

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: August 22, 2007
TO: William B. McNulty, Public Utilities Supervisor, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: Docket No: 070007-EI; Company Name: Gulf Power Company;
Audit Purpose: Environmental Cost Recovery Clause;
Audit Control No: 07-071-1-1

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

DNV:bj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Ms. Susan Ritenour
Gulf Power Company
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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 CLAUSE AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2006

DOCKET NO. 070007-EI

AUDIT CONTROL NO. 07-071-1-1

Michael Buckley
Michael Buckley, Audit Manager

Lynn M. Deamer
Lynn M. Deamer, Audit Supervisor

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

August 17, 2007

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) True-Up for the 12-month period ending December 31, 2006, Docket No. 070007-EG.

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: - To determine that the revenue filed by the company for each cost recovery clause is supported by Company documentation and agrees to the General Ledger. To verify that the appropriate clause factors are utilized by the Company in billing the customers.

Procedures: - ECRC revenues were audited jointly with the revenue portions of the other clause audits of Gulf. The work product is contained in Docket No. 070001-EI, ACN: 07-022-1-1, Work papers 41 & 42 series.

EXPENSES

O & M Expenses

Objective: - To verify that the Company's ECRC O & M expenses for the year ended December 31, 2006 are representative of management's assertions displayed in the books and records.

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

Legal Expenses

Objective: - To test legal expenses charged to ECRC for appropriateness.

Procedures:- Requested the Company to identify legal activity totals by account, and to itemize account payable vouchers by reference code and journal vouchers by detail activity. Obtained accounts payable vouchers and all invoices for ECRC Legal Expenses for the year ended December 31, 2006. Examined all legal invoices from different projects.

SO2 Expenses

Objective: - To verify that the Company's ECRC SO2 expenses & revenues for the year ending December 31, 2006, are representative of its books and records.

Procedures:- Requested Company to provide a *schedule, by month, of the* SO2 allowance expenses for 2006 including revenues, inventory, expensed amounts, and the amount included in working capital. The Company was also asked to provide account numbers that are used in these transactions. Recomputed and traced schedule of SO2 allowance monthly expenses for 2006 including revenues, inventory, and expensed amounts to the General Ledger.

Depreciation Expense

Objective: - To verify the Company's ECRC depreciation on Schedule 8A is correctly computed and omits dismantlement expense for the period ended December 31, 2006.

Procedures:- Obtained Company filing, obtained schedules showing monthly plant balances, obtained a copy of the Depreciation and Dismantlement Study Docket No. 050381-EI on March 23, 2006, and Commission Order PSC-06-0348-PAA-EI. Generated a schedule of recalculated monthly depreciation expenses excluding dismantlement expense and agreed it to Company filing showing depreciation. Also recomputed and agreed the monthly plant balances and depreciation expenses reported for Plant Expenditure's (PE's) on Schedule 8A.

TRUE-UP

Objective:- To determine if the true-up calculation and interest provision as filed with this Commission was calculated correctly.

Procedures:- Obtained Company filing, Commission orders, and Wall Street Journal 30 day commercial paper rates. Recalculated the Company's total true-up and interest provision for the period ended December 31, 2006. Traced the beginning true-up to the prior order PSC-05-1251-FOF-EI. Agreed rates used to calculate interest provision to the Wall Street Journal 30 day commercial paper rates.

INVESTMENT

Objective:- To verify that Company's Capital Investment projects for the year ended December 31, 2006 are representative of management's assertions displayed in the books and records. To verify that where an ECRC project involves the replacement of existing plant assets, the Company is retiring the installed cost of replaced units according to Rule 25-6.0142(4)(b), F.A.C.

Procedures:- Obtained Company filing and Commission orders for year ended December 31, 2006. Generated a schedule of recalculated Capital Investment projects recoverable through the ECRC and agreed it to schedule 6A. Traced plant expenditures cleared to plant. Traced retired and replaced ECRC projects to ledger entry activity and verified proper accounting treatment.

OTHER

Deferred Accounting

Objective:- To report any deferred accounting treatment that Gulf Power Company may have implemented for expenses incurred for approved ECRC projects.

Procedures:- Obtained ECRC filing. Obtained source documentation of deferred accounting treatment of plant expenditures not included in the 2006 filing from the company. Traced deferred amounts to ECRC Account 183 for PE 1222-the Plant Crist Scrubber Project to the Journal Summary Detail Report.

Positive Accumulated Depreciation

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

Procedures:- Obtained a list of all Plant Expenditures with debit balances in accumulated depreciation from the company as of December 31, 2006. Analyzed the Company's explanation as to the cause of these debit balance(s) in PE accumulated depreciation.

