumption.
- Reduce the growth rates of weather-sensitive peak demand.
- Encourage development of demand-side renewable energy resources.

In developing the goals, State law²⁴ specifies that the Commission is to evaluate the full technical potential of all available demand-side and supply-side conservation and efficiency measures, including demand-side energy systems. In establishing the goals, the Commission is to take into consideration the costs and benefits to customers participating in the measure, the costs and benefits to the general body of ratepayers as a whole, the need for incentives to promote energy efficiency and demand-side renewable energy systems, and the costs imposed by State and Federal regulations on the emission of greenhouse gases.

Following the adoption of goals, State law²⁵ specifies that the Commission is to require each utility²⁶ to develop plans and programs to meet the overall goals within its service area. In addition, the Commission is to require each utility to offer, or contract to offer, energy audits to its residential customers.²⁷ Pursuant to State law and Commission rules,²⁸ affected utilities for which the Commission has ratemaking authority may seek to recover costs for energy conservation programs through the ECCR Clause.

For each affected utility, the Commission is to set goals for increasing the efficiency of energy consumption and the development of demand-side renewable energy systems once every 5 years.²⁹ Following the establishment of each utility's goals, the Commission is to consider and approve each utility's demand-side management plan, which is to comprise specific conservation programs designed to meet the utility's approved goals.³⁰ The Commission also holds annual hearings to review affected utilities' petitions to recover conservation costs through the ECCR Clause.

As part of our audit, we evaluated Commission processes for adopting FEECA goals, approving utility plans and programs to meet the overall goals within its service area, authorizing ECCR Clause amounts, and ensuring energy audits were offered to residential customers. Our examination of the Commission's 2014 and 2015 *Annual Reports on Activities Pursuant to the Florida Energy Efficiency and Conservation Act*, Commission orders, and other records disclosed that the Commission had approved energy conservation programs and costs for recovery³¹ through the ECCR Clause for natural gas utilities with sales greater and less than 100 million therms.³² However, the Commission had not adopted goals for

²⁴ Section 366.82(3), Florida Statutes.

²⁵ Section 366.82(7), Florida Statutes.

²⁶ Section 366.82(1), Florida Statutes, specifies that for the purposes of FEECA, "utility" means, in pertinent part, any person or entity that provides electricity or natural gas at retail to the public, specifically excluding any retail natural gas dealer whose annual sales volume is less than 100 million therms.

²⁷ Section 366.82(11), Florida Statutes.

²⁸ Commission Rule 25-17.0015, Florida Administrative Code.

²⁹ Commission Rule 25-17.0021(2), Florida Administrative Code.

³⁰ Commission Rule 25-17.0021(4), Florida Administrative Code.

³¹ As of April 2015, natural gas residential energy conservation programs and natural gas commercial energy conservation programs had been last approved September 2, 2010, and January 14, 2014, respectively.

³² Commission Rule 25-7.003(15), Florida Administrative Code, specifies that "therm" denotes a unit of heating value equivalent to 100,000 British thermal units. Commission Rule 25-7.003(14), Florida Administrative Code, defines "British thermal unit" to mean the quantity of heat required to raise the temperature of 1 pound of water 1 degree Fahrenheit.

energy conservation and demand-side renewable energy systems for natural gas utilities with annual sales of at least 100 million therms as required by State law. In addition, although the Commission had not established energy conservation and demand-side energy system goals for natural gas utilities as specified by State law, the Commission authorized natural gas utilities to collect \$64,223,391 through the ECCR Clause for the period January 2013 through December 2015. Table 2 shows the annual Commission-authorized ECCR Clause amounts by each natural gas utility.

Table 2
Commission-Authorized ECCR Clause Amounts by Natural Gas Utility
for the 2013, 2014, and 2015 Calendar Years

Natural Gas Utility	2013	2014	2015
Chesapeake Utilities Corporation ^a	\$ 573,792	\$ 1,027,942	
Florida Public Utilities Company ^a	2,551,708	3,079,774	\$ 5,046,643
Indiantown Gas Company ^a	1,326	16,403	
Florida City Gas	4,956,394	4,235,123	4,791,999
Peoples Gas System	9,463,342	13,476,152	14,565,181
St. Joe Natural Gas	109,571	104,680	113,557
Sebring Gas System, Inc.	25,485	36,198	48,121
Totals	<u>\$17,681,618</u>	<u>\$21,976,272</u>	<u>\$24,565,501</u>

^a In the final order approving the 2015 ECCR Clause amounts, the Commission authorized amounts for Chesapeake Utilities Corporation, Florida Public Utilities Company, and Indiantown Gas Company as “Consolidated Companies.”

