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

DATE: May 22, 2008
TO: Jenny X. Wu, Economic Analyst, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: Docket No: 080007-EI; Company Name: Gulf Power Company;
Audit Purpose: Environmental Cost Recovery Clause; Company Code; EI804;
Audit Control No: 08-029-1-1:

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 Commission Clerk. There are no confidential work papers associated with this audit.

DNV:bj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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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 CLAUSE AUDIT

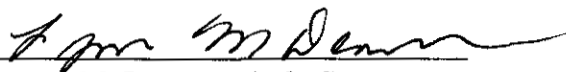
TWELVE MONTH PERIOD ENDED DECEMBER 31, 2007

DOCKET NO. 080007-EI

AUDIT CONTROL NO. 08-029-1-1



Debra M. Dobiak, Audit Staff



Lynn M. Deamer, Audit Supervisor

DOCUMENT NUMBER-DATE
04433 MAY 23 8
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DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE

AUDITOR'S REPORT

May 8, 2008

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Gulf Power Company in support of its filing for Environmental Cost Recovery Clause (ECRC) True-Up for the 12-month period ending December 31, 2007, Docket No. 080007-EI.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES:

REVENUES

Objective: To determine that the revenue filed by the company for each cost recovery clause is supported by company documentation and agrees to the general ledger. To verify that the appropriate clause factors are utilized by the company in billing the customers.

Procedures: ECRC revenues were audited jointly with the revenue portions of the other clause audits of Gulf Power Company. The work product is contained in Docket No. 080001-EI, ACN: 08-003-1-1.

EXPENSES

O & M Expenses

Objective: To verify that the company's ECRC O&M expenses for the year ended December 31, 2007 are representative of management's assertions displayed in the books and records.

Procedures: The audit staff recomputed the company's O&M expenses from the monthly general ledger and agreed it to the company's filing Schedule 5A. Verified adjustments to O&M expenses for costs recovered in base rates as per FPSC Order PSC-94-0044-FOF-EI, issued January 12, 1994. Compiled a sample of expenses and traced them to supporting vendor invoices.

SO2 Expenses

Objective: To verify that the company's ECRC SO2 expenses & revenues for the year ending December 31, 2007 are representative of its books and records.

Procedures: Obtained a schedule, by month, of the SO2 allowance expenses for 2007 including revenues, inventory, expensed amounts, and the amount included in working capital. Recomputed and traced the emission allowances to Schedule 8A, page 28 of 28 of the company's filing and the general ledger.

Depreciation Expense

Objective: To verify the company's ECRC depreciation on Schedule 8A is correctly computed and omits dismantlement expense for the period ended December 31, 2007.

Procedures: Obtained supporting company documents calculating depreciation and amortization amounts by month for 2007. Obtained a copy of the Depreciation and Dismantlement Study filed in Docket No. 050381-EI, FPSC Order PSC-06-0348-PAA-EI, issued May 19, 2006, and FPSC Order PSC-07-0012-PAA-EI, issued January 2, 2007. Recalculated monthly depreciation expense excluding

dismantlement expense, and agreed it to company filing for Plant Expenditure's (PE's) on Schedule 8A.

TRUE-UP

Objective: To determine if the true-up calculation and interest provision for the period ended December 31, 2007 as filed with this Commission was calculated correctly.

Procedures: Recalculated the company's total true-up and interest provision for the period ended December 31, 2007 and agreed it to the company filing Schedule 2A. Traced the beginning true-up amount to the 2006 ECRC audit and the true-up provision to FPSC Order PSC-06-0972-FOF-EI, issued November 22, 2006. Agreed rates used to calculate interest provision to the Wall Street Journal 30 day commercial paper rates.

INVESTMENT

Objective: To verify that the company's Capital Investment Projects for the year ended December 31, 2007 are representative of management's assertions displayed in the books and records. To verify that where an ECRC project involves the replacement of existing plant assets, the company is retiring the installed cost of replaced units according to Rule 25-6.0142(4)(b), F.A.C.

Procedures: Generated a schedule which recalculated the Capital Investment Projects recoverable through the ECRC and agreed it to the company filing Schedule 7A. Agreed the total jurisdictional recoverable costs of Capital Investment Projects to the recalculation of company's true-up. Recalculated the appropriate energy jurisdictional factors for each month and agreed all Capital Investment Projects, depreciation expense, accumulated depreciation, and plant in service balances to Schedule 8A.

OTHER

Deferred Accounting

Objective: To report any deferred accounting treatment that Gulf Power Company (GPC) may have implemented for expenses incurred for approved ECRC projects.

Procedures: Obtained source documentation of plant expenditures not included in the 2007 filing which were recorded in a deferred account. Obtained FPSC Order PSC-07-0721-S-EI, issued September 5, 2007, which notes approval for GPC's CAIR and CAMR projects. Traced deferred amounts to FERC Account 183, Preliminary survey and investigation charges, for four future projects that had preliminary expenditures during 2007 to the Journal Summary Detail Report.

Positive Accumulated Depreciation

Objective: To verify all Positive Accumulated Depreciation (negative depreciation expense).

Procedures: Obtained a list of all Plant Expenditures (PE) with debit balances in accumulated depreciation from the company as of December 31, 2007 by month. Analyzed the company's explanation as to the cause of these debit balance(s) in PE accumulated depreciation.

