

STATE OF FLORIDA

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TIMOTHY DEVLIN, DIRECTOR
AUDITING & FINANCIAL ANALYSIS
(850) 413-6480

Public Service Commission

July 30, 1999

Ms. Angela Llewellyn
Peoples Gas System
P. O. Box 111
Tampa, FL 33601-0111

**Re: Docket No. 990002-EG : Peoples Gas System/Audit Control No. 99-079-2-1
Peoples Gas System (W. Fla. Region)/ Audit Control No. 99-079-2-2**

Ms. Llewellyn:

The enclosed audit report is forwarded for your review. If you desire a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver
Bureau Chief - Auditing Services

DNV: sp

- cc: Division of Records and Reporting
- Division of Auditing and Financial Analysis (Devlin/Causseaux/Harvey/File Folder)
- Division of Electric and Gas (Lowery)
- Tampa District Office (McPherson)
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DOCUMENT NUMBER-DATE

09116 AUG-28

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Public Service Commission

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING SERVICES*

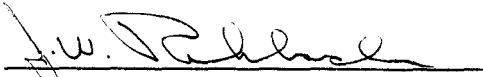
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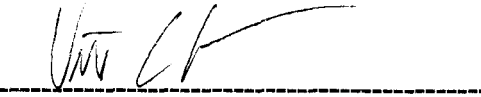
**PEOPLES GAS SYSTEM AND PGS-WEST FLORIDA REGION
(A SUBSIDIARY OF TECO ENERGY)**

ENERGY CONSERVATION COST RECOVERY AUDIT

FOR THE TWELVE MONTHS ENDED MARCH 31, 1999

**Docket Number 990002-EG
Audit Control Number 99-079-2-1
Audit Control Number 99-079-2-2**


Joseph W. Rohrbacher, Audit Manager


Vincent C. Aldridge, Audit Staff

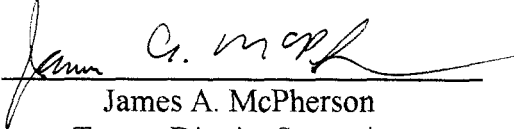

James A. McPherson
Tampa District Supervisor

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDIT REPORT**

July 15, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the Energy Conservation Cost Recovery (ECCR) schedules for the twelve month period ended March 31, 1999 for Peoples Gas System (PGS) and PGS - West Florida Region (PGS-WFR). These schedules were prepared by the utility in support of Docket No. 990002-EG. There is no confidential information associated with this audit.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should 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.

In our opinion, the schedules referred to above present fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission, except as noted in Disclosures.

SUMMARY OF SIGNIFICANT FINDINGS:

Expenditures, other than incentives, are not recorded in the appropriate energy conservation program, therefore, the cost effectiveness of the programs cannot be determined.

Some advertising expenses did not meet the requirements of Rule 25-17.015 (5), Florida Administrative Code (F.A.C.).

SUMMARY OF SIGNIFICANT PROCEDURES:

Our audit was performed by examining on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

REVENUES: Compiled Energy Conservation Cost Recovery (ECCR) revenue and agreed to the filing. Recomputed revenues using approved FPSC rate factors and company provided Therm sales. Chose a judgmental sample of customer bills and recalculated ECCR charges using FPSC approved rates.

EXPENSES: Compiled ECCR expenses and agreed to the filing. Scheduled expenses by program and by categories of expense. Judgementally tested advertising charges, outside services and incentive payments for the Residential Electric Replacement, Commercial Electric Replacement and Gas Space Conditioning (PGS) and Residential Home Builder, ESP, Gas Water Heater Load Retention, and Residential Electric Resistance Appliance Replacement (PGS-WFR) programs to verify that they were properly recoverable through the ECCR.

TRUE-UP: Recomputed ECCR true-up and interest calculation using FPSC approved amounts and interest rates.

DISCLOSURES

Disclosure No. 1

Subject: Common Costs

Statement of Fact:

In Order No. PSC-98-1203-FOF-EG the Commission addresses the cost effectiveness of energy conservation programs. The individual programs must meet the Rate Impact Measure Test (RIM) to determine the cost effectiveness of an energy conservation program and the assurance that the program will provide benefits to the general body of ratepayers.

Peoples Gas System (PGS) records all costs of the energy conservation programs, with the exception of Incentive Allowances, as common costs.

By recording all program expenditures as common costs, the utility does not identify the cost effectiveness of the individual ECCR programs so a RIM test cannot be applied.

Recommendation:

The Company should record all expenditures to the appropriate energy conservation programs in order to determine the cost effectiveness of the programs and the assurance that the program will provide benefits to the general body of ratepayers.