Source: Commission final order records.

Additionally, our examination of the Commission orders approving the energy conservation programs found that the Commission had not required natural gas utilities to offer energy audits to residential customers as specified by State law.

We also examined Commission rules and found that in 1990, the Commission repealed Rule 25-17.004, Florida Administrative Code, regarding the adoption of energy conservation goals for natural gas utilities. In 1993, the Commission amended Rule 25-17.001(1), Florida Administrative Code, which implements Sections 366.82(1) through (4), Florida Statutes, to apply only to electric utilities. Additionally, in 1993, the Commission established rules³³ regarding the adoption of energy conservation goals for electric utilities only.

In response to our audit inquiry, Commission management indicated that the rules had been amended to reflect what the Commission interpreted as the original intent of State law, which was, in part, to conserve the use of natural gas. However, Commission management stated that, after deregulation of the natural gas industry and corresponding price decreases, the emphasis for conservation shifted to electricity and the Commission no longer perceived that FEECA conservation goals applied to natural gas utilities. Commission management further stated that the Commission adopted appropriate energy conservation goals for natural gas utilities by approving natural gas utility energy conservation programs. In addition, Commission management indicated that it was not cost-effective to require natural gas utilities

³³ Commission Rule 25-17.0021, Florida Administrative Code.

to provide energy audits because only 10 percent of the State's residential utility customers use natural gas.

The exclusion of natural gas utilities for the purposes of fully implementing FEECA may limit the Commission's ability to verify that affected utilities attain all statutorily required goals for increasing the efficiency of energy consumption and increasing the development of demand-side renewable energy systems and also limits the potential benefits realized from residential energy audits. In addition, absent the adoption of appropriate goals for natural gas utilities, the Commission may approve energy conservation programs and the recovery of costs for energy conservation programs that do not appropriately align to FEECA's specified purposes.

Recommendation: We recommend that Commission management fully implement FEECA specifically as it applies to natural gas utilities or seek legislative clarification regarding whether the Commission is required to adopt energy conservation and demand-side management goals for natural gas utilities, and natural gas utilities are to offer residential energy audits.

Finding 4: Monitoring FEECA Implementation

To fulfill its mission of facilitating the efficient provision of safe and reliable utility services at fair prices, the Commission has established goals for economic regulation, regulatory oversight, service regulation, and consumer assistance. Among those goals are specific goals to:

- Encourage and facilitate responsible use of resources and technology in the provision and consumption of utility services.
- Ensure that all entities providing utility services to consumers comply with all requirements subject to the Commission's jurisdiction.

Pursuant to State law,³⁴ affected utilities are responsible for implementing Commission-approved programs designed to meet energy conservation goals. If any utility does not implement its programs and, at any time, is not substantially in compliance with the provisions of its Commission-approved plan, State law specifies that the Commission is to adopt programs for that utility to achieve the overall goals. Additionally, pursuant to State law and Commission rules,³⁵ each utility is to submit to the Commission an annual report summarizing its energy conservation and demand-side management plan and the achieved results for the preceding calendar year. As discussed in the **BACKGROUND** and Finding 3, the Commission is responsible for reviewing and approving the recovery of costs related to energy conservation programs through the ECCR Clause. In addition to the \$64,223,391 in the ECCR Clause amounts authorized by the Commission for natural gas utilities, the Commission also authorized electric utilities to collect \$1,306,276,670 for the period January 2013 through December 2015. Table 3 shows the annual Commission-authorized ECCR Clause amounts by electric utility.

³⁴ Section 366.82, Florida Statutes.

³⁵ Commission Rule 25-17.0021(5), Florida Administrative Code.

Table 3
Commission-Authorized ECCR Clause Amounts by Electric Utility
for the 2013, 2014, and 2015 Calendar Years

Electric Utility	2013	2014	2015
Florida Power and Light	\$226,820,100	\$332,563,100	\$203,249,585
Florida Public Utilities	1,066,236	657,334	688,627
Gulf Power Company	24,765,353	24,392,154	27,717,798
Duke Energy Florida ^a	101,274,893	132,970,331	89,408,505
Tampa Electric Company	49,588,590	48,587,406	42,526,658
Totals	<u>\$403,515,172</u>	<u>\$539,170,325</u>	<u>\$363,591,173</u>

^a Duke Energy Florida was formerly known as Progress Energy Florida.

