

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: June 11, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150007-EI
Company Name: Gulf Power Company
Company Code: EI804
Audit Purpose: Environmental Cost Recovery Clause
Audit Control No: 15-014-1-1

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

LMD/cp

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

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, 2014

Docket No. 150007-EI
Audit Control No. 15-014-1-1

June 8, 2015

A handwritten signature in black ink that reads "Donna D. Brown".

Donna D. Brown
Audit Manager

A handwritten signature in blue ink that reads "Lynn M. Deamer".

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 14, 2015. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2014 filing for the Environmental Cost Recovery Clause in Docket No. 150007-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, 2014, through December 31, 2014.

Procedure: We reconciled Plant in Service (Line 2) and Accumulated Depreciation (Line 3) to the general ledger for each capital project listed on the 2014 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 is retired at the installed costs by the Utility in accordance with Rule 25-6.0142(4) (b), F.A.C.

- 1) Air Quality Compliance Program
- 2) Smith Water Conservation
- 3) Crist FDEP Agreement for Ozone Attainment

Procedures: We selected a sample of the additions to the capital projects 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, which was recorded in accordance with Rule 25-6.0142(4) (b), F.A.C. We reconciled Construction Work in Progress Non-Interest Bearing amounts on Form 42-8A to the general ledger. No exceptions were noted.

Revenue

Operating Revenues

Objectives: The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2014, through December 31, 2014, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales.

Procedures: We reconciled the 2014 filing to the Utility's monthly Environmental Revenue Reports. We selected a sample of residential and commercial customers' bills and recalculated each to verify the use of the approved tariff rate. This work was performed jointly with the revenue portions of the other clause audits of the Utility. The work product is contained in Docket No. 150001-EI, Audit Control No. 15-023-1-1. No exceptions were noted.

Expense

Operation and Maintenance Expense

Objectives: The objectives were to verify that Operation and Maintenance (O&M) Expense listed on the Utility's Form 42-5A filing 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. 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

Objective: 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 Depreciation Expense on a test basis. We traced total year Depreciation Expense for each capital project listed on Form 42-8A to the general ledger detail. No exceptions were noted.

Other Issues

SO₂ and NO_x Allowances

Objectives: The objectives were to verify investments, inventory, expensed amounts, allowance auction proceeds and to verify amounts included in Working Capital, Form 42-8A.

Procedures: We traced 2014 consumption for SO₂ Allowances, net of Gains on Sales of Emission Allowances, from the Utility's detailed Allowances Reports to the Total Emissions Schedule on Form 42-8A. We reconciled the inventory amounts in the general ledger to the Working Capital Calculation on Form 42-8A. No exceptions were noted.

True-up

Objective: The objective was to determine if the True-Up and Interest Provision as filed on Form 42-2A was properly calculated.

Procedures: We traced the December 31, 2013, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2014, using the Commission approved beginning balance as of December 31, 2013, the Financial Commercial Paper rates, and the 2014 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 2014 to 2013 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) Calculation of the
Final True-Up Amount January 2014-
December 2014

Current Period True-Up Amount
(in Dollars)

Line	Actual January	Actual February	Actual March	Actual April	Actual MID:	Actual June	Actual MI	Actual August	Actual September	Actual October	Actual November	Actual December	End of Period Amount
ECRC Revenues (net of Revenue Taxes)	14,427,037	9,814,540	10,171,868	9,839,795	12,280,824	14,558,539	15,631,370	16,134,629	13,508,428	11,125,702	10,398,403	10,527,797	148,418,933
True-Up Provision (Order No. PSC-13-0606-FOF-EO)	(649,073)	(649,073)	(649,073)	(649,073)	(649,073)	(649,073)	(649,073)	(649,073)	(649,073)	(649,073)	(649,073)	(649,073)	(7,788,878)
ECRC Revenues Applicable to Period (Lines 1 + 2)	<u>13,777,964</u>	<u>9,165,467</u>	<u>9,522,795</u>	<u>9,190,722</u>	<u>11,631,751</u>	<u>13,909,466</u>	<u>14,982,297</u>	<u>15,485,556</u>	<u>12,859,355</u>	<u>10,476,629</u>	<u>9,749,330</u>	<u>9,878,722</u>	<u>140,630,055</u>
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule SA, Line 9)	3,086,570	2,747,697	2,239,814	1,774,143	2,347,923	1,714,073	3,271,590	2,532,730	1,867,003	2,439,332	1,692,133	2,679,685	28,392,693
b Capital Investment Projects (Schedule 7A, Line 9)	9,693,176	9,677,372	9,658,895	9,645,777	9,629,014	9,601,653	9,565,150	9,551,708	9,538,634	9,528,466	9,748,775	9,532,429	115,371,046
c Total Jurisdictional ECRC Costs	<u>12,779,746</u>	<u>12,425,069</u>	<u>11,898,709</u>	<u>11,419,920</u>	<u>11,976,937</u>	<u>11,315,726</u>	<u>12,836,740</u>	<u>12,084,438</u>	<u>11,405,637</u>	<u>11,967,798</u>	<u>11,440,908</u>	<u>12,212,114</u>	<u>143,763,739</u>
Over/(Under) Recovery (Line 3 - Line 4c)	998,218	(3,259,602)	(2,375,914)	(2,229,198)	(345,185)	2,593,740	2,145,558	3,401,118	1,453,719	(1,491,168)	(1,691,578)	(2,333,392)	(3,133,684)
Interest Provision (Schedule 3A, Line 10)	(858)	(817)	(943)	(1,129)	(1,169)	(906)	(688)	(600)	(422)	(359)	(478)	(671)	(9,040)
Beginning Balance True-Up & Interest Provision													
a Actual Total for True-Up Period 2013	(10,730,771)	(9,084,337)	(11,695,683)	(13,423,467)	(15,004,721)	(14,702,002)	(11,460,095)	(8,666,153)	(4,616,561)	(2,514,191)	(3,356,645)	(4,399,628)	(10,730,771)
b Final True-Up from January 2012- December 2012 (Order No. PSC-13-0606-FOF-EO)	(3,704,022)	(3,704,022)	(3,704,022)	(3,704,022)	(3,704,022)	(3,704,022)	(3,704,022)	(3,704,022)	(3,704,022)	(3,704,022)	(3,704,022)	(3,704,022)	(3,704,022)
True-Up Collected/(Refunded) (see Line 2)	649,073	649,073	649,073	649,073	649,073	649,073	649,073	649,073	649,073	649,073	649,073	649,073	7,788,878
Adjustments													
10 End of Period Total True-Up (Lines 5 + 6 + 7a + 7b + 8 + 9)	<u>(12,788,359)</u>	<u>(15,399,705)</u>	<u>(17,127,489)</u>	<u>(18,708,743)</u>	<u>(18,406,024)</u>	<u>(15,164,117)</u>	<u>(12,370,175)</u>	<u>(8,320,583)</u>	<u>(6,218,213)</u>	<u>(7,060,667)</u>	<u>(8,103,650)</u>	<u>(9,788,638)</u>	<u>(9,788,638)</u>