

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

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**DATE:** July 13, 2001  
**TO:** Division of Competitive Services (S. Brown)  
**FROM:** Division of Regulatory Oversight (Vandiver)  
**RE:** Docket No. 010004-GU; Peoples Gas System; Conservation audit; Audit Control No. 01-068-2-1

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Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

Attachment

cc: Division of Regulatory Oversight (Hoppe, Harvey, District Offices, File Folder)  
Division of Commission Clerk and Administrative Services (2)  
Division of Legal Services

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# FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT  
BUREAU OF AUDITING SERVICES*

*Tampa District Office*

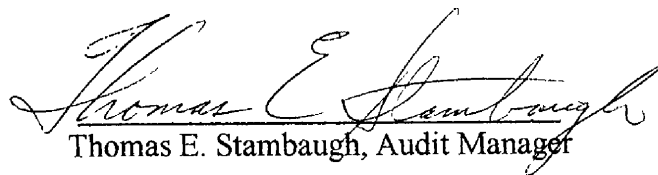
**PEOPLES GAS SYSTEM AND PGS-WEST FLORIDA REGION  
(A DIVISION OF TAMPA ELECTRIC COMPANY)**

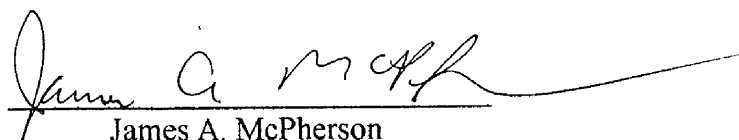
**ENERGY CONSERVATION COST RECOVERY AUDIT**

**FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2000**

**Docket Number 010004-GU**

**Audit Control Number 01-068-2-1**

  
Thomas E. Stambaugh, Audit Manager

  
James A. McPherson  
Tampa District Supervisor

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**DIVISION OF REGULATORY OVERSIGHT  
AUDIT REPORT**

**June 26, 2001**

**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 December 31, 2000 for Peoples Gas System (PGS) and PGS - West Florida Region (PGS-WF). These schedules were prepared by the utility in support of Docket No. 010004-GU. 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.

## **SUMMARY OF SIGNIFICANT FINDINGS:**

Advertising expenses totaling \$129,517 for PGS and \$11,907 for PGS-WF did not meet the requirements of Rule 25-17.015 (5), Florida Administrative Code (F.A.C.).

The ECCR filings have shown a significant increase in advertising expenses without a corresponding increase in ECCR participants since Peoples Gas System became a division of Tampa Electric Company.

Finally, over one-third of the total ECCR expense of PGS is classified as Common Costs. Almost one-fourth of ECCR expense for PGS-WF is also classified as Common Costs. Results of the audit indicate that most of these costs could be classified to particular ECCR programs.

## **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.

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**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.

**EXPENSES:** Compiled ECCR expenses by program and cost category and agreed to the filing. Judgementally tested advertising charges 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-WF) programs to verify that they were properly recoverable through the ECCR. Analyzed programs over budget and the Common Costs program.

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

## Audit Disclosure No. 1

### Subject: Trend of Advertising Expenses

**Statement of Fact:** During the years 1995-2000, Peoples Gas System (PGS) other than its West Florida Division, spent the following amounts by audit period on advertising expenses recoverable through the Energy Conservation Cost Recovery clause (ECCR). The “Number of Participants” is the approximate number of total participants in all the ECCR programs.

<u>Audit Period</u>	<u>Number of Months</u>	<u>Advertising Expense</u>	<u>Dollars per Month</u>	<u>Number of Participants</u>	<u>Cost per Participant</u>
10/94-09/95	12	\$1,467	\$122	11,065	\$ 0.13
10/95-09/96	12	13,565	1,130	9,545	\$ 1.42
10/96-09/97	12	0	0	8,336	\$ 0.00
10/97-03/98	6	6,616	1,103	3,605	\$ 1.84
04/98-03/99	12	811,293	67,608	9,028	\$ 89.86
04/99-12/99	9	717,317	79,702	8,547	\$ 83.93
01/00-12/00	12	1,137,743	94,812	12,252	\$ 92.86

PGS was purchased by TECO Energy in June 1997. Since the purchase, advertising expenses have risen significantly for PGS while the number of program participants has remained relatively constant.

