

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-**

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**DATE:** July 27, 2006  
**TO:** Ralph J. Von Fossen, Economic Analyst, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance  
**RE:** **Docket No:** 060007-EI     **Company Name:** Gulf Power Company  
**Audit Purpose:** Environmental Cost Recovery Clause Audit  
**Audit Control No:** 06-044-1-1

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

DNV:sbj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of Commission Clerk & Administrative Services (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE  
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2005

DOCKET NO. 060007-EI

AUDIT CONTROL NO. 06-044-1-1

Handwritten signature of Intesar Terkawi in cursive script.

*Intesar Terkawi, Audit Staff*

Handwritten signature of Gennarro Jackson II in cursive script.

*Gennarro Jackson, Audit Manager*

Handwritten signature of Lynn M. Deamer in cursive script.

*Lynn M. Deamer, Audit Supervisor*

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**June 14, 2006**

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

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Gulf Power Company in support of its filing for Environmental Cost Recovery Clause (ECRC), Docket No. 060007-EI.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

## **OBJECTIVES and PROCEDURES**

### **REVENUES**

**Objective:** - Determined that the revenue filed by company for each cost recovery clause is supported by company documentation and agrees to the general ledger. Determined that the appropriate clause factors are utilized by the company in billing the customers.

**Procedures:** - ECRC revenues were reviewed jointly with the revenue portions of the other cost recovery clause audits of Gulf. The audit work papers are contained in the fuel docket audit.

### **EXPENSES**

#### **O&M Expenses**

**Objective:** - Verified that the company's ECRC O&M expenses for the year ended December 31, 2005 are representative of management's assertions displayed in the books and records.

**Procedures:** - Auditor recalculated and scheduled O&M activities recoverable through the ECRC. We agreed jurisdictional recoverable costs of O&M activities to the ECRC filing. We recalculated the appropriate energy jurisdictional factors for each month and traced to filing. We traced O&M activities to invoices.

#### **Legal Expenses**

**Objective:** - Tested legal expenses charged to ECRC for relevance.

**Procedures:-** Traced all invoices from the following projects to general ledger:  
ECRC- Title V,  
ECRC-General Water Quality,  
ECRC-General Solid & Hazardous Waste,  
ECRC-Groundwater Contamination Investigation

#### **SO2 Expenses**

**Objective:-** Verified that the company's ECRC SO2 expenses & revenues for the year ending December 31, 2005, are representative of its books and records.

**Procedures:-** Recomputed and traced schedule of SO2 allowance monthly expenses for 2005 including revenues, inventory, and expensed amounts to general ledger.

#### **Depreciation Expense**

**Objective:-** Verified company's ECRC depreciation on Schedule 8A is correctly computed and omits dismantlement expense for the period ended December 31, 2005.

**Procedures:-** Generated a schedule of recalculated monthly depreciation expenses excluding dismantlement expense and agreed it to depreciation schedules. Recomputed

and agreed the monthly plant balances and depreciation expenses reported for Plant Expenditure's (PE's) on Schedule 8A.

### **TRUE-UP**

**Objective:** - Verified the utility's ECRC true-up and interest provision as reported by the company for the period ended December 31, 2005.

**Procedures:** - Recalculated the utility's total true-up and interest provision for period ended December 31, 2005. Traced prior period total true-up to the 2004 ECRC audit. Agreed rates used to calculate interest provision to the Wall Street Journal 30 day commercial paper rates.

### **INVESTMENT**

**Objective:-** Verified that company's Capital Investment projects for the year ended December 31, 2005 are representative of management's assertions displayed in the books and records. Verified that where an ECRC project involves the replacement of existing plant assets, the company is retiring the installed costs of replaced units according to Rule 25-6.0142(4)(b), F.A.C.

