

STATE OF FLORIDA

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Public Service Commission

July 30, 1999

Mr. Warren E. Tate
Gulf Power Company
One Energy Place
Pensacola, FL 32520-0780

**Re: Docket No. 990007-EI; Gulf Power Company
Audit Report; Environmental - 15 Months Ended December 31, 1998
Audit Control No.99-042-1-1**

Mr. Tate:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver
Bureau Chief - Auditing Services

DNV: sp

- cc: Division of Records and Reporting
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- Division of Electric and Gas (Tew)
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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING SERVICES

Tallahassee District Office

GULF POWER COMPANY
ENVIRONMENTAL COST RECOVERY CLAUSE

15 MONTHS ENDED DECEMBER 31, 1998

DOCKET NO. 990007-EI

AUDIT CONTROL NO. 99-042-1-1

A handwritten signature in cursive script that reads "Robert T. Moore".

Robert Moore, Audit Manager

A handwritten signature in cursive script that reads "Rhonda J. Hicks".

Rhonda Hicks, Audit Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	OPINION	1
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	EXCEPTION	
	1. ECRC EXPENSE AND PLANT SUBACCOUNTS	3
III.	EXHIBITS	
	COMPANY SCHEDULE 2A-1	4
	COMPANY SCHEDULE 2A-2	5
	COMPANY SCHEDULE 3A-1	6
	COMPANY SCHEDULE 3A-2	7

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

JULY 9, 1999

**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-1, 3A-1, 2A-2, and 3A-2 for the historical 15-month period ended December 31, 1998, for Gulf Power Company. These schedules were prepared by the utility as part of its support of Docket No. 990007-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 FINDINGS

The utility does not maintain subaccounts as required in Order PSC-94-0044-FOF-EI.

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.

INVESTMENT: Scanned additions to plant in service and construction work in progress; verified judgmental sample of plant additions; verified depreciation rates to prior audit; tested separation of dismantlement expense from depreciation expense; recalculated plant recoverable costs; verified plant additions per Company Filing schedule 8A-1; determined if plant in service is capitalized in sub-accounts per Commission Order; reconciled SO2 activity per the filing to the general ledger.

REVENUES: Tested 4 months of revenues for proper computation from authorized rates and KWH by rate class.

EXPENSES: Reconciled operations and maintenance (O&M) expense from subsidiary ledgers to the Filing; selected a judgmental sample of ECRC O&M expense costs and agreed each cost to a supporting outside vendor invoice.

OTHER: Recalculated true-up and interest provision; evaluated utility compliance with Order PSC-94-0044-FOF-EI for Commission required subaccounts consistent with the Uniform System of Accounts.

EXCEPTION

Exception No. 1

Subject: ECRC Expense and Plant Subaccounts

Statement of Fact:

Commission Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, states:

“The requirement to maintain subaccounts associated with environmental costs is consistent with the conservation and oil back-out rules.... This requirement, however, does not preclude the Company from using the work order system to capture the environmental costs as suggested by Gulf.... It is simpler to extract capital costs, revenues and expenses from the computerized general ledger and supporting accounting detail ledger when subaccounts are used.... Accordingly, Gulf shall be required to maintain subaccounts consistent with the Uniform System of Accounts prescribed by this Commission for all items included in the environmental cost recovery factor”.

The utility was asked if accounting for ECRC plant balances, ECRC capital costs, and ECRC expenses was included in “ECRC subaccounts” for all items included in the environmental cost recovery factor. The utility responded “all expense amounts are charged to a ECRC Location, and the capital costs and plant balances are charged to separate work orders in Gulf’s plant accounting system. The separate account numbers or subaccount provide a complete audit trail for all recoverable costs included in the ECRC.”

Audit Opinion: The utility does not maintain ECRC expenses and plant in service by subaccounts consistent with the USOA as prescribed by this Commission, and therefore the utility is not in compliance with Order No. PSC-94-0044-FOF-EI. The audit trail is not clear. The utility required 6 hours to reconcile 3 ECRC plant balances selected by the auditor. ECRC subaccount plant balances in the general ledger or supporting accounting detail ledger would facilitate this process, as well as allow the audit staff to independently verify balances.