**Recommendation:** The ECCR filings submitted by PGS have shown a larger increase in advertising expenses than in ECCR participants since Peoples Gas System became a subsidiary of Tampa Electric Company. The effectiveness of advertising campaigns in the regulatory environment should perhaps be re-evaluated.

**Audit Disclosure No. 2**

**Subject: Advertising Expenses (PGS without West Florida)**

**Statement of Fact:** According to the Florida Administrative Code, Chapter 25-17.015, in order for advertising to be included as a conservation expense, it must meet certain standards. The stated standards are:

- 1) shall be directly related to an approved conservation program
- 2) shall not mention a competing energy source
- 3) shall not be image enhancing.

The rules further states that the Commission shall consider if the advertisement:

- 1) identifies a specific problem
- 2) states how to correct the problem
- 3) provides direction concerning how to obtain help to alleviate the problem.

In its ECCR filings for the twelve months ended 12/31/00, PGS recorded advertising expenses of \$1,137,743.

**Opinion:**

During an analysis of advertising expense, audit staff determined that Peoples Gas has included advertising costs in its ECCR filing that either: 1) does not conform to the rules set forth in the Florida Administrative Code or does not include sufficient documentation for auditor to determine if the advertising conformed to the rules.

The following schedule is a summary of amounts that should be removed.

1)	\$90,331	No direct relationship to an ECCR program
2)	\$22,933	Primarily image enhancing
3)	\$ 2,053	No supporting documentation
4)	\$14,200	Allocated by FPSC Auditor - Only partly ECCR

-----  
\$129,517  
=====

**Recommendation:**

Advertising Expenses for PGS without West Florida region should be reduced by \$129,517.

**Audit Disclosure No. 3**

**Subject: Advertising Expenses (PGS - West Florida)**

**Statement of Fact:** According to the Florida Administrative Code, Chapter 25-17.015, in order for advertising to be included as a conservation expense, it must meet certain standards. The stated standards are:

- 1) shall be directly related to an approved conservation program
- 2) shall not mention a competing energy source
- 3) shall not be image enhancing.

The rules further states that the Commission shall consider if the advertisement:

- 1) identifies a specific problem
- 2) states how to correct the problem
- 3) provides direction concerning how to obtain help to alleviate the problem.

In its ECCR filings for the twelve months ended 12/31/00, Peoples Gas System-West Florida Region recorded advertising expenses of \$102,200. An additional \$151,034 of advertising expenses had been classified as outside services. The total of advertising expenses actually attributable to the West Florida Region in 2000 was \$253,234.

**Opinion:**

During an analysis of advertising expense, audit staff determined that Peoples Gas has included advertising costs in its ECCR filing that either does not conform to the rules set forth in the Florida Administrative Code or does not include sufficient documentation for auditor to determine if the advertising conformed to the rules.

1)	\$ 9,769	No direct relationship to an ECCR program
2)	\$ 1,338	No supporting documentation
3)	\$ 2,053	Out of Period - Applies to 2001.
	-----	
	\$11,907	
	=====	

**Recommendation:**

Advertising Expenses for PGS-West Florida region only should be reduced by \$11,907.



## **Audit Disclosure No. 4**

### **Subject: Monitor and Research Program - Gas Powered Air Conditioners.**

**Statement of Fact:** The Utility's filing included an \$80,000 expense in the Monitor and Research Program for the year 2000. An examination of company documents disclosed the following information.

