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

DATE: May 11, 2009
TO: Devlin Higgins, Regulatory Analyst II, Division of Economic Regulation
FROM: Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*
RE: Docket No: 090002-EG; Company Name: Gulf Power Company;
Audit Purpose: Energy Conservation Cost; Company Code: EI804;
Audit Control No: 09-028-1-1;

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 a response to the Office of the Commission Clerk. There are no confidential work papers associated with this audit.

DNM/tbm

Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey,
District Offices, File Folder)
Office of Commission Clerk (2)
General Counsel
Office of Public Counsel

Ms. Susan D. Ritenour
Gulf Power Company
One Energy Place
Pensacola, FL 32520-0780

J. Stone/R. Badders/S. Griffin
Beggs & Lane Law Firm
Post Office Box 12950
Pensacola, FL 32591

DOCUMENT NUMBER-DATE

04576 MAY 12 8

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STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

ENERGY CONSERVATION COST RECOVERY AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2008

DOCKET NO. 090002-EG
AUDIT CONTROL NO. 09-028-1-1

A handwritten signature in cursive script, appearing to read "Debra M. Dobiak".

Debra M. Dobiak, Audit Manager

A handwritten signature in cursive script, appearing to read "Lynn M. Deamer".

Lynn M. Deamer, District Audit Supervisor

DOCUMENT NUMBER-DATE

04576 MAY 12 8

FPSC-COMMISSION CLERK

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

May 10, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION

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 Energy Conservation Cost Recovery (ECCR) True-up for the twelve month period ending December 31, 2008, Docket No. 090002-EG.

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

I. OBJECTIVES AND PROCEDURES

REVENUES

Objective: To verify that the Energy Conservation Cost Recovery (ECCR) revenue and KWHs sold as filed are completely and properly recorded on the books of the company.

Procedures: ECCR revenues were audited jointly with the revenue portions of the other clause audits of Gulf Power Company. The work product is contained in Docket No. 090001-EI, ACN 09-041-1-4.

EXPENSES

Objective: To verify that cost items recoverable through the ECCR are included for recovery in the filing.

Procedures: From Monthly Expenditure by Program reports, we scheduled program expenses by month, traced them to the company filed true-up, and verified depreciation and return on investment rates. We recalculated expenses by month and traced them to the general ledger FERC accounts 908 - Customer Assistance Expenses and 909 - Informational and Instructional Advertising Expenses.

Objective: To ensure advertising costs charged to the ECCR are consistent with Rule 25-17.015(5), F.A.C., with documentation to demonstrate the allocation is reasonable.

Procedures: The audit staff selected a judgmental sample of transactions and traced amounts to invoices noting the proper period, proper account, appropriate advertisement, and applicable to conservation. Audit finding 1 discusses our findings and recommendations regarding ECCR advertising expense.

Objective: To identify the programs and dollar amounts for conservation programs that exceeded the budgeted amounts.

Procedures: The audit staff reviewed the supporting documentation from the company which noted the programs that exceeded the budgeted amounts.

Objective: To verify that the information provided in the 2008 annual Florida Energy Efficiency and Conservation Act (FEECA) Program Progress Report pursuant to Rule 25-17.0021(5) h, l, and m, F.A.C., is accurate.

Procedures: The audit staff reviewed Rule 25-17.0021, F.A.C., and the 2008 FEECA Program Progress Report. We traced the report to the current and detailed computations of KWh and KW savings provided by the company noting compliance to the rule.

Objective: To ensure that costs for the Solar Thermal Water Heating Pilot Program and the Energy Education Program were not sought to be recovered until after FPSC approval.

Procedures: Audit staff reviewed the general ledger and other supporting documentation, and did not find any costs associated with the Solar Thermal Water Heating Pilot Program or the Energy Education Program in 2008.

TRUE-UP

Objective: To verify that the true-up amount, including the interest calculation, is correctly reflected on the filed schedules.

Procedures: We recalculated the 2008 ECCR true-up and interest provision. The audit staff reconciled the beginning true-up amount to Order No. PSC-08-0783-FOF-EG, issued December 1, 2008 and the interest rates to the 30-Day Commercial Paper rates.

II. AUDIT FINDINGS

AUDIT FINDING NO. 1

SUBJECT: ECCR ADVERTISING EXPENSE

AUDIT ANALYSIS: The audit staff noted that total conservation advertising expense for 2008 was \$494,393. The company recorded \$322,846 (65% of \$494,393) on the company's books in December 2008. We sampled \$144,214 (44% of \$322,846) of the December 2008 expenses, and found that \$99,792 was for media ads to be printed or aired throughout 2009. This is inconsistent with Generally Accepted Accounting Principles (GAAP), which assert that expenses should be recognized in the period for which they are incurred (The Matching Principle). Some of the advertising costs relate to ads that will be printed or aired in 2009, and therefore, the expenses should not be recorded until that time.

