

State of Florida



Public Service Commission

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

DATE: August 11, 2003
TO: Division of Economic Regulation (Colson)
FROM: Division of Auditing and Safety (Vandiver) DN/jcp
RE: Docket No. 030002-EG; Company Name: Progress Energy Florida, Inc.; **Audit Purpose:** Energy Conservation Cost Recovery Audit;
Audit Control No. 03-042-2-2

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

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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

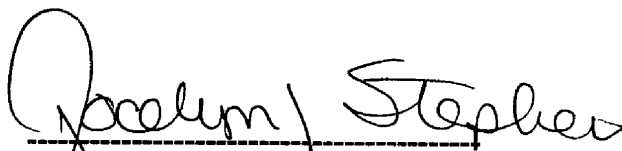
TAMPA DISTRICT OFFICE

PROGRESS ENERGY FLORIDA, INC.

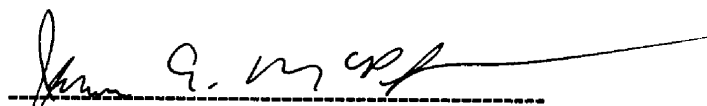
ENERGY CONSERVATION COST RECOVERY AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2002

**Docket No. 030002-EG
Audit Control Number 03-042-2-2**



Jocelyn Y. Stephens
Audit Manager



James A. McPherson
Tampa District Supervisor

TABLE OF CONTENTS

I.	AUDIT REPORT	Page
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	SUMMARY OF SIGNIFICANT FINDINGS	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	AUDIT EXCEPTION	
	NON-COMPLIANCE WITH RULE 25.17-.015 (1)(a)	3
III.	AUDIT DISCLOSURES	
	ADVERTISING EXPENSES RECORDED IN A/C 908.01	4
	PAYROLL EXPENSE CHARGED BY OTHER DEPARTMENTS	5
IV.	EXHIBITS	
	ECCR PROGRAM COSTS (CT-2, P2 OF 4)	6
	CALCULATION OF TRUE-UP (CT-3, P2 OF 3)	7

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

JULY 11, 2003

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 twelve month period ended December 31, 2002 prepared by Progress Energy Florida, Inc. in support of Docket No. 030002-EG. There is no confidential information associated with this audit and there are no audit staff 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: Progress Energy Florida Inc. does not record its energy conservation programs in separate accounts or subaccounts as required under Rule 25-17.015 (1) (a) 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 KWH sales. Reconciled ECCR revenues per filing to General Ledger.

EXPENSES: Compiled ECCR expenses and agreed to the filing. Scheduled expenses by program and by categories of expense. Judgmentally tested advertising charges to verify that they were properly recoverable through the ECCR and that they did not compare electric vs. gas technologies. Analyzed payroll expenses of the Home Energy Check, Energy Conservation Administration and Residential Energy Check.

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

OTHER: Identified conservation programs that exceeded the budgeted amount and analyzed expenditures for compliance with program requirements.

AUDIT EXCEPTION NO. 1

SUBJECT: NON-COMPLIANCE WITH RULE 25.17-.015 (1)(a) F.A.C.

STATEMENT OF FACT:

According to Rule 25-17.015 (1)(a) F.A.C., “Each utility shall establish separate accounts or subaccounts for each conservation program for purposes of recording the costs incurred for that program. Each utility shall also establish separate subaccounts for any revenues derived from specific customer charges associated with specific programs”.

The company has made changes in the way it records individual ECCR program expenses since the merger with CP&L in November 2000. Instead of using separate accounts or subaccounts for each conservation program, the company now records all costs into either Accounts 908.01 or 909.01.

AUDITOR OPINION AND RECOMMENDATION:

The company is in violation of the above rule and should be ordered to comply with the applicable rule regarding the use of separate General Ledger accounts or subaccounts for each of the company’s conservation programs.

AUDIT DISCLOSURE NO. 1

SUBJECT: ADVERTISING EXPENSES RECORDED IN ACCOUNT 908.01

STATEMENT OF FACT:

Progress Energy Florida incurred advertising expenses totaling \$29,497 which were recorded in Account 908 - Customer Assistance Expenses ECCR Programs. These costs are not included as advertising in the filing but are recorded as Miscellaneous Expenses in various conservation programs.

When a request was made to explain why the above specified advertising costs were not included in Account 909.01-Informational and Instructional Advertising Expenses, the company response was that Rule 25-17.015 F.A.C. does not specifically call for an individual FERC account for advertising costs. The rule only states that the expense must be directly related to an approved energy conservation program. And further, Progress Energy Florida has always accounted for all costs associated with advertising such as labor, materials and outside services for approved energy conservation programs as recoverable and are viewed as such when analyzing costs.

