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COMMISSION CLERK

**DATE:** October 28, 2004

**TO:** Jim Breman, Division of Economic Regulation

**FROM:** Denise N. Vandiver, Bureau Chief
Bureau of Auditing
Division of Regulatory Compliance and Consumer Assistance

**RE:** **Response from: Gulf Power Co.**;
**Docket No.:** 040007-EI; **Audit Purpose:** Environmental Cost Recovery Clause Audit; **Audit Control No.:** 04-044-1-1

Attached is the response from Gulf Power Company to the audit disclosures contained in the final audit report distributed on August 10, 2004.

DV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of Commission Clerk and Administrative Services (2)
Competitive Markets and Enforcement (Harvey)
Office of General Counsel
Office of Public Counsel

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Susan D. Ritenour, Regulatory Manager
Gulf Power Company
One Energy Place
Pensacola, FL 32520-0781

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FPSC-COMMISSION CLERK

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GULF POWER
A SOUTHERN COMPANY

August 23, 2004

Mr. Mike Buckley
Division of Compliance and Consumer Assistance
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0850

Dear Mike:

RE: 040007-EI, Environmental Cost Recovery Clause Audit

The Company has reviewed your audit report, Audit Control No. 04-044-1-1, dated August 10, 2004, in the above referenced docket. Attached is Gulf's response to Disclosures No. 1-4.

If you have any questions, please feel free to give me or Terry Davis a call.

Sincerely,

Susan D. Ritenour

lw

Attachment

cc: Florida Public Service Commission
Jim Breman

RECEIVED
AUG 25 2004
Florida Public Service Commission
Division of RCA

**Gulf Power Company**
**Environmental Cost Recovery Clause Audit**
**Docket 040007-EI**
**Disclosure No. 1 with company response**

**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.

**Company response:**

Per Order No. 19901, Docket No. 880053-EI of the 1988 Depreciation Study attached:

> Amortization is booked by each vintage year's net additions (i.e. net salvage associated with investments should be netted against the additions in the year of occurrence), E.g. 1988 vintage additions will be amortized over 7 years, 1989 additions will be amortized over 7 years. Vintage additions are not known until the end of the year of occurrence. Therefore, amortization of the vintage additions begins in January of the year following the vintage additions. Retirements are booked upon completion of the amortization. The company has consistently treated amortized property using this method without any concerns by the FPSC.

DEPRECIATION RATES AND COMPONENTS - ATTACHMENT 1

The depreciation components for production plant are based on current planning estimates of retirement dates and interim retirement patterns for each plant site. This represents Gulf's first step towards stratification in its development of interim retirement patterns for each plant site. As discussed previously, prior approved components and rates were developed on a primary account basis and represented the composite of all individual plant sites. Our Staff endorses the concept of determining components by stratification into groups of assets with similar lives as it allows a more accurate assessment of capital recovery needs. We concur with Staff's endorsement and find that the rates proposed by Gulf correctly represent an initial step towards this result.

The major differences between the rates we approved on an interim basis and those we are now approving are due to our use of updated data, the selection of different lives and salvages for some Transmission, Distribution and General plant accounts, and revised estimates of dismantling costs at Plants Daniel and Scherer. We agree with our Staff that the dismantling cost estimates for these two plants were understated by Gulf and we approve those estimates shown in Attachment 1.

AMORTIZATION SCHEDULES - ATTACHMENT 2

In accordance with the retirement unit rule (Rule 25-6.0142, Florida Administrative Code) for electric utilities, certain general plant assets are to be amortized over a set time period in lieu of maintaining detailed property records. The amortization schedules for the embedded net investments of each of these equipment types, associated amortization period and the resultant annual expense are shown on Attachment 2. On a going-forward basis, each vintage year's additions associated with this equipment will be amortized over a similar time period (e.g., 1988 vintage additions of communications equipment will be amortized over 7 years, 1989 vintage additions will be amortized over 7 years). In order to simplify record keeping, any net salvage amounts associated with these amortized investments should be netted against the additions in the year of occurrence, also the investments being amortized should be retired from the books on completion of their amortization.

