

State of Florida



Public Service Commission

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

DATE: August 1, 2001
TO: Jim Breman, Division of Safety and Electric Reliability
FROM: Denise N. Vandiver, Division of Regulatory Oversight *DN*
RE: Docket No. 010007-EI; Gulf Power Company; Environmental Cost Recovery,
Audit Control No. 01-023-1-1

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.

Attachment

cc: Division of Regulatory Oversight (Hoppe, Harvey, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services
Division of Legal Services

Ms. Susan D. Ritenour
Gulf Power Company
One Energy Place
Pensacola, FL 32520-0780

Jeffery Stone, Esq.
Russell Badders, Esq.
Beggs & Lane Law Firm
P. O. Box 12950
Pensacola, FL 32501-2950

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*

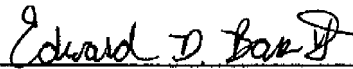
Tallahassee District Office

GULF POWER COMPANY

ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2000

DOCKET NO. 010007-EI
AUDIT CONTROL NO. 01-023-1-1



Edward D. Bass II, Audit Manager



Lynn M. Deamer, Audit Supervisor

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**DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT**

JULY 12, 2001

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Environmental Cost Recovery Clause (ECRC) Schedules 2A and 3A for the historical 12-month period ended December 31, 2000, for Gulf Power Company. The attached schedules were prepared by the utility as part of its support in Docket No. 010007-EI.

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

The company's Environmental Cost Recovery Clause (ECRC) plant in service does not reflect a retirement; operation and maintenance (O&M) expense is overstated; SO₂ emission allowance costs associated with non-separated wholesale sales are overstated and being credited to the fuel clause.

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 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. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Verify - The item was tested for accuracy and compared to the substantiating documentation.

INVESTMENT: Obtained supporting documentation for all additions to environmental plant in service; traced all plant additions to supporting vendor invoices; reconciled plant in service and depreciation expense for each capital project; traced depreciation rates to Commission Order No. PSC-98-0921-FOF-EI, issued July 7, 1998, the company's last depreciation study; verified separation of dismantlement expense from depreciation expense; traced SO₂ allowance activity per the filing to supporting documentation; recalculated recoverable capital investment costs.

REVENUE: The ECRC revenue audit procedures and related work papers are included in the company's undocketed Revenue Sharing Refund Audit, Audit Control No. 01-073-1-1.

EXPENSE: Reconciled operation and maintenance (O&M) expense per the general ledger to the company's filing; obtained a list of outside vendors; compiled all accounts payable and traced to supporting vendor invoices; performed a judgmental sample of Southern Company Services (SCS) O&M expenses and traced each to supporting documentation; reviewed all legal expenses recovered in the ECRC; verified adjustments made to O&M expense for costs recovered in base rates per Commission Order No. PSC-94-0044-FOF-EI, issued January 12, 1994; scanned SO₂ allowance costs related to the company's non-separated wholesale sales for the period ended December 31, 2000.

OTHER: Recalculated the company's true-up and interest provision for the period ended December 31, 2000; traced interest rates used in the calculation of the interest provision to the 30-day commercial paper rates.

DISCLOSURES

Disclosure No. 1

Subject: Plant in Service

Statement of Fact: During the calendar year 2000 the company established plant expenditure (PE) 1440 for the replacement of flow monitors at the Smith Plant. As of December 31, 2000, the company incurred \$246,986 in plant expenditures related to the replacement of these flow monitors. These plant expenditures are still in construction work in progress (CWIP) pending research to identify the proper retirements, and are included on the company's Environmental Cost Recovery Clause filing, Schedule 8A, page 5 of 18, for the year 2000. PE 1440 also includes a cost of removal of \$1,000 and salvage of \$2,400 (shown on filed Schedule 8A, page 5 of 18) for the historical period ended December 31, 2000, but does not include the associated retirement(s).

The company states that the retirements associated with this ECRC plant will be retired in July 2001 when it is able to identify the proper retirements.

Recommendation: Once the retirements are identified, the company should retire the plant associated with the cost of removal and salvage related to the replacement of flow monitors at the Smith Plant.