A company named PowerChill, Inc., was to install three gas-powered air conditioners at a new Pasco County middle school. PowerChill intended to install these units at no cost to the Pasco County School Board. PowerChill states in its letter that the normal retail price of the equipment and installation would be \$294,750. PGS agreed to work with PowerChill to install this equipment as a demonstration and to pay to PowerChill \$80,000 of the total cost.

In a letter to PGS dated February 16, 2001, Integrated Power Solutions, Inc. (IPS), a successor corporation, stated that it bought the assets of PowerChill, Inc. Further, IPS stated that "IPS is continuing to provide three engine driven chillers to the new Pasco Middle School **scheduled for installation in March**". (Emphasis added).

Based on IPS' letter, the chillers were not installed until at least March 2001. Further, the original \$80,000 payment to PowerChill, dated **October 23, 2000**, was **cancelled** and another \$80,000 check was issued to Integrated Power Solutions on **April 6, 2001**.

**Recommendation:** Based on the letters from the vendor and the actions of PGS in canceling and reissuing checks in payment of the obligation, the expense does not apply to the year 2000. Further, the expense may not be recoverable through the ECCR.

## Audit Disclosure No. 5

### Subject: Expenses Classified as Common Costs

**Statement of Fact:** In its ECCR filing, the Utility classifies all of its expenses by program and month on Schedule CT-3, page 1 of 3. On Schedule CT-3, page 2 of 3, the expenses are classified by cost category and ECCR program. However, this schedule presents all expenses as Common Costs except Incentives. Incentives are the only ECCR cost category which are categorized to a specific ECCR Program. The other amounts charged only to Common Costs are:

<u>Cost Category</u>	<u>PGS</u>	<u>PGS-WF</u>
Payroll and Benefits	\$645,860	\$127,493
Materials and Supplies	4,496	804
Advertising	1,137,743	102,200
Outside Services	69,599	156,038
Vehicle	3,764	0
Other	1,563,570	21,244
Total Common Costs	----- \$3,425,032	----- \$407,779
Filing Total	\$10,168,807	\$1,839,919
Percent of Common Costs to Total	33.68%	22.16%

**Recommendation:** In the analysis of Advertising expense, the auditor found that all Advertising costs were classified as Common Costs. The FPSC auditor, through the advertising analysis, found that most transactions were coded and documented with sufficient particularity to enable the Utility to classify them to a particular program instead of classifying them to Common Costs. It is reasonable to conclude that other ECCR costs could also be classified to ECCR programs instead of Common Costs.

Over one-third of the total cost of PGS ECCR other than West Florida was not charged to a particular ECCR program. Almost one-fourth of the total cost of West Florida region ECCR was not charged to a particular ECCR program. The true cost of each program in relation to the benefit it provides to energy conservation cannot be determined if a large amount of recoverable ECCR costs are classified to Common Costs.

**Audit Disclosure No. 6**

**Subject: ECCR programs over budget: PGS without West Florida Region**

**Statement of Fact:** PGS ECCR actual program expenses for 2000 exceeded the budgeted amounts as indicated below for three programs only. The actual expenses of all programs for PGS without West Florida was less than projected by \$257,813. The largest component of the \$997,912 overage in the Common Cost program pertains to legal expense in an IRS tax case. PGS was authorized to recover these costs through ECCR.

**For PGS without West Florida Region:**

<b><u>Program</u></b>	<b><u>Projected</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
Water Heater Replacement	\$220,500	\$221,100	(\$600)
Common Costs	\$2,427,120	\$3,425,032	(\$997,912)
Monitoring and Research	\$ 0	\$80,000	(\$80,000)
Total of All Ten Programs	\$10,426,620	\$10,168,807	\$257,813
<b><u>Detail of Common Costs:</u></b>			
Payroll and Benefits	\$725,120	\$645,860	\$79,260
Materials and Supplies	12,000	4,496	7,504
Advertising	1,500,000	1,137,743	362,257
Incentives	0	0	0
Outside Services	100,000	69,599	30,401
Vehicle	15,000	3,764	11,236
Other	75,000	1,563,570	(1,488,570)
Total	<u>2,427,120</u>	<u>\$3,425,032</u>	<u>(\$997,912)</u>

**Recommendation:** The difference for Water Heater Replacement is immaterial. The difference for Monitoring and Research is based on the addition of an innovative natural gas chiller. The difference in Common Costs, (\$997,912) is largely attributable to the tax case.

