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MAIL ROOM



November 12, 1998

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

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

Attached is Gulf Power Company's response to the above mentioned audit report.

Sincerely,

Linda G. Malone
Assistant Secretary and Assistant Treasurer

- ACK _____
- AFA 1 _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG 1 _____
- LEG 1 _____
- LIN 3 _____
- OPC _____
- RCH _____
- SEC 1 _____
- WAS _____
- OTH _____

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Attachment

cc: Gulf Power Company
S. D. Ritenour

DOCUMENT NUMBER-DATE

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FPSC RECORDS/REPORTING

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.

Company Response: When the Gulf contemplated and engaged in the H2O Purification project, we thought there may be the potential for energy conservation. This project has not rendered the energy conservation results anticipated. Therefore, the Company will remove the \$5,000 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.

Company Response: When the Gulf contemplated and engaged in MIOX project, we thought there may be the potential for energy conservation. This project has not rendered the energy conservation results anticipated. Therefore, the Company will remove the \$2,000 from ECCR.

Disclosure No. 3

Subject: ECCR Program

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 & Benefits</u>	<u>Other</u>
1. In Concert With The Environment	0	\$12,034	\$15,199
2. Good Cents Environment Home	0	\$8,743	
3. Duct Leakage Repair	3	\$17,586	\$6
4. Gulf Express Loan	Discontinued 2 nd Qtr, 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.

Company Response: The programs listed above have been reviewed and evaluated for cost effectiveness. This review was performed during third quarter, 1998.

The In Concert With The Environment program had no units due to a lack of response from the schools. Many schools already have environmental units incorporated into the curriculum and there were scheduling conflicts with the schools. Gulf will continue to promote this program in the schools as an extension to the Residential Audit program. The expenses incurred are for promotion of the program to the schools.

The GoodCents Environmental Home program will no longer be promoted as a stand-alone program. This program was poorly accepted by builders due to additional costs of building materials and the lack of availability of the materials. This program has had no expenses since March, 1998, and no dollars have been budgeted for 1999.

The Duct Leakage Repair program units are low due to poor customer acceptance of the program. The program will continue to be offered to customers, however, the budget for 1999 has been reduced from \$38,000 to \$500 to maintain its cost effectiveness.

The Gulf Express Loan program has outstanding loans that must be monitored. The expenses in the loan program are for the administration associated with the monitoring of the loans. When all the outstanding loans have been paid, the program expenses will be discontinued.

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.

Company Response: Gulf agrees with the Statement of Fact, but does not agree with the Recommendation. The appropriate amount of salaries and benefits is charged to ECCR.

There are instances where there will be labor expenses but no units for the program. Examples of these activities include contract negotiations, maintaining existing/outstanding loans and program evaluations. There also are programs such as the Residential Audit Program that are labor intensive because the employee energy evaluation (labor) is the major tool used in the audit. In addition, a six-month window (October, 1997 - March, 1998) does not completely reflect a program's progress.

Gulf has worked extensively with customer groups in an effort to increase the acceptance of the energy conservation programs. The company has targeted builders, educators and homeowners in promoting the programs. Gulf performed a review of these programs during third quarter, 1998, and made adjustments in the 1999 budget relative to the lower interest and activity in the programs.

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.

Company Response: Gulf agrees with the Statement of Fact and the Recommendation. Gulf, in using the FPSC Order PSC-93-0361-FOF-EG as a secondary source, cited Order Number 23461 in the direct testimony noted above. The Order Number has been changed to Order Number 23561 in Gulf's records.

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 \$17,000. 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 non-regulated account.

Company Response: The company agrees that a formal contract amendment document was not generated when the monthly advertising rate was increased from \$17,000 to \$21,100. However, Gulf's employees who attended the contract meeting and agreed to the increased monthly fee, have the authority to bind the company in the contractual amendment with the advertising agency. These same employees reviewed and signed the invoices reflecting the increased monthly fee to authorize payment. Gulf's position is that since the employees who agreed to the increased fee were employees with proper authority to bind the company, Gulf is therefore bound to that agreement despite the fact that the agreement was made verbally. Subsequent to this audit, Gulf is in the process of formally documenting the contract amendment on a retro-active basis in a document that will be signed by both contracting parties.

The monthly amounts cited in the Statement of Fact are not all charged to ECCR. Of the \$21,100 monthly amount, only \$6,452, or 32%, is ECCR.

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.

Company Response: Without breaching the Attorney/Client Privilege that is inherent in billings to the Company submitted by its lawyers, Gulf Power is able to supply the following general information about the services provided by Beggs & Lane (including specifically the matters identified the statement of fact. The law firm now known as Beggs & Lane serves as General Counsel to Gulf Power Company as it has since 1926 when the Company was founded. In this role, Beggs & Lane provides legal counsel to Gulf Power on a variety of matters including civil litigation, acquisitions, contracts, regulatory matters, corporate financing, and other corporate matters as requested by the Company. Gulf Power does not have an in-house legal department. As a result, Beggs & Lane fulfills this role and routinely handles general corporate related advice; assistance with contractual matters (with customers, vendors, or other parties); labor and employment litigation and related matters; workers' compensation matters; civil claims litigation; real estate transactions and related matters; bankruptcy related matters involving vendors or customers; and docketed or undocketed matters before the FPSC.

Beggs & Lane routinely provides legal assistance to Gulf Power that is related to the Company's evaluation, negotiation and administration of contracts with vendors, customers and other parties. Such legal assistance includes representation at negotiating sessions; drafting of contract language and other documents; interpretation of contractual provisions; evaluation of possible contract related litigation, etc.; development of negotiating strategy, etc.; and so on. The services provided by the law firm that are connected to the charges identified in the above statement of fact involved the active participation of lawyers from Beggs & Lane on teams assembled by the Company to evaluate, negotiate and administer contracts with vendors, customers and other parties related to the development and implementation of the identified conservation programs. The services provided by Beggs & Lane for these Company teams falls within the scope of activities described above. More specific information cannot be revealed without breaching the privileged and confidential attorney/client relationship