

State of Florida



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: July 30, 2003
TO: Division of Economic Regulation (Breman)
FROM: Division of Auditing and Safety (Vandiver) *a*
RE: **Docket No.** 030007-EI; **Company Name:** Gulf Power Company;
Audit Purpose: Environmental Cost Recovery Clause Audit;
Audit Control No. 03-030-1-1

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.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

Tallahassee District Office

Gulf Power Company

Environmental Cost Recovery Clause Audit

HISTORICAL YEAR ENDED DECEMBER 31, 2002

DOCKET NO. 030007-EG
AUDIT CONTROL NO. 03-030-1-1

Robert Moore

Robert Moore, Audit Manager

Lynn M. Deamer

Lynn M. Deamer, Audit Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

July 8, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Environmental Cost Recovery Clause (ECRC) Schedules 2A and 3A True Up Filing for the historical 12-month period ended December 31, 2002, for Gulf Power Company. The attached schedules were prepared by the utility as part of its support in Docket No. 030007-EI. There is no confidential information associated with this audit.

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 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.

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

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

EXPENSES: Selected several ECRC plant expenditures (PEs) and recalculated depreciation expense. Tested audit staff depreciation expense to filed depreciation expense from Schedule 8A. Asked the company for all research and development costs. Agreed a company prepared list of all ECRC legal expenses to all supporting invoices. Observed the company prepared list had one legal charge in August and one in October, and three charges in November and three charges in December, 2002. Selected and scanned ECRC invoices for July, 2002 through December, 2002 to determine if these invoices are recoverable under the ECRC filing.

REVENUES: Audit procedures related to revenues were performed in the Review of Billing, an undocketed audit, Audit Control Number 02-303-1-1.

OTHER: Recomputed the true-up and interest provision for the year ended December 31, 2002. Traced interest rates used in the calculation to the 30 Day Commercial Paper Rate. Analyzed the relationship of replacements and retirements to ensure retirements are being retired. Identified deferred accounting treatment for the Department of Environmental Protection agreement for construction of Ozone plant at Plant Crist.

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount
January 2002 - December 2002

Current Period True-Up Amount
(in Dollars)

Line	Actual January	Actual February	Actual March	Actual April	Actual May	Actual June	Actual July	Actual August	Actual September	Actual October	Actual November	Actual December	End of Period Amount
1 ECRC Revenues (net of Revenue Taxes)	794,374	693,685	731,839	748,412	883,480	956,279	1,055,437	1,015,039	955,455	848,585	686,684	755,823	10,125,092
2 True-Up Provision (Order No. PSC-01-2463-POF-EI)	110,663	110,663	110,663	110,663	110,663	110,663	110,663	110,663	110,663	110,663	110,663	110,667	1,327,960
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	905,037	804,348	842,502	859,075	994,143	1,066,942	1,166,100	1,125,702	1,066,118	959,248	797,347	866,490	11,453,052
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	107,862	692,063	71,399	121,077	247,821	159,833	124,536	105,684	64,874	301,437	145,560	399,040	2,541,186
b Capital Investment Projects (Schedule 7A, Line 9)	676,997	675,670	674,831	676,997	682,061	698,069	700,326	697,753	696,045	695,570	693,181	690,486	8,257,986
c Total Jurisdictional ECRC Costs	784,859	1,367,733	746,230	798,074	929,882	857,902	824,862	803,437	760,919	997,007	838,741	1,089,526	10,799,172
5 Over/(Under) Recovery (Line 3 - Line 4c)	120,178	(563,385)	96,272	61,001	64,261	209,040	341,238	322,265	305,199	(37,759)	(41,394)	(223,036)	653,880
6 Interest Provision (Schedule 3A, Line 10)	2,253	1,750	1,258	1,213	1,134	1,174	1,400	1,703	2,014	2,015	1,561	1,110	18,585
7 Beginning Balance True-Up & Interest Provision	1,327,960	1,342,630	670,332	657,199	608,750	563,482	663,033	895,008	1,108,313	1,304,863	1,158,456	1,007,960	1,327,960
a Deferred True-Up from January 2000 - December 2000 (Order No. PSC-02-1735-POF-EI)	187,480	187,480	187,480	187,480	187,480	187,480	187,480	187,480	187,480	187,480	187,480	187,480	187,480
8 True-Up Collected/(Refunded) (see Line 2)	(110,663)	(110,663)	(110,663)	(110,663)	(110,663)	(110,663)	(110,663)	(110,663)	(110,663)	(110,663)	(110,663)	(110,667)	(1,327,960)
9 End of Period Total True-Up (Lines 5 + 6 + 7 + 7a - 8)	1,527,208	857,812	844,679	796,230	750,962	850,513	1,082,488	1,295,793	1,492,343	1,345,936	1,195,440	862,847	859,945
10 Adjustments to Period Total True-Up Including Interest O&M Changes per Audit *	2,902												2,902
11 Current Period Total Net True-Up (Lines 9 + 10)	1,530,110	857,812	844,679	796,230	750,962	850,513	1,082,488	1,295,793	1,492,343	1,345,936	1,195,440	862,847	862,847

* Reduction to General Water Quality in November 2001

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount
January 2002 - December 2002

Line	Interest Provision (in Dollars)												End of Period Amount
	Actual January	Actual February	Actual March	Actual April	Actual May	Actual June	Actual July	Actual August	Actual September	Actual October	Actual November	Actual December	
1 Beg. True-Up Amount (Schedule 2A, Lines 7 + 7a +7b+ 10)	1,518,342	1,530,110	857,812	844,679	796,230	750,962	850,513	1,082,488	1,295,793	1,492,343	1,345,936	1,195,440	
2 Ending True-Up Amount Before Interest (Line 1 + Schedule 2A, Lines 5 + 8)	1,527,857	856,062	843,421	795,017	749,828	849,339	1,081,088	1,294,090	1,490,329	1,343,921	1,193,879	861,737	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	3,046,199	2,386,172	1,701,233	1,639,696	1,546,058	1,600,301	1,931,601	2,376,578	2,786,122	2,836,264	2,539,815	2,057,177	
4 Average True-Up Amount (Line 3 x 1/2)	1,523,100	1,193,086	850,617	819,848	773,029	800,151	965,801	1,188,289	1,393,061	1,418,132	1,269,908	1,028,589	
5 Interest Rate (First Day of Reporting Business Month)	0.017800	0.017700	0.017500	0.018000	0.017500	0.017700	0.017500	0.017300	0.017100	0.017600	0.016500	0.013000	
6 Interest Rate (First Day of Subsequent Business Month)	0.017700	0.017500	0.018000	0.017500	0.017700	0.017500	0.017300	0.017100	0.017600	0.016500	0.013000	0.012900	
7 Total of Beginning and Ending Interest Rates (Line 5 + Line 6)	0.035500	0.035200	0.035500	0.035500	0.035200	0.035200	0.034800	0.034400	0.034700	0.034100	0.029500	0.025900	
8 Average Interest Rate (Line 7 x 1/2)	0.017750	0.017600	0.017750	0.017750	0.017600	0.017600	0.017400	0.017200	0.017350	0.017050	0.014750	0.012950	
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.001479	0.001467	0.001479	0.001479	0.001467	0.001467	0.001450	0.001433	0.001446	0.001421	0.001229	0.001079	
10 Interest Provision for the Month (Line 4 x Line 9)	2,253	1,750	1,258	1,213	1,134	1,174	1,400	1,703	2,014	2,015	1,561	1,110	18,585