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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING*

Tallahassee District Office

GULF POWER COMPANY

ESCAMBIA COUNTY

COMMERCIAL INDUSTRIAL SERVICE RIDER (CISR) AUDIT

FIVE MONTHS PERIOD ENDED OCTOBER 31, 1997

UNDOCKETED
AUDIT CONTROL NO. 97-253-1-1

A handwritten signature in cursive script, appearing to read "Christopher Holman".

Christopher Holman, Audit Manager

A handwritten signature in cursive script, appearing to read "Rhonda Hicks".

Rhonda Hicks, Audit Supervisor

DOCUMENT NUMBER-DATE

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

JANUARY 30, 1998

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

We have applied the procedures described later in this report to audit Gulf Power Company's executed Contract Service Agreements (C.S.A.) for compliance with the terms and conditions of the Commercial Industrial Service Rider (CISR) tariff, the Surveillance Report Supplements, and the Pilot Study Implementation Plan as approved in Commission Order PSC-96-1219-FOF-EI. The Contract Agreements and the Surveillance Report Supplements were prepared by the utility. The audit period is June, 1997 through October, 1997. This audit contains confidential information. The audit exit conference was held on January 30, 1998.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document 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 FINDING

The estimated load calculations used to determine “net revenues” were reviewed; however, no opinion is given on the validity of the estimate. Two types of adjustments are made to the “net revenue” amounts. The first class of adjustments is based on the interruptible nature of the contract. The second is year-end adjustments, which are not done until the end of the calendar year, and are not reflected in this report.

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:

Scanned - The documents or accounts were read quickly looking for dates and obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed - The exhibit amounts were reconciled with the general ledger. Selective analytical review procedures were applied.

Examined - The exhibit amounts were reconciled with the general ledger. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

REVENUE: Recomputed CISR revenues. Reconciled & compiled the CISR amounts on the Surveillance Report to the General Ledger. Determined the standard Rate Schedule used if the CISR rates were not in effect. Determined the starting and ending date of the two CISR contracts. Scanned both contracts. Identified the monthly Kilowatt demand and usage of the CISR customer. Determined the customer charge for standard and CISR rates. Determined the difference between the CISR and the estimated standard rates (which the Company refers to as BASE rates) and the revenue generated by each. Verified that revenues received from the CISR customer are allocated to the four cost recovery clauses. Provided a schedule showing the components of the calculation of the “net revenue” amount filed as part of the Surveillance Report. Read orders, and tariffs to determine compliance by the Company. Determined that standard rate (RTP) revenues from the CISR customers are not allocated to the cost recovery clauses on the Company’s books.

DISCLOSURES:

Disclosure No. 1

SUBJECT: Net CISR Revenue

Statement of Fact: Gulf Power Company files its surveillance report service rider in accordance with the rules and guidelines established in FPSC Order PSC-96-1219-FOF-EI.

The surveillance report provides per book amounts for the Service Rider "net revenues". The amounts are determined by capturing the energy load used in kilowatt hours. Kilowatt hours are used as a basis to determine the energy charge. The energy charge plus the non-fuel charge comprise the revenue from the customer. From this revenue are subtracted four clauses. These are: Environmental Cost Recovery Clause, Energy Conservation Cost Recovery Clause, Fuel Cost Recovery Clause, and Purchase Power Capacity Clause. These clause revenue amounts are determined by multiplying the kilowatt hours by the current tariff rates. The Company calculates these amounts on two bases. One is based on the CISR rates. The other is based on standard Real Time Pricing (RTP) tariff rates. The Company used the RTP rate schedule prior to CISR. The Company calculation uses different load factors for the RTP and CISR. Because the load factors are not the same, the calculations for the clause revenues are different. The estimates for the standard rate load is less than the CISR load because the Company estimates the customer would take less energy at the higher RTP rates. The estimates are determined on the weighted average of six scenarios, on an hour by hour basis for the entire period throughout the year. No determination was made on the validity of the estimating process. The difference between the CISR revenue and the base revenue is the unadjusted "net revenue".

There are two classes of Company adjustments to the unadjusted "net revenue". One is the interruptible adjustment. The surveillance report shows "net revenue" that includes the amount of \$124,000 which represents the Company's calculation of interruptible sales for September 1997 and \$196,166 for October 1997. These amounts are used to adjust the cumulative difference of RTP revenue and CISR revenue. When questioned why the calculated amounts were adjusted for interruptible sales, the Company stated that this adjustment is based on capacity equalization. The Company takes the position that this is an interruptible customer, and has more generating capacity available to sell to the pool. The Company calculates a capacity adjustment, and adjusts the calculation for the difference between the CISR and RTP revenue.

