

State of Florida



Public Service Commission

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

DATE: August 7, 2001
TO: Division of Safety and Electric Reliability (Bohmann)
FROM: Division of Regulatory Oversight (Vandiver) *OV*
RE: Docket No.010001-EI; Gulf Power Corporation; Fuel and Cost Recovery; Audit Control No. 01-053-1-1

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 the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

Attachment

cc: Division of Regulatory Oversight (Hoppe, Harvey, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services
Division of Legal Services

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES

Tallahassee District Office

GULF POWER COMPANY

FUEL ADJUSTMENT AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2000

DOCKET NO. 010001-EI

AUDIT CONTROL NO. 01-053-1-1

Mark Caruth

Mark Caruth, Audit Manager

Lynn M. Deamer

Lynn M. Deamer, Audit Supervisor

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**DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT**

July 24, 2001

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying fuel adjustment schedules for the twelve month period ended December 31, 2000 for Gulf Power Company. These schedules were prepared by the utility as part of its petition filed in Docket No. 010001-EI.

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.

SUMMARY OF SIGNIFICANT FINDINGS

There is an overstatement of Jurisdictional Fuel Cost of \$301. SO2 Allowances are being credited through the Fuel Clause [instead of the Environmental Cost Recovery Clause]. Interchange Sales are overstated by \$385,796.

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.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

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

FUEL REVENUE: Verified the utility's use of appropriate fuel factors for all rate classes for the month of December 2000 as established per Florida Public Service Commission Order No. PSC-99-2512-FOF-EI. Assembled data to determine jurisdictional fuel clause revenues for the Year 2000, and traced such revenues to the utility's filed true-up schedules.

FUEL EXPENSE: Assembled the fuel cost of System Generation, Interchange Purchases, and Interchange Sales and traced data to the general ledger. Compared the set of utility's filed schedules for consistency among schedules. Reconciled any variances existing between schedules. Traced from the monthly Interchange Analysis Reports to the utility's filed schedules. Assembled the Interchange Analysis data and analyzed the Interchange categories of: The Economy/External Sales Markup 80%, The Payments/Purchases to Qualified Facilities, The Energy Sales Outside System [Associated Companies and Non-Associated Companies], The Purchases [Non-Associated Companies]; and read associated supporting contracts and detailed documentation for selected months. Scanned the adjustments to reported fuel cost per the flyover inventory verification procedures and per the internal company inventory reports in order to verify that the adjustments were performed in accordance with Order Number PSC-97-0359-FOF-EI. Utilized inventory data and purchases data to construct a Cost of Goods Sold valuation which would serve as a verification procedure to match against the dollar amount of the reported fuel burn cost. Selectively traced the

utility's filed fuel burn cost to the fuel consumption reports, to the journal detail reports, to the fuel stock ledgers, and to the detailed consumption reports. Read selected invoice data for match to the general ledger.

OTHER: Recalculated true-up and interest provision. Traced beginning balance and ending balance of true-up to general ledger. Traced annual interest amount to general ledger. Traced monthly interest rates to The Wall Street Journal.

Disclosure No. 1

Subject: Total Fuel and Net Power Transactions.

Statement of Fact: On Schedule A-1 [Fuel and Purchased Power Cost Recovery Factor] for August 2000, the company calculated, on Line 20, the Total Fuel and Net Power Transactions to be \$25,575,517. This number should have been used on the same Schedule A-1 Line 24, to calculate the true-up. However, the company made a typographical error and used \$25,575,817. This results in an overstatement of Jurisdictional Fuel Cost of \$301.

Recommendation: Reduce Total Jurisdictional Fuel Cost by \$301 for August 2000.

Disclosure No. 2

Subject: SO2 Allowance.

Statement of Fact: Gulf is currently crediting the SO2 Allowance costs associated with non-separated wholesale sales through the fuel clause, along with the incremental cost of fuel associated with these sales. Commission Order No. PSC-00-1744-PAA-EI issued on September 26, 2000 states: “each investor-owned electric utility [IOU] shall credit its environmental cost recovery clause [ECRC] for an amount equal to the incremental SO2 emission allowance cost of generating the energy for each non-separated wholesale power sale”. The company protested this order. Within the testimony presented by Susan Ritenour, the utility’s position was that “from an administrative perspective, it is less burdensome for Gulf” to continue with its current practice [i.e., to continue to credit the SO2 Allowance costs associated with non-separated wholesale sales through the fuel clause].

