

MEMORANDUM

October 23, 1998

TO: DIVISION OF RECORDS AND REPORTING

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

RE: DOCKET NO. 980002-EG -- FLORIDA POWER CORPORATION
CONSERVATION AUDIT REPORT - SIX-MONTH PERIOD ENDED MARCH 31, 1998
AUDIT CONTROL NO. #98-173-2-2

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
P. O. Box 14042
St. Petersburg, FL 33733-4042

DNV/sp

Attachment

cc: Chairman Johnson
Commissioner Clark
Commissioner Deason
Commissioner Garcia
Commissioner Jacobs
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

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FPSC REPORTS REPORTING

State of Florida

Commissioners:

JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
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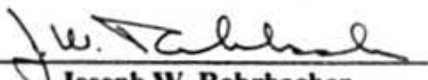
Public Service Commission

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE

**FLORIDA POWER CORPORATION
ENERGY CONSERVATION COST RECOVERY AUDIT
FOR THE 6 MONTHS ENDED MARCH 31, 1998**

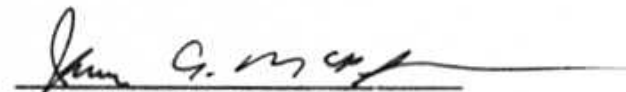
**Docket No. 980002-EG
Audit Control Number 98-173-2-2**



**Joseph W. Rohrbacher
Audit Manager**



**Simon Ojada
Audit Staff**



**James A. McPherson
Regulatory Analyst Supervisor**

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

OCTOBER 20, 1998

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 six month period ended March 31, 1998 prepared by Florida Power Corporation in support of Docket No. 980002-EG. There is no confidential information associated with this audit and no minority opinion.

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. The attached findings discuss all differences and other matters which were noted during our examination.

SUMMARY OF SIGNIFICANT FINDINGS:

Advertising costs allocated to ECCR conservation programs were not properly allocated in proportion to the amount of conservation information contained in the brochures.

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 KWH sales.

EXPENSES: Compiled ECCR expenses and agreed to the filing. Scheduled expenses by program and by categories of expense. Judgementally tested advertising charges to verify that they were properly recoverable through the ECCR and did not compare electric vs. gas technologies. Also, noted advertising costs were not adjusted as recommended in a prior audit disclosure.

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

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.

DISCLOSURES

Disclosure No. 1

SUBJECT: ADVERTISING EXPENSE

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

1. An invoice for \$105,255 for a "Senior Privileges" brochure was allocated 50% (\$52,612) to the Home Energy Check program. According to company employees, approximately 50% of the information contained in the brochure is specifically ECCR. The brochure only had five out of sixteen pages (31%) of information pertaining to ECCR programs.

2. The company charged \$6,933 to the Home Energy Check program 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.

3. In conjunction with these magnets a "New Mover Mailer" was sent to new customers. The cost of producing this brochure was \$70,464; 50% (\$35,232) was charged to the Home Energy Check program. The brochure only had two of fourteen pages (14%) pertaining to ECCR programs.

A 12-month sponsorship of *Elder Update*, a monthly newspaper published by The Department of Elder Affairs, that cost \$10,000 was allocated 50 percent (\$5,000) to ECCR programs.

RECOMMENDATION:

As detailed in the following schedule, ECCR expenses should be reduced by \$52,292 (\$94,777 - \$42,485) plus interest to reflect advertising expense based upon ECCR information in the brochures and magnets.

	<u>Invoice Amount</u>	<u>Amount Charged</u>	<u>Should Be Charged</u>
Senior Privileges Brochure	\$105,225	\$52,612	\$32,620
Magnets	13,865	6,933	-0-
New Mover Mailer	<u>70,464</u>	<u>35,232</u>	<u>9,865</u>
	\$189,554	\$94,777	\$42,485

A copy of the *Elder Update* newspaper was requested from the company. The company was unable to provide copies of the newspaper as of the end of the audit. Until documentation can be provided to indicate it properly belongs in ECCR the \$5,000 charged should also be disallowed.

FLORIDA POWER CORPORATION

ANALYSIS OF ENERGY CONSERVATION PROGRAM COSTS
 ACTUAL VS. ESTIMATED
 FOR THE PERIOD OCTOBER, 1997 THROUGH MARCH, 1998

LINE NO.	PROGRAM	ACTUAL	ESTIMATED	DIFFERENCE
1	DEPRECIATION AMORT. & RETURN	3,453,289	3,443,025	10,964
2	PAYROLL AND BENEFITS	2,253,005	2,359,018	(106,013)
3	MATERIALS AND SUPPLIES	201,905	71,791	130,114
4	OUTSIDE SERVICES	1,100,207	1,343,156	(242,949)
5	ADVERTISING	594,256	712,106	(117,850)
6	INCENTIVES	28,695,015	29,975,311	(1,280,296)
7	VEHICLES	118,623	151,698	(33,075)
8	OTHER	873,032	1,238,559	(365,527)
9	PROGRAM REVENUES	<u>(11,749)</u>	<u>(11,749)</u>	<u>(0)</u>
10	TOTAL PROGRAM COSTS	37,278,283	39,282,915	(2,004,632)
11	LESS:			
12	CONSERVATION CLAUSE REVENUES	35,548,066	35,976,350	(428,264)
13	PRIOR TRUE-UP	<u>14,075,034</u>	<u>14,075,034</u>	<u>0</u>
14	TRUE-UP BEFORE INTEREST	(12,344,838)	(10,768,469)	(1,576,369)
15	AUDIT & REV DECOUPLING ADJUSTMENT	0	0	0
16	INTEREST PROVISION	<u>(390,445)</u>	<u>(390,291)</u>	<u>(154)</u>
17	END OF PERIOD TRUE-UP	<u>(12,735,283)</u>	<u>(11,158,760)</u>	<u>(1,576,523)</u>

() REFLECTS OVERRECOVERY

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



DIVISION OF RECORDS & REPORTING
BLANCA S. BAYÓ
DIRECTOR
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Public Service Commission

October 27, 1998

James A. McGee, Esquire
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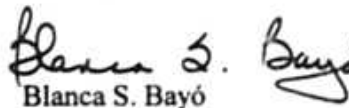
Re: Docket No. 980002 - EG - Florida Power Corporation
Audit Report - Conservation - Six-month Period Ended March 31, 1998
Audit Control # 98-173-2-2

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 case 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/abf
Enclosure
cc: Division of Audit and Financial Analysis