

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 18, 2005
TO: Jim Breman, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing *W*
Division of Regulatory Compliance and Consumer Assistance
RE: **Docket No.:** 050007-EI; **Company Name:** Gulf Power Company; **Audit Purpose:** Environmental Cost Recovery Clause Audit ;
Audit Control No.: 05-033-1-1

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 Regulatory Compliance and Consumer Assistance (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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DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING*

Tallahassee District Office

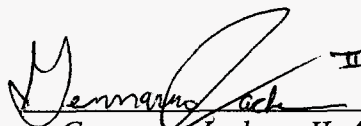
GULF POWER COMPANY


ENVIRONMENTAL COST RECOVERY AUDIT


TWELVE MONTH PERIOD ENDED DECEMBER 31, 2004

DOCKET NO. 050007-EI

AUDIT CONTROL NO. 05-033-1-1


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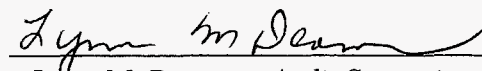

Lynn M. Deamer, Audit Supervisor

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DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT

June 23, 2005

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 schedules for the 12-month period ending December 31, 2004. The above schedules have been included as exhibits in this report. These schedules were a part of the Company's petition for cost recovery in Docket No. 050007-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 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.

INVESTMENT: Reconciled plant in service and depreciation expense for each capital project; traced depreciation rates to Commission Order for the last rate case PSC-02-0787-FOF-EI, issued June 10, 2002, Docket No. 010949-EI, which directs use of depreciation rates submitted by the Company in Docket No. 010789-EI (Stipulation issued February 22, 2002); verified separation of dismantlement expense from depreciation expense; recalculated recoverable capital investment costs.

EXPENSE: Reconciled operation and maintenance (O&M) expense per the general ledger to the Company's filing; compiled all accounts payable for January, June, and December and traced to supporting vendor invoices; reviewed all legal expenses recovered in the ECRC; verified adjustments made to O&M expenses for costs recovered in base rates per Commission Order No. PSC-94-0044-FOF-EI, issued January 12, 1994.

OTHER: Recalculated the Company's true-up and interest provision for the period ended December 31, 2004; traced interest rates used in the calculation of the interest provision to the 30-day commercial paper rates.

REVENUE: Revenue relating to Environmental Cost Recovery Clause was audited as part of Docket 050001 – EI.

DISCLOSURES

Disclosure No. 1

Subject: O & M Expenses

Statement of Fact:

During the time period, October through December 2004, the Company incorrectly put labor dollars in an ECRC account for cost types LAN (Allocation of Non-Prod Time) and LSC (Covered Straight Time). Cost type LSC for \$81,888.46 was corrected in March 2005 business and included in the filing. Cost type LAN for \$13,559.59 was corrected in June, 2005 business and was not included in the filing.

Recommendation:

The O & M Expense, Schedule 5A, Line 2, for December 2004, needs to be decreased by \$13,559.59.

Gulf Power Company
 Environmental Cost Recovery Clause (ECRC)
 Calculation of the Final True-Up Amount
 January 2004 - December 2004

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)	1,208,430	1,074,419	993,342	985,885	1,263,644	1,387,421	1,538,102	1,450,728	1,031,962	1,185,119	977,897	1,595,081	14,692,030
2 True-Up Provision (Order No. PSC-03-1348-FOF-EI)	36,564	36,564	36,564	36,564	36,564	36,564	36,564	36,564	36,564	36,564	36,564	36,559	438,763
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	1,244,994	1,110,983	1,029,906	1,022,449	1,300,208	1,423,985	1,574,666	1,487,292	1,068,526	1,221,683	1,014,461	1,631,640	15,130,793
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	148,830	866,139	96,143	98,220	104,527	123,333	145,759	88,454	91,028	73,809	242,379	506,672	2,585,293
b Capital Investment Projects (Schedule 7A, Line 9)	683,695	693,037	705,744	933,683	1,152,665	1,136,031	1,120,987	1,121,779	1,116,675	1,125,307	1,129,905	1,131,236	12,050,744
c Total Jurisdictional ECRC Costs	832,525	1,559,176	801,887	1,031,903	1,257,192	1,259,364	1,266,746	1,210,233	1,207,703	1,199,116	1,372,284	1,637,908	14,636,037
5 Over/(Under) Recovery (Line 3 - Line 4c)	412,469	(448,193)	228,019	(9,454)	43,016	164,621	307,920	277,059	(139,177)	22,567	(357,823)	(6,268)	494,756
6 Interest Provision (Schedule 3A, Line 10)	1,096	1,010	865	949	961	1,168	1,614	2,099	2,352	2,447	2,393	2,213	19,167
7 Beginning Balance True-Up & Interest Provision													
a Final True-Up for 2002 & Estimated True-Up for 2003 (Order No. PSC-03-1348-FOF-EI)	438,763	816,240	332,493	524,813	479,744	487,157	616,382	889,352	1,131,946	958,557	947,007	555,013	438,763
b Final True-Up from January 2003 - December 2003 (Order No. PSC-04-1187-FOF-EI)	631,135	631,135	631,135	631,135	631,135	631,135	631,135	631,135	631,135	631,135	631,135	631,135	631,135
8 True-Up Collected/(Refunded) (see Line 2)	(36,564)	(36,564)	(36,564)	(36,564)	(36,564)	(36,564)	(36,564)	(36,564)	(36,564)	(36,564)	(36,564)	(36,559)	(438,763)
9 End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 8)	1,446,899	963,628	1,155,948	1,110,879	1,118,292	1,247,517	1,520,487	1,763,081	1,589,692	1,578,142	1,186,148	1,145,534	1,145,058
10 Adjustments to Period Total True-Up Including Interest	476												476
11 Current Period Total Net True-Up (Lines 9 + 10)	1,447,375	963,628	1,155,948	1,110,879	1,118,292	1,247,517	1,520,487	1,763,081	1,589,692	1,578,142	1,186,148	1,145,534	1,145,534

