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FILE COPY

GULF POWER
A SOUTHERN COMPANY

July 2, 1997

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

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

Attached is Gulf Power Company's response to the above mentioned audit report. If you have any questions, please contact David Elder, Internal Auditing Director, at 850-444-6323.

Sincerely,

Susan D. Cranmer

Susan D. Cranmer
Assistant Secretary and Assistant Treasurer

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Attachment

06778 JUL-3

Audit Disclosure No. 1

Subject: Retainage

Statement of Facts: Gulf Power 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.

Company Response

It is Gulf Power Company's position that these retained amounts are properly included in the investment balances and should not be excluded for purposes of calculating depreciation or carrying cost. Gulf maintains its books and records in accordance with Generally Accepted Accounting Principles (GAAP) and in accordance with the Code of Federal Regulation, Title 18. The FPSC has under Rule 25-6.014 and 25-6.0142 adopted CFR Title 18. Implicit in the adoption of CFR 18 is adoption of accrual based accounting contained therein. Inclusion of retained accounts in the investment balances is consistent with accrual based accounting and CFR Title 18. Basically, 100% of an invoice is recorded to the appropriate workorder or expense account, and the unpaid retainage is established as a current liability (FERC 232). As such, this liability is recognized in the working capital determination for base rates and surveillance purposes, i.e., the customer is given credit for the deferred payment in base rates.

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	$ (495.63)
August	$ (955.14)
September	$(1,391.61)
	$(2,842.38)

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

Company Response

For the months July, August, and September, Daniel units 1 and 2 allowances were inavertently recorded at 100% instead of Gulf's 50%. The Company found and corrected the error in November 1996, and informed the auditor of this correction during the course of the audit.

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 expenses charges have more than tripled to $25,154 on an annualized basis.

Company Response

Due to continued state regulatory changes, modifications and revisions in the implementation of the Clean Air Act Amendment Title V provisions, Gulf has incurred additional legal fees in order to assure compliance with the new regulatory initiatives on Title V.

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 resonded 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		(10,174.24)
	$	(17,297.13)

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.

Company Response

Gulf agrees with all amounts with the exception of the 25% mark up of $564.00, and the expense to be capitalized in the amount of $10,174.24. The correct amount of the 25% mark up to be removed from recovery is $206.65 and the amount to be capitalized is $11,369.65. The capitalized amount will be included in the ECRC calculation, since it relates to an approved activity.