In the Fuel Clause for the Year 2000, Gulf Power Company charged \$2,956,043 in SO2 Allowance costs. However, this amount does not reflect the error detailed in Disclosure 3 of this report.

Recommendation: These facts are provided for informational purposes while this issue is pending.

Disclosure No. 3

Subject: Interchange Analysis Report.

Statement of Fact: Data from the Interchange Analysis Reports are inputs for the Schedule A-1, which displays the Interchange Sales by associated companies for the year ended December 31, 2000. The amounts indicated on the Interchange Analysis Report do not agree to supporting documentation. When preparing the August 2000 Interchange Analysis Report, the utility picked-up the \$664,882 in variable O&M costs from the associated company data sheet. The utility should have picked-up the \$279,086 emissions cost. Interchange sales are overstated by \$385,796. The company has stated that it will correct the error in the July 2001 fuel filing. In addition, the company has implemented a set of checks and balances to safeguard against the possibility of making similar errors.

Recommendation: The Interchange Sales reported for the year ended December 31, 2000 are overstated by \$385,796.

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY

FOR THE MONTH OF: DECEMBER 2000

| | CURRENT MONTH | | | | PERIOD - TO - DATE | | | | |
|--|-----------------|-------------|----------------|--------------|--------------------|----------------|-----------------|--------------|--|
| | ACTUAL | ESTIMATED | AMOUNT (\$) | DIFFERENCE % | ACTUAL | ESTIMATED | AMOUNT (\$) | DIFFERENCE % | |
| A. Fuel Cost & Net Power Transactions | | | | | | | | | |
| 1 Fuel Cost of System Net Generation | 20,245,757.10 | 16,309,140 | 3,936,617.10 | 24.14 | 210,401,998.74 | 195,007,137 | 15,394,861.74 | 7.89 | |
| 1a Other Generation | 2,135.00 | 163,212 | (161,077.00) | (98.69) | 1,548,486.92 | 1,927,026 | (378,539.08) | (19.64) | |
| 2 Fuel Cost of Power Sold | (11,396,098.01) | (3,449,000) | (7,947,098.01) | 230.42 | (83,972,816.10) | (43,471,000) | (40,501,816.10) | 93.17 | |
| 3 Fuel Cost - Purchased Power | (1,205,632.93) | 1,620,000 | (2,825,632.93) | (174.42) | 54,288,449.22 | 31,414,000 | 22,874,449.22 | 72.82 | |
| 3a Demand & Non-Fuel Cost Purchased Power | 0.00 | 0 | 0.00 | #N/A | 0.00 | 0 | 0.00 | #N/A | |
| 3b Energy Payments to Qualifying Facilities | 569,695.00 | 0 | 569,695.00 | #N/A | 5,184,014.00 | 208,732 | 4,975,282.00 | 2,383.57 | |
| 4 Energy Cost-Economy Purchases | 0.00 | 0 | 0.00 | #N/A | 0.00 | 0 | 0.00 | #N/A | |
| 5 Total Fuel & Net Power Transactions | 8,215,856.16 | 14,643,352 | (6,427,495.84) | (43.89) | 187,450,132.78 | 185,085,895 | 2,364,237.78 | 1.28 | |
| 6 Adjustments To Fuel Cost * | 0.00 | 0 | 0.00 | #N/A | (182,920.26) | 0 | (182,920.26) | #N/A | |
| 7 Adj. Total Fuel & Net Power Transactions | 8,215,856.16 | 14,643,352 | (6,427,495.84) | (43.89) | 187,267,212.52 | 185,085,895 | 2,181,317.52 | 1.18 | |
| B. KWH Sales | | | | | | | | | |
| 1 Jurisdictional Sales | 872,104,677 | 824,496,000 | 47,608,677 | 5.77 | 10,112,966,114 | 10,013,721,000 | 99,245,114 | 0.99 | |
| 2 Non-Jurisdictional Sales | 32,266,856 | 28,098,000 | 4,168,856 | 14.84 | 352,788,633 | 360,624,000 | (7,835,367) | (2.17) | |
| 3 Total Territorial Sales | 904,371,533 | 852,594,000 | 51,777,533 | 6.07 | 10,465,754,747 | 10,374,345,000 | 91,409,747 | 0.88 | |
| 4 Juris. Sales as % of Total Terr. Sales | 96.4321 | 96.7044 | (0.2723) | (0.28) | 96.6291 | 96.5239 | 0.1052 | 0.11 | |

