

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED SEPTEMBER 30, 1997

FIELD WORK COMPLETED

DECEMBER 2, 1997

**PEOPLES GAS SYSTEM
(A SUBSIDIARY OF TECO ENERGY)**

TAMPA, FLORIDA

HILLSBOROUGH COUNTY

ENERGY CONSERVATION COST RECOVER AUDIT

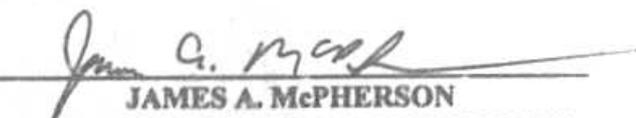
DOCKET 970002-EG

AUDIT CONTROL NO. 97-161-2-1


JOCELYN Y. STEPHENS
AUDIT MANAGER

**Audit Staff
Simon Ojada**

Minority Opinion
Yes No


JAMES A. McPHERSON
REGULATORY ANALYST SUPERVISOR
TAMPA DISTRICT OFFICE

1292397
12/17/97

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I. EXECUTIVE SUMMARY

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to audit the appended Energy Conservation Program Cost Schedule CT-2, page 1 of 3 and 2 of 3 prepared by Peoples Gas System in support of Docket No. 970002-G for the twelve month period ending September 30, 1997.

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 audit standards and produce audited financial statements for public use.

OPINION: The actual amounts on the appended Energy Conservation Recovery Schedules CT-2 pages 1 and 2 for the twelve months ended September 30, 1997 represent Peoples Gas System 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: Company paid \$83,884 dollars for engineering services charged to Energy Conservation Expense.

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: 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 noted performed no other audit work.

ECCR EXPENSES: Compiled Energy Conservation Cost Recovery (ECCR) expense accounts. Scheduled ECCR expenses by program and by categories of expenses. Performed test of incentive payments to the Residential Replacement Program.

ECCR REVENUES: Compiled ECCR revenue accounts. Recalculated ECCR revenues and recomputed total and net conservation revenues using the FPSC approved Conservation Cost Recovery Factors.

ECCR TRUE-UP: Compiled ECCR true-up accounts. Agreed beginning of period true-up to prior year filing with adjustments for prior period adjustments. Recomputed current period true-up using audit determined revenues and expenses.

AUDIT DISCLOSURE NO. 1

SUBJECT: ENGINEERING COST CHARGED TO CONSERVATION

STATEMENT OF FACT:

During the 12-month period ending 9/30/97, \$83,884 of Engineering costs, from Savage Engineering, were charged to the Gas Space Conditioning Program as conservation expense. These costs resulted from an agreement entered into on September 1, 1995 between Savage Engineering and Peoples Gas System.

Agreement recitals state that:

"Whereas, Peoples has developed a Market Development Program ('Program') for its large commercial and industrial customers for the purpose of encouraging its customers to install measures with the ultimate goal of reducing operating costs for its customers and as a product of the Program, the Utility seeks to have sufficient information to evaluate the Program's cost-effectiveness, and

Whereas, Peoples requires certain engineering services to achieve the goal of its Program in an efficient, timely and cost effective manner, and

Whereas, the engineering services which are the subject of this Agreement shall be provided in all of Peoples' service areas,

Now, therefore, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:"

"During the term of this Agreement, the Engineer:

- (1) ...shall furnish technical support services as specifically requested by Utility that relates [sic] to the marketing of gas...
- (2) ...agrees to provide Peoples with bi-monthly reports concerning the status of each customer participating in the Program...
- (3) ...Upon Peoples' request,...shall assist Peoples and identify customers who are willing to participate in the program...
- (4) ...at Peoples' request, assist Peoples in identifying those customers, based on the results of the Walk-throughs, that should be encouraged to proceed to the Feasibility Study... phase of the program...

Disclosure No. 1 (con't.)

- (5) ...Upon Peoples' request, ... shall prepare a monitoring plan for specified measure(s) to validate actual energy consumption for the installed measure(s)...
- (6) ...may prepare and present design/implementation proposals for any recommended measure to a customer..."

