


State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: August 10, 2004
TO: Jim Breman, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing 
Division of Regulatory Compliance and Consumer Assistance
RE: Docket No. 040007-EI ; Company Name: Gulf Power Co. ; Audit Purpose: Environmental Cost Recovery Clause ; Audit Control No. 04-044-1-1

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.

DNV/jcp
Attachment

cc: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
Division of Economic Regulation (Bohrman)
General Counsel
Office of Public Counsel

Ms. Susan D. Ritenour, Assistant Secretary
Gulf Power company
One energy Place
Pensacola, FL 32520-0780

Mr. Ronnie Labrato
Chief Financial Officer & Comptroller
Gulf Power Company
One Energy Place
Pensacola, FL 32520

Beggs & Lane Law Firm
Jeffery Stone/Russell Badders
P. O. box 12950
Pensacola, FL 32591-2950

DOCUMENT NUMBER-DATE

08738 AUG 11 04

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING*

Tallahassee District Office

GULF POWER COMPANY

ENVIRONMENTAL COST RECOVERY AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2003

DOCKET NO. 040007-EI

AUDIT CONTROL NO. 04-044-1-1

A handwritten signature in cursive script, appearing to read "Barry F. Davis".

Barry F. Davis, Audit Staff

A handwritten signature in cursive script, appearing to read "Robert Moore".

Bob Moore, Audit Staff

A handwritten signature in cursive script, appearing to read "Michael Buckley".

Michael Buckley, Audit Manager

A handwritten signature in cursive script, appearing to read "Lynn M. Deamer".

Lynn M. Deamer, Audit Supervisor

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

July 16, 2004

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 schedules for the 12-month period ending December 31, 2003. The above schedules have been included as exhibits in this report. These schedules were part of the Company's petition for cost recovery in Docket No. 040007-EI. Revenues for Fuel Cost Recovery Clause, Purchased Power Capacity Cost Recovery Clause, Environmental Cost Recovery Clause, and Conservation Cost Recovery Clause were also audited for the 12-month period ending December 31, 2003, in this Docket.

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 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.

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

INVESTMENT: Reconciled plant in service and depreciation expense for each capital project; traced depreciation rates to Commission Order for the last rate case PSC-02-0787-FOF-EI, issued June 10, 2002, Docket No. 010949-EI, which directs use of depreciation rates submitted by the Company in Docket No. 010789-EI (Stipulation issued February 22, 2002); verified separation of dismantlement expense from depreciation expense; obtained the procedures for keeping track of retirement work orders; recalculated recoverable capital investment costs.

EXPENSE: Reconciled operation and maintenance (O&M) expense per the general ledger to the Company's filing; compiled all accounts payable for January, February, and March and traced to supporting vendor invoices; reviewed all legal expenses recovered in the ECRC; verified adjustments made to O&M expenses for costs recovered in base rates per Commission Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, in Docket No. 930613-EI, petition to establish an environmental cost recovery clause.

OTHER: Recalculated the Company's true-up and interest provision for the period ended December 31, 2003; traced interest rates used in the calculation of the interest provision to the 30-day commercial paper rates.

REVENUE: Revenue relating to Fuel Cost Recovery Clause, Purchased Power Capacity Cost Recovery Clause, Environmental Cost Recovery Clause, and Conservation Cost Recovery Clause was audited as part of this docket.

OPERATING CLAUSE REVENUE: Obtained supporting documentation used to record operating revenues for the historical 12-month period ended December 31, 2003. Performed an analytical review of the operating revenue accounts. Compiled retail "FPSC Adjusted" operating revenues for the historical 12-month period ended December 31, 2003. Verified adjustments to operating revenues included in the Company's surveillance report for the year ended December 31, 2003. Verified environmental, fuel, capacity and conservation clause

revenues for the period ended December 31, 2003 to the Earnings Surveillance Report, General Ledger and clause filings. Reviewed the unbilled revenue calculation for January, 2003 and January, 2004. Scanned operating revenue accounts for any unusual entries.

CUSTOMER BILLING: Obtained residential billing data for the month of October, 2003, from the Company. Obtained and checked five manual bills, and found no discrepancies in the calculation of the clause billing. Obtained a sample residential bill as issued to a customer. Compared the bill to the residential tariff and clause orders current at the time that the bill was rendered. Produced a report, using the computerized billing data received from the Company, for Residential Bills rendered in October, 2003, that compared the rate billed for the fuel clause and the energy charge to staff's calculation using the ordered rates.

DISCLOSURES

Disclosure No. 1

Subject: PE 1244, AIR QUALITY ASSURANCE TESTING

Statement of Fact:

The Company added \$61,640.81 to plant-in-service for PE 1244 during February 2003.

The addition to the plant was not amortized in 2003. The plant that existed before the February addition was the only plant amortized.

Order PSC-98-0921-FOF-EI, page 6, paragraph D, contains a proposal by the utility to maintain plant for amortization "by vintage and amortized accordingly." This Order does not mention delaying amortization as the utility did in 2003.

