

State of Florida



Public Service Commission  
-M-E-M-O-R-A-N-D-U-M-

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**DATE:** July 19, 2002  
**TO:** Division of Competitive Markets and Enforcement (Brown)  
**FROM:** Division of Auditing and Safety (Vandiver) *Q*  
**RE:** **Docket No.** 020004-GU; **Company Name:** Peoples Gas System,  
a division of Tampa Electric Company; **Audit Purpose:** Energy Conservation Gas Cost  
Recovery True-up for the period from January 1 - December 31, 2001; **Audit Control No.**  
02-057-2-1

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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 the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp  
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

Ms. Mary Jo Pennino, Vice President, Regulatory  
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Ms. Angela Llewellyn, Administrator  
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**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF AUDITING AND SAFETY  
BUREAU OF AUDITING*

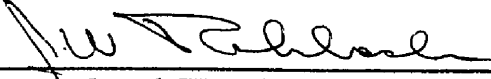
*Tampa District Office*

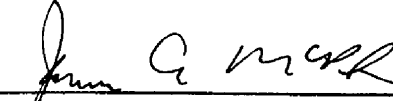
**PEOPLES GAS SYSTEM AND PGS WEST FLORIDA REGION  
(A DIVISION OF TAMPA ELECTRIC COMPANY)**

**ENERGY CONSERVATION COST RECOVERY AUDIT**

**TWELVE MONTHS ENDED DECEMBER 31, 2001**

**DOCKET 020004-GU  
AUDIT CONTROL NO. 02-057-2-1**

  
\_\_\_\_\_  
*Joseph W. Rohrbacher, Audit Manager*

  
\_\_\_\_\_  
*James A. McPherson, Tampa District Supervisor*

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**DIVISION OF AUDITING AND SAFETY  
AUDITOR'S REPORT**

**JULY 11, 2002**

**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 historical twelve month period ending December 31, 2001 for Peoples Gas System (PGS) and PGS - West Florida Region. These schedules were prepared by the utility in support of Docket 020004-GU. There is no confidential information associated with this audit and there are no minority opinions.

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 \$98,918 for PGS and \$5,423 for PGS-WFR 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 the 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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**REVENUE:** Compiled Energy Conservation Cost Recovery (ECCR) revenue and agreed to the filing. Recomputed ECCR 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. Performed judgmental testing of advertising charges and supporting documentation 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.

## **DISCLOSURES**

### **Disclosure No. 1**

#### **Subject: Common Costs**

**Statement of Fact:** In Order No. PSC-98-1203-FOF-EG the Commission addresses the cost effectiveness of energy conservation programs. The individual programs must meet the Rate Impact Measure Test (RIM) to determine the cost effectiveness of an energy conservation program and the assurance that the program will provide benefits to the general body of ratepayers.

Peoples Gas System (PGS) records all costs of the energy conservation programs, with the exception of Incentive Allowances, as Common Costs.

By recording all program expenditures as Common Costs, the utility does not identify the cost effectiveness of the individual ECCR programs so a RIM test cannot be applied.

#### **Recommendation:**

The Company should record all expenditures to the appropriate energy conservation programs in order to determine the cost effectiveness of the programs and the assurance that the program will provide benefits to the general body of ratepayers.

## **Disclosure No. 2**

### **Subject: Advertising Expenses - Determination of ECCR Expenses**

**Statement of Fact:** Peoples Gas (PGS) entered into corporate sponsorship agreements with various sport entities; the Ice Palace, Orlando Magic, University of Florida and Florida State University. The sponsorship packages include radio and/or TV commercial time, signage in stadiums and arenas, print and web site advertisement. Also included are non ECCR related items such as; golf tournament sponsorships, seats to home games, receptions, giveaways, player appearances and community affairs. The sponsorships are usually packaged at a discount from individually priced services.

In discussions with PGSs' Marketing Communications Manager and ECCR Administrator it was learned that if PGS received at least retail value for its advertising dollars it would recover the total cost through the ECCR clause. (i.e. a corporate sponsorship included \$150,000 of media advertising and \$50,000 of non ECCR items, total \$200,000, at a cost of \$100,000, then the total cost of \$100,000 would be recovered through the ECCR clause).

**Opinion:** It is the auditors opinion that only a proportionate amount of the cost applicable to the ECCR items should be recovered through the clause. As in the above example only \$75,000 would be recovered through the ECCR filing, ( $\$150,000/\$200,000=75\% \times \$100,000=\$75,000$ ).

The Florida State University radio contract showed specific amounts for broadcast costs and the non ECCR corporate sponsorship. Payments to the Ice Palace and Orlando Magic were allocated between ECCR and non ECCR items. An allocation was not able to be made for the University of Florida sponsorship because a list of the non ECCR values was not available.

**Recommendation:** Information provided to staff for determination of ECCR allocations. No adjustment was made to the audit except for the non ECCR FSU amounts. See Disclosure No. 3 for all our adjustments related to advertising expense.

**Disclosure No. 3**

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

**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 12/31/01, PGS recorded advertising expenses of \$806,002 and WFR recorded \$116,593.

**Recommendation:**

During an analysis of advertising expense, audit staff determined that Peoples Gas has included advertising costs in its ECCR filing that did not conform to the rules set forth in the Florida Administrative Code.