For example, the total amount charged to the Water Heater Load Retention program was \$153,475 for incentive payments. However, of the \$813,984 (out of \$851,749 total) advertising expenses tested, \$474,657 were for the Water Heater Load Retention program.

Disclosure No. 2

Subject: Advertising Expenses - Peoples Gas System (PGS)

Statement of Fact:

Rule 25-17.015 (5), F.A.C. states “ Advertising expense recovered through energy conservation cost recovery shall be directly related to an approved conservation program, shall not mention a competing energy source, and shall not be company image enhancing.”

The following items were charged to the Energy Conservation Cost Recovery (ECCR) filing for the twelve months ending March 31, 1999:

- 1) Ads in various local Yellow Pages directories for Peoples Gas System (PGS), natural gas and propane, which were not directly related to an approved conservation program, totaling \$8,137.
- 2) Charges for an outfield fence billboard and program ad at Jupiter Stadium, which featured the PGS logo only and did not relate directly to an approved conservation program, totaling \$6,514.
- 3) Co-op advertisements with developers (Greater Construction and Engineered Homes) costing \$25,805 which only featured the PGS logo and did not mention any conservation programs.
- 4) A check for \$22,800 was issued, but not sent, for a co-op advertisement with a developer. The developer did not fulfill the contract and the Company stated an adjustment will be made to the July, 1999 records.

Recommendation:

Adjustments should be made to the ECCR filing for the above items as follows:

1) Yellow Page ads	\$ 8,137
2) Jupiter Stadium billboard and program ad	6,514
3) Co-op advertisements with developers	25,805
4) Check not sent because the developer did not fulfill contract	<u>22,800</u>
	<u>\$63,256</u>

The Company stated that future advertisements would comply with the requirements of Rule 25-17.015 (5) F.A.C.

Disclosure No. 3

Subject: Advertising Expenses - Peoples Gas System - West Florida Region (PGS-WFR)

Statement of Fact: Rule 25-17.015 (5), F.A.C. states “Advertising expense recovered through energy conservation cost recovery shall be directly related to an approved conservation program, shall not mention a competing energy source, and shall not be company image enhancing.”

Opinion: PGS-WFR included in its Energy Conservation Cost Recovery (ECCR) filing for the twelve months ending March 31, 1999 various advertising expenses that appear to conflict with the requirements of Rule 25-17.015 (5), F.A.C. These expenses include:

- 1) A marketing and advertising research study which is to be used as a tool to aid in the development of an effective pro-natural gas advertising campaign. This research study does not appear to be an advertising expense directly related to an approved conservation program. Expenses included in the ECCR filing related to this research study total \$9,680.
- 2) Various other advertising expenses that do not appear to be directly related to approved conservation programs totaling \$37,925.
- 3) Various advertising expenses that mention a competing energy source totaling \$32,540.

Marketing and advertising research study:	\$ 9,680
Advertising not directly related to an approved conservation program:	\$ 37,925
Advertising that mentions a competing energy source:	<u>\$ 32,540</u>
	<u>\$ 80,145</u>

Recommendation: PGS-WFR’s ECCR filing should be adjusted by \$80,145 to remove expenses that do not conform to Rule 25-17.015 (5), F.A.C.

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION
APRIL 1998 THROUGH MARCH 1999

