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

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**DATE:** June 17, 2009  
**TO:** Jenny X. Wu, Economic Analyst, Division of Economic Regulation  
**FROM:** Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*  
**RE:** Docket No. 090007-EI - Company Name: Gulf Power Company  
Audit Purpose: Audit costs of approved environmental projects recovered through  
the Environmental Cost Recovery Clause; Company Code: EI804  
Audit Control No: 09-012-1-1

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

DNM/js

Attachment: Audit Report

cc: Division of Regulatory Compliance (Salak, Mailhot, Harvey,  
Miami District Office, Tampa District Office, File Folder)  
Office of Commission Clerk (2)  
Office of the General Counsel

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

DOCUMENT NUMBER-DATE

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State of Florida



**FLORIDA PUBLIC SERVICE COMMISSION**

**DIVISION OF REGULATORY COMPLIANCE  
BUREAU OF AUDITING**

**Tallahassee District Office**

**GULF POWER COMPANY**

**ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT**

**TWELVE MONTH PERIOD ENDED DECEMBER 31, 2008**

**DOCKET NO. 090007-EI**

**AUDIT CONTROL NO. 09-012-1-1**

A handwritten signature in cursive script that reads "Donna D. Brown".

**Donna Brown, Audit Manager**

A handwritten signature in cursive script that reads "Lynn M. Deamer".

**Lynn M. Deamer, Audit Supervisor**

DOCUMENT NUMBER-DATE

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**DIVISION OF REGULATORY COMPLIANCE**

**AUDITOR'S REPORT**

**June 05, 2009**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

We have performed the procedures described 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, 2008, Docket No. 090007-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:** 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 Power Company. The work product is contained in Docket No. 090001-EI, ACN: 09-041-1-4.

### **EXPENSES**

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

**Objective:** To verify that the company's ECRC Operation and Maintenance expenses for the year ended December 31, 2008 are representative of management's assertions displayed in the books and records.

**Procedures:** The audit staff recomputed the company's O&M expenses from the monthly general ledger and agreed it to the company's filing Schedule 5A. Verified adjustments to O&M expenses for costs recovered in base rates as per FPSC Order PSC-94-0044-FOF-EI, issued January 12, 1994. Compiled a sample of expenses and traced them to supporting vendor invoices.

#### **SO2 Expenses**

**Objective:** To verify that the company's ECRC SO2 expenses and revenues for the year ending December 31, 2008 are representative of its books and records.

**Procedure:** Obtained a schedule, by month, of the SO2 allowance expenses for 2008 including revenues, inventory, expensed amounts and the amount included in working capital. Recomputed and traced the emission allowances to Schedule 8A, page 31 of 31 of the company's filing and 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, 2008.

#### **Procedures:**

Obtained supporting company documents calculating depreciation and amortization amounts by month for 2008. Obtained a copy of the Depreciation and Dismantlement Study filed in Docket No. 050381-EI, FPSC Order PSC-06-0348-PAA-EI, issued May 19, 2006, and FPSC Order

PSC-07-0013-PAA-EI, issued January 2, 2007. Recalculated monthly depreciation expense excluding dismantlement expense, and agreed it to company filing for Plant Expenditure's (PE's) on Schedule 8A.

## **TRUE-UP**

**Objective:** To determine if the true-up calculation and interest provision for the period ended December 31, 2008 as filed with this Commission was calculated correctly.

**Procedures:** Recalculated the company's total true-up and interest provision for the period ended December 31, 2008 and agreed it to the company filing Schedule 2A. Traced the beginning true-up amount to the 2006 ECRC audit and the true-up provision to FPSC Order PSC-06-0972-FOF-EI, issued November 22, 2006. Agreed rates used to calculate interest provision to the Wall Street Journal 30 day commercial paper rates.

## **INVESTMENT**

**Objective:** To verify that the company's Capital Investment Projects for the year ended December 31, 2008 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 costs of replaced units according to Rule 25-6.0142(4)(b), F.A.C.

**Procedures:** Generated a schedule which recalculated the Capital Investment Projects recoverable through the ECRC and agreed it to the company filing Schedule 7A. Agreed the total jurisdictional recoverable costs of Capital Investment Projects to the recalculation of company's true-up. Recalculated the appropriate energy jurisdictional factors for each month and agreed all Capital Investment Projects, depreciation expense, accumulated depreciation, and plant in service balances to Schedule 8A.

## **OTHER**

### **Deferred Accounting**

**Objective:** To determine that the utility's Working Capital balance is properly calculated in compliance with Commission rules.

**Procedures:** Obtained source documentation of plant expenditures not included in the 2008 filing which were recorded in a deferred account. Obtained FPSC Order PSC-07-0721-S-EI, issued September 5, 2007. Traced deferred amounts to FERC Account 183.

**Positive Accumulated Depreciation**

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

**Procedures:** Obtained a list of all Plant Expenditures (PE) with debit balances in accumulated depreciation from the company as of December 31, 2008 by month.