Co-op advertisements with housing developers did not contain verbiage approved by the PSC, the company charged items for Florida State University corporate sponsorship which were not ECCR related, and several advertisements did not fully meet the requirements, as noted above, and were allocated by the auditor between ECCR and non ECCR amounts.

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

	<u>PGS</u>	<u>WFR</u>
Co-op ads with developers, no direct relationship to an ECCR program	\$78,482	\$1,008
FSU Sponsorship - Non ECCR	12,070	2,130
Allocated by FPSC Auditor - Only partly ECCR	<u>8,366</u>	<u>2,285</u>
	<u>\$98,918</u>	<u>\$5,423</u>



ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION  
JANUARY 2001 THROUGH DECEMBER 2001

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	-1,163,511	-1,058,198	-764,726	-709,635	-635,383	-554,528	-524,874	-526,684	-515,567	-533,129	-617,659	-674,049	-8,277,943
4. TOTAL REVENUES	-1,163,511	-1,058,198	-764,726	-709,635	-635,383	-554,528	-524,874	-526,684	-515,567	-533,129	-617,659	-674,049	-8,277,943
5. PRIOR PERIOD TRUE-UP NOT APPLICABLE TO THIS PERIOD	-36,978	-36,978	-36,978	-36,978	-36,978	-36,978	-36,978	-36,978	-36,978	-36,978	-36,978	-36,978	-443,731
6. CONSERVATION REVS APPLICABLE TO THE PERIOD	-1,200,489	-1,095,176	-801,704	-746,613	-672,361	-591,506	-561,852	-563,662	-552,545	-570,107	-654,637	-711,027	-8,721,674
7. CONSERVATION EXPS (FROM CT-3, PAGE 1)	650,848	488,077	629,936	731,324	724,408	652,377	731,438	770,639	795,908	658,235	710,646	959,716	8,503,551
8. TRUE-UP THIS PERIOD	-549,641	-607,099	-171,768	-15,289	52,047	60,871	169,586	206,977	243,364	88,128	56,010	248,689	-218,123
9. INTER. PROV. THIS PERIOD (FROM CT-3, PAGE 3)	-3,515	-5,550	-6,779	-6,506	-5,600	-4,933	-4,349	-3,494	-2,310	-1,431	-1,056	-647	-46,170
10. TRUE-UP & INTER. PROV. BEGINNING OF MONTH	-443,731	-959,909	-1,535,581	-1,677,150	-1,661,967	-1,578,543	-1,485,627	-1,283,412	-1,042,951	-764,919	-641,244	-549,313	
11. PRIOR TRUE-UP COLLECTED/(REFUNDED)	36,978	36,978	36,978	36,978	36,978	36,978	36,978	36,978	36,978	36,978	36,978	36,978	
12. TOTAL NET TRUE-UP (SUM LINES 8+9+10+11)	-959,909	-1,535,581	-1,677,150	-1,661,967	-1,578,543	-1,485,627	-1,283,412	-1,042,951	-764,919	-641,244	-549,313	-264,293	-264,293

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION  
JANUARY 2001 THROUGH DECEMBER 2001

CONSERVATION REVENUES	JAN 2001	FEB 2001	MAR 2001	APR 2001	MAY 2001	JUN 2001	JUL 2001	AUG 2001	SEP 2001	OCT 2001	NOV 2001	DEC 2001	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	-304,131	-234,518	-161,065	-154,270	-110,081	-109,893	-84,480	-91,941	-85,982	-99,083	-109,228	-122,652	-1,667,324
4. TOTAL REVENUES	-304,131	-234,518	-161,065	-154,270	-110,081	-109,893	-84,480	-91,941	-85,982	-99,083	-109,228	-122,652	-1,667,324
5. PRIOR PERIOD TRUE-UP NOT APPLICABLE TO THIS PERIOD	63,214	63,214	63,214	63,214	63,214	63,214	63,214	63,214	63,214	63,214	63,214	63,214	758,566
6. CONSERVATION REVS APPLICABLE TO THE PERIOD	-240,917	-171,304	-97,851	-91,056	-46,867	-46,679	-21,266	-28,727	-22,768	-35,869	-46,014	-59,438	-908,758
7. CONSERVATION EXPS (FROM CT-3, PAGE 1)	139,920	105,836	244,980	101,260	166,100	193,524	101,599	212,171	235,344	147,439	202,971	173,730	2,024,874
8. TRUE-UP THIS PERIOD	-100,997	-65,468	147,129	10,204	119,233	146,845	80,333	183,444	212,576	111,570	156,957	114,292	1,116,116
9. INTER. PROV. THIS PERIOD (FROM CT-3, PAGE 3)	3,396	2,378	2,171	2,073	1,851	1,955	2,072	2,194	2,216	1,971	1,847	1,774	25,900
10. TRUE-UP & INTER. PROV. BEGINNING OF MONTH	758,566	597,751	471,448	557,534	506,597	564,467	650,053	669,244	791,668	943,247	993,574	1,089,164	
11. PRIOR TRUE-UP COLLECTED/(REFUNDED)	-63,214	-63,214	-63,214	-63,214	-63,214	-63,214	-63,214	-63,214	-63,214	-63,214	-63,214	-63,214	
12. TOTAL NET TRUE-UP (SUM LINES 8+9+10+11)	597,751	471,448	557,534	506,597	564,467	650,053	669,244	791,668	943,247	993,574	1,089,164	1,142,016	1,142,016