

MEMORANDUM

December 29, 1997

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *aw*

RE: DOCKET NO. ~~970002~~ EG -- FLORIDA POWER CORPORATION  
CONSERVATION AUDIT REPORT - PERIOD ENDED SEPTEMBER 30, 1997  
AUDIT CONTROL NO. 97-269-2-1

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The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

Florida Power Corporation  
James A. McGee  
Post Office Box 14042  
St. Petersburg, FL 33733-4042

DNV/sp

Attachment

cc: Chairman Johnson  
Commissioner Clark  
Commissioner Deason  
Commissioner Garcia  
Commissioner Kiesling  
Mary Andrews Bane, Deputy Executive Director/Technical  
Legal Services  
Division of Auditing and Financial Analysis (Devlin/Causseaux/  
File Folder)  
Division of Electric and Gas (Colson)  
Tampa District Office (McPherson)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE

~~10279~~ 10279 DEC 30 97

FPSC RECORDS/REPORTING

**FLORIDA PUBLIC SERVICE COMMISSION**  
**AUDIT REPORT**  
**TWELVE MONTHS ENDED SEPTEMBER 30, 1997**

**Field Work Completed**

**December 10, 1997**

**FLORIDA POWER CORPORATION**

**St. Petersburg, Florida**

**Pinellas County**

**Energy Conservation Audit**

**Docket No. 970002-EG**

**Audit Control Number**  
**97-269-2-1**

  
\_\_\_\_\_  
**Joseph W. Rohrbacher**  
**Audit Manager**

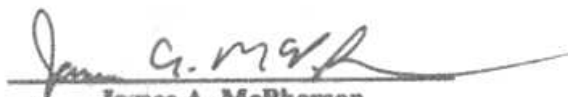
**Audit Staff**

**S.R. Mayes**

**Minority Opinion**

Yes \_\_\_\_\_ No

*SRM by JWR*

  
\_\_\_\_\_  
**James A. McPherson**  
**Tampa District Audit Supervisor**

DOCUMENT NUMBER DATE

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FPSC-RECORDS/REPORTING

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## I EXECUTIVE SUMMARY

**Audit Purpose:** We have applied the procedures described in Section II of this report to audit Energy Conservation Cost Recovery (ECCR) schedules CT-2, p. 1 of 3, for the six month periods ended March 31, 1997 and September 30, 1997, prepared by Florida Power Corporation for Energy Conservation Cost Recovery, FPSC Docket No. 970002-EG. The last day of field work was December 10, 1997. The Utility has not requested confidential treatment for any records or documents provided to the auditor.

**Disclaim Public Use:** This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

**Opinion:** The actual amounts reported in the appended ECCR schedules CT-2, p. 1 of 3, filed by Florida Power Corporation for the six month periods ended March 31, 1997 and September 30, 1997 in support of Docket Number 970002-EG represent utility books and records maintained in substantial compliance with Commission directives. The expressed opinions extend only to the scope of work described in section II of this report.

### Summary Findings:

1. The Utility failed to report revenues of \$11,749 for the period 10/01/96 - 03/31/97.
2. The Utility charged \$113,476 of non ECCR expenses to the Qualifying Facility conservation program.
3. Advertising costs allocated to various ECCR conservation programs were not properly allocated in proportion to the amount of conservation information contained in the brochures.
4. The Utility made an adjustment of \$3,860,782 to the true-up calculation representing an over recovery of revenue decoupling.

## II AUDIT SCOPE:

The opinions contained in this report are based on the audit work described below. When used in this report, the following definition shall apply.

**Compiled** means that the audit staff reconciled exhibit amounts with the general ledger, visually scanned accounts for error or inconsistency, disclosed any unresolved error, irregularity or inconsistency, and, except as otherwise noted, performed no other audit work.

**ECCR Revenues:** Recomputed energy conservation revenues. Verified that utility used authorized rates. Reconciled ECCR program revenues to the general ledger.

**ECCR Program Expenses:** Performed analytical review for ECCR expenses as part of determining the level of audit risk and as a means of identifying any areas of audit investigation not previously anticipated. Tested advertising expenses to verify expenditures pertained to energy conservation. Judgementally tested selected outside services and incentive payments.

**ECCR True-up:** Recalculated the ECCR true-up using audit determined revenues and expenses.

**Other:** Ascertained that the utility is in compliance with FPSC Rule 25-17.015. Determined conservation programs that exceeded the budgeted amount. Verified the expenditures associated with programs more than 5% over budget were accurate. Determined salaries and benefits for DSM employees. Verified advertising costs charged to ECCR that compared electric vs. gas technologies.

## AUDIT DISCLOSURE NO. 1

### SUBJECT: NON REPORTED REVENUES

#### STATEMENT OF FACT:

Florida Power Corporation (FPC) had a pilot conservation program called A/C Maintenance whereby FPC would provide a "tune-up service" to its customers for \$71 which could be paid off in the customers bills over 12 months.

