



Compliance Audit Report Public Version

**Florida Public Utilities Company
NERC ID# 00025**

**Does Not Contain Confidential Information
(including Privileged and Critical Energy
Infrastructure Information)**

Date of Audit: June 15 and 16, 2010

TABLE OF CONTENTS

Executive Summary	2
Audit Process	2
<i>Objectives</i>	3
<i>Scope</i>	3
<i>Confidentiality and Conflict of Interest</i>	3
<i>Methodology</i>	4
<i>Company Profile</i>	4
<i>Audit Participants</i>	5
Audit Results.....	5
<i>Findings</i>	5
<i>Compliance Culture</i>	6

Executive Summary

A compliance audit of Florida Public Utilities Company [FPU], NERC ID # - NCR00025 was conducted on June 15, 2010 and June 16, 2010. At the time of the audit, FPU was registered for the Distribution Provider, Load Serving Entity, and Transmission Owner functions.

The audit team evaluated FPU for compliance with 29 requirements in the 2010 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit team assessed compliance with the NERC Reliability Standards, and applicable Regional Reliability Standards, for the period of June 18, 2007 to June 16, 2010. FPU submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by FPU to assess compliance with standards applicable to FPU at this time.

Based on the information and documentation provided by FPU, the audit team found FPU to be compliant with 17 applicable requirements. The audit team determined that 3 requirements were not applicable to FPU. FPU self certified Possible Violations for the following standards: CIP-001-1 R1, R2, R3, R4 Sabotage Reporting; FAC-008-1 R1 Facility Ratings Methodology; FAC-009-1 R1 Establish and Communicate Facility Ratings; and PRC-005-1 R1, R2 Transmission and Generation Protection System Maintenance and Testing. The audit team identified 1 Possible Violation of FAC-001-0 R1 Facility Connection Requirement.

These audit results are further explained in the Audit Results Findings section of this report which includes detailed information of the audit team's findings of applicability and compliance for the NERC Reliability Standards, and Applicable Regional Reliability Standards, within the scope of the compliance audit. Any possible violations will be processed through the NERC and FRCC CMEP. There were recently completed mitigation plans and therefore all were reviewed by the audit team.

The FRCC audit team lead certifies that the audit team adhered to all applicable requirements of the NERC Rules of Procedure (ROP) and Compliance Monitoring and Enforcement Program (CMEP).*

Audit Process

The compliance audit process steps are detailed in the FRCC CMEP. The FRCC CMEP generally conforms to the United States Government Accountability Office Government Auditing Standards and other generally accepted audit practices.

* This statement replaces the Regional Entity Self-Certification process.

Objectives

All Registered Entities are subject to an audit for compliance with all reliability standards applicable to the functions for which the registered entity is registered.[†] The audit objectives are to:

- * Review compliance with the requirements of reliability standards that are applicable to FPU, based on the functions that FPU is registered to perform;
- * Validate compliance with applicable reliability standards from the NERC 2010 Implementation Plan list of actively monitored standards, and additional NERC Reliability Standards selected by FRCC;
- * Validate compliance with applicable regional standards from the FRCC 2010 Implementation Plan list of actively monitored standards;
- * Validate evidence of self-reported violations and previous self-certifications;
- * Observe and document FPU's compliance program and culture;
- * Review the status of mitigation plans.

Scope

The scope of the compliance audit included the NERC Reliability Standards from the FRCC 2010 Implementation Plan. In addition, this audit included a review of mitigation plans or remedial action directives which have been completed or pending in the year of the compliance audit.

At the time of the audit, FPU was registered for the functions of Distribution Provider, Load Serving Entity, and Transmission Owner. The audit team evaluated FPU for compliance during the period of June 18, 2007 to June 16, 2010.

Confidentiality and Conflict of Interest

Confidentiality and conflict of interest of the audit team are governed under the FRCC Delegation Agreement with NERC, and Section 1500 of the NERC Rules of Procedure. FPU was informed of FRCC's obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to FPU. FPU was given an opportunity to object to an audit team member's participation on the basis of a possible conflict of interest or the existence of other circumstances that could interfere with an audit team member's impartial performance of duties. FPU had not submitted any objections by the stated fifteen day objection due date and accepted the audit team member participants without objection. There have been no denials of or access limitations placed upon this audit team by FPU.

[†] North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

Methodology

The audit team reviewed the information, data, and evidence submitted by FPU and assessed compliance with requirements of the applicable reliability standards. Submittal of information and data were sent to FRCC 60 days before the scheduled date of the entity review. Additional information relevant to the audit could be submitted until the conclusion of the exit briefing. After that date, only data or information which was relevant to the content of the report or its finding can be submitted upon agreement by the audit team lead.

The audit team requested and received additional information and sought clarification from subject matter experts during the audit.

The audit team reviewed documentation provided by FPU. Data, information and evidence submitted in the form of policies, procedures, e-mails, logs, studies, data sheets, etc. which were validated, substantiated and cross-checked for accuracy as appropriate. Requirements which required a sampling to be conducted were developed based upon the significance of the sampling to the reliability of the bulk electric system (BES).