**Audit Disclosure No. 7**

**Subject: ECCR programs over budget: West Florida Region only**

**Statement of Fact:** PGS ECCR actual program expenses for 2000 exceeded the budgeted amounts as indicated below for four programs only. The actual expenses of all programs for PGS - West Florida Region was greater than projected by \$247,927. The largest contributor to this condition was Incentives, which exceeded projection by \$108,150.

**For PGS-West Florida Region Only:**

<b><u>Program</u></b>	<b><u>Projected</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
Residential Home Builder	\$900,000	\$1,284,820	(\$384,820)
Water Heater Load Retention	\$39,996	\$46,100	(\$6,104)
Common Costs	\$386,496	\$407,779	(\$21,283)
Total of All Eleven Programs	\$1,564,992	\$1,839,919	(\$247,927)

**Recommendation:** The differences in the Residential Home builder and the Water Heater Load Retention programs are the result of increased participation by builders and homeowners. The \$21,283 variance in the Common Cost program can be traced mostly to the "Other" cost category.

Posting of ECCR expenses to specific ECCR program accounts would reduce the amount of dollars classified only generally as Common Costs. The result would be a better picture of the expenses required to operate each ECCR program and the cost effectiveness thereof.

**Audit Disclosure No. 8**

**Subject: Advertising Expenses Classified as Common Costs - West Florida Region**

**Statement of Fact:** Advertising costing \$151,034 was misclassified as Other Expenses. This misclassification caused Other Expenses to appear to be over budget and Advertising to be under budget.

**Recommendation:** Since this advertising did meet the criteria to be recovered through the ECCR clause, the ending true-up is not affected. All advertising or other dollars should be accurately classified within ECCR cost category and program. This situation is consistent with what has been written in audit disclosures 5 and 7. The ECCR journals and the general ledger should be maintained in sufficient particularity to assure that Common Costs contain only transactions which cannot be classified to other ECCR programs by any reasonable and consistent method.

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION  
JANUARY 2000 THROUGH DECEMBER 2000

CONSERVATION REVENUES	JAN 2000	FEB 2000	MAR 2000	APR 2000	MAY 2000	JUN 2000	JUL 2000	AUG 2000	SEP 2000	OCT 2000	NOV 2000	DEC 2000	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	(1,183,116)	(1,236,337)	(1,042,424)	(854,184)	(822,300)	(705,131)	(667,491)	(616,113)	(668,869)	(683,401)	(776,549)	(1,138,722)	(10,394,637)
4. TOTAL REVENUES	(1,183,116)	(1,236,337)	(1,042,424)	(854,184)	(822,300)	(705,131)	(667,491)	(616,113)	(668,869)	(683,401)	(776,549)	(1,138,722)	(10,394,637)
5. PRIOR PERIOD TRUE-UP NOT APPLICABLE TO THIS PERIOD	(2,334)	(2,334)	(2,334)	(2,334)	(2,334)	(2,334)	(2,334)	(2,334)	(2,334)	(2,334)	(2,334)	(2,334)	(28,004)
6. CONSERVATION REVS APPLICABLE TO THE PERIOD	(1,185,450)	(1,238,671)	(1,044,758)	(856,518)	(824,634)	(707,465)	(669,825)	(618,447)	(671,203)	(685,735)	(778,883)	(1,141,056)	(10,422,641)
7. CONSERVATION EXPS (FROM CT-3, PAGE 1)	489,836	651,330	620,927	1,153,440	753,754	821,593	556,385	720,488	833,904	579,006	1,319,334	1,668,810	10,168,807
8. TRUE-UP THIS PERIOD	(695,614)	(587,341)	(423,831)	296,922	(70,880)	114,129	(113,440)	102,041	162,701	(106,729)	540,451	527,754	(253,834)
9. INTER. PROV. THIS PERIOD (FROM CT-3, PAGE 3)	(1,780)	(4,909)	(7,536)	(8,128)	(7,890)	(8,049)	(8,036)	(8,036)	(7,351)	(7,232)	(6,155)	(3,255)	(78,356)
10 TRUE-UP & INTER. PROV. BEGINNING OF MONTH	(28,004)	(723,064)	(1,312,979)	(1,742,012)	(1,450,884)	(1,527,320)	(1,418,907)	(1,538,049)	(1,441,710)	(1,284,026)	(1,395,653)	(859,024)	
11 PRIOR TRUE-UP COLLECTED/(REFUNDED)	2,334	2,334	2,334	2,334	2,334	2,334	2,334	2,334	2,334	2,334	2,334	2,334	
12 TOTAL NET TRUE-UP (SUM LINES 8+9+10+11)	(723,064)	(1,312,979)	(1,742,012)	(1,450,884)	(1,527,320)	(1,418,907)	(1,538,049)	(1,441,710)	(1,284,026)	(1,395,653)	(859,024)	(332,190)	(332,190)