CONSERVATION REVENUES	APR 1998	MAY 1998	JUN 1998	JUL 1998	AUG 1998	SEPT 1998	OCT 1998	NOV 1998	DEC 1998	JAN 1999	FEB 1999	MAR 1999	TOTAL
1. RCS AUDIT FEES	0	0	0	0	0	0	0	0	0	0	0	0	0
2. OTHER PROGRAM REVS	0	0	0	0	0	0	0	0	0	0	0	0	0
3. CONSERV. ADJ REVS	(577,017)	(458,281)	(405,300)	(371,031)	(358,013)	(351,678)	(360,525)	(387,505)	(471,911)	(675,203)	(619,198)	(669,040)	(5,704,702)
4. TOTAL REVENUES	(577,017)	(458,281)	(405,300)	(371,031)	(358,013)	(351,678)	(360,525)	(387,505)	(471,911)	(675,203)	(619,198)	(669,040)	(5,704,702)
5. PRIOR PERIOD TRUE-UP NOT APPLICABLE TO THIS PERIOD	(127,290)	(127,290)	(127,290)	(127,290)	(127,290)	(127,290)	(127,290)	(127,290)	(127,290)	(127,290)	(127,290)	(127,290)	(1,527,481)
6. CONSERVATION REVS APPLICABLE TO THE PERIOD	(704,307)	(585,571)	(532,590)	(498,321)	(485,303)	(478,968)	(487,815)	(514,795)	(599,201)	(802,493)	(746,488)	(796,330)	(7,232,183)
7. CONSERVATION EXPS (FROM CT-3, PAGE 1)	295,752	259,773	272,566	502,941	282,192	263,681	984,841	531,155	804,487	997,315	891,908	824,452	6,911,063
8. TRUE-UP THIS PERIOD	(408,555)	(325,798)	(260,024)	4,620	(203,111)	(215,287)	497,026	16,360	205,286	194,822	145,420	28,122	(321,120)
9. INTER. PROV. THIS PERIOD (FROM CT-3, PAGE 3)	(7,701)	(8,804)	(9,667)	(9,766)	(9,612)	(9,726)	(8,235)	(6,798)	(5,668)	(3,990)	(2,789)	(1,952)	(84,708)
10. TRUE-UP & INTER. PROV. BEGINNING OF MONTH	(1,527,481)	(1,816,447)	(2,023,759)	(2,166,160)	(2,044,016)	(2,129,448)	(2,227,172)	(1,611,091)	(1,474,239)	(1,147,330)	(829,208)	(559,287)	
11. PRIOR TRUE-UP COLLECTED/(REFUNDED)	127,290	127,290	127,290	127,290	127,290	127,290	127,290	127,290	127,290	127,290	127,290	127,290	
12. TOTAL NET TRUE-UP (SUM LINES 8+9+10+11)	(1,816,447)	(2,023,759)	(2,166,160)	(2,044,016)	(2,129,448)	(2,227,172)	(1,611,091)	(1,474,239)	(1,147,330)	(829,208)	(559,287)	(405,828)	(405,828)

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ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION
APRIL 1998 THROUGH MARCH 1999

CONSERVATION REVENUES	APR 1998	MAY 1998	JUN 1998	JUL 1998	AUG 1998	SEPT 1998	OCT 1998	NOV 1998	DEC 1998	JAN 1999	FEB 1999	MAR 1999	TOTAL
1. RCS AUDIT FEES	0	0	0	0	0	0	0	0	0	0	0	0	0
2. OTHER PROGRAM REVS	0	0	0	0	0	0	0	0	0	0	0	0	0
3. CONSERV. ADJ REVS	(59,617)	(43,269)	(36,165)	(32,314)	(33,229)	(28,379)	(38,307)	(35,576)	(56,086)	(102,503)	(59,866)	(70,250)	(595,561)
4. TOTAL REVENUES	(59,617)	(43,269)	(36,165)	(32,314)	(33,229)	(28,379)	(38,307)	(35,576)	(56,086)	(102,503)	(59,866)	(70,250)	(595,561)
5. PRIOR PERIOD TRUE-UP NOT APPLICABLE TO THIS PERIOD	(29,771)	(29,771)	(29,771)	(29,771)	(29,771)	(29,771)	(29,771)	(29,771)	(29,771)	(29,771)	(29,771)	(29,771)	(357,250)
6. CONSERVATION REVS APPLICABLE TO THE PERIOD	(89,388)	(73,040)	(65,936)	(62,085)	(63,000)	(58,150)	(68,078)	(65,347)	(85,857)	(132,274)	(89,637)	(100,021)	(952,811)
7. CONSERVATION EXPS (FROM CT-3, PAGE 1)	50,443	28,440	39,312	46,148	26,076	59,173	28,131	70,840	111,969	92,596	108,232	186,027	847,385
8. TRUE-UP THIS PERIOD	(38,945)	(44,600)	(26,624)	(15,937)	(36,924)	1,023	(39,947)	5,493	26,112	(39,678)	18,595	86,006	(105,426)
9. INTER. PROV. THIS PERIOD (FROM CT-3, PAGE 3)	(1,670)	(1,726)	(1,772)	(1,750)	(1,730)	(1,632)	(1,531)	(1,524)	(1,304)	(1,130)	(1,051)	(730)	(17,550)
10. TRUE-UP & INTER. PROV. BEGINNING OF MONTH	(357,250)	(368,094)	(384,649)	(383,274)	(371,190)	(380,073)	(350,912)	(362,619)	(328,879)	(274,300)	(285,337)	(238,022)	
11. PRIOR TRUE-UP COLLECTED/(REFUNDED)	29,771	29,771	29,771	29,771	29,771	29,771	29,771	29,771	29,771	29,771	29,771	29,771	
12. TOTAL NET TRUE-UP (SUM LINES 8+9+10+11)	(368,094)	(384,649)	(383,274)	(371,190)	(380,073)	(350,912)	(362,619)	(328,879)	(274,300)	(285,337)	(238,022)	(122,976)	(122,976)