

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:** May 21, 2012  
**TO:** Office of Commission Clerk  
**FROM:** Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 120007-EI  
Company Name: Gulf Power Company  
Company Code: EI804  
Audit Purpose: A3d Environmental Cost Recovery Clause  
Audit Control No: 12-019-1-1

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RECEIVED-FPSC  
MAY 21 PM 2:26  
COMMISSION  
CLERK

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 Commission Clerk. There were confidential work papers associated with this audit.

CJP/klh

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

03202 MAY 21 21

FPSC-COMMISSION CLERK

State of Florida



**Public Service Commission**

Office of Auditing and Performance Analysis  
Bureau of Auditing  
Tallahassee District Office

**Auditor's Report**

Gulf Power Company  
Environmental Cost Recovery Clause

**Twelve Months Ended December 31, 2011**

Docket No. 120007-EI

Audit Control No. 12-019-2-2

**May 18, 2012**

Handwritten signature of Andrew Von Euw in cursive script.

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Andrew Von Euw  
Audit Manager

Handwritten signature of Lynn Deamer in cursive script.

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Lynn Deamer  
Reviewer

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## Purpose

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 dated May 15, 2012. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2011 filing for the Environmental Cost Recovery Clause in Docket No. 120007-EL.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

Utility refers to the Gulf Power Company

ECRC refers to the Environmental Cost Recovery Clause

### **Capital Investments**

#### Utility Plant in Service

**Objectives:** The objectives were to verify all ECRC project-related plant additions, retirements and adjustments for the period January 1, 2011, through December 31, 2011, and to verify that any project which involved the replacement or retirement of an existing plant asset is retired at the installed costs by the Utility in accordance with Florida Public Service Commission Rule 25-6.0142(4)(b), F.A.C.

**Procedures:** We reconciled Plant in Service (Line 2) and Accumulated Depreciation (Line 3) to the general ledger for selected capital projects listed on the 2011 Schedule 8A. No exceptions were noted.

#### Construction Work in Progress

**Objectives:** The objective was to verify net investments associated with the following capital projects:

- 1) Air Quality Assurance Testing
- 2) Daniel Ash Management Project
- 3) Crist FDEP Agreement for Ozone Attainment
- 4) Precipitator Upgrades for CAM Compliance
- 5) CAIR/CAMR/CAVR Compliance

**Procedures:** We reviewed all 2011 additions for the selected capital projects and verified that they had appropriate supporting documentation and were recorded to the correct project and account. No exceptions were noted.

## Revenue

### Operating Revenue

**Objectives:** The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2011 through December 31, 2011 and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the ECRC.

**Procedures:** We reconciled the 2011 filing to the Utility's monthly Environmental Revenue Reports. We selected a random sample of residential and commercial customer's bills and recalculated each to verify use of the correct tariff rate. No exceptions were noted.

## Expense

### Operation and Maintenance Expense

**Objectives:** The objectives were to verify that Operation and Maintenance (O&M) Expense listed on Schedule 5A was supported by adequate documentation and that the expenses are appropriately recoverable through the ECRC.

**Procedures:** We traced expenses in the filing to the general ledger. We judgmentally selected a sample of O&M Expenses for testing from FERC account 506, subaccounts 106 and 122. The source documentation for selected items was reviewed to ensure the expense was related to the ECRC and that the expense was charged to the correct accounts. No exceptions were noted.

### Depreciation and Amortization

**Objectives:** The objective was to verify that the most recent Commission approved depreciation rates or amortization periods were used in calculating Depreciation Expense.

**Procedures:** We recalculated 2011 Depreciation Expense for selected capital projects listed on Schedule 7A and traced these amounts to the general ledger detail.

## Other Issues

### SO2 Allowances

**Objectives:** The objective was to verify revenues, inventory, expensed amounts and allowance auction proceeds. We also verified the amounts included in Working Capital on Line 2, Schedule 8A.

**Procedures:** We traced 2011 consumption for SO2, Annual NOx and Seasonal NOx allowances from the Utility's detailed allowances reports to Schedule 8A. We traced the jurisdictional factors to PSC Order 10-0683-FOF-EI. No exceptions were noted.