Work orders do not satisfy the intent of the above Order to maintain separate subaccounts. The plant accounting system and work order numbers do not provide a simple and quick way for the auditor to extract plant costs. The auditor cannot identify filed ECRC plant monthly activity nor balances for the 15 months ended December 31, 1998 directly to specific ECRC plant accounts nor ECRC plant subaccounts in the general ledger nor supporting accounting detail ledger. Without this identification, a statistical sample would not be possible. The utility does not maintain ECRC plant in service per the above cited Order.

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount for the Period
October 1997 - September 1998

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)	854,452	777,652	896,571	840,605	750,255	830,126	769,868	1,042,030	1,208,438	1,265,111	1,232,814	1,056,838	11,524,760
2 True-Up Provision (Order No. PSC-97-1047-FOF-EI)	51,197	51,197	51,197	51,197	51,197	51,197	51,197	51,197	51,197	51,197	51,197	51,197	614,360
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	905,649	828,849	947,768	891,802	801,452	881,323	821,065	1,093,227	1,259,635	1,316,308	1,284,011	1,108,031	12,139,120
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A-1, Line 9)	140,311	93,857	864,334	53,677	242,272	297,012	109,175	601,825	324,709	153,094	118,382	184,824	3,183,472
b Capital Investment Projects (Schedule 7A-1, Line 9)	688,428	686,712	683,306	740,466	737,782	736,709	718,998	716,376	713,667	713,043	711,098	(220,789)	7,625,796
c Total Jurisdictional ECRC Costs	828,739	780,569	1,547,640	794,143	980,054	1,033,721	828,173	1,318,201	1,038,376	866,137	829,480	(35,965)	10,809,268
5 Over/(Under) Recovery (Line 3 - Line 4c)	76,910	48,280	(599,872)	97,659	(178,602)	(152,398)	(7,108)	(224,974)	221,259	450,171	454,531	1,143,996	1,329,852
6 Interest Provision (Schedule 3A-1, Line 10)	4,555	4,658	3,225	1,795	1,347	359	(244)	(1,013)	(1,269)	41	1,893	5,191	20,538
7 Beginning Balance True-Up & Interest Provision	614,360	646,240	647,981	137	48,394	(180,058)	(383,294)	(441,843)	(719,027)	(550,234)	(151,219)	254,008	614,360
a Deferred True-Up from October 1996 - September 1997 (Order No. PSC-98-1764-FOF-EI)	359,564	359,564	359,564	359,564	359,564	359,564	359,564	359,564	359,564	359,564	359,564	359,564	359,564
8 True-Up Collected/(Refunded) (See line 2)	(51,197)	(51,197)	(51,197)	(51,197)	(51,197)	(51,197)	(51,197)	(51,197)	(51,197)	(51,197)	(51,197)	(51,197)	(614,360)
9 End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 8)	1,004,192	1,007,545	359,701	407,958	179,506	(23,730)	(82,779)	(359,463)	(190,670)	208,345	613,572	1,711,566	1,709,954
10 Adjustments to Period Total True-Up including Interest	1,612												1,612
11 End of Period Total Net True-Up (Lines 9 + 10)	1,005,804	1,007,545	359,701	407,958	179,506	(23,730)	(82,779)	(359,463)	(190,670)	208,345	613,572	1,711,566	1,711,566

* Note - See Schedule 5A-1 for details of adjustments made to O & M activities for August since the October 12, 1998 filing.

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount for the Period
October 1998 - December 1998

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

Line	October	November	December	End of Period Amount
1 ECRC Revenues (net of Revenue Taxes)	911,380	756,745	713,250	2,381,375
2 True-Up Provision (Order No. PSC-98-1224-FOF-EI)	65,038	65,038	65,039	195,115
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	976,418	821,783	778,289	2,576,490
4 Jurisdictional ECRC Costs				
a O & M Activities (Schedule 5A-2, Line 9)	24,130	7,269	776,227	807,626
b Capital Projects (Schedule 7A-2, Line 9)	(230,522)	(223,906)	(212,521)	(666,955)
c Total Jurisdictional ECRC Costs	(206,392)	(216,637)	563,700	140,671
5 Over/(Under) Recovery (Line 3 - Line 4c)	1,182,810	1,038,420	14,589	2,435,819
6 Interest Provision (Schedule 3A-2, Line 10)	9,763	14,690	1,107	41,360
7 Beginning Balance True-Up & Interest Provision	1,711,566	2,839,101	7,173	1,711,566
a Deferred True-Up from October 1997 - September 1998 (Order No. PSC-98-1764-FOF-EI)	0	0	0	0
8 True-Up Collected/(Refunded) (See line 2)	(65,038)	(65,038)	(65,039)	(195,115)
9 End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 8)	2,839,101	3,827,173	3,993,630	3,993,630
10 Adjustments to Period Total True-Up Including Interest	0			0
11 End of Period Total Net True-Up (Lines 9 + 10)	2,839,101	3,827,173	3,993,630	3,993,630