Disclosure No. 2

Subject: Operation and Maintenance (O&M) Expense

Statement of Fact: The company's Environmental Cost Recovery Clause (ECRC) filing and general ledger reflect a total O&M expense of \$2,503,606 and \$2,345,112, respectively, for the historical period ended December 31, 2000. This yields a difference of \$158,494 (\$2,503,606 - \$2,345,112) between the company's filing and its general ledger.

During the prior year's ECRC audit an error was discovered in which the company incurred \$156,568 in O&M expenses that were not recovered. At that time the company stated that it would recover these O&M expenses in its June 2000 ECRC filing. These O&M expenses in the amount of \$156,568 were recovered in the company's June 2000 ECRC filing.

After recovering these O&M expenses the difference between the company's ECRC filing and its general ledger is \$1,926 (\$158,494 - \$156,568). This difference is the result of the company recovering environmental expense work order 470CIU twice. The company's ECRC O&M expense is overstated by \$1,926 for the historical period ended December 31, 2000. The company states that it will adjust the expenses in its July 2001 ECRC filing.

Recommendation: The company should make an adjustment for \$1,926 to its ECRC O&M expenses for an expense that was recovered in error during the period December 31, 2000.

Disclosure No. 3

Subject: SO₂ Emission Allowance Costs

Statement of Fact: Commission Order No. PSC-00-1744-PAA-EI, issued September 26, 2000, states, “each investor-owned electric utility (IOU) shall credit its Environmental Cost Recovery Clause (ECRC) for an amount equal to the incremental SO₂ emission allowance cost of generating the energy for each non-separated wholesale power sale.”

On April 20, 2001, the company filed direct testimony to support Gulf Power Company’s request for an exception to the Commission’s proposed regulatory treatment of these SO₂ emission allowance costs related to non-separated wholesale power sales. The company’s testimony states, “Gulf is currently crediting the SO₂ allowance costs associated with non-separated wholesale sales through the fuel clause, along with the incremental cost of fuel associated with these sales. From an administrative perspective, it is less burdensome for Gulf to continue this regulatory treatment than it would be to change its practices to treat the allowance cost credit separately through the ECRC.”

The company’s fuel clause filing was credited \$2,956,043 in SO₂ allowance costs related to the non-separated wholesale sales for the period ended December 31, 2000. Upon reviewing the interchange bills that include these SO₂ emission allowance costs, the company discovered an error in its August billing. The error resulted in the company reporting variable O&M dollars instead of SO₂ emission allowance dollars. The company’s SO₂ allowance costs would have been \$2,570,247 had this error not occurred. The error results in an overstatement of \$385,796 (\$2,956,043 - \$2,570,247) in SO₂ allowance costs for the period ended December 31, 2000. The company states that it will correct this error in its July 2001 fuel clause filing. In addition, the company has implemented checks and balances to safeguard against the possibility of making similar errors.

Recommendation: This disclosure is provided for informational purposes. The company should recover \$385,796 in its fuel clause to correct this reporting error.

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount for the Period
January 2000 - December 2000

End-of-Period True-Up Amount
(in Dollars)