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount
January 2006 - December 2006

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)	3,020,378	2,809,043	2,691,281	3,001,576	3,633,381	4,218,255	4,330,525	4,458,823	3,710,112	3,118,132	2,870,819	3,074,716	40,937,041
2 True-Up Provision (Order No. PSC-05-1251-FOF-EI)	106,219	106,219	106,219	106,219	106,219	106,219	106,220	106,220	106,220	106,221	106,221	106,221	1,274,637
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	3,126,597	2,915,262	2,797,500	3,107,795	3,739,600	4,324,474	4,436,745	4,565,043	3,816,332	3,224,353	2,977,040	3,180,937	42,211,678
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	221,728	877,975	303,663	182,584	125,339	250,088	1,130,510	1,478,785	882,494	1,025,510	771,594	1,090,018	8,340,288
b Capital Investment Projects (Schedule 7A, Line 9)	2,283,097	2,298,561	2,312,799	2,324,847	2,340,849	2,437,766	2,518,884	2,512,471	2,511,415	2,499,472	2,487,205	2,498,617	29,025,983
c Total Jurisdictional ECRC Costs	2,504,825	3,176,536	2,616,462	2,507,431	2,466,188	2,687,854	3,649,394	3,991,256	3,393,909	3,524,982	3,258,799	3,588,635	37,366,271
5 Over/(Under) Recovery (Line 3 - Line 4c)	621,772	(261,274)	181,038	600,364	1,273,412	1,636,620	787,351	573,787	422,423	(300,629)	(281,759)	(407,698)	4,845,407
6 Interest Provision (Schedule 3A, Line 10)	11,718	12,348	12,195	13,962	17,801	24,258	30,098	32,714	34,274	34,226	32,595	30,761	286,950
7 Beginning Balance True-Up & Interest Provision		2,833,649	2,478,504	2,565,518	3,073,625	4,258,619	5,813,278	6,524,507	7,024,788	7,375,265	7,002,641	6,647,256	
a Actual Total for True-Up Period 2005	2,305,630												2,305,630
b Final True-Up from January 2004 - December 2004 (Order No. PSC-05-1251-FOF-EI)	628,050	628,050	628,050	628,050	628,050	628,050	628,050	628,050	628,050	628,050	628,050	628,050	628,050
8 True-Up Collected/(Refunded) (see Line 2)	(106,219)	(106,219)	(106,219)	(106,219)	(106,219)	(106,219)	(106,220)	(106,220)	(106,220)	(106,221)	(106,221)	(106,221)	(1,274,637)
9 End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 7b + 8)	3,460,951	3,106,554	3,193,568	3,701,675	4,886,669	6,441,328	7,152,557	7,652,838	8,003,315	7,630,691	7,275,306	6,792,148	6,791,400
10 Adjustments to Period Total True-Up Including Interest*	748												748
11 Current Period Total Net True-Up (Lines 9 + 10)	3,461,699	3,106,554	3,193,568	3,701,675	4,886,669	6,441,328	7,152,557	7,652,838	8,003,315	7,630,691	7,275,306	6,792,148	6,792,148

*Prior period depreciation adjustment associated with the Plant
Crist DEP Project.

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount
January 2006 - December 2006

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)	2,934,428	3,461,699	3,106,554	3,193,568	3,701,675	4,886,669	6,441,328	7,152,557	7,652,838	8,003,315	7,630,691	7,275,306	
2 Ending True-Up Amount Before Interest (Line 1 + Schedule 2A, Lines 5 + 8)	3,449,981	3,094,206	3,181,373	3,687,713	4,868,868	6,417,070	7,122,459	7,620,124	7,969,041	7,596,465	7,242,711	6,761,387	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	6,384,409	6,555,905	6,287,927	6,881,281	8,570,543	11,303,739	13,563,787	14,772,681	15,621,879	15,599,780	14,873,402	14,036,693	
4 Average True-Up Amount (Line 3 x 1/2)	3,192,205	3,277,953	3,143,964	3,440,641	4,285,272	5,651,870	6,781,894	7,386,341	7,810,940	7,799,890	7,436,701	7,018,347	
5 Interest Rate (First Day of Reporting Business Month)	0.043000	0.045100	0.045300	0.047800	0.049600	0.050100	0.052900	0.053600	0.052700	0.052600	0.052700	0.052500	
6 Interest Rate (First Day of Subsequent Business Month)	0.045100	0.045300	0.047800	0.049600	0.050100	0.052900	0.053600	0.052700	0.052600	0.052700	0.052500	0.052700	
7 Total of Beginning and Ending Interest Rates (Line 5 + Line 6)	0.088100	0.090400	0.093100	0.097400	0.099700	0.103000	0.106500	0.106300	0.105300	0.105300	0.105200	0.105200	
8 Average Interest Rate (Line 7 x 1/2)	0.044050	0.045200	0.046550	0.048700	0.049850	0.051500	0.053250	0.053150	0.052650	0.052650	0.052600	0.052600	
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.003671	0.003767	0.003879	0.004058	0.004154	0.004292	0.004438	0.004429	0.004388	0.004388	0.004383	0.004383	
10 Interest Provision for the Month (Line 4 x Line 9)	11,718	12,348	12,195	13,962	17,801	24,258	30,098	32,714	34,274	34,226	32,595	30,761	286,950