Source: Commission final order records.

As part of our audit, we evaluated Commission processes for monitoring utilities' implementation of, and compliance with, Commission-approved plans and programs for energy conservation and demand-side renewable energy systems and for ensuring that energy audits were offered pursuant to State law, Commission rules, and Commission orders. In response to our audit inquiry, Commission management indicated that the Commission relied on each affected utility's annual report, data submission summarizing its demand-side management plan, or both, to ensure that the utilities implemented, and complied with, Commission-approved plans and programs and offered energy audits pursuant to State law, Commission rules, and Commission orders. Commission management further indicated that the Commission relied on the agreed-upon procedures engagements conducted as part of the annual ECCR Clause hearing to monitor the utilities' compliance with State law, Commission rules, and Commission orders.

Notwithstanding Commission management's response, our audit procedures found that, during the period July 2013 through February 2015, the Commission did not adequately monitor electric utilities' implementation of energy conservation programs, energy audit requirements, and demand-side renewable energy system programs, nor natural gas utilities' implementation of energy conservation programs and demand-side renewable energy system programs. Specifically, we found that Commission reviews of the utilities' annual FEECA reports and data submissions consisted only of reasonableness checks and did not include verification that program implementation was as the utilities had reported. Additionally, the Commission's agreed-upon procedures engagements for affected electric utilities included only limited reviews to ensure expenditures were recoverable through the ECCR Clause and did not include tests to ensure all programs had been implemented as required.

Effective monitoring of affected utilities for implementation of Commission-approved energy conservation and demand-side renewable energy system plans and programs, including energy audit requirements, provides greater assurance that all affected utilities comply with energy conservation and demand-side renewable energy system plans and programs specified by State law, Commission rules, and Commission orders.

Recommendation: We recommend that Commission management take steps to ensure adequate monitoring of the affected utilities' implementation of energy conservation programs,

energy audit requirements, and demand-side renewable energy system programs. Such monitoring should include verification that programs are implemented as reported by the utilities.

SELECTED ADMINISTRATIVE ACTIVITIES

As part of our audit we also evaluated selected Commission administrative activities and controls, including those related to Commission purchasing cards.

Finding 5: Purchasing Card Cancellations

As a participant in the State’s purchasing card program (PCard Program), the Commission is responsible for the implementation of key controls, including controls to ensure the timely cancellation of a PCard upon a cardholder’s separation from Commission employment. Commission PCard guidelines specified that the Commission’s Purchasing Card Program Administrator (PCPA) was responsible for canceling the PCard when a cardholder separated from Commission employment.

As part of our audit, we examined Commission records and identified 11 cardholders who had separated from Commission employment during the period July 2013 through January 2015. Our audit tests found that for 5 of the 11 cardholders, the number of business days that elapsed from the dates of employment separation to the dates of PCard cancellation ranged from 4 to 17 business days and averaged 7 business days. In response to our audit inquiry, Commission management indicated that it was the Human Resource Section’s practice to send an e-mail notification to the PCPA when an employee separated from employment. Our audit tests found that for 1 of the 5 cardholders, the separation notification was e-mailed to the PCPA 32 calendar days prior to the last day of employment. For 3 of the 5 cardholders, the notifications were e-mailed to the PCPA on the last day of employment and, for the other cardholder, the notification was e-mailed the day after the cardholder separated from Commission employment. Our audit procedures also disclosed that Commission PCard guidelines did not specify the time frame in which cardholder separation notifications and PCard cancellations were to be made after a cardholder’s separation from Commission employment.

Although our audit tests did not disclose any charges made subsequent to the cardholder’s separation from Commission employment for the five PCards that were not timely canceled, absent timely cancellation of PCards, the risk of unauthorized purchases is increased.

Recommendation: We recommend that Commission management establish policies and procedures specifying the manner and time frame in which PCards are to be canceled and take appropriate actions to ensure the timely cancellation of PCards when cardholders separate from Commission employment.

