

MEMORANDUM

November 4, 1998

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NO. 980002-EG -- GULF POWER COMPANY  
CONSERVATION AUDIT REPORT - PERIOD ENDED MARCH 31, 1998  
AUDIT CONTROL NO. 98-173-1-1

.....

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

Gulf Power Company  
Warren E. Tate  
One Energy Place  
Pensacola, FL 32520-0780

DNV/sp

Attachment

cc: Chairman Johnson  
Commissioner Clark  
Commissioner Deason  
Commissioner Garcia  
Commissioner Jacobs  
Mary Andrews Bane, Deputy Executive Director/Technical  
Legal Services  
Division of Auditing and Financial Analysis (Devlin/Causseaux/  
File Folder)  
Division of Electric and Gas (Colson)  
Tallahassee District Office (Hicks)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT CONTROL

12452 NOV-5 1998

FPSC-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
BUREAU OF AUDITING

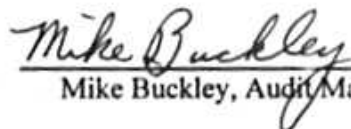
Tallahassee District Office

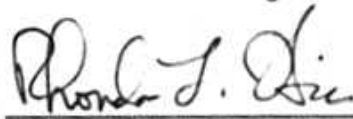
GULF POWER COMPANY

CONSERVATION AUDIT

SIX MONTHS ENDED MARCH 31, 1998

DOCKET NO. 980002-EG  
AUDIT CONTROL NO. 98-173-1-1

  
Mike Buckley, Audit Manager

  
Rhonda Hicks, Audit Supervisor

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
AUDITOR'S REPORT**

**October 30, 1998**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit the accompanying Energy Conservation Cost Recovery (ECCR) schedules for the historical 6-month period ended March 31, 1998, for Gulf Power Company. These schedules were prepared by the Utility as part of its ECCR filing in Docket No. 980002-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.

In our opinion, the schedules referred to above present fairly, in all material respects, the Utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

**SUMMARY OF SIGNIFICANT FINDINGS:**

Two programs do not promote energy efficiency or conservation. Three of the programs have little or no activity. \$34,829 of legal expenses were charged to ECCR. Payroll and benefits of \$827,359 make up 72% of the expenses charged to ECCR.

**SUMMARY OF SIGNIFICANT PROCEDURES:**

Our audit was performed by examining, on a judgmental 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.

**CONSERVATION REVENUES:** Traced the approved ECCR adjustment factors from the Commission's orders to the Utility's energy (KWH) sales during the six-month period to determine Conservation Revenues for True-up.

**CONSERVATION EXPENSES:** Traced all account balances for expenses from the Utility's filing to the Company's Monthly ECCR Program Category Expense Distribution Schedules and the Consolidated Register Summary, and then to the General Ledger to determine Conservation Expenses for True-up.

**OTHER:** Reconciled Company filed CT schedules to the Company's books and records. Obtained employee salaries charged to ECCR. Obtained a schedule calculating employee benefits. Determined advertising costs charged to ECCR. Researched selected invoices from Accounts Payable Detail Distribution Register.

## **DISCLOSURES**

### **Disclosure No. 1**

**Subject: H2O Purification**

**Statement of Fact:** The Company, under its research and development program, has a project to test the reliability of ozone as an alternative to chlorine as a disinfectant. A \$5,000 payment to Ozone Technology was charged to Account 908-1671.

**Recommendation:** This program does not promote energy efficiency or conservation. The \$5,000 charged to this program in October 1997 should be removed from ECCR.

**Disclosure No. 2**

**Subject:      Mixed Oxidant (MIOX)**

**Statement of Fact:** The Company, under its research and development program, has a project to test the MIOX process to disinfect the water system for Panama City Beach. MIOX is a mixed oxidant technology which electrolytically produces a combination of oxidants for disinfection. \$2,000 was charged to Account 908-1671 for rental of an automated mixed oxidant generator, twin tower water softener and oxidant tank.