**Procedures:-** Generated a schedule of recalculated Capital Investment projects recoverable through the ECRC and agreed it to schedule 6A. Traced plant expenditures cleared to plant to supporting journal documentation for April and May 2005. Created a judgmental sample and traced plant expenditures cleared to plant for PE 1462 to invoices for May 2005. Recomputed plant in service depreciation expense for retired and replaced ECRC projects and agreed it to related transactions in the accumulated depreciation account to check for proper offsets. Traced retired and replaced ECRC projects to ledger entry activity and verified proper accounting treatment.

### **Positive Accumulated Depreciation**

**Objective:** To verify all Positive Accumulated Depreciation balances (negative depreciation expense).

**Procedures:-** Requested a monthly list of all PEs with debit balances in accumulated depreciation. Requested the cause for PEs to have debit balances in accumulated depreciation as of December 31, 2005. Analyzed the company's justification for debit balances. Agreed account debit balances including the cost of removal to balances reported in filing.

## **OTHER**

### **Deferred Accounting**

**Objective:-** Reported any deferred accounting treatment that GPC may have implemented for expenses incurred for approved ECRC projects.

**Procedures:-** Traced deferred amounts booked to ECRC Account 183 for PE 1287-the Plant Crist FDEP-Gulf Ozone Agreement to the Journal Summary Detail Report. Traced the amount of Work order C02766 and Work order C02767 in the Journal Summary Detail Report to the GPC Query 12 Month Report.

## **Disclosure No. 1**

**Subject:** Capital Investment Expense (Gift Cards)

**Statement of Facts:** Staff found that Gulf Power incorrectly included two (2) expenses for gift cards to Red Lobster and Outback Steakhouse in the ECRC filing charged to PE 1462 in the amount of \$100.00. ECRC project costs were overstated. The company stated on May 5, 2005 that an adjustment will be made in the May 2006 ECRC filing.

**Recommendation:** Staff recommends that the ECRC filing include an adjustment to decrease capital investment project costs by \$100.00.



## **Disclosure No. 2**

**Subject:** Capital Investment Expense (Meals)

**Statement of Facts:** Gulf Power charged \$113.65 in meal costs to the capital investment project designated as PE 1462. Of the 5 individuals at lunch, 2 are employed by Merrick Industries, 2 are employed by Gulf, and 1 is employed by SCS. According to PSC Order PSC-95-0384-FOF-EI, issued March 21, 1995, the Commission only allows for recovery "the meal costs incurred for an employee's own consumption while traveling on environmental cost recovery clause business. This type of cost may be charged to ECRC accounts and recovered through the ECRC."

This invoice does not meet the above criteria for inclusion in the ECRC clause.

**Recommendation:** Staff recommends that the ECRC filing include an adjustment to decrease capital investment project costs by \$113.65.

**Gulf Power Company**  
**Environmental Cost Recovery Clause (ECRC)**  
**Calculation of the Final True-Up Amount**  
**January 2005 - December 2005**

