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September 18, 2001

IN REPLY REFER TO

Ansley Watson, Jr.  
P.O. Box 1531  
Tampa, Florida 33601  
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VIA FEDEX

Blanca S. Bayo, Director  
Division of Commission Clerk  
& Administrative Services  
Florida Public Service Commission  
Capital Circle Office Center  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Re: Docket No. 010004-GU -- Natural Gas Conservation Cost Recovery

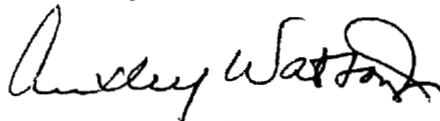
Dear Ms. Bayo:

Enclosed for filing in the above docket please find the original and 15 copies of Peoples Gas System's Response to the Energy Conservation Cost Recovery Audit Report (Audit Control No. 01-068-2-1) covering the 12 months ended December 31, 2000.

Please acknowledge your receipt and the date of filing of the same on the duplicate copy of this letter and return the same to the undersigned in the enclosed preaddressed envelope.

Thank you for your usual assistance.

Sincerely,

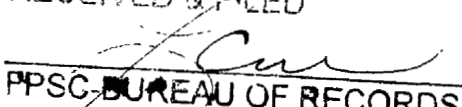


ANSLEY WATSON, JR.

DISTRIBUTION CENTER  
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- CAF \_\_\_\_\_
- CMP \_\_\_\_\_
- COM 5
- CTR \_\_\_\_\_
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- SEC 1
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AWjr/a  
Enclosures

RECEIVED & FILED  
  
PPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE  
11678 SEP 19 01

FPSC-COMMISSION CLERK

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Blanca S. Bayo, Director  
September 18, 2001  
Page 2

cc: Mrs. Kandi M. Floyd  
Ms. Angela Llewellyn

**Peoples Gas System Response to Audit Control No. 01-068-2-1**  
**Docket No. 010004-GU**  
**Audit Period Ending 12/31/00**

**Audit Disclosure No. 1**

Subject: Trend of Advertising Expenses

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 evaluated.

Peoples Response:

Peoples Gas System believes that its energy conservation programs as approved by the Florida Public Service Commission are effective including its various advertising initiatives that are utilized in conjunction with all programs based on the following:

- Peoples has aggressive growth initiatives which are evident since consummation of its merger with Tampa Electric Company in June 1997. In addition, Peoples has steadily increased both residential and commercial new customer additions by an average of approximately 9,000 customers from 1990 through 1993, approximately 12,000 new customers from 1994 through 1997, and approximately 16,000 new customers from 1998 through 2001.
- Peoples has numerous longer term agreements with developers and customers that will utilize natural gas as their projects are completed. Some agreements may include conservation incentives to developers and customers who build or expand with natural gas. When looking at advertising programs as a whole, considerations must include not only new customers that are added to the system currently, but also those customers that will be added in the future upon completion of a project.
- A majority of energy conservation advertising relates to all of Peoples Gas' approved energy conservation programs as a whole. Peoples has expanded its advertising within certain areas of Florida promoting energy efficient natural gas and Peoples' approved energy conservation programs.

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11678 SEP 19 00

FPSC-COMMISSION CLERK

**Audit Disclosure No. 2**

Subject: Advertising Expenses (PGS without West Florida)

The schedule of amounts that should be removed according to the audit is as follows:

\$ 90,331	No direct relationship to an ECCR program
22,933	Primarily image enhancing
2,053	No supporting documentation
<u>14,200</u>	Allocated by FPSC Auditor – only partly ECCR
\$129,517	

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

Peoples Response: Peoples will accept some adjustments to reduce advertising expense included in the ECCR filing. These expenses include adjustments for advertisements that did not have a direct relationship to a program and advertisements with no supporting documentation. Peoples' position is that all other advertising expenses for PGS non-West Florida are appropriate.

**Audit Disclosure No. 3**

Subject: Advertising Expenses (PGS -- West Florida)

The schedule of amounts that should be removed according to the audit is as follows:

\$ 9,769	No direct relationship to an ECCR program
1,338	No supporting documentation
<u>2,053</u>	Out of period – Applies to 2001
\$11,907	

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

Peoples Response: Peoples will accept some adjustments to reduce advertising expense included in the ECCR filing. These expenses include adjustments for advertisements that did not have a direct relationship to a program and advertisements with no supporting documentation. Peoples' position is that all other advertising expenses for PGS West Florida are appropriate.

#### **Audit Disclosure No. 4**

**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 year 2000. Further, the expense may not be recoverable through the ECCR.

**Peoples Response:** The allowance which is the subject of this disclosure represents a timing issue. Since the costs have been recovered in year 2000, this expense will not appear in year 2001 of Peoples' Monitoring and Research energy conservation program.

#### **Audit Disclosure No. 5**

**Subject:** Expenses classified as Common Costs

**Recommendation:** In the analysis of Advertising expenses, 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.

**Peoples Response:** To the extent possible and appropriate, Peoples will record energy conservation program costs to a specific energy conservation program. Some costs may not be easily identifiable as associated with a specific program and will continue to be classified as common costs because the conservation expense contributes to more than one conservation program.

#### **Audit Disclosure No. 6**

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

**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.

**Peoples Response:** These are accurate findings.

### **Audit Disclosure No. 7**

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

**Recommendation:** 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.

**Peoples Response:** To the extent possible and appropriate, Peoples will record energy conservation program costs to a specific energy conservation program. Some costs may not be easily identifiable as associated with a specific program and will continue to be classified as common costs because the conservation expense contributes to more than one conservation program.

### **Audit Disclosure No. 8**

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

**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.

**Peoples Response:** Peoples accepts this finding and will begin classifying the advertising expenses within advertising common cost for year 2001.