**Recommendation:** This program does not promote energy efficiency or conservation. The \$2,000 charged to this project in March 1998 should be removed from ECCR.

**Disclosure No. 3**

**Subject: ECCR Programs**

**Statement of Fact:** Little or no activity was performed in the following programs even though charges were made.

<u>ECCR PROGRAM</u>	<u>ACTIVITY *</u>	<u>CHARGES TO ECCR</u>	
		<u>Payroll &amp; Benefits</u>	<u>Other</u>
1. In Concert With The Environment	0	\$12,034	\$15,199
2. Good Cents Environmental Home	0	\$8,743	
3. Duct Leakage Repair	3	\$17,586	\$6
4. Gulf Express Loan	Discontinued second quarter 1997	\$10,357	\$17,275

**\*Activity**

1. No presentations made
2. No Good Cents Environmental Homes constructed
3. 3 duct leakage repair units completed compared to a goal of 50. October 1996 through September 1997 had 10 repair units completed compared to a goal of 107 with expenses of \$68,763.

**Recommendation:** These programs should be reviewed for elimination.



**Disclosure No. 4**

**Subject: Salaries and Benefits**

**Statement of Fact:** Salaries and Benefits comprise 72% of the total ECCR expenses. Total ECCR expenses were \$1,154,830 including salaries and benefits of \$827,359.

**Recommendation:** This fact combined with Disclosure 3 shows that salaries are being charged to ECCR even though no activity is taking place.

**Disclosure No. 5**

**Subject: Order Number Correction**

**Statement of Fact:** The Company cites FPSC Order No. 23461 in its direct testimony of January 13, 1998, direct testimony of July 14, 1998 and its final True-up, dated November 19, 1997. Order Number 23461 refers to Quincy Telephone.

**Recommendation:** This Number is incorrect. The Company apparently is referring to Order Number 23561. The Order Number should be corrected.

The Public Service Commission in Order PSC-93-0361-FOF-EG also cites Order Number 23461. It also should be Order Number 23561.

**Disclosure No. 6**

**Subject: Advertising Contract**

**Statement of Fact:** Gulf Power signed a contract with Lewis Advertising/Mobile on October 11, 1996 providing for monthly payment of fees of \$17,300. The company paid \$20,100 to Lewis Advertising each month in 1997. Gulf Power could not provide a contract authorizing the \$20,100 payments.

**Recommendation:** Signed contracts with approvals are a necessary control. Payments should not be made without a signed contract. If authorization can not be found, the difference between these amounts, \$18,600 for six months or \$37,200 for 12 months, should be taken out of ECCR and charged to a nonregulated account.

**Disclosure No. 7**

**Subject: Legal Expenses**

**Statement of Fact:** Beggs & Lane, a private practice acting as General Counsel for Gulf, charged \$9,411.50 to Advanced Energy Management and \$25,418.00 to Commercial/Industrial Energy Audits/TAA.

**Recommendation:** This information is included for the analyst's review. Specific information was not provided.

GULF POWER COMPANY

ENERGY CONSERVATION ADJUSTMENT  
For the Period October, 1997 through March, 1998