This program was being tested under another conservation program called the Technology Development program. The A/C Maintenance is not classified as a separate ECCR program. Therefore, as dollars have been charged into this account they have been subsequently transferred to the Technology Development program.

The ECCR filing for the 12 month period ending September 30, 1997 reflects \$617 of revenues credited to the Technology Development program. A reconciliation to the General Ledger revealed that \$11,749 for the period 10/01/96 - 03/31/97 were not recorded in the filing.

FPC stated that the revenues would be recorded in the October 1997 calculation.

#### AUDITOR OPINION:

The ECCR filing for the 12 month period ending September 30, 1997 should be adjusted to reflect the unreported revenues of \$11,749 plus appropriate interest.

## AUDIT DISCLOSURE NO. 2

### SUBJECT: NON ECCR EXPENSES

#### STATEMENT OF FACT:

Florida Power Corporation (FPC) has a conservation program called Qualifying Facility. Tiger Bay is a cogeneration facility that FPC purchased. Prior to the purchase Tiger Bay was part of the Qualifying Facility conservation program.

The ECCR filing for the 12 month period ending September 30, 1997 reflects \$150,163 of charges for Outside Services charged to the Qualifying Facility program.

The Utility's response to a Document Request regarding a comparison of budgeted to actual program costs revealed that invoices in the amount of \$113,476 should not have been charged to the Qualifying Facility conservation program as they related to Tiger bay since its acquisition.

The Utility reversed these charges out of the ECCR program in November, 1997.

#### AUDITOR OPINION:

The ECCR filing for the 12 month period ending September 30, 1997 should be adjusted to reflect the removal of \$113,476 in non energy conservation expenses plus appropriate interest.

## AUDIT DISCLOSURE NO. 3

### SUBJECT: ADVERTISING EXPENSES

#### STATEMENT OF FACT:

Advertising expenses were summarized by month and program.

Charges and advertising copy were selected for examination to insure it was for ECCR programs. The following was noted:

1. An invoice for \$21,053.32 for a "Senior Privileges Mailer" was allocated 50% (\$10,526.66) to ECCR programs. Utility employees stated "Approximately 50% of this mailer's information is specifically ECCR and was allocated based on the amount of information on the brochure."

The brochure only had 5 of 16 pages (31%) pertaining to ECCR programs.

2. The utility allocated 50% (\$6,027.23) to A/C 909.25 for the cost of magnets with FPC's Orlando and Ocala telephone numbers as "gifts for new FPC electric customers." These magnets have no mention of any ECCR programs. An additional \$6,932.67 was charged in October 1997 for the magnets.

3. In conjunction with these magnets a "New Mover Mailer" was sent to new customers. The cost of producing this brochure was \$70,463.90; 50% (\$35,231.95) was charged to the Home Energy Check program, A/C 909.25, in November 1997.

The brochure only had 2 of 14 pages (14%) pertaining to ECCR programs.

#### AUDITOR OPINION:

ECCR expenses should be reduced by \$9,974.73 plus interest for the filing of 09/30/97 to reflect current advertising expenses. (See calculation page 2)

The Company should also remove \$32,095.33 of advertising expenses from the ECCR filing ending March 31, 1998.

Advertising copy should continue to be examined in future audits to determine applicable ECCR charges.



ALDET DISCLOSURE NO. 3 CONT.

	TOTAL AMOUNT INVOICE	AMOUNT CHARGED	AMOUNT SHOULD BE CHARGED		DIFFERENCE
<b>TO 09/30/97</b>					
Senior Privileges Mailer	21,053.32	10,526.66	6,579.16	31%	3,947.50
Magnets	12,054.50	6,027.23	0.00		6,027.23
New Mover Mailer	0.00	0.00	0.00		0.00
	<u>33,107.82</u>	<u>16,553.89</u>	<u>6,579.16</u>		<u>9,974.73</u>

ADJUST FILING FOR 99,974.73 TO REFLECT CURRENT ADVERTISING EXPENSES

**FROM 10/01/97**

Magnets	13,865.33	6,932.67	0.00		6,932.67
New Mover Mailer	70,463.90	35,231.95	10,069.29	14%	25,162.66
	<u>84,329.23</u>	<u>42,164.62</u>	<u>10,069.29</u>		<u>32,095.33</u>

NOTE: INFORMATION FOR NEXT FILING.

**AUDIT DISCLOSURE NO. 4**

**SUBJECT: REVENUE DECOUPLING**

**STATEMENT OF FACT:**

Order No. PSC-97-0291-FOF-EG states "The appropriate Revenue Decoupling over-recovery amount for the years 1995 and 1996 in establishing the ECCR factor is \$3,808,441."

In the ECCR filing for the period ending September 30, 1997, on schedule CT-3, pg. 2, the Utility made an adjustment of \$3,860,782 to the true-up calculation. The difference of \$52,341 between the ordered amount and the actual amount is interest accumulated from January 1, to June 1, 1997, the actual pass through of the approved amount.