Gulf Power Company
 Environmental Cost Recovery Clause (ECRC)
 Calculation of the Final True-Up Amount
 January 2004 - December 2004

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 7a +7b+ 10)	1,070,374	1,447,375	963,628	1,155,948	1,110,879	1,118,292	1,247,517	1,520,487	1,763,081	1,589,692	1,578,142	1,186,148	
2	Ending True-Up Amount Before Interest (Line 1 + Schedule 2A, Lines 5 + 8)	<u>1,446,279</u>	<u>962,618</u>	<u>1,155,083</u>	<u>1,109,930</u>	<u>1,117,331</u>	<u>1,246,349</u>	<u>1,518,873</u>	<u>1,760,982</u>	<u>1,587,340</u>	<u>1,575,695</u>	<u>1,183,755</u>	<u>1,143,321</u>	
3	Total of Beginning & Ending True-up (Lines 1 + 2)	<u>2,516,653</u>	<u>2,409,993</u>	<u>2,118,711</u>	<u>2,265,878</u>	<u>2,228,210</u>	<u>2,364,641</u>	<u>2,766,390</u>	<u>3,281,469</u>	<u>3,350,421</u>	<u>3,165,387</u>	<u>2,761,897</u>	<u>2,329,469</u>	
4	Average True-Up Amount (Line 3 x 1/2)	<u>1,258,327</u>	<u>1,204,997</u>	<u>1,059,356</u>	<u>1,132,939</u>	<u>1,114,105</u>	<u>1,182,321</u>	<u>1,383,195</u>	<u>1,640,735</u>	<u>1,675,211</u>	<u>1,582,694</u>	<u>1,380,949</u>	<u>1,164,735</u>	
5	Interest Rate (First Day of Reporting Business Month)	0.010600	0.010300	0.009800	0.009800	0.010300	0.010400	0.013300	0.014700	0.016000	0.017700	0.019400	0.022200	
6	Interest Rate (First Day of Subsequent Business Month)	<u>0.010300</u>	<u>0.009800</u>	<u>0.009800</u>	<u>0.010300</u>	<u>0.010400</u>	<u>0.013300</u>	<u>0.014700</u>	<u>0.016000</u>	<u>0.017700</u>	<u>0.019400</u>	<u>0.022200</u>	<u>0.023400</u>	
7	Total of Beginning and Ending Interest Rates (Line 5 + Line 6)	<u>0.020900</u>	<u>0.020100</u>	<u>0.019600</u>	<u>0.020100</u>	<u>0.020700</u>	<u>0.023700</u>	<u>0.028000</u>	<u>0.030700</u>	<u>0.033700</u>	<u>0.037100</u>	<u>0.041600</u>	<u>0.045600</u>	
8	Average Interest Rate (Line 7 x 1/2)	0.010450	0.010050	0.009800	0.010050	0.010350	0.011850	0.014000	0.015350	0.016850	0.018550	0.020800	0.022800	
9	Monthly Average Interest Rate (Line 8 x 1/12)	<u>0.000871</u>	<u>0.000838</u>	<u>0.000817</u>	<u>0.000838</u>	<u>0.000863</u>	<u>0.000988</u>	<u>0.001167</u>	<u>0.001279</u>	<u>0.001404</u>	<u>0.001546</u>	<u>0.001733</u>	<u>0.001900</u>	
10	Interest Provision for the Month (Line 4 x Line 9)	<u>1,096</u>	<u>1,010</u>	<u>865</u>	<u>949</u>	<u>961</u>	<u>1,168</u>	<u>1,614</u>	<u>2,099</u>	<u>2,352</u>	<u>2,447</u>	<u>2,393</u>	<u>2,213</u>	19,167