PRIOR AUDIT FOLLOW-UP

The Commission had taken, or was in the process of taking, corrective actions for the findings included in our report No. 2013-082.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from February 2015 through June 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on nuclear power plant cost recovery, the Florida Energy Efficiency and Conservation Act (FEECA), and selected administrative activities. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, all deficiencies noted in our report No. 2013-082.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings

and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Reviewed applicable laws, rules, other State guidelines, and Commission records, and interviewed Commission personnel to obtain an understanding of the legal framework governing Commission operations.
- Reviewed applicable laws, rules, regulations, Commission policies and procedures and records, and interviewed Commission personnel to gain an understanding of Commission processes and controls related to the review and approval of nuclear power plant cost recovery petitions.
- Examined the four petitions for nuclear power plant cost recovery filed in 2013 and 2014, totaling \$385,840,393, to determine whether the Commission adequately reviewed and approved the petitions in accordance with State law.
- Examined the annual nuclear cost recovery filings related to the four petitions for nuclear cost recovery submitted in 2013 and 2014 to determine whether the Commission evaluated the prudence of prior-year project costs, totaling \$1,998,067,921, and the feasibility of nuclear power plant projects in accordance with State law, Commission rules, and Commission policies and procedures.
- Interviewed Commission personnel, reviewed Commission policies and procedures, and inspected Commission records to gain an understanding of Commission processes for monitoring and auditing utilities receiving alternative cost recovery for nuclear power plant projects. Reviewed four reports on agreed-upon procedures related to NCR Clause hearings, from the population of eight reports completed during the period March 2013 through February 2015, and the supporting working papers to evaluate whether Commission procedures were sufficient to evaluate utility compliance with State law and Commission rules and whether reported costs were allowable for recovery through the NCR Clause.
- Interviewed Commission personnel and reviewed Commission policies and procedures related to audits of nuclear power plant project internal controls to gain an understanding of the Commission's process for auditing and monitoring such projects. Reviewed two audit reports related to nuclear power plant project internal controls, from the population of four reports completed during the period March 2013 through February 2015, and the supporting working papers to determine whether the Commission's auditing and monitoring process was sufficient to evaluate nuclear power plant project management and internal controls.
- Reviewed applicable laws, rules, regulations, Commission policies and procedures and records and interviewed Commission personnel to gain an understanding of Commission processes and controls related to the implementation of FEECA.
- Examined the Commission final order approving numeric conservation goals for electric utilities, issued December 2014, to determine whether the Commission adopted energy conservation and

demand-side renewable energy system goals for electric utilities in accordance with State law and Commission rules.

- Interviewed Commission personnel, reviewed Commission policies and procedures, and inspected Commission records to gain an understanding of the Commission's process for monitoring and auditing utilities recovering costs through the ECCR Clause. Reviewed three reports on agreed-upon procedures related to ECCR Clause hearings, from the population of five reports completed during the period July 2013 through February 2015, and the supporting working papers to evaluate whether Commission procedures were sufficient to determine utility compliance with State law and Commission rules and whether reported costs were allowable under the ECCR Clause.
- Reviewed applicable laws, rules, and regulations to identify reports statutorily required to be submitted by the Commission. Interviewed Commission personnel and reviewed records to gain an understanding of the Commission's process to accumulate, review, approve, and report the required information.
- Examined 7 of the 14 utility annual reports on FEECA, submitted to the Commission during the period July 2013 through February 2015, to determine whether the reports were complete, accurate, and timely submitted in accordance with State law and Commission rules.
- Examined the Commission's *Annual Reports on Activities Pursuant to the Florida Energy Efficiency and Conservation Act*, submitted to the Governor and Legislature in February 2014 and February 2015, and evaluated whether Commission controls were effective to ensure the reports were complete, accurate, and timely submitted in accordance with State law.
- Interviewed Commission personnel to determine the nature and extent of Commission monitoring activities designed to evaluate utility compliance with State law, Commission rules, and Commission orders related to FEECA.
- Performed inquiries and reviewed State law, Commission rules, and Commission orders to determine the applicability of FEECA to natural gas utilities.
- Reviewed Commission orders and other Commission records to determine whether the Commission timely adopted energy conservation and demand-side renewable energy system goals, plans, and programs for natural gas utilities in accordance with State law.
- Performed inquiries of Commission personnel and reviewed Commission policies and procedures to gain an understanding of the Commission's State Purchasing Card Program. Examined Commission records for 11 purchasing cardholders who separated from Commission employment during the period July 2013 through February 2015 to determine whether the Commission timely canceled the employees' purchasing cards.
- Observed, documented, and evaluated the effectiveness of selected Commission processes and procedures for:
 - Budgetary management.
 - The administration of Commission travel. Commission travel costs totaled \$528,506 during the period July 2013 through December 2014.
- Obtained an understanding of Commission information technology (IT) controls related to the Audit Tracking System and Case Management System, assessed the risks of those controls, evaluated whether selected general and application IT controls were in place, and tested the effectiveness of the controls.
- Evaluated Commission actions taken, or being taken, to correct the findings noted in our report No. 2013-082. Specifically, we:

