

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

6 MONTHS ENDED SEPTEMBER 30, 1996

FIELD WORK COMPLETED

JUNE 13, 1997

GULF POWER COMPANY

PENSACOLA, FLORIDA

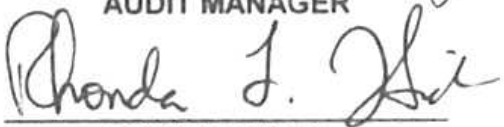
ESCAMBIA COUNTY

ENVIRONMENTAL COST RECOVERY CLAUSE

DOCKET 970007-EI

AUDIT CONTROL NUMBER 97-064-1-1


MICHAEL E. BUCKLEY
AUDIT MANAGER


RHONDA HICKS
REGULATORY ANALYST SUPERVISOR
TALLAHASSEE DISTRICT OFFICE

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FPSU RECORDS REPORTING

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I. Executive Summary

Audit Purpose: We have applied the procedures described in Section II of this report to audit the appended Environmental Cost Recovery Clause Filing Schedules 1A, 2A, and 3A filed by Gulf Power Company in support of Docket 970007-EI for the six months ended September 30, 1996

Disclaim Public Use: This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must not be relied on 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 audit standards and produce audited financial statements for public use.

Opinion: Subject to the audit disclosures; the appended exhibits, Schedule 1A, Schedule 2A, and Schedule 3A for the six months ended September 30, 1996, represent utility books and records maintained in substantial compliance with Commission Directives; the expressed opinions extend only to the scope of work described in section II of this report.

Summary Findings: 10% of construction invoices are retained and treated as Investment before being paid.

SO2 Allowances do not agree with the General Ledger by approximately (\$2,842)

Legal expenses have more than tripled to a total of \$25,154 on an annualized basis.

Expenses charged to ECRC are overstated by \$17,297 and investment is understated by \$10,174 due to accounting errors

II. Audit Scope

The opinions contained in this report are based on the audit work described below. When used in this report, the following definitions shall apply:

COMPILED - The audit staff reconciled exhibit amounts with the general ledger, visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and, except as noted performed no other audit work.

ENVIRONMENTAL INVESTMENT: Compiled additions to plant in service and construction work in progress for each Clean Air Act and Non Clean Air Act Plant Expenditure (PE); analyzed the computation of recoverable costs for SO₂ Emission Allowances recorded on the Company's books.

ENVIRONMENTAL REVENUES: Compiled ECRC revenues; traced the KWH used to compute ECRC revenues for the six months ended September 30, 1996, to the Operating Report; traced the environmental cost recovery factors used to compute ECRC revenues to the applicable Commission order for the six months ended September 30, 1996 and to the Company's tariff.

ENVIRONMENTAL EXPENSES: Compiled and recalculated O&M expenses for the six months ended September 30, 1996; examined all of Gulf's and a subjective sample of Southern Company Services'(SCS) April 1996 to September 1996 invoices to determine whether they were recoverable through the ECR Clause; recalculated depreciation and dismantlement expense from April 1996 through September 1996; traced the depreciation and dismantlement rates used by the Company to the FPSC order prescribing these rates.

OTHER: Reconciled true-up and interest provision for the six months ended September 30, 1996; traced interest rates used in the calculation of the interest provision to the 30 Day Commercial Paper Rate.

III. Audit Disclosures

AUDIT DISCLOSURE NO. 1

SUBJECT: Retainage

STATEMENT OF FACTS: Gulf Power Company retains 10% of the payment for all invoices from construction vendors to insure contract performance. The Company identifies this as retainage. Gulf receives a rate of return on 100% of its investment through the ECRC. Gulf also depreciates 100% of the Investments in ECRC, and receives a 100% return on the related depreciation expense. At the conclusion of the construction project, Gulf records 100% of the investment, which includes retainage. The retainage is not paid until Gulf is satisfied with the performance. Sometimes the payment is not made until several months after the construction is put into service.

For the period April through September 1996, Gulf estimated the return from retained amounts was \$34,697 and from depreciation was \$8,833.

OPINION: The ECRC allows a return on investment and a 100% return on depreciation expense. Gulf's inclusion of retainage in its ECRC investment prior to payment, results in an overrecovery because the Company is earning a return on monies not actually paid.

AUDIT DISCLOSURE NO. 2

SUBJECT: SO2 Allowances

STATEMENT OF FACT: SO2 Allowances listed on Schedule 8A, Line 2, Page 16 of 16 for July, August and September 1996 do not equal the General Ledger as follows

July	1996	\$ (495 63)
August	1996	\$ (955 14)
September	1996	<u>\$(1,391.61)</u>
		\$(2,842.38)

AUDITOR OPINION: The SO2 Allowance Investment credit is understated. Failure to record proper SO2 Allowances may result in overrecovery.

AUDIT DISCLOSURE NO. 3

SUBJECT: Legal Expenses

STATEMENT OF FACT: Gulf has charged \$12,577 to ECRC for legal expenses for the six months ended September 1996.

AUDITOR OPINION: The previous audit disclosed \$8,275 in legal expenses for the year April 1995 through March 1996. The current legal expense charges have more than tripled to \$25,154 on an annualized basis.

AUDIT DISCLOSURE NO. 4

SUBJECT: O & M Expenses

STATEMENT OF FACT: The auditor questioned several expenses the Company included for recovery through ECRC. Gulf Power responded that the following adjustments should be made:

Meal	(\$ 15 69)
Split between ECRC and Non-ECRC	(\$ 168 80)
Meal	(\$ 8 00)
Non-ECRC	(\$ 323 40)
25% Mark-up	(\$ 564 00)
Keypunch Error	(\$ 6,043 00)
Expense should be Capitalized	<u>(\$ 10,174 24)</u>
TOTAL	<u>(\$ 17,297 13)</u>

AUDITOR OPINION: The audit staff recommends that these expenses be adjusted. Gulf has stated these adjustments will be made to the ECRC accounts and \$10,174 that was expensed will be capitalized.

