

MEMORANDUM

April 6, 1998

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NO. 980007-EI -- GULF POWER COMPANY  
ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT REPORT  
AUDIT CONTROL NO. 98-022-1-1

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The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

Gulf Power Company  
Susan D. Cranmer  
One Energy Place  
Pensacola, FL 32520-0780

DNV/sp

Attachment

cc: Chairman Johnson  
Commissioner Clark  
Commissioner Deason  
Commissioner Garcia  
Commissioner Jacobs  
Mary Andrews Bane, Deputy Executive Director/Technical  
Legal Services  
Division of Auditing and Financial Analysis (Devlin/Causseaux/  
File Folder)  
Division of Electric and Gas (Tew)  
Tallahassee District Office (Hicks)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE

03992 APR-7 88

FPSC-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
BUREAU OF AUDITING*

*Tallahassee District Office*

GULF POWER COMPANY

ENVIRONMENTAL COST RECOVERY CLAUSE

HISTORICAL YEAR ENDED SEPTEMBER 30, 1997

DOCKET NO. 980007-EI

AUDIT CONTROL NO. 98-022-1-1

*Robert T. Moore*

*Bob Moore, Audit Manager*

*Edward D. Bass*

*Edward Bass, Audit Staff*

*Rhonda J. Hicks*

*Rhonda Hicks, Audit Supervisor*

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
AUDITOR'S REPORT**

**APRIL 3, 1998**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit the appended Environmental Cost Recovery Clause Filing Schedules 2A and 3A for the historical 12-month period ended September 30, 1997, for Gulf Power Company. These schedules were prepared by the utility as part of its request for environmental cost recovery as filed in Docket No. 980007-EI. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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.

In our opinion, the schedules referred to above present fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

## 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.

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

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**INVESTMENT:** Scanned additions to plant in service and construction work in progress; verified judgmental sample of plant additions; agreed depreciation rates to prior audit; tested separation of dismantlement expense from depreciation expense; recalculated plant recoverable costs; verified plant additions per utility filing schedule 8A; tested for capitalized minor item replacements.

**REVENUES:** Recalculated revenue.

**EXPENSES:** Reconciled operation and maintenance (O&M) expenses from subsidiary ledgers to the filing; verified sampled O&M expenses to invoices; verified the level of costs recovered through base rates are deducted from environmental O&M expenses.

**OTHER:** Recalculated true-up and interest provision; verified interest rates used in the calculation of the interest provision; reconciled cost of capital to cost of capital approved in the utility's last rate order.

## DISCLOSURE

### Disclosure No. 1

**Subject: Fuel Tanks**

**Statement of Fact:** The utility installed new above ground fuel tanks with plant costs of \$9,630 in October, 1996 and \$48,511 in November, 1996. These tank costs appear in the utility's filing on Schedule 3A, page 15, as environmental cost recovery plant.

The new fuel tanks replaced underground fuel tanks not capitalized in environmental cost recovery plant.

The utility decided to replace the underground fuel tanks based on risk management analysis of Florida Department of Environmental Protection rule 62-761, which regulates storage tank systems.

**Recommendation:** Reconsider allowing capitalization of new fuel tanks as environmental cost recovery plant. Both new and old fuel tanks share identical purposes and functions. New plant should be capitalized in the same manner as old plant - outside of Environmental Cost Recovery.

**Gulf Power Company**  
**Environmental Cost Recovery Clause (ECRC)**  
**Calculation of the Final True-Up Amount for the Period**  
**October 1996 - September 1997**

