

ORIGINAL

State of Florida



Public Service Commission

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

DATE: August 10, 2000

TO: Division of Competitive Services (S. Brown)

FROM: Division of Regulatory Oversight (Vandiver) *W*

RE: **000002-GU; TECO d/b/a Peoples Gas System-West Florida**
Audit Control No. 00-082-2-1
000002-GU; TECO d/b/a Peoples Gas System
Audit Control No. 00-082-2-2
Audit Report; Conservation - Nine Months Ended December 31, 1999

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

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)
Tampa District Office (McPherson)
Division of Records and Reporting
Division of Legal Services

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FPSC-RECORDS/REPORTING



*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*

Tampa District Office

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

ENERGY CONSERVATION COST RECOVERY AUDIT

FOR THE NINE MONTHS ENDED DECEMBER 31, 1999

Docket Number 000002-EG

Audit Control Number 00-082-2-1(PGS-WF)

Audit Control Number 00-082-2-2(PGS)


Jocelyn Y. Stephens, Audit Manager

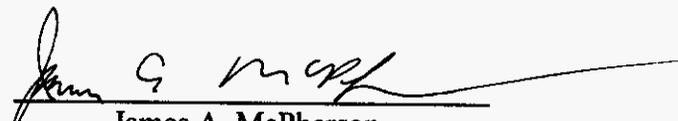

James A. McPherson
Tampa District Supervisor

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**DIVISION OF REGULATORY OVERSIGHT
AUDIT REPORT**

July 26, 2000

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 nine month period ended December 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. 000002-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.

SUMMARY OF SIGNIFICANT FINDINGS:

Advertising expenses totalling \$357,338 for PGS and \$74,937 for PGS-WF 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.

EXPENSES: Compiled ECCR expenses and agreed to the filing. Scheduled expenses by program and by categories of expense. 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-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.

Audit Disclosure No. 1

Subject: Advertising Expenses (Peoples Gas System)

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 criteria. The stated criteria 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 nine months ended 12/31/99, Peoples Gas System (PGS) recorded advertising expenses of \$880,073.

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; 2) does not include sufficient documentation for auditor to determine if the advertising conformed to the rules; 3) allocation inconsistencies; or 4) a check was written, but not dispersed; 5) a check represented a duplicate payment.

| | | |
|----|-----------|---|
| 1) | \$232,798 | Ads which do not fully meet the criteria for ECCR or are primarily "image building" |
| 2) | \$102,068 | Ads which do not contain sufficient supporting documentation to determine if ECCR related |
| 3) | \$ 5,000 | Check written, not dispersed (Will be voided) |
| 4) | \$ 8,306 | Allocation to Propane division |
| 5) | \$ 7,891 | Allocation to Outside Contractor |
| 6) | \$ 1,275 | Duplicate Payment |
| | ----- | |
| | \$357,338 | |
| | ===== | |

Recommendation:

Advertising Expenses - Peoples Gas System should be reduced by \$357,338.

Audit Disclosure No. 2

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 criteria. The stated criteria 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 nine months ended 12/31/99, PGS recorded advertising expenses of \$248,111.

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 FPSC Rules and Regulation; 2) does not include sufficient documentation for auditor to determine if the advertising conformed to the rules; or 3) comparison with competing energy source.

| | | |
|----|-----------|---|
| 1) | \$ 42,121 | Ads which do not fully meet the criteria for ECCR or are primarily "image building" |
| 2) | \$ 10,305 | Ads which do not contain sufficient supporting documentation to determine if ECCR related |
| 3) | \$ 22,511 | Comparison w/competing energy source |
| | ----- | |
| | \$ 74,937 | |
| | ===== | |

Recommendation:

Advertising Expenses - Peoples Gas System should be reduced by \$74,937.