Findings were based on the audit team's knowledge of the BES, the NERC Reliability Standards and their professional judgment. All findings were developed based upon the consensus of the audit team.

Company Profile

FPU is a wholly owned subsidiary of, Chesapeake Utilities Company, headquarter in Dover, Delaware. Chesapeake Utilities Company is a publicly traded company with business units located in Florida, Delaware, Maryland, Virginia, Georgia and Texas.

Chesapeake has business units that are involved in natural gas, propane gas, electricity, and information technology business solution operations. FPU is based in West Palm Beach Florida and has natural gas, electric, and propane operations within the State of Florida. The Northeast Florida Division of FPU has an office in Fernandina Beach which provides electric service to customers living on Amelia Island and propane gas service to customers in Nassau, Duval and St. Johns Counties.

FPU has one interconnection with JEA at the 138 kV transmission voltage level. FPU owns an 8.1 mile radial 138 kV transmission line that connects to the 138/69 kV Step Down Substation located on Amelia Island. A total of 11.4 Miles of 69 kV lines connect to three 69/12 kV distribution substations. The system typically peaks during the summer months but winter peaks have occurred. The 2009 winter peak was 99 MW's with the summer peak being 98 MW's, and has no assets rated at 100 kV or above are used for delivery of energy to its customer.

Audit Participants

The following is a listing of all personnel from the Audit Team and FPU who were present during the meetings or interviews.

Audit Team Participants

Title	Entity
Compliance Auditor	FRCC
Compliance Engineer	FRCC

FPU Audit Participants

Title	Entity
General Manager	FPU
Engineering Manager	FPU
Electrical Operations Manager	FPU

Audit Results

The audit team evaluated FPU for compliance with 29 requirements in the 2010 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit team assessed compliance with the NERC Reliability Standards, and applicable Regional Reliability Standards, for the period of June 18, 2007 to June 16, 2010. FPU submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by FPU to assess compliance with standards applicable to FPU at this time.

Based on the information and documentation provided by FPU, the audit team found FPU to be compliant with 17 applicable requirements. The audit team determined that 3 requirements were not applicable to FPU. FPU self certified Possible Violations for the following standards: CIP-001-1 R1, R2, R3, R4 Sabotage Reporting; FAC-008-1 R1 Facility Ratings Methodology; FAC-009-1 R1 Establish and Communicate Facility Ratings; and PRC-005-1 R1, R2 Transmission and Generation Protection System Maintenance and Testing. The audit team identified 1 Possible Violation of FAC-001-0 R1 Facility Connection Requirement.

Findings

The following table details the findings for compliance for the scope identified for this audit.

Reliability Standard	Req.	Finding
CIP-001-1	R1	Possible Violation*
CIP-001-1	R2	Possible Violation*
CIP-001-1	R3	Possible Violation*
CIP-001-1	R4	Possible Violation*

EOP-002-2.1	R9	Compliant
FAC-001-0	R1	Possible Violation
FAC-001-0	R2	Compliant
FAC-001-0	R3	Compliant
FAC-002-0	R1.4	Compliant
FAC-002-0	R1.5	Compliant
FAC-003-1	R1	Not Applicable
FAC-003-1	R2	Not Applicable
FAC-008-1	R1	Possible Violation*
FAC-008-1	R2	Compliant
FAC-008-1	R3	Compliant
FAC-009-1	R1	Possible Violation*
FAC-009-1	R2	Compliant
IRO-001-1.1	R8	Compliant
IRO-004-1	R4	Compliant
IRO-005-2	R13	Compliant
PRC-004-1	R1	Compliant
PRC-005-1	R1	Possible Violation*
PRC-005-1	R2	Possible Violation*
PRC-008-0	R1	Compliant
PRC-008-0	R2	Compliant
PRC-017-0	R1	Not Applicable
TOP-001-1	R4	Compliant
TOP-002-2	R3	Compliant
TOP-002-2	R18	Compliant

* Previously Self-reported

Compliance Culture

FPU's compliance culture was reviewed by the audit team.

FPU has a partially documented Internal Compliance Program which has been disseminated to all of its employees. Its ICP oversight position is identified and staffed and is supervised by a high level position in the entity and has direct access to the Board.

The ICP is not operated independently of the work groups that are responsible for complying with Reliability Standards and the ICP is budgeted and staffed. FPU is a small company with limited human resources and some of the separation of positions was not possible. The senior management reviews periodic reports of the Internal Compliance Program and ensures corrective actions are taken when necessary and the ICP has a semi-annual or shorter review cycle.

The ICP includes detailed training for employees that have a direct responsibility for compliance with reliability standards and also includes overview awareness training for other employees, but does not include an internal self-auditing process, and does not include disciplinary action for employees involved in Reliability Standard violations.

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The ICP has some internal controls including self-assessment but has not implemented self-enforcement.

Additional information pertaining to the compliance culture of FPU can found in the Internal Compliance Survey.