

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
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-M-E-M-O-R-A-N-D-U-M-

DATE: September 8, 2008
TO: Timothy J. Devlin, Director, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance
RE: **Docket No. 070626-EI; Company Name: Green Mountain Energy; Audit Purpose: Audit Green Mountain Energy Revenues and Expenses for Sunshine Energy Program; Audit Control No. 08-086-4-1**

Attached is the final audit report for the company stated above. I am sending the company a copy of this memo and the audit report. If the company desires to file a response to the audit report, it should send the response to the Office of Commission Clerk. There are confidential work papers associated with this audit.

Attachment

cc: Division of Regulatory Compliance (Salak, Mailhot, Harvey, District Offices, File Folder)
Office of Commission Clerk (2)
General Counsel
Office of Public Counsel

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DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF REGULATORY COMPLIANCE AND
CONSUMER ASSISTANCE
BUREAU OF AUDITING***

Miami District Office

**Green Mountain Energy
Review of Sunshine Energy Program Costs**

Twelve Months Ended July 31, 2008


**DOCKET #070626-EI
AUDIT CONTROL NO. 08-086-4-1**



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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

September 2, 2008

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED
PARTIES**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the Green Mountain Energy Company (Green Mountain) costs for the FPL Sunshine Energy program, Docket Number 070626-EI.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES

Objective – To determine by year the annual cost of marketing, administration and other costs.

Procedure – Green Mountain supplied a summary worksheet of its general ledger detail by year which it summarized by category. We traced these costs back to the actual ledger detail and reconciled to the support provided in the Sunshine Energy audit. The differences were immaterial. Audit finding one details the breakdown of these accounts by year and by category.

Objective – To verify that Green Mountain has an effective accounting system that accurately tracks revenue and expense associated with Sunshine Energy program. To ensure that Green Mountain's accounting system segregates the Sunshine Energy programs accounts from other business accounts.

Procedure – We selected a sample of the ledger detail to include different years, high dollar items and a variety of vendors and journal entries. We reviewed the supporting documentation for the sample to determine if the costs were related to Florida and whether they were internal or external. Green Mountain can determine Florida Program Costs because the records contain an accounting unit number of 23 for Florida. No problems were found with the accounting system except as disclosed in finding three.

Objective – To verify that Green Mountain expensed only Sunshine Energy program related charges to Sunshine Energy program accounts. To ensure that all 3rd party payments and any internal Green Mountain allocations accounted for in these accounts relate to Sunshine Energy.

Procedures – We selected a sample of the ledger detail to include different years, high dollar items and a variety of vendors and journal entries. We reviewed the supporting documentation for the sample to determine if the costs were related to Florida and whether they were internal or external.

Objective – To distinguish, categorize and summarize between 3rd party payments and Green Mountain internal charges for all categories of cost and identify payments to Florida Power and Light (FPL) for services provided to Green Mountain.

Procedures – We sorted the file of ledger transactions and totaled the allocated costs, salary related costs and external payments to determine the percent of costs that were internal vs. external. We also determined which of the internal costs related to corporate allocations as opposed to direct Florida internal costs. We reviewed the file sorted by vendor to determine the amount paid to FPL for billing inserts. Audit finding two discusses these percents.

Objective – To verify, categorize, and summarize marketing cost to the extent possible.

Procedures – Green Mountain supplied a summary worksheet of its general ledger detail by year which they summarized by category. We traced these costs back to the actual ledger detail and reconciled to the support provided in the Sunshine Energy audit. The differences were immaterial. Audit finding one details the breakdown of these accounts by year and by category.

Objective – To verify, categorize, and summarize administrative cost to the extent possible.

Procedure – The file from Green Mountain was not in an order that legal, accounting and secretarial work could be easily sorted and identified. However, only one legal bill was found in the sample. We did determine the amounts allocated from Green Mountain headquarters. Very little was allocated in most years. In 2005, Green Mountain attempted to charge the Florida operations with fully distributed costs and allocated approximately 5% of its allocable charges to Florida. Audit finding three discusses the allocated 2005 costs.

AUDIT FINDING NO. 1

SUBJECT: COSTS BY CATEGORY

AUDIT ANALYSIS: Green Mountain prepared a summary of its costs by type from its ledger. We sampled these costs and found them to be related to the program and to Florida. Our findings on corporate overhead are discussed in finding three. The summary follows on the next page.

EFFECT ON THE GENERAL LEDGER: This finding is for informational purposes only.

EFFECT ON THE FILING: This finding is for informational purposes only.