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

Line	October	November	December	January	February	March	April	May	June	July	August	September	End of Period Amount
1 ECRC Revenues (net of Revenue Taxes)	711,708	669,732	826,456	800,722	673,931	683,143	661,158	801,028	905,141	1,080,359	1,062,744	1,031,080	9,906,202
2 True-Up Provision (Order No. PSC-96-1171-POF-EI)	90,473	90,473	90,473	90,473	90,473	90,473	90,473	90,474	90,474	90,474	90,475	90,475	1,085,683
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	802,181	760,205	916,929	891,195	763,404	773,616	751,631	891,502	995,615	1,170,833	1,153,219	1,121,555	10,991,885
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	164,332	322,281	584,153	128,477	297,990	71,049	60,901	82,497	68,391	136,898	71,087	176,726	2,164,782
b Capital Projects (Schedule 7A, Line 9)	712,808	712,650	708,156	713,488	714,526	713,331	696,155	693,815	692,854	690,406	690,916	689,870	8,430,275
c Total Jurisdictional ECRC Costs	877,140	1,034,931	1,292,309	841,965	1,012,516	784,380	757,056	776,312	761,245	828,304	762,003	866,596	10,595,057
5 Over/(Under) Recovery (Line 3 - Line 4c)	(74,959)	(274,726)	(375,380)	49,230	(249,412)	(10,764)	(5,425)	115,190	234,370	342,529	391,216	254,959	396,828
6 Interest Provision (Schedule 3A, Line 10)	6,571	5,813	4,172	2,987	2,801	1,037	593	422	818	1,745	3,826	4,102	33,687
7 Beginning Balance True-Up & Interest Provision	1,085,683	944,958	585,572	123,891	85,635	(252,249)	(352,449)	(447,754)	(422,616)	(277,902)	(24,102)	279,665	1,085,683
a Deferred True-Up from April 1996 - September 1996 (Order No. PSC-97-1067-POF-EI)	525,673	525,673	525,673	525,673	525,673	525,673	525,673	525,673	525,673	525,673	525,673	525,673	525,673
8 True-Up Collected/(Refunded) (See line 2)	(90,473)	(90,473)	(90,473)	(90,473)	(90,473)	(90,473)	(90,473)	(90,474)	(90,474)	(90,474)	(90,475)	(90,475)	(1,085,683)
9 End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 8)	1,452,895	1,111,245	649,564	611,308	273,424	173,224	77,919	103,057	247,771	501,571	805,338	973,924	956,188
10 Adjustments to Period Total True-Up Including Interest													
a Adjustment to PE 1007, per audit	17,981												17,981
b O & M Adjustment, per audit	(245)												(245)
11 End of Period Total Net True-Up (Lines 9 + 10)	1,470,631	1,111,245	649,564	611,308	273,424	173,224	77,919	103,057	247,771	501,571	805,338	973,924	973,924

Note: Actual capital costs for October - April were revised subsequent to the estimated true-up (Schedule 42-2E dated August 4, 1997) to reflect an audit adjustment to PE 1007.

**Gold Plover Company**  
**Environmental Cost Recovery Clause (ECRC)**  
**Calculation of the Final True-Up Amount for the Period**  
**October 1996 - September 1997**

**Interest Provision**  
**(in Dollars)**

Line	October	November	December	January	February	March	April	May	June	July	August	September	12-Month Total
1 Beginning True-Up Amount (Sch 2A, Lines 7 + 7a + 10)	1,629,092	1,470,631	1,111,245	649,564	611,308	273,424	173,224	77,919	103,057	247,771	501,571	805,338	
2 Ending True-Up Amount Before Interest (Line 1 + Sch 2A, Lin	1,463,660	1,105,432	645,392	608,321	271,623	172,187	77,326	102,635	246,953	499,826	802,312	969,822	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	3,092,752	2,576,063	1,756,637	1,257,885	882,931	445,611	250,550	180,554	350,010	747,597	1,303,883	1,775,160	
4 Average True-Up Amount (Line 3 x 1/2)	1,546,376	1,288,032	878,319	628,943	441,466	222,806	125,275	90,277	175,005	373,799	651,942	887,580	
5 Interest Rate (First Day of Reporting Business Month)	0.054400	0.053800	0.054500	0.059500	0.054500	0.054300	0.057400	0.056200	0.056000	0.056200	0.055800	0.055600	
6 Interest Rate (First Day of Subsequent Business Month)	0.053800	0.054500	0.059500	0.054500	0.054300	0.057400	0.056200	0.056000	0.056200	0.055800	0.055600	0.055300	
7 Total of Beginning & Ending Interest Rates (Line 5 + Line 6)	0.108200	0.108300	0.114000	0.114000	0.108800	0.111700	0.113600	0.112200	0.112200	0.112000	0.111400	0.110900	
8 Average Interest Rate (Line 7 x 1/2)	0.054100	0.054150	0.057000	0.057000	0.054400	0.055850	0.056800	0.056100	0.056100	0.056000	0.055700	0.055450	
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.004508	0.004513	0.004750	0.004750	0.004533	0.004654	0.004733	0.004675	0.004675	0.004667	0.004642	0.004621	
10 Interest Provision for the Month (Line 4 x Line 9)	6,971	5,813	4,172	2,987	3,001	1,037	593	422	818	1,745	3,026	4,102	33,687



STATE OF FLORIDA

Commissioners:  
JULIA L. JOHNSON, CHAIRMAN  
J. TERRY DEASON  
SUSAN F. CLARK  
JOE GARCIA  
E. LEON JACOBS, JR.



DIVISION OF RECORDS & REPORTING  
BLANCA S. BAYÓ  
DIRECTOR  
(850) 413-6770

**Public Service Commission**

April 8, 1998

Gulf Power Company  
Ms. Susan D. Cranmer  
One Energy Place  
Pensacola, Florida 32520-0780

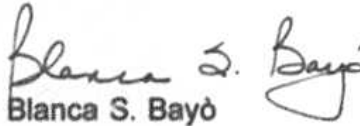
Re: Docket No. 980007 - EI - Gulf Power Company  
Environmental Cost Recovery Clause Audit Report  
Audit Control # 98-022-1-1

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/clis  
Enclosure  
cc: Public Counsel  
Division of Auditing and Financial Analysis  
Beggs and Lane Law Firm