

**Eric Fryson**

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**From:** Keating, Beth [BKeating@gunster.com]  
**Sent:** Thursday, April 12, 2012 3:20 PM  
**To:** Filings@psc.state.fl.us  
**Subject:** Docket No. 120001-EI  
**Attachments:** 20120412151441390.pdf

Attached for filing in the referenced docket, please find Florida Public Utilities Company's response to the Commission Staff's Audit Report. Please don't hesitate to contact me if you have any questions or concerns.

Sincerely,  
Beth

a. Person responsible for this electronic filing:

Beth Keating  
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b. **Docket No. 120001-EI - Fuel and purchased power cost recovery clause with generating performance incentive factor**

c. On behalf of: Florida Public Utilities Company

d. There are a total pages: 3

e. Description: Company Response to Audit Report



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FPSC-COMMISSION CLERK



Writer's E-Mail Address: [bkeating@gunster.com](mailto:bkeating@gunster.com)

April 12, 2012

**Electronic Filing – [filings@psc.state.fl.us](mailto:filings@psc.state.fl.us)**

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

**Re: Docket No. 120001-EI - Fuel and purchased power cost recovery clause with generating performance incentive factor.**

Dear Ms. Cole:

Attached for filing in the referenced docket, please find Florida Public Utilities Company's response to Commission Staff's Final Audit Report, issued April 11, 2012 (Audit Control No. 12-013-4-3). Should you have any questions whatsoever, please do not hesitate to contact me. Thank you for your assistance in this matter.

Sincerely,

Beth Keating  
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DOCUMENT NUMBER-DATE

02230 APR 12 02

**2011 Electric Fuel Clause Company Response to Audit Finding**

**Audit Finding No. 1**

Miscellaneous Fuel Costs-Legal and Consulting Expenses

**Response:**

The costs charged to other fuel costs associated with legal and consulting work disclosed in this audit finding are appropriate for recovery through the Fuel and Purchased Power cost recovery clause since they are directly related to fuel costs and the fuel clause, they have not been recovered through base rates, and most of the costs relate to work done for the development of projects / programs specifically designed to reduce the fuel rates billed to our customers. Consistent with the Commission's policy set forth in Order No. 14546, issued in Docket No. 850001-EI-B, on July 8, 1985, the costs included in the fuel clause are not tied to the Company's internal staff involvement in fuel and purchased power procurement and administration. Instead, these costs are associated with external contracts, which were unanticipated in the Company's last rate case, and which, consequently, tend to be more volatile depending upon the issue. Likewise, these costs were not included in expenses during the last FPUC consolidated electric base rate proceeding and are not being recovered through base rates. Moreover, similar expenses paid to Christensen and Associates associated with the design for a Request for Proposals of Fuel costs, and the evaluation of those responses, were deemed appropriate for recovery by FPUC through the fuel clause in Order No. PSC-05-1252-FOF-EI, Item II E, issued in Docket No. 050001-EI. Likewise, the Company believes that the costs addressed herein are appropriate for recovery through the fuel clause.

The attorney and consultants were engaged by FPU to assist in the execution of Time-of Use (TOU) and Interruptible rates for our Northwest Florida customers. The TOU and interruptible rates, as designed and approved, adjust the fuel costs to customers, but not base rates. Our Northwest Florida customers also experienced measurable cost reductions resulting from the legal and consulting work performed in negotiating an amendment to the existing PPA agreement with Gulf Power, the energy supplier for our Northwest division.

Additionally, FPU filed a mid-course correction that resulted in reduced fuel rates for its Northwest Florida Division. The legal and consulting work in preparation of this filing is also appropriate for recovery through the fuel clause in that they directly related to the fuel clause, were not included in expenses during the last FPUC consolidated electric base rate proceeding and are not being recovered through base rates.

The legal and consulting costs associated with the development and negotiations of a renewable energy contract are appropriate for recovery through the Fuel and Purchased power cost recovery clause. The Rayonier renewable energy contract was finalized in early 2012. The contract provides for the purchase of power at rates lower than the existing Purchase Power Agreement between FPU and JEA. FPU will experience reduced fuel costs for the Northeast Florida Division customers as a result of this agreement.

Furthermore, additional costs associated with legal and consulting work relative to Fuel Docket hearings are appropriate for recovery through the fuel clause in that they were not included in expenses during the last FPUC consolidated electric base rate proceeding and are not being recovered through base rates

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The Company agrees that the fuel related costs booked to Fernandina Beach for \$2,874 should be transferred from Fernandina Beach to Marianna.

These costs included in other fuel expenses are all directly related to fuel costs, and have not been recovered through base rates. All costs incurred in the fuel related matters directly resulted in reduced fuel costs to our customers. Historically, we have been able to recover legal and consulting fees associated with fuel related matters in our fuel clause, and Commission policy has specifically allowed recovery of these types of costs within the fuel clause. The costs were prudently incurred, and directly related to fuel clause and cost matters and have not been included for recovery in base rates.