AUDIT OPINION AND RECOMMENDATION:

The Code of Federal Regulations provides for Account 909 to record recoverable advertising expense. This account should be used to record advertising expenses and any associated costs such as labor, outside services and materials which are incurred by the company, like those that the company is recording in Account 908. The only distinction that the staff noted between those advertising costs charged to Accounts 909.01 and 908.01 are that the latter were incurred in house.

The Commission should order the Company to record all of its advertising costs in the specified account established for that purpose.

AUDIT DISCLOSURE NO. 2

SUBJECT: PAYROLL EXPENSE CHARGED BY OTHER DEPARTMENTS TO ECCR

STATEMENT OF FACT:

The majority of payroll costs charged to ECCR is by the employees of the Energy Efficiency Services department. These employees charge 100% of their payroll costs to ECCR. Various other departments (others), also charge payroll costs to ECCR, based upon direct hours worked. An analysis of payroll costs charged by others revealed the following:

<u>Payroll-ECCR</u>	<u>Budget</u>	<u>Actual</u>
2000 (1)	\$ 824,639 (1)	\$621,069
2002	1,013,340 (2)	608,672

1) Included as part of the \$65,041,000 ECCR adjustment to O&M expenses in the 2000 historical year schedule, used by the company in its latest rate case - (Sch C-12)-Docket 000824-EI

2) Included as part of the \$69,212,000 ECCR adjustment to O&M expenses in the 2002 projected year budget, used by the company in its latest rate case - (Sch C-12)-Docket 000824-EI

The other departments that charge payroll costs to ECCR expense are:

Call Centers

Scheduling energy management requests and responding to energy management inquiries

Regulatory Commercial Operations

Individuals responsible for the qualifying facility program

Generation Modeling and Analysis

Provide RIM analysis/cost-effectiveness information for conservation programs

Corporate Communications

Support for planning, design and marketing support to achieve conservation goals

Energy Delivery Business Ops

Financial analyst support for ECCR budget and financial planning and administration

Meter and Information System

Installation and maintenance of standby generation metering

AUDIT OPINION:

Since the 2002 payroll charged by the other departments is less than the amount removed from the O&M expenses in its prior rate case, it appears that the company has not included any base rate payroll expenses in its ECCR filing for the twelve months ended December 31, 2002.

PROGRESS ENERGY FLORIDA

ACTUAL ENERGY CONSERVATION PROGRAM COSTS PER PROGRAM
 FOR THE PERIOD JANUARY 2002 THROUGH DECEMBER 2002

LINE NO.	PROGRAM	DEPRECIATION AMORTIZATION & RETURN	PAYROLL & BENEFITS	MATERIALS & SUPPLIES	OUTSIDE SERVICES	ADVERTISING	INCENTIVES	VEHICLES	OTHER	SUB-TOTAL	PROGRAM REVENUES (CREDIT)	TOTAL
1	BETTER BUSINESS	0	14,604	3,552	0	640	145,127	0	254	164,177	0	164,177
2	RESIDENTIAL NEW CONSTRUCTION	0	473,956	7,595	23,312	121,560	389,670	0	98,195	1,114,288	0	1,114,288
3	HOME ENERGY IMPROVEMENT	0	454,615	7,619	3,169	87,085	2,510,646	0	116,037	3,179,171	(4,125)	3,175,046
4	COMM / IND NEW CONSTRUCTION	0	4,126	164	0	89	76,436	60	108	80,983	0	80,983
5	HOME ENERGY CHECK	744	1,820,043	179,353	113,580	574,335	0	16,202	314,323	3,018,580	0	3,018,580
6	LOW INCOME	0	36,225	818	1,175	0	13,945	124	16,805	68,890	0	68,890
7	BUSINESS ENERGY CHECK	0	417,614	9,405	115	6,354	0	96	18,289	451,853	0	451,853
8	QUALIFYING FACILITY	575	213,442	1,613	5,225	0	0	0	287,647	508,502	0	508,502
9	INNOVATION INCENTIVE	0	1,600	0	0	0	0	0	0	1,600	0	1,600
10	TECHNOLOGY DEVELOPMENT	0	35,344	495	33,480	0	6,050	58	61,421	136,848	0	136,848
11	STANDBY GENERATION	0	22,999	9,016	26,276	1,907	624,633	206	6,454	691,491	0	691,491
12	INTERRUPT LOAD MANAGEMENT	0	80,370	3,438	926	0	17,445,363	675	9,221	17,539,993	0	17,539,993
13	CURTAIL LOAD MANAGEMENT	0	2,343	192	0	0	641,237	0	0	643,772	0	643,772
14	RESIDENTIAL LOAD MANAGEMENT	1,434,829	1,812,197	166,552	3,034,937	225,859	24,993,399	0	169,868	31,837,641	0	31,837,641
15	COMMERCIAL LOAD MANAGEMENT	0	15,668	334	4,371	0	683,479	43	526	704,421	0	704,421
16	CONSERVATION PROGRAM ADMIN	13,442	2,233,432	184,006	780,564	55,971	16,375	2	(298,849)	2,984,943	0	2,984,943
17	TOTAL ALL PROGRAMS	1,449,590	7,638,578	573,950	4,027,130	1,073,800	47,546,360	17,466	800,279	63,127,153	(4,125)	63,123,028