We discussed this issue with the company and were told that it had been a conscious decision to purchase one year's worth of advertising at a reduced rate vs. purchasing smaller blocks of advertising throughout 2009. The total amount of expense for the bulk purchase was \$301,754 which represents \$53,875 in production costs, \$64,993 of media ads to be printed or aired in January 2009, and \$182,885 for TV ads scheduled to air in April through November 2009. The media costs of \$182,885 reflect discounted rates realized as a result of the December 2008 commitment. Audit staff has noted, and the company agrees, that under GAAP the amount of \$247,878 (\$64,993 + \$182,885) should have been set up in a prepaid account in December 2008 and then amortized as expense in 2009 as the services were rendered.

This is provided for informational purposes only.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: None.

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: None.

III. EXHIBITS

EXHIBIT NO. 1 – Schedule CT-1, Page 1 of 1

Florida Public Service Commission
Docket No. 090002-EG
GULF POWER COMPANY
Witness: John N. Floyd
Exhibit No. _____ (JNF-1)
Schedule CT-1
Page 1 of 1

GULF POWER COMPANY
ENERGY CONSERVATION COST RECOVERY
ADJUSTED NET TRUE-UP
For the Period: January, 2008 Through December, 2008

| | <u>\$</u> | <u>\$</u> |
|--|---------------|------------------|
| Actual | | |
| 1. Principal | 2,838,576 | |
| 2. Interest | <u>73,090</u> | |
| 3. Actual Over/(Under) Recovery Ending Balance | | 2,911,666 |
| Estimated/Actual as filed September 12, 2008 | | |
| 4. Principal | 2,525,690 | |
| 5. Interest | <u>63,805</u> | |
| 6. Total Estimated/Actual Over/(Under) Recovery | | <u>2,589,496</u> |
| 7. Adjusted Net True-up Over/(Under) Recovery (Line 3 - 6) | | <u>322,171</u> |

GULF POWER COMPANY
 COMPUTATION OF INTEREST EXPENSE
 ENERGY CONSERVATION ADJUSTMENT
 For the Period: January, 2008 Through December, 2008

| Interest Provision | JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY | AUGUST | SEPTEMBER | OCTOBER | NOVEMBER | DECEMBER | TOTAL |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------|
| 1. Beginning True up Amount | 1,597,655.91 | 1,802,431.89 | 1,814,011.43 | 1,851,578.85 | 1,885,615.95 | 2,175,175.59 | 2,521,041.28 | 2,978,981.06 | 3,318,970.62 | 3,664,586.31 | 3,793,994.86 | 3,841,976.53 | |
| 2. Ending True up before Interest | 1,796,722.15 | 1,809,376.28 | 1,847,223.51 | 1,891,356.57 | 2,171,710.01 | 2,516,270.61 | 2,973,383.91 | 3,312,561.11 | 3,653,806.57 | 3,771,755.87 | 3,634,929.03 | 2,904,811.04 | |
| 3. Total beginning & ending | 3,394,378.06 | 3,611,808.17 | 3,661,234.94 | 3,742,929.42 | 4,057,325.96 | 4,692,446.20 | 5,494,425.17 | 6,291,542.17 | 6,972,807.19 | 7,436,342.13 | 7,618,323.83 | 6,746,787.57 | |
| 4. Average True up Amount | 1,897,194.03 | 1,875,904.09 | 1,830,617.47 | 1,871,464.71 | 2,033,662.98 | 2,348,223.10 | 2,747,212.59 | 3,145,771.24 | 3,486,403.60 | 3,718,171.07 | 3,629,461.92 | 3,375,393.79 | |
| 5. Interest Rate First Day Reporting Business Month | 4.9800 | 3.0800 | 3.0800 | 2.6300 | 2.8400 | 2.4300 | 2.4500 | 2.4400 | 2.4500 | 4.9500 | 2.9500 | 1.4900 | |
| 6. Interest Rate First Day Subsequent Business Month | 3.0800 | 3.0800 | 2.6300 | 2.8400 | 2.4300 | 2.4500 | 2.4400 | 2.4500 | 4.9500 | 2.9500 | 1.4900 | 0.5400 | |
| 7. Total of Line 5 and 6 | 8.0600 | 6.1600 | 5.7100 | 5.4700 | 5.2700 | 4.8800 | 4.8900 | 4.8900 | 7.4000 | 7.9000 | 4.4400 | 2.0300 | |
| 8. Average Interest rate (50% of Line 7) | 4.0300 | 3.0800 | 2.8550 | 2.7350 | 2.6350 | 2.4400 | 2.4450 | 2.4450 | 3.7000 | 3.9500 | 2.2200 | 1.0150 | |
| 9. Monthly Average Interest Rate Line 8 x 12 | 0.003358 | 0.002567 | 0.002379 | 0.002279 | 0.002195 | 0.002033 | 0.002038 | 0.002038 | 0.003063 | 0.003292 | 0.001850 | 0.000846 | |
| 10. Interest Adjustment | | | | | | | | | | | | | |
| 11. Interest Provision (Line 4 X 9) | 5,699.74 | 1,635.15 | 4,355.34 | 4,265.38 | 4,465.58 | 4,770.85 | 5,597.45 | 6,409.51 | 10,749.74 | 12,208.98 | 7,947.50 | 2,855.32 | 73,090.04 |

Florida Public Service Commission
 Exhibit No. 090002-FC
 GULF POWER COMPANY
 Address: 307014 - Lake
 Period No. 11 (Line 11)
 Schedule CT-3
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