**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)	2,057,048	1,663,372	1,824,504	1,711,654	2,142,472	2,575,309	2,677,653	2,628,535	2,614,471	2,008,197	1,844,656	2,576,685	26,324,556
2 True-Up Provision (Order No. PSC-04-1187-FOF-EI)	43,123	43,124	43,123	43,123	43,124	43,123	43,124	43,124	43,124	43,124	43,124	43,124	517,484
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	2,100,171	1,706,496	1,867,627	1,754,777	2,185,596	2,618,432	2,720,777	2,671,659	2,657,595	2,051,321	1,887,780	2,619,809	26,842,040
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	56,371	772,803	194,670	174,931	195,302	74,120	188,070	57,871	157,898	166,966	225,200	679,556	2,943,758
b Capital Investment Projects (Schedule 7A, Line 9)	1,135,725	1,149,001	1,165,122	1,586,452	2,021,978	2,055,858	2,070,053	2,074,697	2,087,922	2,089,796	2,094,174	2,167,578	21,698,356
c Total Jurisdictional ECRC Costs	1,192,096	1,921,804	1,359,792	1,761,383	2,217,280	2,129,978	2,258,123	2,132,568	2,245,820	2,256,762	2,319,374	2,847,134	24,642,114
5 Over/(Under) Recovery (Line 3 - Line 4c)	908,075	(215,308)	507,835	(6,606)	(31,684)	488,454	462,654	539,091	411,775	(205,441)	(431,594)	(227,325)	2,199,926
6 Interest Provision (Schedule 3A, Line 10)	3,209	4,073	4,537	5,321	5,437	6,201	7,788	9,589	11,445	12,277	11,737	10,844	92,458
7 Beginning Balance True-Up & Interest Provision		1,395,806	1,141,447	1,610,696	1,566,288	1,496,917	1,948,449	2,375,767	2,881,323	3,261,419	3,025,131	2,562,150	514,399
a Actual Total for True-Up Period	514,399												
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)	(43,123)	(43,124)	(43,123)	(43,123)	(43,124)	(43,123)	(43,124)	(43,124)	(43,124)	(43,124)	(43,124)	(43,124)	(517,484)
9 End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 7b + 8)	2,013,695	1,772,582	2,241,831	2,197,423	2,128,052	2,579,584	3,006,902	3,512,458	3,892,554	3,656,266	3,193,285	2,933,680	2,920,434
10 Adjustments to Period Total True-Up Including Interest*	13,246												13,246
11 Current Period Total Net True-Up (Lines 9 + 10)	2,026,941	1,772,582	2,241,831	2,197,423	2,128,052	2,579,584	3,006,902	3,512,458	3,892,554	3,656,266	3,193,285	2,933,680	2,933,680

\*Adjustment resulting from FPSC audit including interest

Gulf Power Company  
Environmental Cost Recovery Clause (ECRC)  
Calculation of the Final True-Up Amount  
January 2005 - December 2005

Interest Provision  
(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 Beg. True-Up Amount (Schedule 2A, Lines 7a +7b+ 10)	1,158,780	2,026,941	1,772,582	2,241,831	2,197,423	2,128,052	2,579,584	3,006,902	3,512,458	3,892,554	3,656,266	3,193,285	
2 Ending True-Up Amount Before Interest (Line 1 + Schedule 2A, Lines 5 + 8)	2,023,732	1,768,509	2,237,294	2,192,102	2,122,615	2,573,383	2,999,114	3,502,869	3,881,109	3,643,989	3,181,548	2,922,836	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	3,182,512	3,795,450	4,009,876	4,433,933	4,320,038	4,701,435	5,578,698	6,509,771	7,393,567	7,536,543	6,837,814	6,116,121	
4 Average True-Up Amount (Line 3 x 1/2)	1,591,256	1,897,725	2,004,938	2,216,967	2,160,019	2,350,718	2,789,349	3,254,886	3,696,784	3,768,272	3,418,907	3,058,061	
5 Interest Rate (First Day of Reporting Business Month)	0.023400	0.025000	0.026500	0.027800	0.029800	0.030600	0.032700	0.034300	0.036400	0.037900	0.040300	0.042100	
6 Interest Rate (First Day of Subsequent Business Month)	0.025000	0.026500	0.027800	0.029800	0.030600	0.032700	0.034300	0.036400	0.037900	0.040300	0.042100	0.043000	
7 Total of Beginning and Ending Interest Rates (Line 5 + Line 6)	0.048400	0.051500	0.054300	0.057600	0.060400	0.063300	0.067000	0.070700	0.074300	0.078200	0.082400	0.085100	
8 Average Interest Rate (Line 7 x 1/2)	0.024200	0.025750	0.027150	0.028800	0.030200	0.031650	0.033500	0.035350	0.037150	0.039100	0.041200	0.042550	
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.002017	0.002146	0.002263	0.002400	0.002517	0.002638	0.002792	0.002946	0.003096	0.003258	0.003433	0.003546	
10 Interest Provision for the Month (Line 4 x Line 9)	3,209	4,073	4,537	5,321	5,437	6,201	7,788	9,589	11,445	12,277	11,737	10,844	92,458