**Self-Insured Retention**  
**Environmental Claim 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)	4,958,103	3,422,308	3,346,536	3,480,637	4,329,372	4,831,384	5,305,640	4,867,102	4,656,354	3,769,204	3,472,081	4,439,433	49,978,158
2 True-Up Provision (Order No. PSC-07-0922-POP-EI)	11,705	11,705	11,705	11,705	11,705	11,705	11,705	11,705	11,705	11,705	11,705	11,704	140,459
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	4,969,808	3,434,013	3,358,241	3,492,342	4,341,077	4,843,089	5,317,345	4,878,807	4,668,059	3,780,913	3,483,786	4,451,137	50,118,617
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	1,193,539	1,711,847	905,878	1,280,921	930,661	1,519,165	1,317,052	1,012,236	1,307,131	814,418	857,324	1,089,175	14,039,321
b Capital Investment Projects (Schedule 1A, Line 9)	2,878,248	2,907,557	2,946,619	3,072,904	3,180,615	3,206,613	3,221,488	3,217,077	3,223,763	3,218,907	3,234,160	3,235,909	37,577,258
c Total Jurisdictional ECRC Costs	4,071,787	4,619,404	3,852,497	4,353,825	4,111,276	4,725,778	4,538,540	4,229,313	4,530,894	4,033,325	4,071,484	4,325,084	51,616,579
5 Over/(Under) Recovery (Line 3 - Line 4c)	(1,917)	(1,185,391)	(494,256)	(861,483)	229,801	117,311	778,805	649,494	47,165	(252,412)	(527,698)	(123,053)	(1,437,962)
6 Interest Provision (Schedule 3A, Line 10)	5,387	2,577	369	(1,217)	(1,895)	(1,429)	(546)	884	2,377	2,170	425	(12)	9,289
7 Beginning Balance True-Up & Interest Provision													
a Actual Total for True-Up Period 2007	(647,453)	(635,750)	(1,830,269)	(2,355,861)	(3,230,366)	(3,014,063)	(2,909,861)	(2,143,714)	(1,505,042)	(1,467,204)	(1,729,152)	(2,328,130)	(647,453)
b Final True-Up from January 2006 - December 2006 (Order No. PSC-07-0922-POP-EI)	2,258,385	2,258,385	2,258,385	2,258,385	2,258,385	2,258,385	2,258,385	2,258,385	2,258,385	2,258,385	2,258,385	2,258,385	2,258,385
8 True-Up Collected/(Refunded) (see Line 2)	(11,705)	(11,705)	(11,705)	(11,705)	(11,705)	(11,705)	(11,705)	(11,705)	(11,705)	(11,705)	(11,705)	(11,704)	(140,459)
9 Adjustments													
10 End of Period Total True-Up (Lines 5 + 6 + 7a + 7b + 8)	1,652,435	408,115	(97,426)	(711,851)	(755,680)	(651,463)	114,671	753,543	791,181	529,135	(69,745)	41,592	43,592

5



**Gulf Power Company**  
**Environmental Cost Recovery Clause (ECRC)**  
**Calculation of the Final True-Up Amount**  
**January 2008 - December 2008**

**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)	1,640,930	1,602,635	408,116	(97,476)	(971,881)	(755,680)	(651,483)	114,571	753,343	791,381	529,233	(69,745)	
2 Ending True-Up Amount Before Interest (Line 1 + Schedule 2A, Lines 5 + 8)	1,587,248	405,539	(97,845)	(970,664)	(753,785)	(659,054)	115,217	752,160	788,803	527,064	(70,170)	41,604	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	3,208,178	2,008,173	310,271	(1,968,140)	(1,725,666)	(1,405,734)	(536,266)	867,131	1,542,147	1,318,214	459,064	(28,141)	
4 Average True-Up Amount (Line 3 x 1/2)	1,604,089	1,004,087	155,136	(984,070)	(862,833)	(702,867)	(268,133)	433,565	771,073	659,107	229,532	(14,070)	
5 Interest Rate (First Day of Reporting Business Month)	0.049800	0.030800	0.010800	0.026300	0.028400	0.024300	0.024500	0.034400	0.024500	0.049500	0.039500	0.014900	
6 Interest Rate (First Day of Subsequent Business Month)	0.030800	0.030800	0.026300	0.028400	0.024300	0.024500	0.024400	0.024500	0.049500	0.039500	0.014900	0.005400	
7 Total of Beginning and Ending Interest Rates (Line 5 + Line 6)	0.080600	0.061600	0.037100	0.054700	0.052700	0.048800	0.048900	0.048900	0.074000	0.079000	0.044400	0.020300	
8 Average Interest Rate (Line 7 x 1/2)	0.040300	0.030800	0.018550	0.027350	0.026350	0.024400	0.024450	0.024450	0.037000	0.039500	0.022200	0.010150	
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.003358	0.002567	0.001546	0.002279	0.002196	0.002033	0.002038	0.002038	0.003083	0.003292	0.001850	0.000846	
10 Interest Provision for the Month (Line 4 x Line 9)	5,387	2,571	369	(1,217)	(1,895)	(1,427)	(546)	884	2,377	2,170	425	(12)	9,089