In response to an Audit Request to explain why these dollars were charged to the ECCR program, company stated that "The charges were for comprehensive energy audits and presentations of the Commission-approved Gas Space Conditioning Program to a customer which met the program standards. The expenses are for technical consulting services required to present the conservation program to the prospective participant. These types of costs were anticipated by the Company and were included in the discussions on pages 210 and 211 of the Company's program filing. 'This effort anticipates development of specific test sites for the evaluation and demonstration of technologies such as desiccant cooling...' and 'Criteria for selecting of projects for field demonstration are of necessity open-ended and dependent on the developmental availability of such technologies for field testing.' Field demonstration of projects of this size are necessary to foster acceptance of the program and encourage participation in the program from similar projects.

In most instances, Company personnel perform energy audits, prepare presentation, and economic analyses for prospective participant of energy conservation programs. These expenses are 'directly related to energy conservation programs' and are historically recovered in ECCR. In some cases the efforts involved are minimal and in others, very extensive analysis is required.

These expense are 'directly related to energy conservation programs' and Peoples should be allowed to recover these legitimate conservation-related expenses through ECCR."

AUDITOR OPINION:

We defer to the opinion and judgment of the Gas Analyst as to whether this expense is properly included and should be recovered through the Energy Conservation Clause.

AUDIT DISCLOSURE NO. 2

SUBJECT: Compliance, Classification and Supportability of Allowance Payments of the Residential Electric Replacement Program.

STATEMENT OF FACT:

Company's Energy Conservation (EC) Allowance Program - Procedures Manual states, in part, that:

- a) All applications for EC allowances must be made on a standard "Request for Natural Gas Allowance" form and must have an associated "General Sales Agreement" (GSA).
- b) To ensure payment of the EC Allowance, copies of all purchase and installation invoices must be attached to the request form.
- c) The Sales/Marketing Representative should fill out the General Sales Agreement (GSA) completely, paying close attention to the Load section of the GSA (allowance type, appliance type and allowance amount). This information *must* match the information on the request form (PgS66).

Where Peoples Sales & Service did not perform the installation or connection of the appliance - the GSA does not have to be completed in its entirety, but can be used as a "Dummy" form for tracking and data entry purposes. In this event, the information required for verification and payments is entered on the PgS3 form as well as the PgS66 request form.

- d) Each type of appliance being connected must be entered on the GSA as a line item in the Load section of the form. The associated allowance code and amount must also be entered.
- e) Payment approval by the Division Manager, or the Marketing Department Manager, is required prior to the issuance of an allowance check.

AUDITOR OPINION:

We judgmentally selected four months to randomly select line item payments of ECCR Allowances from the detail G/L for the Residential Electric Replacement Program - A/C 908.12. We then tested to determine the Company's compliance with its procedures and with the Commission authorized allowance amounts.

We observed that Company personnel do not always adhere to its procedures manual regarding steps to be performed in order for an allowance payment to be made. For example, personnel did not always:

- 1) Include a customer account number on the GSA
- 2) Obtain and/or retain invoices for appliance not purchased or work not performed by the Peoples Gas network of companies.
- 3) Agree the allowance amounts between the GSA and the Request for Allowance Form.
- 4) Include an authorized signature on the Request for Allowance Form.

Two instances were noted where the Company made payments that did not comply with FPSC approved allowance amounts. The Company incorrectly charged an allowance account for a warranty payment totaling \$169.00. The Company also made an allowance payment for a Triathlon unit and furnace at \$1,440.00. The total rebate for these two items should have been \$965.00 for a difference of \$475.00. In addition to the excess payment amount, the rebate for the Triathlon cooling unit should have been charged to Account 908.20 - Gas Space Conditioning.

With the exception of the above listed items, we noted that the Company properly paid the correct allowance amount for the of gas appliance being installed.

STAFF RECOMMENDATION:

We recommend an adjustment in the amount of \$754.00 (\$169 + \$475) be made to remove the above listed errors from the Energy Conservation Expense Recovery Clause for the 12 month period ending September 30, 1997.