- Reviewed applicable laws, Commission procedures, and Commission records to gain an understanding of the Telecommunications Access System and to determine whether the Commission established written procedures for the System.
- Reviewed applicable laws and rules and examined Commission procedures for the disposal of tangible personal property to evaluate whether Commission procedures were adequately designed to provide for the proper removal of all sensitive data from electronic equipment with storage media prior to disposal.
- Examined Commission records related to the 94 computers disposed of during the period July 2013 through January 2015 to determine whether the computer hard drives were sanitized to remove sensitive data prior to disposal.
- Reviewed Commission procedures related to the recording of tangible personal property and examined Florida Accounting Information Resource Subsystem (FLAIR) property records as of January 30, 2015, to determine whether Commission controls were adequate to ensure the accuracy of FLAIR property records.
- Reviewed Commission procedures and interviewed Commission personnel to gain an understanding of Commission controls designed to ensure the accurate and complete recording of accounts receivable related to settlement agreements in FLAIR.
- Examined the single settlement agreement entered into during the period July 2013 through February 2015, FLAIR records, and other Commission records to determine whether the Commission accurately recorded an accounts receivable related to the settlement agreement in FLAIR.
- Reviewed Commission procedures and interviewed Commission personnel to gain an understanding of Commission controls related to FLAIR access privileges.
- Compared the dates of employment separations with the dates user access privileges were deactivated to evaluate the timeliness of the deactivation of FLAIR access privileges for the four Commission employees with FLAIR access who separated from Commission employment during the period July 2013 through February 2015.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

COMMISSIONERS:
ART GRAHAM, CHAIRMAN
LISA POLAK EDGAR
RONALD A. BRISÉ
JULIE I. BROWN
JIMMY PATRONIS

STATE OF FLORIDA



EXECUTIVE DIRECTOR
BRAULIO L. BAEZ
(850) 413-6463

Public Service Commission

October 16, 2015

Ms. Sherrill F. Norman
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

As required by Section 11.45(4)(d), Florida Statutes, enclosed is the Commission's response to the preliminary and tentative findings and recommendations contained in the Operational Audit of the Public Service Commission – Nuclear Power Plant Cost Recovery, Florida Energy Efficiency and Conservation Act, and Selected Administrative Activities. This response includes specific actions taken or planned to address the identified findings.

We appreciate your review and believe the audit information will assist us as we work to improve Commission operations. If additional information is needed, please contact our Inspector General, Steven Stolting, at (850) 413-6071.

Sincerely,

A blue ink signature of Braulio L. Baez, written in a cursive style.

Braulio L. Baez
Executive Director

Enclosure

cc: Lisa S. Harvey, Deputy Executive Director, Technical
Apyl C. Lynn, Deputy Executive Director, Administrative
Steven J. Stolting, Inspector General

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD • TALLAHASSEE, FL 32399-0850
An Affirmative Action / Equal Opportunity Employer
PSC Website: <http://www.floridapsc.com> Internet E-mail: contact@psc.state.fl.us

**RESPONSE TO OPERATIONAL AUDIT OF THE PUBLIC SERVICE COMMISSION,
NUCLEAR POWER PLANT COST RECOVERY, FLORIDA ENERGY EFFICIENCY
AND CONSERVATION ACT, AND SELECTED ADMINISTRATIVE ISSUES**

Finding 1: Audits of Nuclear Power Plant Project Management Internal Controls –

The Commission did not document that audits of nuclear power plant project management internal controls were adequately planned, conducted, and reviewed, or that all requested records were received and reviewed in accordance with Commission policies and procedures. In addition, Commission reports did not adequately describe the extent to which professional auditing standards applied.