The above statements result in Amortization for PE 1244 being understated by \$7,700.68.

Recommendation:

Increase amortization for Schedule 8A, page 1 by \$7,700.68.

If the utility's addition to PE1244 is to be maintained as a vintage amount, yearly additions should be kept separate and amortized separately.

This adjustment would decrease Company Schedule 2A, End of Period Total Net True-Up \$7,498 and Company Schedule 3A, True-Up Interest \$34.

Disclosure No. 2

Subject: LEGAL EXPENSES

Statement of Fact:

The utility included \$33.34 of legal expenses in Account 50600103, ECRC-Title V, for “Lobbyist Registration Fee – Florida Legislature”. This account is reflected in the utility’s Schedule 5A, line 1.3. filed in this docket. This charge was included on a January, 2003, legal invoice and charged to utility expenses in February, 2003.

The \$33.34 in legal expense for “Lobbyist Registration Fee – Florida Legislature” is not properly recoverable utilizing Account 50600103 ECRC expenses. It should be booked in Account 426 per The Code of Federal Regulations as stated below.

The Code of Federal Regulations [18 CFR Ch. I (4-1-02 Edition)] for account 426 Special Instructions states “These accounts shall include miscellaneous expense items which are nonoperating in nature but which are properly deductible before determining total income before interest charges.”

The Code of Federal Regulations [18 CFR Ch. I (4-1-02 Edition)] for account 426.4 contains expenditures for certain civic, political and related activities, which includes expenditures for the purpose of influencing ... legislation...

Recommendation:

This adjustment is immaterial for this audit, however, the Company should be reminded to be diligent in recording legal expenses properly.

Disclosure No. 3

Subject: FUEL CLAUSE REVENUE ERROR

Statement of Fact: Gulf customers' bills show all the clause revenues on separate lines. The revenue recognized, however, is included with the base rate revenues in a single account. The combined revenue is then allocated to base rates and clauses through a journal entry. The calculation of the monthly fuel clause revenue is performed on an Excel spreadsheet that contains formula calculations. The formulas apply the authorized rate for the clause to the kilowatt hours by customer type and tariff schedule. In September 2003, the spreadsheet cell for calculating the fuel clause revenue for industrial customers billed at the GSD rate that contained a formula was accidentally overwritten with a figure of \$9,727.00. The error was detected and corrected in March 2004. The error included the months of September 2003-February 2004.

As a result of the error, fuel clause revenues, excluding revenue taxes, were understated by \$474,175.76 as of December 31, 2003 and \$230,306.70 for the period of January through February 2004. Base rate revenues were overstated by the same amount that fuel clause revenues were understated. The effect of the adjustment to the fuel clause is to increase fuel clause revenues by \$704,482.46 which reduces Gulf's under recovery. The correction resulted in an accumulated interest credit to the customer of \$1,877.55

Recommendation: The understatement of \$474,175.76 in 2003 and \$230,306.70 in 2004 should be corrected. Staff should verify that the 2004 correction was made.

Disclosure No. 4

Subject: REVENUE CALCULATIONS

Statement of Fact: The clause amounts billed to the customer through the billing system and the clause revenue recognized in the general ledger are calculated differently.

Customers receive bills based on the calculations in the company billing system. The Purchased Power Capacity Clause (PPCC), Environmental Cost Recovery Clause (ECR), Conservation Cost Recovery Clause (ECCR) and the tariff Energy-Demand (Energy) are calculated as individual items within the billing system. However, instead of rolling the together for presentation on the customers' bills, the system uses a separate calculation for the bills. A composite factor (the sum of the PPCC, ECR, ECCR and Energy factors) is multiplied by the KWH. This number appears on the customers' bills on one line. The Fuel Cost Recovery Clause (Fuel) charges are calculated separately and appear as another line on the customers' bills. Since the amount resulting from multiplying the individual or combined clause and tariff factors by the KWH used by the customer is rounded to five decimal places and the amount placed on the customer bills is rounded to two decimal places (dollars and cents), this does result in minor rounding errors at times.

However, instead of summing the respective clause and Energy amounts calculated in the billing data and recording this in the general ledger in the appropriate accounts, the company uses a different method. The company records all amounts billed to the customer as a total revenue amount in Accounts 440, Residential Sales, 442, Commercial and Industrial Sales, and 444 Public Street and Highway Lighting, in the general ledger. Later, in a calculation separate from the billing system, the company uses the total KWH for each customer class, multiplies that by the appropriate clause or tariff factor, calculates the amounts that should be reported as revenue received from the Fuel, PPCC, ECR and ECCR clauses.

The KWH that are billed to the customer and the KWH used to calculate the clause revenues may differ due to the separate calculations.

Recommendation: This disclosure is for informational purposes only.