The second class of adjustments are, according to the Company, year-end adjustments. These adjustments are not known or quantified at this time.

The disclosure addresses the first Contract Service Agreement (C.S.A.). The second contract was not effective until October 1, 1997. The auditor affirmed that the customer involved with the second contract is still using the standard rates as of October 31, 1997.

Recommendation: The auditor questioned whether it was proper to adjust the interruptible

amount to arrive at the "net revenue" CISR amounts. If this adjustment is proper, the auditor recomputed the interruptible amount, and this amount should be \$125,499 for September 1997. The Company stated it agrees with this revised amount. The October, 1997 interruptible amount of \$196,166 was calculated by the Company and recomputed by the auditor. The CISR contract provides for year-end adjustments that are not reflected in the monthly surveillance report or this audit. These year-end adjustments must be considered. In addition to the interruptible adjustments, another important consideration is the estimated load which has a direct impact on the amount of "net revenue". This estimating process should be reviewed to determine that it is reasonable. The RTP revenues from the CISR customers are not allocated to the cost recovery clauses on the Company's books. This allocation should be reviewed.

NET REVENUE CALCULATION
 WP 41-1
 FIVE MONTH PERIOD ENDING 10/31/1997
 AUDITOR: CHRIS HOLMAN

DESCRIPTION	JUNE			JULY			AUGUST			SEPTEMBER			OCTOBER		
	RTP	CISR	DIFFERENCE	RTP	CISR	DIFFERENCE	RTP	CISR	DIFFERENCE	RTP	CISR	DIFFERENCE	RTP	CISR	DIFFERENCE
1. ENERGY USED IN KILOWATT HOURS	18,039,205.00	19,915,475.00		18,233,998.00	18,246,782.00		15,797,629.00	17,023,578.00		19,067,344.10	19,369,420.00		17,811,793.00	18,384,908.00	
2. ANNUAL NON-FUEL CHARGE IN \$		155,571.03			155,571.00			155,571.03			155,571.03			155,571.03	
3. CUSTOMER CHARGE IN \$ (NOTE 1)	1,000.00			1,000.00			1,000.00			1,000.00			1,000.00		
4. ENERGY CHARGE IN \$ (NOTE 2, NOTE 3)	657,529.00	412,847.80		807,584.00	378,255.79		688,935.00	352,898.77		757,546.00	401,528.08		540,944.00	377,074.46	
5. KILOWATT VARIANCE CHARGE IN \$ (RATE IS \$1.00)		2,318.00			2,471.00			2,506.00			2,346.00			2,454.00	
6. SUBTOTAL	658,529.00	570,736.83		808,584.00	536,297.79		689,935.00	510,975.80		758,546.00	559,445.11		541,944.00	535,099.49	
LESS:															
7. THE FOLLOWING RATES ARE MULTIPLIED BY LINE 1:															
10/1997 6/97 to 9/97															
Energy Conservation Cost Recovery ECCR 0.00032 0.00032	5,773	6,373		5,835	5,839		5,055	5,448		6,102	6,198		5,700	5,883	
Environmental Cost Recovery Clause ECC 0.00101 0.00095	17,137	18,920		17,322	17,334		15,008	16,172		18,114	18,401		17,990	18,568	
(F)CR Fuel Clause Recovery CR 0.02051 0.02073	373,953	412,848		377,991	378,256		327,485	352,899		395,266	401,528		365,320	377,074	
Purchase Power Capacity Clause PPCC 0.00029 0.00042	7,576	8,364		7,658	7,664		6,635	7,150		8,008	8,135		5,165	5,332	
MONTHLY TOTAL	254,090	124,232	129,858	399,778	127,205	272,573	335,752	129,307	206,445	331,056	125,183	205,873	147,769	128,241	19,528
FIVE MONTHS TOTAL (TOTAL OF DIFFERENCES)												814,749			834,277
INTERRUPTIBLE IIC AMOUNT (NOTE 4)												(124,000)			(196,166)
TOTAL AFTER INTERRUPTIBLE												690,749			638,111

NOTE 1: CUSTOMER CHARGE FOR CISR INCLUDED IN ANNUAL NON-FUEL CHARGE.

NOTE 2: BASE RATE IS A REAL TIME PRICING (RTP) RATE, AND IS DERIVED ON AN HOURLY BASIS.

NOTE 3: CISR RATE IS THE STANDARD FUEL RATE OF .02073

NOTE 4: INTERRUPTIBLE AMOUNT NOT ADJUSTED BY AUDITOR