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

| CONSERVATION REVENUES | APR 1999 | MAY 1999 | JUN 1999 | JUL 1999 | AUG 1999 | SEPT 1999 | OCT 1999 | NOV 1999 | DEC 1999 | TOTAL |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------------|
| 1. RCS AUDIT FEES | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2. OTHER PROGRAM REVS | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. CONSERV. ADJ REVS | (719,459) | (593,135) | (558,430) | (535,676) | (502,890) | (513,225) | (541,070) | (570,822) | (756,802) | (5,291,509) |
| 4. TOTAL REVENUES | (719,459) | (593,135) | (558,430) | (535,676) | (502,890) | (513,225) | (541,070) | (570,822) | (756,802) | (5,291,509) |
| 5. PRIOR PERIOD TRUE-UP NOT APPLICABLE TO THIS PERIOD | (49,606) | (49,606) | (49,606) | (49,606) | (49,606) | (49,606) | (49,606) | (49,606) | (49,606) | (446,455) |
| 6. CONSERVATION REVS APPLICABLE TO THE PERIOD | (769,065) | (642,741) | (608,036) | (585,282) | (552,496) | (562,831) | (590,676) | (620,428) | (806,408) | (5,737,964) |
| 7. CONSERVATION EXPS (FROM CT-3, PAGE 1) | 710,720 | 407,775 | 536,724 | 387,818 | 499,638 | 573,343 | 816,673 | 487,055 | 1,478,602 | 5,898,349 |
| 8. TRUE-UP THIS PERIOD | (58,345) | (234,966) | (71,312) | (197,464) | (52,858) | 10,512 | 225,997 | (133,373) | 672,194 | 160,385 |
| 9. INTER. PROV. THIS PERIOD (FROM CT-3, PAGE 3) | (1,818) | (2,210) | (2,704) | (3,142) | (3,567) | (3,526) | (2,793) | (2,438) | (1,035) | (23,233) |
| 10. TRUE-UP & INTER. PROV. BEGINNING OF MONTH | (446,455) | (457,012) | (644,582) | (668,992) | (819,992) | (826,811) | (770,218) | (497,408) | (583,614) | |
| 11. PRIOR TRUE-UP COLLECTED/(REFUNDED) | 49,606 | 49,606 | 49,606 | 49,606 | 49,606 | 49,606 | 49,606 | 49,606 | 49,606 | |
| 12. TOTAL NET TRUE-UP (SUM LINES 8+9+10+11) | (457,012) | (644,582) | (668,992) | (819,992) | (826,811) | (770,218) | (497,408) | (583,614) | 137,152 | 137,152 |

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

| CONSERVATION REVENUES | APR 1999 | MAY 1999 | JUN 1999 | JUL 1999 | AUG 1999 | SEPT 1999 | OCT 1999 | NOV 1999 | DEC 1999 | TOTAL |
|---|-----------|-----------|-----------|-----------|----------|-----------|----------|----------|----------|-----------|
| 1. RCS AUDIT FEES | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2. OTHER PROGRAM REVS | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. CONSERV. ADJ REVS | (53,417) | (40,324) | (33,288) | (36,570) | (33,729) | (42,350) | (36,962) | (46,774) | (69,656) | (393,070) |
| 4. TOTAL REVENUES | (53,417) | (40,324) | (33,288) | (36,570) | (33,729) | (42,350) | (36,962) | (46,774) | (69,656) | (393,070) |
| 5. PRIOR PERIOD TRUE-UP NOT APPLICABLE TO THIS PERIOD | (22,749) | (22,749) | (22,749) | (22,749) | (22,749) | (22,749) | (22,749) | (22,749) | (22,749) | (204,737) |
| 6. CONSERVATION REVS APPLICABLE TO THE PERIOD | (76,166) | (63,073) | (56,037) | (59,319) | (56,478) | (65,099) | (59,711) | (69,523) | (92,405) | (597,807) |
| 7. CONSERVATION EXPS (FROM CT-3, PAGE 1) | 70,972 | 65,793 | 77,131 | 60,404 | 121,754 | 67,830 | 69,916 | 129,661 | 238,313 | 901,775 |
| 8. TRUE-UP THIS PERIOD | (5,194) | 2,720 | 21,095 | 1,086 | 65,276 | 2,731 | 10,205 | 60,138 | 145,908 | 303,968 |
| 9. INTER. PROV. THIS PERIOD (FROM CT-3, PAGE 3) | (790) | (705) | (583) | (457) | (228) | 18 | 147 | 413 | 1,010 | (1,176) |
| 10. TRUE-UP & INTER. PROV. BEGINNING OF MONTH | (204,737) | (187,972) | (163,208) | (119,947) | (96,570) | (8,773) | 16,724 | 49,825 | 133,125 | |
| 11. PRIOR TRUE-UP COLLECTED/(REFUNDED) | 22,749 | 22,749 | 22,749 | 22,749 | 22,749 | 22,749 | 22,749 | 22,749 | 22,749 | |
| 12. TOTAL NET TRUE-UP (SUM LINES 8+9+10+11) | (187,972) | (163,208) | (119,947) | (96,570) | (8,773) | 16,724 | 49,825 | 133,125 | 302,792 | 302,792 |