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount for the Period
October 1997 - September 1998

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-1, Lines 7 + 7a + 10)	975,536	1,005,804	1,007,545	359,701	407,958	179,506	(23,730)	(82,279)	(359,463)	(190,670)	208,345	613,572	
2 Ending True-Up Amt. Before Interest (Line 1 + Sch 2A-1, Lines 5+8)	1,001,249	1,002,887	356,476	406,163	178,159	(24,089)	(82,035)	(358,450)	(189,401)	208,304	611,679	1,706,375	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	1,976,785	2,008,691	1,364,021	765,864	586,117	155,417	(105,765)	(440,729)	(548,864)	17,634	820,024	2,319,947	
4 Average True-Up Amount (Line 3 x 1/2)	988,393	1,004,346	682,011	382,932	293,059	77,709	(52,883)	(220,365)	(274,432)	8,817	410,012	1,159,974	
5 Interest Rate (First Day of Reporting Business Month)	0.055300	0.055300	0.056000	0.057500	0.055000	0.055300	0.055500	0.055300	0.055000	0.056000	0.055600	0.055200	
6 Interest Rate (First Day of Subsequent Business Month)	0.055300	0.056000	0.057500	0.055000	0.055300	0.055500	0.055300	0.055000	0.056000	0.055600	0.055200	0.052200	
7 Total of Beginning & Ending Interest Rates (Line 5 + Line 6)	0.110600	0.111300	0.113500	0.112500	0.110300	0.110800	0.110800	0.110300	0.111000	0.111600	0.110800	0.107400	
8 Average Interest Rate (Line 7 x 1/2)	0.055300	0.055650	0.056750	0.056250	0.055150	0.055400	0.055400	0.055150	0.055500	0.055800	0.055400	0.053700	
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.004608	0.004638	0.004729	0.004688	0.004596	0.004617	0.004617	0.004596	0.004625	0.004650	0.004617	0.004415	
10 Interest Provision for the Month (Line 4 x Line 9)	4,555	4,658	3,225	1,795	1,347	359	(244)	(1,013)	(1,269)	41	1,893	5,191	20,538

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount for the Period
October 1998 - December 1998

Interest Provision
(in Dollars)

Line	October	November	December	3-Month Total
1 Beginning True-Up Amount (Sch 2A-2, Lines 7 + 7a + 10)	1,711,566	2,839,101	3,827,173	
2 Ending True-Up Amount Before Interest (Line 1 + Sch 2A-2, Lines 5 + 8)	<u>2,829,338</u>	<u>3,812,483</u>	<u>3,976,723</u>	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	<u>4,540,904</u>	<u>6,651,584</u>	<u>7,803,896</u>	
4 Average True-Up Amount (Line 3 x 1/2)	<u>2,270,452</u>	<u>3,325,792</u>	<u>3,901,948</u>	
5 Interest Rate (First Day of Reporting Business Month)	0.052200	0.051000	0.055000	
6 Interest Rate (First Day of Subsequent Business Month)	<u>0.051000</u>	<u>0.055000</u>	<u>0.052000</u>	
7 Total of Beginning & Ending Interest Rates (Line 5 + Line 6)	<u>0.103200</u>	<u>0.106000</u>	<u>0.107000</u>	
8 Average Interest Rate (Line 7 x 1/2)	0.051600	0.053000	0.052000	
9 Monthly Average Interest Rate (Line 8 x 1/12)	<u>0.004300</u>	<u>0.004417</u>	<u>0.004333</u>	
10 Interest Provision for the Month (Line 4 x Line 9)	<u>9,763</u>	<u>14,690</u>	<u>16,907</u>	<u>41,360</u>