In consideration of the above, it is

ORDERED by the Florida Public Service Commission that the depreciation rates and amortization schedules set forth in Attachments 1 and 2 to this Order are approved for Gulf Power Company. It is further

ORDERED that the corrective reserve transfers set forth in the body of this Order are approved. It is further

ORDERED that the accumulated and on-going interest synchronization of Job Development Investment Tax Credits amounts shall be applied as described in the body of this Order. It is further

ORDERED that the depreciation expenses recorded under the interim rates and schedules authorized by Order No. 19152 shall be trued-up to reflect the incremental difference between the interim rates and schedules and those approved in this Order. It is further

ORDERED that the effective date of the new rates and schedules is January 1, 1988. It is further

ORDERED that this Order shall become final unless a petition for formal proceeding is received by the close of business on September 20, 1988.

**Gulf Power Company**
**Environmental Cost Recovery Clause Audit**
**Docket 040007-EI**
**Disclosure No. 2 with company response**

**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.

**Company response:**

The lobbying charges of $33.34 were incorrectly booked to the Environmental Cost Recovery Clause (ECRC) and subsequently removed. This charge was included on a January, 2003 legal invoice and mistakenly charged to an ECRC account. As stated above the $33.34 has been removed from the ECRC account and properly journaled to a non-ECRC account.

**Gulf Power Company**
**Environmental Cost Recovery Clause Audit**
**Docket 040007-EI**
**Disclosure No. 3 with company response**

**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.

**Company response:**

Gulf detected and corrected this error in the fuel clause revenue calculation in March 2004; consequently, the estimated true-up filed with the FPSC in August 2004 reflects the correct amounts. To prevent a similar error in the future, the cells containing formula calculations and rate factors in the spreadsheet used to calculate clause revenues have been locked. Also, additional verification of the revenue calculation is being performed to help ensure accurate calculations.

**Gulf Power Company**
**Environmental Cost Recovery Clause Audit**
**Docket 040007-EI**
**Disclosure No. 4 with company response**

**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 error 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 of tariff factor, calculated 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.

**Company response:**

In calculating the customer's bill, CSS (Customer Service System) sums the factors for the Energy (base rate), ECCR, PPCC, and ECR and multiplies the sum of these factors times the kWh usage. This calculated revenue amount is billed to the customer and booked in the company's General Ledger. However, for reporting bill details within CSS, the system then calculates the individual components and sums them to compares this total to the billed and booked amount based on the sum of the factors. If there is a difference, the ECCR amount in CSS is rounded up or down to ensure that the individual amounts sum to the billed amount. An example would be as follows:

kWh Usage = 1100

Individual Calculations:

| | | |
|---|---|---|
| RS Energy Factor = | .0393 * 1100 = | 43.23 |
| PPCC Factor | .00095 * 1100 = | 1.05 |
| ECR Factor | .00105 * 1100 = | 1.16 |
| ECCR Factor | .00061 * 1100 = | .67 |
| Sum of Factors | **.04191** | 46.11 |

Billed Energy and Adders:
1100 * **.04191** = 46.10

As a result of the comparison of the two calculations above, ECCR would be rounded down to .66 in order to agree with the billed amount of $46.10.

The total kWh usage by class and tariff rate is provided to Financial and Regulatory Reporting for the calculation of the over or under recovery amounts for each of the clauses. This calculation is performed based on total kWh usage for the specific class and tariff. An example would be if there were 100 customers which were billed 1100 kWh. The total of the 100 customers would be as follows:
Billed Energy and Adders:
(100*1100) * **.04191** = $4,610.10

The clause information would be calculated as follows:

| | | |
|---|---|---|
| RS Energy Factor = | .0393 * 110000 = | 4,323.00 |
| PPCC Factor | .00095 * 110000 = | 104.50 |
| ECR Factor | .00105 * 110000= | 115.50 |
| ECCR Factor | .00061 * 110000 = | 67.10 |
| Sum of Factors | **.04191** | 4,610.10 |

This results in no difference between the revenue billed to the clauses as calculated by Financial and Regulatory Reporting. The kWh used to calculate the clause revenues is the same kWh used to bill in CSS.