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AUDIT FINDING NO. 2

SUBJECT: INTERNAL AND EXTERNAL COSTS

AUDIT ANALYSIS: A summary of the costs paid to vendors, internal payroll costs, allocations from Corporate Headquarters, and the amounts paid to FPL for bill inserts were summarized by sorting the general ledger file. We determined the percent of these costs to the total operating costs and the percent including the amount spent on the green tags and the projects from 2003 to July 31, 2008. In 2008, the Green Mountain booked entries to record its existing obligation to Rothenback Park of \$1,871,625. They have also booked an entry to record bad debt from FPL because FPL has still not reimbursed them for a difference in the FPL revenues used to calculate Green Mountain's revenue. This difference was primarily caused when FPL reformatted its billing system due to the addition to the Sunshine Energy Program of commercial customers and allowing for customers to purchase multiple blocks. The billing system did not report Sunshine Energy payments collected after a certain hour of the day. The discrepancy began with the June 2007 monthly payment and continued through the May 2008 monthly payment. FPL found the error and reported it to Green Mountain but still has not paid Green Mountain for the revenue calculation error. These two entries were included in the calculation below.

FPL has not paid Green Mountain for the July 2008 revenues received prior to the end of the program. This amount has not been recorded as bad debt in the schedules in this report but will probably be booked by Green Mountain in the month of July 2008.

The summary follows on the next page.

EFFECT ON THE GENERAL LEDGER: This finding is for informational purposes only.

EFFECT ON THE FILING: This finding is for informational purposes only.

	GREEN MOUNTAIN EXPENSES			
	LEDGER	PERCENT	PERCENT	TOTAL
	AMOUNTS	OF TOTAL	OF TOTAL	EXTERNAL
			W/GREEN TAGS	
			AND PROJECTS	
Green Tags Paid Externally	2,713,715.00		20.35%	20.35%
Projects Paid Externally-see note	<u>2,770,724.00</u>		20.78%	20.78%
	<u>5,484,439.00</u>			
Payments to Vendors Operating Costs	5,409,792.36	68.94%	40.58%	40.58%
Allocated costs	838,966.55	10.69%	6.29%	
SUTA Florida	3,828.90	0.05%	0.03%	
FICA Florida	60,751.96	0.77%	0.46%	
FUTA Florida	2,056.82	0.03%	0.02%	
Summarized Transactions	(1,099.27)	-0.01%	-0.01%	
Amortization	7,185.27	0.09%	0.05%	
Severance Florida	7,983.36	0.10%	0.06%	
Payroll- Florida	686,810.64	8.75%	5.15%	
Paid time off Florida	12,836.70	0.16%	0.10%	
Prepaid exp. Amt.	2,310.00	0.03%	0.02%	
FPL payments for bill inserts	66,489.82	0.85%	0.50%	0.50%
Commissions-Florida	120,484.00	1.54%	0.90%	
Bonus Florida	134,890.46	1.72%	1.01%	
Payroll Tax Florida	826.30	0.01%	0.01%	
Benefits Florida	13,907.29	0.18%	0.10%	
Miscellaneous Staff Diff.	(4,605.82)	-0.06%	-0.03%	
Estimate Bad Debt FPL-see note	484,165.50	6.17%	3.63%	
	<u>7,847,580.84</u>	<u>100.00%</u>		
TOTAL WITH TAGS AND PROJECTS	<u>13,332,019.84</u>		<u>100.00%</u>	<u>82.21%</u>

Note: Projects paid includes accrual for Rothenback Park future payments. The bad debt recorded is for the billing error and does not include the payment not received for July revenues.

AUDIT FINDING NO. 3

SUBJECT: CORPORATE OVERHEAD

AUDIT ANALYSIS: In order to determine actual costs of a project, companies use a fully distributed cost methodology. Various departments perform administrative tasks that affect a project. These include the accounting department that records transactions for a project in the company general ledger, officers of the company that oversee and supervise project employees, personnel departments that handle payroll and benefits for project employees, and computer personnel that supply and maintain equipment for the project. An allocation of these costs to a project or division is a normal business expense. Most companies make these allocations based on the type of accounts using allocation methodologies such as number of customers, direct payroll, percent of equipment, etc.

The only year that Green Mountain allocated corporate overhead costs to the Sunshine Energy project was in 2005. Total costs of \$727,107.60 were allocated to the Sunshine Energy project in 2005. Other years contained some minor allocations of miscellaneous items totaling \$3,480.82 in 2003, \$79,146.57 in 2004, \$11,588.77 in 2006, \$11,530.55 in 2007. The 2004 allocation appears to be related to one employee as opposed to an overall overhead allocation.

To allocate the costs in 2005, Green Mountain determined which departments did work for the different states and summarized the costs for those departments each month on a worksheet. Input on how much time would be spent by each department was obtained from employees during the budget process at the beginning of the year. The input was used to determine the allocation percents used. Based on the months selected for testing during the audit, approximately 5% of the corporate allocable costs were charged to the Sunshine Energy program. A more direct and supportable methodology using actual data may have produced a different result.

Green Mountain stopped booking fully distributed costs in 2006 after cutting back over 50 corporate employees. Therefore, even though 2005 may be overstated if a different allocation methodology was used, costs in the years other than 2005 in finding one are understated since they do not reflect the time and expenses of employees who assisted or supervised the employees charged directly to the Sunshine Energy program.

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EFFECT ON THE FILING: This finding is for informational purposes only.