Conservation Revenues	OCTOBER	NOVEMBER	DECEMBER	Audit Adjustment	JANUARY	Residential Mail In Adjust	FEBRUARY	MARCH	TOTAL
1 a Residential Conservation Audit Fees	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
b (Other Fees)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
c	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2 Conservation Adjustment Revenues	235,022.23	215,381.88	245,831.74		229,559.17		205,490.41	182,757.56	1,314,042.99
3 Total Revenues	235,022.23	215,381.88	245,831.74	0.00	229,559.17	0.00	205,490.41	182,757.56	1,314,042.99
4 Adjustment not Applicable to Period - Prior True Up	27,962.42	27,962.42	27,962.42		27,962.42		27,962.42	27,962.38	167,774.48
5 Conservation Revenues Applicable to Period	262,984.65	243,344.30	273,794.16	0.00	257,521.59	0.00	233,452.83	210,719.94	1,481,817.47
6 Conservation Expenses (Form CT-3 Page 8)	238,310.82	195,095.25	230,666.31	(1,708.85)	150,875.03	4,210.81	163,002.92	176,378.58	1,154,830.87
7 True Up this Period (Line 5 minus Line 6)	26,673.83	48,249.05	43,127.85	1,708.85	106,646.56	(4,210.81)	70,449.91	34,341.36	326,986.60
8 Interest Provision this Period (Page 10, Line 10)	3,154.68	3,738.81	3,914.22	57.48	4,126.32	(25.50)	4,323.57	4,475.93	24,265.51
9 True Up & Interest Provision Beginning of Month	793,702.34	796,068.43	820,093.87	839,173.52	840,939.85	923,750.31	919,514.00	966,325.06	793,702.34
10 Prior True Up Collected or Refunded	(27,962.42)	(27,962.42)	(27,962.42)	0.00	(27,962.42)	0.00	(27,962.42)	(27,962.38)	(167,774.48)
End of Period: Net True Up	796,068.43	820,093.87	839,173.52	840,939.85	823,750.31	919,514.00	966,325.06	977,179.97	977,179.97

GULF POWER COMPANY

ENERGY CONSERVATION ADJUSTMENT  
For the Period: October, 1997 through March, 1998

Interest Provision	OCTOBER	NOVEMBER	DECEMBER	Audit Adjustment	JANUARY	Residential Mail In Adjust	FEBRUARY	MARCH	TOTAL
1 Beginning True up Amount	793,702.34	798,068.43	820,093.87		840,939.85		919,514.00	966,325.06	
2 Ending True up before Interest	792,413.75	816,355.06	835,259.30		919,623.99		962,001.49	972,704.04	
3 Total beginning & ending	1,586,116.09	1,612,423.49	1,655,353.17	0.00	1,760,563.84	0.00	1,881,515.49	1,939,029.10	
4 Average True up Amount	793,058.05	806,211.75	827,676.59	0.00	880,281.92	0.00	940,757.75	969,514.55	
5 Interest Rate First Day Reporting Business Month	5.5300	5.5300	5.6000	0.0000	5.7500	0.0000	5.5000	5.5300	
6 Interest Rate First Day Subsequent Business Month	5.5300	5.6000	5.7500	0.0000	5.5000	0.0000	5.5300	5.5500	
7 Total of Lines 5 and 6	11.0600	11.1300	11.3500	0.0000	11.2500	0.0000	11.0300	11.0800	
8 Average Interest rate (50% of Line 7)	5.5300	5.5650	5.6750	0.0000	5.6250	0.0000	5.5150	5.5400	
9 Monthly Average Interest Rate Line 8 x 12	0.004608	0.004638	0.004729	0.000000	0.004688	0.000000	0.004596	0.004617	
10 Interest Provision: (line 4 X 9)	3,654.68	3,738.81	3,914.22	57.48	4,128.32	(25.50)	4,323.57	4,475.83	24,265.51

STATE OF FLORIDA

Commissioners:  
JULIA L. JOHNSON, CHAIRMAN  
J. TERRY DEASON  
SUSAN F. CLARK  
JOE GARCIA  
E. LEON JACOBS, JR.



DIVISION OF RECORDS & REPORTING  
BLANCA S. BAYÓ  
DIRECTOR  
(850) 413-6770

**Public Service Commission**

November 6, 1998

Warren E. Tate  
Gulf Power Company  
One Energy Place  
Pensacola, Florida 32520-0780

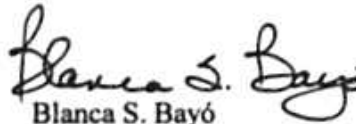
Re: Docket No. 980002 - EG - Gulf Power Company  
Audit Report - Conservation - Period Ended March 31, 1998  
Audit Control # 98-173-1-1

Dear Mr. Tate:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above case will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

  
Blanca S. Bayó

BSB/abf  
Enclosure  
cc: Division of Audit and Financial Analysis