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount
January 2007 - December 2007

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)	3,365,831	3,065,975	2,996,329	2,988,676	3,728,111	4,231,777	4,564,048	5,003,301	3,971,018	3,614,292	2,958,591	3,247,526	43,741,674
2 True-Up Provision (Order No. PSC-06-0972-POF-EI)	377,814	377,814	377,814	377,814	377,814	377,814	377,814	377,814	377,814	377,814	377,814	377,809	4,533,763
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	3,743,645	3,443,789	3,374,143	3,366,490	4,105,925	4,615,591	4,941,862	5,381,315	4,348,832	3,992,106	3,336,405	3,625,335	48,275,437
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	909,280	1,859,401	1,389,700	999,142	1,306,224	1,589,432	1,672,102	1,476,123	1,312,233	1,376,431	1,142,019	1,267,269	16,338,356
b Capital Investment Projects (Schedule 7A, Line 9)	2,487,325	2,543,601	2,542,041	2,554,732	2,574,053	2,730,204	2,877,415	2,872,126	3,864,391	2,862,057	2,844,800	2,853,785	32,606,330
c Total Jurisdictional ECRC Costs	3,396,605	4,403,002	3,931,741	3,553,874	3,880,277	4,319,636	4,549,517	4,348,249	4,176,624	4,238,488	3,986,819	4,121,054	48,944,686
5 Over(Under) Recovery (Line 3 - Line 4c)	347,040	(959,213)	(557,598)	(187,384)	225,648	295,955	392,345	1,033,066	172,408	(246,382)	(650,414)	(495,719)	(669,249)
6 Interest Provision (Schedule 3A, Line 10)	29,736	26,327	20,955	17,759	16,264	15,855	15,744	17,841	18,699	15,426	11,753	8,268	214,536
7 Beginning Balance True-Up & Interest Provision													
a Actual Total for True-Up Period 2006	5,133,105	5,132,067	3,589,625	2,675,168	2,127,728	1,991,826	1,925,822	1,956,097	2,629,190	2,442,393	1,833,633	817,148	5,133,105
b Final True-Up from January 2005 - December 2005 (Order No. PSC-06-0972-POF-EI)	1,659,043	1,659,043	1,659,043	1,659,043	1,659,043	1,659,043	1,659,043	1,659,043	1,659,043	1,659,043	1,659,043	1,659,043	1,659,043
8 True-Up Collected/(Refunded) (see Line 2)	(377,814)	(377,814)	(377,814)	(377,814)	(377,814)	(377,814)	(377,814)	(377,814)	(377,814)	(377,814)	(377,814)	(377,809)	(4,533,763)
9 Adjustments		(192,742)											(192,742)
10 End of Period Total True-Up (Lines 5 + 6 + 7a + 7b + 8 + 9)	6,791,110	5,248,668	4,334,211	3,786,771	3,650,869	3,584,855	3,615,140	4,288,233	4,101,436	3,492,666	2,476,191	1,610,930	1,610,930

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount
January 2007 - December 2007

Interest Provision
(in Dollars)

<u>Line</u>	<u>Actual</u> <u>January</u>	<u>Actual</u> <u>February</u>	<u>Actual</u> <u>March</u>	<u>Actual</u> <u>April</u>	<u>Actual</u> <u>May</u>	<u>Actual</u> <u>June</u>	<u>Actual</u> <u>July</u>	<u>Actual</u> <u>August</u>	<u>Actual</u> <u>September</u>	<u>Actual</u> <u>October</u>	<u>Actual</u> <u>November</u>	<u>Actual</u> <u>December</u>	<u>End of</u> <u>Period</u> <u>Amount</u>
1 Beg. True-Up Amount (Schedule 2A, Lines 7a + 7b)	6,792,148	6,791,110	5,248,668	4,334,211	3,786,771	3,650,869	3,584,865	3,615,140	4,288,233	4,101,436	3,892,666	2,476,191	
2 Ending True-Up Amount Before Interest (Line 1 + Schedule 2A, Lines 5 + 8 + 9)	6,761,374	5,222,341	4,313,256	3,769,013	3,634,605	3,569,010	3,599,396	4,270,392	4,082,827	3,477,240	2,464,438	1,607,662	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	13,553,522	12,013,451	9,561,924	8,103,224	7,421,376	7,219,879	7,184,261	7,885,532	8,371,660	7,578,676	5,957,103	4,078,853	
4 Average True-Up Amount (Line 3 x 1/2)	6,776,761	6,006,726	4,780,962	4,051,612	3,710,688	3,609,940	3,592,131	3,942,766	4,185,530	3,789,338	2,978,552	2,039,427	
5 Interest Rate (First Day of Reporting Business Month)	0.052700	0.052600	0.052600	0.052600	0.052600	0.052600	0.052800	0.052400	0.056200	0.050500	0.047200	0.047500	
6 Interest Rate (First Day of Subsequent Business Month)	0.052600	0.052600	0.052600	0.052600	0.052600	0.052800	0.052400	0.056200	0.050500	0.047200	0.047500	0.049800	
7 Total of Beginning and Ending Interest Rates (Line 5 + Line 6)	0.105300	0.105200	0.105200	0.105200	0.105200	0.105400	0.105200	0.108600	0.106700	0.097700	0.094700	0.097300	
8 Average Interest Rate (Line 7 x 1/2)	0.052650	0.052600	0.052600	0.052600	0.052600	0.052700	0.052600	0.054300	0.053350	0.048450	0.047350	0.048650	
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.004388	0.004383	0.004383	0.004383	0.004383	0.004392	0.004383	0.004525	0.004446	0.004071	0.003946	0.004054	
10 Interest Provision for the Month (Line 4 x Line 9)	29,736	26,327	20,955	17,758	16,264	15,835	15,744	17,841	18,609	15,426	11,753	8,268	214,536