Line	January	February	March	April	May	June	July	August	September	October	November	December	End of Period Amount
1 ECRC Revenues (net of Revenue Taxes)	831,988	758,282	751,172	737,733	1,014,747	1,092,424	1,241,132	1,206,936	1,010,711	889,712	836,254	877,560	11,248,651
2 True-Up Provision (Order No. PSC-99-2513-FOF-EI)	31,438	31,438	31,438	31,438	31,438	31,438	31,438	31,437	31,438	31,437	31,438	31,437	377,253
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	863,426	789,720	782,610	769,171	1,046,185	1,123,862	1,272,570	1,238,373	1,042,149	921,149	867,692	908,997	11,625,904
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	8,021	240,479	53,715	58,178	336,766	315,821	60,741	43,202	94,663	306,187	164,185	67,658	1,749,616
b Capital Projects (Schedule 7A, Line 9)	683,204	682,640	681,894	680,074	678,179	676,651	674,417	672,059	671,301	671,210	668,761	667,699	8,108,089
c Total Jurisdictional ECRC Costs	691,225	923,119	735,609	738,252	1,014,945	992,472	735,158	715,261	765,964	977,397	832,946	735,357	9,857,705
5 Over/(Under) Recovery (Line 3 - Line 4c)	172,201	(133,399)	47,001	30,919	31,240	131,390	537,412	523,112	276,185	(56,248)	34,746	173,640	1,768,199
6 Interest Provision (Schedule 3A, Line 10)	4,909	4,960	4,731	4,945	5,172	5,635	7,287	9,968	12,013	12,515	13,495	12,972	97,602
7 Beginning Balance True-Up & Interest Provision	377,253	567,117	407,240	427,534	431,960	436,934	542,521	1,055,782	1,557,425	1,814,185	1,739,015	1,754,815	377,253
a Deferred True-Up from January 1999 - December 1999 (Order No. PSC-00-2391-FOF-EI)	541,592	541,592	541,592	541,592	541,592	541,592	541,592	541,592	541,592	541,592	541,592	541,592	541,592
8 True-Up Collected/(Refunded) (See line 2)	(31,438)	(31,438)	(31,438)	(31,438)	(31,438)	(31,438)	(31,438)	(31,437)	(31,438)	(31,437)	(31,438)	(31,437)	(377,253)
9 End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 7b + 8)	1,064,517	948,832	969,126	973,552	978,526	1,084,113	1,597,374	2,099,017	2,355,777	2,280,607	2,296,410	2,451,585	2,407,393
10 Adjustments to Period Total True-Up Including Interest													
a O&M Changes per Audit *	43,294												43,294
b Additional O&M Changes per Audit **	898												898
11 End of Period Total Net True-Up (Lines 9 + 10)	1,108,709	948,832	969,126	973,552	978,526	1,084,113	1,597,374	2,099,017	2,355,777	2,280,607	2,296,410	2,451,585	2,451,585

* As noted in the Estimated True-Up, reductions were made to Emissions Monitoring and General Air Quality effective June 1999 and November 1999 respectively

** Additional Reductions were made to General Air Quality effective November 1999 after the Estimated True-Up for 2000 was filed

Gold Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount for the Period
January 2000 - December 2000

Interest Provision
(in Dollars)

Line	January	February	March	April	May	June	July	August	September	October	November	December	12-Month Total
1 Beginning True-Up Amount (Sch 2A-2, Lines 7 + 7a + 7b + 10)	963,037	1,108,709	948,832	969,126	973,552	978,526	1,084,113	1,597,374	2,099,017	2,355,777	2,280,607	2,296,410	
2 Ending True-Up Amount Before Interest (Line 1 + Sch 2A-2, Lines 5 + 8)	1,103,800	943,872	964,395	968,607	973,354	1,078,428	1,590,087	2,089,049	2,343,764	2,268,092	2,283,915	2,438,613	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	2,066,837	2,052,581	1,913,227	1,937,733	1,946,906	2,057,004	2,674,200	3,686,423	4,442,781	4,623,869	4,564,522	4,735,023	
4 Average True-Up Amount (Line 3 x 1/2)	1,033,419	1,026,291	956,614	968,867	973,453	1,028,502	1,337,100	1,843,212	2,221,391	2,311,935	2,282,261	2,367,512	
5 Interest Rate (First Day of Reporting Business Month)	0.056000	0.058000	0.058000	0.060700	0.061800	0.065700	0.065800	0.065000	0.064800	0.065000	0.064900	0.066500	
6 Interest Rate (First Day of Subsequent Business Month)	0.058000	0.058000	0.060700	0.061800	0.065700	0.065800	0.065000	0.064800	0.065000	0.064900	0.066500	0.065000	
7 Total of Beginning & Ending Interest Rates (Line 5 + Line 6)	0.114000	0.116000	0.118700	0.122500	0.127500	0.131500	0.130800	0.129800	0.129800	0.129900	0.131400	0.131500	
8 Average Interest Rate (Line 7 x 1/2)	0.057000	0.058000	0.059350	0.061250	0.063750	0.065750	0.065400	0.064900	0.064900	0.064950	0.065700	0.065750	
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.004750	0.004833	0.004946	0.005104	0.005313	0.005479	0.005450	0.005408	0.005401	0.005413	0.005475	0.005479	
10 Interest Provision for the Month (Line 4 x Line 9)	4,909	4,960	4,731	4,945	5,172	5,635	7,287	9,968	12,013	12,515	12,495	12,972	97,602