Recommendation: We recommend that Commission management ensure that adequate documentation is maintained to demonstrate that audits of nuclear power plant project management internal controls are adequately planned, conducted, and reviewed, and that all requested records are received and reviewed in accordance with Commission policies and procedures. Additionally, to provide report users with information necessary to properly evaluate audit results, we recommend that Commission management ensure that reports clearly describe the professional auditing standards followed.

Response: The Commission agrees with this finding, and will ensure that necessary documentation is included in the work papers to demonstrate that audit activities were properly planned, conducted, and reviewed as required by Commission policies and procedures. We will also ensure that policies and procedures are amended as necessary to clearly reference those professional auditing standards which generally apply, and that each report includes a statement describing the standards followed.

Finding 2: Agreed-upon Procedures Engagements – To verify the accuracy of utilities' annual Nuclear Cost Recovery Clause and Energy Conservation Cost Recovery Clause hearing filings, the Commission conducted agreed-upon procedures engagements; however, the Commission did not conduct or report the results of the engagements in accordance with applicable professional attestation engagement standards.

Recommendation: We recommend that Commission management enhance policies and procedures to clearly communicate the AICPA attestation standards the agreed-upon procedures engagements are to be performed in accordance with, include steps to verify that all applicable standards are adhered to, and reflect current Commission processes and organizational units. Additionally, to provide users of Bureau reports with the information necessary to properly evaluate the results, we recommend that Commission management revise the standard reports to comply with applicable professional standards and to disclose any departures from applicable standards and the reasons for such departures.

Response: The Commission agrees with this finding and will update our written policies and procedures to reflect that these engagements are performed in accordance with the *General* and *Fieldwork* standards in *Section 50.02, SSAE Hierarchy, AICPA Attestation Standards*. We will also specify that all audit activities must adhere to these standards and ensure that all Commission process and organizational unit information is current. In addition, our standard audit reports will be modified as necessary to reference those standards and will disclose any instances where a departure from those standards is warranted and the basis for that departure.

Finding 3: FEECA Implementation for Natural Gas Utilities – The Commission did not fully implement FEECA requirements for natural gas utilities.

Recommendation: We recommend that Commission management fully implement FEECA specifically as it applies to natural gas utilities or seek legislative clarification regarding whether the Commission is required to adopt energy conservation and demand-side management goals for natural gas utilities, and natural gas utilities are to offer residential energy audits.

Response: The Commission agrees with this finding and Commission staff will explore the feasibility of additional procedures and processes to establish conservation goals and energy audit requirements for natural gas utilities with sales greater than 100 million therms, or seek legislative clarification of these provisions as necessary.

Finding 4: Monitoring FEECA Implementation – The Commission did not adequately monitor utilities' implementation of energy conservation programs, energy audit requirements, and demand-side renewable energy system programs.

Recommendation: We recommend that Commission management take steps to ensure adequate monitoring of the affected utilities' implementation of energy conservation programs, energy audit requirements, and demand-side renewable energy system programs. Such monitoring should include verification that programs are implemented as reported by the utilities.

Response: The Commission agrees with this finding and will improve documentation of existing procedures and implement additional measures to ensure adequate monitoring of affected utilities' implementation of energy conservation programs, energy audit requirements, and demand-side renewable energy system programs. A procedure will be developed to formalize the existing review and compilation of annual FEECA reports, and a process will be added to verify that energy savings calculations in the annual reports are consistent with those used in the setting of demand-side management goals for each utility. The

Commission will also evaluate initiating additional management audits of utilities where warranted and feasible to verify that programs are being implemented consistent with Commission standards. Finally, the Commission will develop a process to expand existing audits of data filed in energy conservation cost recovery proceedings where warranted to include verification of the number of program participants reported by the utilities in the annual FEECA reports.

Finding 5: Purchasing Card Cancellations – The Commission did not always timely cancel purchasing cards upon a cardholder’s separation from Commission employment.

Recommendation: We recommend that Commission management establish policies and procedures specifying the manner and time frame in which Pcards are to be canceled and take appropriate actions to ensure the timely cancellation of Pcards when cardholders separate from Commission employment.

Response: The Commission agrees with this finding and will update our PCard guidelines to include time frames for notification to the PCPA of cardholder separations and for PCard cancellation at the time of a cardholder’s separation from employment. The revised procedure will also include periodic internal reviews to verify compliance with these procedures.