Schedule 1A

Gulf Power Company
 Environmental Cost Recovery Clause (ECRC)
 Calculation of the Final True-Up Amount for the Period
 April 1996 - September 1996

Line No.	Period Amount (\$)
	<hr/>
1	End of Period Actual Total True-Up for the Period April 1996 - September 1996 (Schedule 2A, Lines 5 + 6 + 10)
	924,739
2	Estimated/Actual True-Up Amount approved April 1996 - September 1996 (Order No. PSC-96-1171-FOF-EI)
	<hr/> 399,066
3	Final True-Up Amount to be refunded/(recovered) in the projection period October 1997 - September 1998 (Line 1 - Line 2)
	<hr/> <hr/> 525,673

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount for the Period
April 1996 - September 1996

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

Line	April	May	June	July	August	September	End of Period Amount
1 ECRC Revenues (net of Revenue Taxes)	697,642	944,668	1,020,032	1,135,938	1,081,234	928,881	5,808,395
2 True-Up Provision (Order No. PSC-96-0361-FOF-EI)	5,127	5,127	5,127	5,127	5,126	5,126	30,760
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	702,769	949,795	1,025,159	1,141,065	1,086,360	934,007	5,839,155
4 Jurisdictional ECRC Costs							
a O & M Activities (Schedule 5A, Line 9)	124,702	100,286	124,603	195,022	145,062	100,155	789,830
b Capital Projects (Schedule 7A, Line 9)	718,702	719,491	721,490	716,774	716,868	714,165	4,307,490
c Total Jurisdictional ECRC Costs	843,404	819,777	846,093	911,796	861,930	814,320	5,097,320
5 Over/(Under) Recovery (Line 3 - Line 4c)	(140,635)	130,018	179,066	229,269	224,430	119,687	741,835
6 Interest Provision (Schedule 3A, Line 10)	3,622	3,558	4,294	5,243	6,212	6,988	29,917
7 Beginning Balance True-Up & Interest Provision	30,760	41,607	170,056	348,289	577,674	803,190	30,760
a Deferred True-Up from October 1995 - March 1996 (Order No. PSC-96-1171-FOF-EI)	686,617	686,617	686,617	686,617	686,617	686,617	686,617
8 True-Up Collected/(Refunded) (See line 2)	(5,127)	(5,127)	(5,127)	(5,127)	(5,126)	(5,126)	(30,760)
9 End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 8)	575,237	856,673	1,034,906	1,264,291	1,489,807	1,611,356	1,458,369
10 Adjustments to Period Total True-Up Including Interest							
a Adjustment to PE 1216, Crist 7 Precipitator Upgrade	152,563						152,563
b O & M Adjustment	424						424
11 End of Period Total Net True-Up (Lines 9 + 10)	728,224	856,673	1,034,906	1,264,291	1,489,807	1,611,356	1,611,356

Note: April & May's capital costs were revised subsequent to the estimated true-up (Schedule 42-2E filed June 24, 1996) to reflect an audit adjustment to PE 1216

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount for the Period
April 1996 - September 1996

Interest Provision
(in Dollars)

Line	April	May	June	July	August	September	6-Month Total
1 Beginning True-Up Amount (Sch 2A, Lines 7 + 7a + 10)	870,364	728,224	856,673	1,034,906	1,264,291	1,489,807	
2 Ending True-Up Amount Before Interest (Line 1 + Sch 2A, Lines 5 + 8)	724,602	853,115	1,030,612	1,259,048	1,483,595	1,604,368	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	1,594,966	1,581,339	1,887,285	2,293,954	2,747,886	3,094,175	
4 Average True-Up Amount (Line 3 x 1/2)	797,483	790,670	943,643	1,146,977	1,373,943	1,547,088	
5 Interest Rate (First Day of Reporting Business Month)	0.055000	0.054000	0.054000	0.055200	0.054500	0.054000	
6 Interest Rate (First Day of Subsequent Business Month)	0.054000	0.054000	0.055200	0.054500	0.054000	0.054400	
7 Total of Beginning & Ending Interest Rates (Line 5 + Line 6)	0.109000	0.108000	0.109200	0.109700	0.108500	0.108400	
8 Average Interest Rate (Line 7 x 1/2)	0.054500	0.054000	0.054600	0.054850	0.054250	0.054200	
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.004542	0.004500	0.004550	0.004571	0.004521	0.004517	
10 Interest Provision for the Month (Line 4 x Line 9)	3,622	3,558	4,294	5,243	6,212	6,988	29,917

State of Florida

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
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J. TERRY DEASON
JOE GARCIA
DIANE K. KIESLING



DIVISION OF RECORDS &
REPORTING
BLANCA S. BAYÓ
DIRECTOR
(904) 413-6770

Public Service Commission

June 23, 1997

Ms. Susan D. Cranmer
Gulf Power Company
Post Office Box 13470
Pensacola, Florida 32591-3470

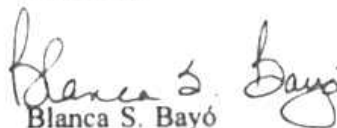
Re: Docket No. 970007-EI -- Gulf Power Company
Environmental Cost Audit Report - Period Ended September 30, 1996
Audit Control # 97-064-1-1

Dear Ms. Cranmer:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,


Blanca S. Bayó

BSB/DNV/cls
Enclosure
cc: Public Counsel
Beggs and Lane Law Firm