*Gain on sale of natural gas

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**CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2000**

| | CURRENT MONTH | | | | PERIOD - TO - DATE | | | |
|---|----------------------|-------------------|---------------------------|-----------------|-----------------------|-----------------------|---------------------------|-----------------|
| | \$ ACTUAL | ESTIMATED | DIFFERENCE AMOUNT (\$) | % | \$ ACTUAL | ESTIMATED | DIFFERENCE AMOUNT (\$) | % |
| <i>C. True-up Calculation</i> | | | | | | | | |
| 1 Jurisdictional Fuel Revenue | 16,144,112.49 | 15,859,032 | 285,080.40 | 1.80 | 193,612,920.06 | 192,612,121 | 1,000,799.06 | 0.52 |
| 2 Fuel Adj. Revs. Not Applicable to Period: | | | | | | | | |
| 2a True-Up Provision | (1,146,038.25) | (1,146,038) | 0.00 | 0.00 | (13,752,459.00) | (13,752,459) | 0.00 | 0.00 |
| 2b Incentive Provision | 3,008.54 | 3,009 | 0.00 | 0.00 | 36,102.48 | 36,102 | 0.48 | 0.00 |
| 2c Special Contract Recovery Cost | 0.00 | 0 | 0.00 | #N/A | 0.00 | 0 | 0.00 | #N/A |
| 3 Juris. Fuel Revenue Applicable to Period | <u>15,001,082.78</u> | <u>14,716,003</u> | <u>285,079.78</u> | <u>1.94</u> | <u>179,896,563.54</u> | <u>178,895,764.00</u> | <u>1,000,799.54</u> | <u>0.56</u> |
| 4 Adjusted Total Fuel & Net Power Transactions (Line A7) | <u>8,215,856.16</u> | <u>14,643,352</u> | <u>(6,427,495.84)</u> | <u>(43.89)</u> | <u>187,267,212.52</u> | <u>185,085,895</u> | <u>2,181,317.52</u> | <u>1.18</u> |
| 5 Juris. Sales % of Total KWII Sales (Line B4) | <u>96.4321</u> | <u>96.7044</u> | <u>(0.2723)</u> | <u>(0.28)</u> | <u>96.6291</u> | <u>96.5239</u> | <u>0.1052</u> | <u>0.11</u> |
| 6 Juris. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 *C5*1.0014) | <u>7,933,814.44</u> | <u>14,180,591</u> | <u>(6,246,776.56)</u> | <u>(44.05)</u> | <u>181,229,310.65</u> | <u>178,919,418</u> | <u>2,309,892.65</u> | <u>1.29</u> |
| 7 True-Up Provision for the Month Over/(Under) Collection (C3-C6) | 7,067,268.34 | 535,412 | 6,531,856.34 | 1,219.97 | (1,332,747.11) | (23,654) | (1,309,093.11) | 5,534.34 |
| 8 Interest Provision for the Month | (10,088.89) | (6,820) | (3,268.89) | 47.93 | (427,722.75) | (387,186) | (40,536.75) | 10.47 |
| 9 Beginning True-Up & Interest Provision | (5,948,028.23) | (2,085,470) | (3,862,558.23) | 185.21 | (9,736,799.67) | (13,752,459) | 4,015,659.33 | (29.20) |
| 10 True-Up Collected / (Refunded) | <u>1,146,038.25</u> | <u>1,146,038</u> | <u>0.00</u> | <u>0.00</u> | <u>13,752,459.00</u> | <u>13,752,459</u> | <u>0.00</u> | <u>0.00</u> |
| 11 End of Period - Total Net True-Up, Before Adjustment (C7+C8+C9+C10) | <u>2,255,189.47</u> | <u>(410,840)</u> | <u>2,666,029.47</u> | <u>(648.92)</u> | <u>2,255,189.47</u> | <u>(410,840)</u> | <u>2,666,029.47</u> | <u>(648.92)</u> |

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