ANALYSIS OF ENERGY CONSERVATION PROGRAM COSTS
ACTUAL VERSUS ESTIMATED

MONTHS: OCTOBER 1996 THROUGH SEPTEMBER 1997

	<u>ACTUAL</u>	<u>PROJECTED*</u>	<u>DIFFERENCE</u>
CAPITAL INVESTMENT	0	0	0
PAYROLL & BENEFITS	382,471	356,898	25,573
MATERIALS & SUPPLIES	7,642	13,732	(6,090)
ADVERTISING	0	15,000	(15,000)
INCENTIVES	3,620,530	6,082,778	(2,462,248)
OUTSIDE SERVICES	140,763	196,199	(55,436)
VEHICLES	51,325	31,281	20,044
OTHER	<u>48,224</u>	<u>30,461</u>	<u>17,763</u>
SUB-TOTAL	4,250,955	6,726,349	(2,475,394)
PROGRAM REVENUES	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL PROGRAM COSTS	4,250,955	6,726,349	(2,475,394)
LESS			
PAYROLL ADJUSTMENTS	0	0	0
AMOUNTS INCLUDED IN RATE BASE	0	0	0
CONSERVATION ADJUSTMENT REVENUES	(5,498,405)	(2,682,498)	(2,813,907)
ROUNDING ADJUSTMENT	<u>0</u>	<u>0</u>	<u>0</u>
TRUE-UP BEFORE INTEREST	(1,245,451)	4,043,851	(5,289,302)
INTEREST PROVISION	<u>(98,680)</u>	<u>61,855</u>	<u>(160,535)</u>
END OF PERIOD TRUE-UP	<u>(1,344,131)</u>	<u>4,105,706</u>	<u>(5,449,837)</u>

() REFLECTS OVER-RECOVERY
* 2 MONTHS ACTUAL AND 10 MONTHS PROJECTED

ACTUAL CONSERVATION PROGRAM COSTS PER PROGRAM

FOR MONTHS: OCTOBER 1996 THROUGH SEPTEMBER 1997

PROGRAM NAME	CAPITAL INVESTMENT	PAYROLL & BENEFITS	MATERIALS & SUPPLIES	ADVERTISING	INCENTIVES	OUTSIDE SERVICES	VEHICLE	OTHER	TOTAL
PROGRAM 1: RESIDENTIAL HM BUILDER	0	0	0	0	2,422,035	0	0	0	2,422,035
PROGRAM 2: ENERGY AUDITS	0	0	0	0	0	0	0	0	0
PROGRAM 3: WATER HEATER LOAD RLT	0	0	0	0	277,500	0	0	0	277,500
PROGRAM 4: OIL HEAT REPLACEMENT	0	0	0	0	27,720	0	0	0	27,720
PROGRAM 5: SMALL PKG COGEN	0	0	0	0	0	0	0	0	0
PROGRAM 6: COM ELECTRIC REPLACE	0	0	0	0	172,108	0	0	0	172,108
PROGRAM 7: RES ELECTRIC REPLACE	0	0	0	0	518,902	0	0	0	518,902
PROGRAM 8: COMMON COSTS	0	382,471	7,642	0	0	140,763	51,325	48,224	630,425
PROGRAM 9: GAS SPACE CONDITIONING	0	0	0	0	202,265	0	0	0	202,265
PROGRAM 10: MONITORING & RESEARCH	0	0	0	0	0	0	0	0	0
PROGRAM 11: (TYPE NAME HERE)	0	0	0	0	0	0	0	0	0
PROGRAM 12: (TYPE NAME HERE)	0	0	0	0	0	0	0	0	0
PROGRAM 13: (TYPE NAME HERE)	0	0	0	0	0	0	0	0	0
PROGRAM 14: (TYPE NAME HERE)	0	0	0	0	0	0	0	0	0
PROGRAM 15: (TYPE NAME HERE)	0	0	0	0	0	0	0	0	0
PROGRAM 16: (TYPE NAME HERE)	0	0	0	0	0	0	0	0	0
PROGRAM 17: (TYPE NAME HERE)	0	0	0	0	0	0	0	0	0
PROGRAM 18: (TYPE NAME HERE)	0	0	0	0	0	0	0	0	0
PROGRAM 19: (TYPE NAME HERE)	0	0	0	0	0	0	0	0	0
PROGRAM 20: (TYPE NAME HERE)	0	0	0	0	0	0	0	0	0
TOTAL	0	382,471	7,642	0	3,620,530	140,763	51,325	48,224	4,250,955

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
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Public Service Commission

December 18, 1997

Mr. Vernon Krutsinger
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Tampa, Florida 33601-2562

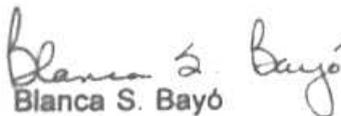
Re: Docket No. 970002 - EG - Peoples Gas System, Inc.
Conservation Audit Report - Period Ended September 30, 1997
Audit Control # 97-161-2-1

Dear Mr. Krutsinger:

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

BSB/clc
Enclosure
cc: Public Counsel
Macfarlane and Ferguson Law Firm