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION  
JANUARY 2000 THROUGH DECEMBER 2000

CONSERVATION REVENUES	JAN 2000	FEB 2000	MAR 2000	APR 2000	MAY 2000	JUN 2000	JUL 2000	AUG 2000	SEP 2000	OCT 2000	NOV 2000	DEC 2000	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	(203,932)	(223,327)	(129,919)	(106,380)	(79,102)	(76,716)	(70,048)	(62,458)	(63,820)	(85,139)	(90,416)	(189,097)	(1,380,354)
4. TOTAL REVENUES	(203,932)	(223,327)	(129,919)	(106,380)	(79,102)	(76,716)	(70,048)	(62,458)	(63,820)	(85,139)	(90,416)	(189,097)	(1,380,354)
5. PRIOR PERIOD TRUE-UP NOT APPLICABLE TO THIS PERIOD	22,558	22,558	22,558	22,558	22,558	22,558	22,558	22,558	22,558	22,558	22,558	22,558	270,693
6. CONSERVATION REVS APPLICABLE TO THE PERIOD	(181,374)	(200,769)	(107,361)	(83,822)	(56,544)	(54,158)	(47,490)	(39,900)	(41,262)	(62,581)	(67,858)	(166,539)	(1,109,661)
7. CONSERVATION EXPS (FROM CT-3, PAGE 1)	123,120	317,019	143,203	125,078	188,559	92,672	106,945	113,196	179,811	167,526	103,525	179,265	1,839,919
8. TRUE-UP THIS PERIOD	(58,254)	116,250	35,842	41,256	132,015	38,514	59,455	73,296	138,549	104,945	35,667	12,726	730,258
9. INTER. PROV. THIS PERIOD (FROM CT-3, PAGE 3)	1,094	1,149	1,446	1,582	1,995	2,412	2,557	2,788	3,254	3,811	4,137	4,172	30,397
10 TRUE-UP & INTER. PROV. BEGINNING OF MONTH	270,693	190,975	285,816	300,547	320,827	432,279	450,647	490,100	543,626	662,871	749,069	766,315	
11 PRIOR TRUE-UP COLLECTED/(REFUNDED)	(22,558)	(22,558)	(22,558)	(22,558)	(22,558)	(22,558)	(22,558)	(22,558)	(22,558)	(22,558)	(22,558)	(22,558)	
12 TOTAL NET TRUE-UP (SUM LINES 8+9+10+11)	190,975	285,816	300,547	320,827	432,279	450,647	490,100	543,626	662,871	749,069	766,315	760,655	760,655

12