



August 20, 2003

Ms. Blanca S. Bayo, Director
Division of Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 030002-EG
Energy Conservation Cost Recovery Audit
Audit Control No. 03-042-2-2

Dear Ms. Bayo:

Enclosed is Progress Energy Florida's response to the recent Staff audit report regarding its Energy Conservation Cost Recovery True-Up for the year 2002.

If you have any questions, please feel free to contact me at (727) 820-5835.

Sincerely,

A handwritten signature in black ink, appearing to read "Javier Portuondo".

Javier Portuondo
Director, Regulatory Services - Florida

JJP:hb
Enclosure

cc: Mr. Lee Colson, Division of Economic Regulation
Ms. Denise Vandiver, Division of Auditing and Safety
Ms. Lisa Harvey, Division of Competitive Markets and Enforcement
Harold McLean, Esquire, General Counsel
Robert Vandiver, Esquire, Office of Public Counsel

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PROGRESS ENERGY FLORIDA

Response to ECCR Audit, Docket No. 030002-EG, Audit Control No. 03-042-2-2

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.

PEF Response: Although it is true that the Company has changed the way it records individual ECCR program expenses and now all costs are recorded in either Account 908.01 or 909.01, the Company remains in compliance with Rule 25-17.015 because it has established separate subaccounts by project number for each ECCR program. These project numbers enable costs to be charged to each specific program. It is also true that the Company has only one revenue account for its ECCR programs; however, this complies with Rule 25-17.015 because its Duct Program is the only ECCR program with revenue activity.

Below is a list of the Energy Conservation Programs and their respective project numbers and account numbers.

<u>Program</u>	<u>Project No.</u>	<u>Task No</u>	<u>Account No.</u>
Home Energy Check	20015932	ECNAD	9080100
Home Energy Check Advertising	20015932	ECCAD	9090100
Low Income	20021329	ECNAD	9080100
Residential New Construction	20015933	ECNAD	9080100
Residential New Construction Advertising	20015933	ECCAD	9090100
Home Energy Improvement	20015934	ECNAD	9080100
Home Energy Improvement Advertising	20015934	ECCAD	9090100
Residential Energy Management	20015943	ECNAD	9080100
Commercial Energy Management	20015944	ECNAD	9080100
Energy Management Advertising	20015943	ECCAD	9090100
Business Energy Check	20015936	ECNAD	9080100
Business Energy Check Advertising	20015936	ECCAD	9090100
Commercial/Industrial New Construction	20015938	ECNAD	9080100
Better Business	20015937	ECNAD	9080100
Innovation Incentive	20015940	ECNAD	9080100
Standby Generation	20021332	ECNAD	9080100
Interruptible Service Program	20015941	ECNAD	9080100
Curtailable Service Program	20015942	ECNAD	9080100
Technology Development	20015939	ECNAD	9080100
Qualifying Facility	20025062	ECNAD	9080100

Other Accounts

Energy Conservation Administration	20015935	ECNAD	9080100
	20015968		9080100
	20022601		9080100

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 Instruction 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.

Auditor 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.

PEF Response: The Company complies with the Code of Federal Regulations requirement that Account 909 is to be used to record advertising expenses. As shown in the response to Exception No. 1 above, the Company uses a combination of project numbers and tasks to direct charges to the appropriate FERC account. The \$29,497 amount erroneously charged to Account 908 represents only 2% of the \$1,073,800 amount charged to Account 909 and reflected as advertising costs in the 2002 True-Up Filing. Since these costs are also recoverable and correctly charged to the correct program, the Company did not consider it necessary to reclassify this portion to Account 909.