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount
January 2003 - December 2003

Current Period True-Up Amount
(in Dollars)

Line	Actual January	Actual February	Actual March	Actual April	Actual May	Actual June	Actual July	Actual August	Actual September	Actual October	Actual November	Actual December	End of Period Amount
1 ECRC Revenues (net of Revenue Taxes)	930,949	713,397	742,213	780,800	979,621	1,028,423	1,082,470	1,093,231	966,579	804,182	756,699	1,003,293	10,881,857
2 True-Up Provision (Order No. PSC-02-1735-FOF-EI)	52,770	52,770	52,770	52,770	52,770	52,770	52,770	52,770	52,770	52,770	52,770	52,777	633,247
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	983,719	766,167	794,983	833,570	1,032,391	1,081,193	1,135,240	1,146,001	1,019,349	856,952	809,469	1,056,070	11,515,104
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	735,991	141,780	136,420	131,287	209,342	162,004	110,271	82,603	290,105	217,351	83,374	246,236	2,546,764
b Capital Investment Projects (Schedule 7A, Line 9)	687,994	685,706	684,787	683,299	680,986	678,133	676,033	673,728	671,798	670,232	668,212	672,800	8,134,708
c Total Jurisdictional ECRC Costs	1,423,985	828,486	821,207	814,586	890,328	840,137	786,304	756,331	961,903	887,583	751,586	919,036	10,681,472
5 Over/(Under) Recovery (Line 3 - Line 4c)	(440,266)	(62,319)	(26,224)	18,984	142,063	241,056	348,936	389,670	57,446	(30,631)	57,883	137,034	833,632
6 Interest Provision (Schedule 3A, Line 10)	658	328	219	158	188	301	486	779	934	896	838	881	6,666
7 Beginning Balance True-Up & Interest Provision	633,247	140,869	26,108	(52,667)	(86,295)	3,186	191,773	488,425	826,104	831,714	749,209	755,160	633,247
a Deferred True-Up from January 2002 - December 2002 (Order No. PSC-03-1348-FOF-EI)	229,600	229,600	229,600	229,600	229,600	229,600	229,600	229,600	229,600	229,600	229,600	229,600	229,600
8 True-Up Collected/(Refunded) (see Line 2)	(52,770)	(52,770)	(52,770)	(52,770)	(52,770)	(52,770)	(52,770)	(52,770)	(52,770)	(52,770)	(52,770)	(52,777)	(633,247)
9 End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 8)	370,469	255,708	176,933	143,305	232,786	421,373	718,025	1,055,704	1,061,314	978,809	984,760	1,069,898	1,069,898
10 Adjustments to Period Total True-Up Including Interest	0	0	0	0	0	0	0	0	0	0	0	0	0
11 Current Period Total Net True-Up (Lines 9 + 10)	370,469	255,708	176,933	143,305	232,786	421,373	718,025	1,055,704	1,061,314	978,809	984,760	1,069,898	1,069,898

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount
January 2003 - December 2003

Interest Provision
(in Dollars)

Line	Actual January	Actual February	Actual March	Actual April	Actual May	Actual June	Actual July	Actual August	Actual September	Actual October	Actual November	Actual December	End of Period Amount
1 Beg. True-Up Amount (Schedule 2A, Lines 7 + 7a + 10)	862,847	370,469	255,708	176,933	143,305	232,786	421,373	718,025	1,055,704	1,061,314	978,809	984,760	
2 Ending True-Up Amount Before Interest (Line 1 + Schedule 2A, Lines 5 + 8)	369,811	255,380	176,714	143,147	232,598	421,072	717,539	1,054,925	1,060,380	977,913	983,922	1,069,017	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	1,232,658	625,849	432,422	320,080	375,903	653,858	1,138,912	1,772,950	2,116,084	2,039,227	1,962,731	2,053,777	
4 Average True-Up Amount (Line 3 x 1/2)	616,329	312,925	216,211	160,040	187,952	326,929	569,456	886,475	1,058,042	1,019,614	981,366	1,026,889	
5 Interest Rate (First Day of Reporting Business Month)	0.012900	0.012700	0.012500	0.011800	0.011900	0.012100	0.010900	0.010500	0.010600	0.010600	0.010500	0.010000	
6 Interest Rate (First Day of Subsequent Business Month)	0.012700	0.012500	0.011800	0.011900	0.012100	0.010900	0.010500	0.010600	0.010600	0.010500	0.010000	0.010600	
7 Total of Beginning and Ending Interest Rates (Line 5 + Line 6)	0.025600	0.025200	0.024300	0.023700	0.024000	0.022100	0.020500	0.021100	0.021200	0.021100	0.020500	0.020600	
8 Average Interest Rate (Line 7 x 1/2)	0.012800	0.012600	0.012150	0.011850	0.012000	0.011050	0.010250	0.010550	0.010600	0.010550	0.010250	0.010300	
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.001067	0.001050	0.001013	0.000988	0.001000	0.000921	0.000854	0.000879	0.000883	0.000879	0.000854	0.000858	
10 Interest Provision for the Month (Line 4 x Line 9)	658	328	219	158	188	301	486	779	934	896	838	881	6,666