No audit work was performed verifying the \$3,860,782 during the current audit. A "Decoupling" audit is scheduled for 1998.

**FOR INFORMATION ONLY**

FLORIDA POWER CORPORATION  
 ANALYSIS OF ENERGY CONSERVATION PROGRAM COSTS  
 ACTUAL VS. ESTIMATED  
 FOR THE PERIOD OCTOBER, 1996 THROUGH MARCH, 1997

LINE NO.	PROGRAM	ACTUAL	ESTIMATED	DIFFERENCE
1	DEPRECIATION AMORT. & RETURN	4,857,483	4,871,460	(13,977)
2	PAYROLL AND BENEFITS	2,478,701	2,676,303	(197,602)
3	MATERIALS AND SUPPLIES	123,604	198,289	(74,685)
4	OUTSIDE SERVICES	962,714	1,279,572	(316,858)
5	ADVERTISING	351,469	508,896	(157,427)
6	INCENTIVES	27,272,331	29,945,650	(2,673,319)
7	VEHICLES	131,554	141,526	(9,972)
8	OTHER	1,026,714	1,028,971	(2,257)
9	PROGRAM REVENUES	<u>(21,123)</u>	<u>(18,681)</u>	<u>(2,462)</u>
10	TOTAL PROGRAM COSTS	37,183,447	40,631,806	(3,448,359)
11	LESS:			
12	CONSERVATION CLAUSE REVENUES	24,166,227	24,305,242	(139,015)
13	PRIOR TRUE-UP	<u>20,173,657</u>	<u>20,173,657</u>	<u>0</u>
14	TRUE-UP BEFORE INTEREST	(7,156,438)	(3,847,093)	(3,309,345)
15	AUDIT & REV DECOUPLING ADJUSTMENT	0	0	0
16	INTEREST PROVISION	<u>(580,932)</u>	<u>(387,778)</u>	<u>(193,154)</u>
17	END OF PERIOD TRUE-UP	<u>(7,537,370)</u>	<u>(4,214,871)</u>	<u>(3,322,499)</u>

( ) REFLECTS OVERRECOVERY

FLORIDA POWER CORPORATION

ANALYSIS OF ENERGY CONSERVATION PROGRAM COSTS  
 ACTUAL VS. ESTIMATED  
 FOR THE PERIOD APRIL, 1997 THROUGH SEPTEMBER, 1997

LINE NO.	PROGRAM	ACTUAL	ESTIMATED	DIFFERENCE
1	DEPRECIATION AMORT. & RETURN	4,264,803	4,309,133	(44,330)
2	PAYROLL AND BENEFITS	2,403,099	2,748,054	(344,955)
3	MATERIALS AND SUPPLIES	97,154	307,054	(209,900)
4	OUTSIDE SERVICES	982,882	1,527,212	(544,330)
5	ADVERTISING	499,009	697,674	(198,665)
6	INCENTIVES	28,003,874	31,750,033	(3,746,159)
7	VEHICLES	132,844	157,214	(24,370)
8	OTHER	1,162,116	1,216,262	(54,146)
9	PROGRAM REVENUES	<u>(1,627)</u>	<u>(35,000)</u>	<u>33,373</u>
10	TOTAL PROGRAM COSTS	37,544,154	42,677,636	(5,133,482)
11	LESS:			
12	CONSERVATION CLAUSE REVENUES	39,917,419	40,902,357	(984,938)
13	PRIOR TRUE-UP	<u>(7,527,371)</u>	<u>(4,214,871)</u>	<u>(3,322,500)</u>
14	TRUE-UP BEFORE INTEREST	(9,910,636)	(2,439,592)	(7,471,044)
15	AUDIT & REV DECOUPLING ADJUSTMENT	(3,860,782)	(3,860,782)	0
16	INTEREST PROVISION	<u>(303,616)</u>	<u>0</u>	<u>(303,616)</u>
17	END OF PERIOD TRUE-UP	<u>(14,075,034)</u>	<u>(6,300,374)</u>	<u>(7,774,660)</u>

( ) REFLECTS OVERRECOVERY

STATE OF FLORIDA

Commissioners:  
JULIA L. JOHNSON, CHAIRMAN  
J. TERRY DEASON  
SUSAN F. CLARK  
DIANE K. KIESLING  
JOE GARCIA



DIVISION OF RECORDS & REPORTING  
BLANCA S. BAYÓ  
DIRECTOR  
(850) 413-6770

**Public Service Commission**

December 30, 1997

Mr. James A. McGee  
Florida Power Corporation  
Post Office Box 14042  
St. Petersburg, Florida 33733-4042

Re: Docket No. 970002 - EG - Florida Power Corporation  
Conservation Audit Report - Period Ended September 30, 1997  
Audit Control # 97-269-2-1

Dear Mr. McGee:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

*Blanca S. Bayó*  
Blanca S. Bayó

BSB/clc  
Enclosure  
cc: Public Counsel