## **True-up**

**Objectives:** The objective was to determine if the True-Up and Interest Provision as filed on Schedule 2A was properly calculated.

**Procedures:** We traced the December 31, 2010 True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2011 using the Commission approved beginning balance as of December 31, 2010, the Financial Commercial Paper rates and the 2011 ECRC revenues and costs. No exceptions were noted.

## **Analytical Review**

**Objectives:** The objective was to perform an analytical review of the Utility's ECRC Revenues and Expenses to determine if there were any material changes or inconsistencies from the prior year.

**Procedures:** We compared 2011 to 2010 revenues and expenses. We requested explanations from the Utility for significant variances. Explanations provided were sufficient. Further follow-up was not required.

Audit Findings

**None**



## Exhibits

### Exhibit 1: True-Up

Schedule 2A

<u>Gulf Power Company</u>														
Environmental Cost Recovery Clause (ECRC)														
Calculation of the Final True-Up Amount														
January 2011 - December 2011														
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)	12,003,577	10,570,628	9,823,237	11,264,837	12,276,522	15,594,951	15,802,812	16,136,141	12,403,879	10,307,489	9,756,787	9,999,700	145,940,561
2	True-Up Provision (Order No. PSC-10-0683-FOF-EI)	792,501	792,501	792,501	792,501	792,501	792,501	792,501	792,501	792,501	792,501	792,501	792,501	9,510,009
3	ECRC Revenues Applicable to Period (Lines 1 + 2)	12,796,077	11,363,129	10,615,738	12,057,338	13,069,023	16,387,451	16,595,313	16,928,642	13,196,380	11,099,990	10,549,288	10,792,201	155,450,570
4	Jurisdictional ECRC Costs													
a	O & M Activities (Schedule 5E, Line 9)	1,198,954	2,139,055	1,446,487	1,610,954	1,651,024	2,269,513	2,437,699	2,031,789	2,029,680	1,389,725	2,345,498	2,576,143	23,126,521
b	Capital Investment Projects (Schedule 7E, Line 9)	10,292,615	10,324,148	10,304,039	10,306,525	10,242,621	10,241,708	10,258,416	10,292,606	10,282,483	10,258,144	10,231,729	10,201,040	123,236,074
c	Total Jurisdictional ECRC Costs	11,491,569	12,463,203	11,750,526	11,917,479	11,893,645	12,511,221	12,696,115	12,324,395	12,312,163	11,647,869	12,577,227	12,777,183	146,362,595
5	Over/(Under) Recovery (Line 3 - Line 4c)	1,304,508	(1,100,074)	(1,134,788)	139,859	1,175,378	3,876,230	3,899,198	4,604,247	884,217	(547,879)	(2,027,939)	(1,984,982)	9,087,975
6	Interest Provision (Schedule 3E, Line 10)	2,210	2,067	1,510	1,099	965	1,110	1,338	1,430	1,197	1,152	1,302	659	16,039
7	Beginning Balance True-Up & Interest Provision													
a	Actual Total for True-Up Period 2010	626,546	1,140,764	(749,744)	(2,675,522)	(3,327,065)	(2,943,223)	141,617	3,249,652	7,062,828	7,156,608	5,811,380	2,998,242	626,546
b	Final True-Up from January 2009 - December 2009 (Order No. PSC-10-0683-FOF-EI)	9,744,785	9,744,785	9,744,785	9,744,785	9,744,785	9,744,785	9,744,785	9,744,785	9,744,785	9,744,785	9,744,785	9,744,785	9,744,785
8	True-Up Collected (Refunded) (see Line 2) Annual NOx Allowance Expense	(792,501)	(792,501)	(792,501)	(792,501)	(792,501)	(792,501)	(792,501)	(792,501)	(792,501)	(792,501)	(792,501)	(792,501)	(9,510,009)
9	Adjustments									867				867
10	End of Period Total True-Up (Lines 5 + 6 + 7a + 7b + 8)	10,885,549	8,995,041	7,069,263	6,417,720	6,801,563	9,886,402	12,994,437	16,807,613	16,901,393	15,562,165	12,743,027	9,966,203	9,966,203