PROGRESS ENERGY FLORIDA
 ENERGY CONSERVATION ADJUSTMENT
 CALCULATION OF TRUE-UP
 FOR THE PERIOD JANUARY 2002 THROUGH DECEMBER 2002

LINE NO.	JAN 02	FEB 02	MAR 02	APR 02	MAY 02	JUN 02	JUL 02	AUG 02	SEP 02	OCT 02	NOV 02	DEC 02	TOTAL FOR THE PERIOD
1A BETTER BUSINESS	0	0	0	0	0	0	0	0	0	0	0	0	0
1B HOME ENERGY IMPROVEMENT	0	90	75	90	90	150	110	120	150	0	320	2,930	4,125
1C HOME ENERGY CHECK	0	0	0	0	0	0	0	0	0	0	0	0	0
1D SUBTOTAL - FEES	0	90	75	90	90	150	110	120	150	0	320	2,930	4,125
2 CONSERVATION CLAUSE REVENUES	5,280,289	4,346,171	4,468,271	4,592,297	5,855,509	5,514,133	6,092,227	6,124,452	6,334,878	5,856,489	5,526,359	4,984,790	64,975,865
2A CURRENT PERIOD GRT REFUND	0 00	0	0	0	0	0	0	0	0	0	0	0	0
3 TOTAL REVENUES	5,280,289	4,346,261	4,468,346	4,592,387	5,855,599	5,514,283	6,092,337	6,124,572	6,335,028	5,856,489	5,526,679	4,987,720	64,979,990
4 PRIOR PERIOD TRUE-UP OVER/(UNDER)	6,787,137	565,595	565,595	565,595	565,595	565,595	565,595	565,595	565,595	565,595	565,595	565,592	6,787,137
5 CONSERVATION REVENUES APPLICABLE TO PERIOD	5,845,884	4,911,858	5,033,941	5,157,982	6,421,194	6,079,878	6,657,932	6,680,167	6,900,623	6,422,084	6,092,274	5,553,312	71,787,127
6 CONSERVATION EXPENSES (CT-3,PAGE 1, LINE 73)	5,467,043	5,104,981	6,116,811	3,901,806	5,424,195	4,616,172	5,505,176	5,170,237	4,964,609	4,896,563	5,313,240	6,646,520	63,127,153
7 TRUE-UP THIS PERIOD (O)/U	(378,841)	193,125	1,082,670	(1,256,176)	(996,999)	(1,463,708)	(1,152,756)	(1,519,930)	(1,936,014)	(1,525,521)	(779,034)	1,093,208	(8,639,974)
8 CURRENT PERIOD INTEREST	(9,879)	(9,117)	(7,428)	(8,731)	(7,507)	(8,493)	(9,485)	(10,494)	(12,282)	(13,742)	(12,827)	(10,319)	(118,104)
9 ADJUSTMENTS PER AUDIT \ RDC Order	14,748	0	0	0	0	0	0	0	0	0	0	0	14,748
10 TRUE-UP & INTEREST PROVISIONS BEGINNING OF PERIOD (O)/U	(6,787,137)	(6,595,514)	(5,845,911)	(4,205,074)	(4,902,388)	(5,341,297)	(6,247,901)	(8,844,547)	(7,809,376)	(9,192,077)	(10,165,745)	(10,391,811)	(8,787,137)
10 A CURRENT PERIOD GRT REFUNDED	0	0	0	0	0	0	0	0	0	0	0	0	0
11 PRIOR TRUE-UP REFUNDED/ (COLLECTED)	565,595	565,595	565,595	565,595	565,595	565,595	565,595	565,595	565,595	565,595	565,595	565,592	6,787,137
12 END OF PERIOD NET TRUE-UP	(6,595,514)	(5,845,911)	(4,205,074)	(4,902,386)	(5,341,297)	(6,247,901)	(6,844,547)	(7,809,376)	(9,192,077)	(10,165,745)	(10,391,811)	(8,743,330)	(8,743,330)

-7-