

State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** May 8, 2013  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 130007-EI  
Company Name: Gulf Power Company  
Company Code: EI804  
Audit Purpose: A3d Environmental Cost Recovery Clause  
Audit Control No.: 13-015-1-1

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Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of 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.

LD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER - DATE

02549 MAY-8 2013

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, 2012**

Docket No. 130007-EI  
Audit Control No. 13-015-1-1  
**April 30, 2013**

A handwritten signature in cursive script, reading "Donna D. Brown", written over a horizontal line.

Donna D. Brown  
Audit Manager

A handwritten signature in cursive script, reading "Lynn M. Deamer", written over a horizontal line.

Lynn M. 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 Engineering in its audit service request dated January 15, 2013. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2012 filing for the Environmental Cost Recovery Clause in Docket No. 130007-EI.

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**

#### Definition

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, 2012, through December 31, 2012.

**Procedure:** We reconciled Plant in Service (Line 2) and Accumulated Depreciation (Line 3) to the general ledger for each capital project listed on the 2012 Form 42-8A. No exceptions were noted.

#### Construction Work in Progress

**Objective:** The objective was to verify net investments associated with the following capital projects, and to determine whether any project which involved the replacement or retirement of an existing plant asset was retired at the installed costs by the Utility in accordance with Florida Public Service Commission Rule 25-6.0142(4)(b), F.A.C.

- 1) Crist 5, 6 & 7 Precipitator Projects
- 2) Low Nox Burners, Crist 6 & 7
- 3) Sub. Contam. Mobile Groundwater Treatment Sys.
- 4) Daniel Ash Management Project
- 5) Crist FDEP Agreement for Ozone Attainment
- 6) Precipitator Upgrades for CAM Compliance
- 7) CAIR/CAMR/CAVR Compliance
- 8) Annual NOx Allowances
- 9) SO2 Allowances

**Procedures:** We tested all of the additions to the capital projects selected for review. We determined whether additions had appropriate supporting documentation and were recorded to the correct project and account. We determined whether items that were replaced had a corresponding retirement. We compared the ledger to the Depreciation Base and the Non-Interest Bearing amount on Form 42-8A. No exceptions were noted.

## **Revenue**

### **Operating Revenues**

**Objectives:** The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2012, through December 31, 2012, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the ECRC.

**Procedures:** We reconciled the 2012 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 the use of the correct tariff rates. These revenues were audited in Docket 130001-EI, the Fuel and Purchased Power Cost Recovery Clause, with the other cost recovery clause revenues of Gulf Power Company. This information is contained in Dkt. 130001-EI, the Fuel and Purchased Power Cost Recovery Clause. No exceptions were noted.

## **Expense**

### **Operation and Maintenance Expense**

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

**Procedures:** We reconciled expenses in the filing to the general ledger. We traced a sample of O&M Expenses to source documentation to ensure the expenses were related to the ECRC and that the expenses were charged to the correct accounts. No exceptions were noted.

### **Depreciation and Amortization**

**Objective:** The objective was to determine whether the most recent Commission approved depreciation rates or amortization periods were used in calculating Depreciation Expense.

**Procedures:** We recalculated 2012 Depreciation Expense for selected capital projects listed on Schedule 7A and traced these amounts to the general ledger detail. No exceptions were noted.

## **Other Issues**

### **SO<sub>2</sub> Allowances**

**Objectives:** The objectives were to verify investments, inventory, expensed amounts, and to determine whether these amounts are included in Working Capital on Line 2, Schedule 8A.

**Procedures:** We reconciled 2012 consumption for SO<sub>2</sub> Allowances from the Utility's detailed Allowances Reports to the Total Emissions Schedule on Schedule 8A. We reconciled 2012 Nox allowances from the Utility provided reports to the Total Emissions Schedule on Schedule 8A. We also reconciled the jurisdictional factors used in all projects to Commission Order No. 11-0553-FOF-EI. No exceptions were noted.

## **True-up**

**Objective:** The objective was to determine if the True-Up and Interest Provision as filed on Schedule 2A and 3A were properly calculated.

**Procedures:** We traced the December 31, 2011, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2012, using the Commission approved beginning balance as of December 31, 2011, the Financial Commercial Paper rates, and the 2012 ECRC revenues and costs. No exceptions were noted.

## **Analytical Review**

**Objective:** 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 2012 to 2011 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**

## Exhibit

### Exhibit 1: True Up

Schedule 2A

**Gulf Power Company**  
Environmental Cost Recovery Clause (ECRC)

January 2012 - December 2012  
Calculation of the Current Final True-Up Amount  
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)	9,595,810	9,152,188	9,839,130	9,850,559	12,614,664	13,137,617	14,851,629	13,870,416	12,499,034	10,884,743	9,422,036	9,821,873	135,539,698
2 True-Up Provision (Order No. PSC-10-0683-FOF-EI)	1,270,153	1,270,153	1,270,153	1,270,153	1,270,153	1,270,153	1,270,153	1,270,153	1,270,153	1,270,153	1,270,153	1,270,155	15,241,838
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	10,865,963	10,422,341	11,109,283	11,120,712	13,884,817	14,407,770	16,121,782	15,140,569	13,769,187	12,154,896	10,692,189	11,092,028	150,781,536
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule SE, Line 9)	1,757,628	1,110,008	1,357,017	1,650,303	1,912,575	1,744,868	1,644,249	1,823,280	3,098,511	2,189,266	2,361,344	3,347,671	23,996,720
b Capital Investment Projects (Schedule 7E, Line 9)	10,077,875	10,112,292	10,161,482	9,822,744	10,409,232	10,454,375	10,463,660	10,454,574	10,454,422	9,949,851	10,349,185	10,331,412	123,041,104
c Total Jurisdictional ECRC Costs	11,835,503	11,222,300	11,518,499	11,473,047	12,321,807	12,199,243	12,107,909	12,277,854	13,552,933	12,139,117	12,710,529	13,679,083	147,037,824
5 Over/(Under) Recovery (Line 3 - Line 4c)	(969,540)	(799,959)	(409,216)	(352,335)	1,563,010	2,208,527	4,013,873	2,862,715	216,254	15,779	(2,018,340)	(2,587,055)	3,743,712
6 Interest Provision (Schedule 3E, Line 10)	557	555	342	279	260	365	620	834	681	600	497	35	5,625
7 Beginning Balance True-Up & Interest Provision													
a Actual Total for True-Up Period 2011	9,104,881	6,865,745	4,796,188	3,117,162	1,494,952	1,788,070	2,726,809	5,471,149	7,064,545	6,011,326	4,757,552	1,469,556	9,104,881
b Final True-Up from January 2010 - December 2010 (Order No. PSC-11-0553-FOF-EI)	861,325	861,325	861,325	861,325	861,325	861,325	861,325	861,325	861,325	861,325	861,325	861,325	861,325
8 True-Up Collected/(Refunded) (see Line 2) Annual NOx Allowance Expense	(1,270,153)	(1,270,153)	(1,270,153)	(1,270,153)	(1,270,153)	(1,270,153)	(1,270,153)	(1,270,153)	(1,270,153)	(1,270,153)	(1,270,153)	(1,270,155)	(15,241,838)
9 Adjustments													
10 End of Period Total True-Up (Lines 5 + 6 + 7a + 7b + 8)	7,727,070	5,657,513	3,978,487	2,356,277	2,649,395	3,588,134	6,332,474	7,925,870	6,872,651	5,618,877	2,330,881	(1,526,295)	(1,526,295)