

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:** June 5, 2017

**TO:** Office of Commission Clerk

**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

**RE:** Docket No.:170007-EI  
Company Name: Gulf Power Company  
Company Code: EI804  
Audit Purpose: A3d: Environmental Cost Recovery Clause  
Audit Control No.: 17-044-1-1

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

LMD/cmm

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, 2016**

Docket No. 170007-EI  
Audit Control No. 17-044-1-1  
**June 2, 2017**

Handwritten signature of Debra Dobiac in black ink.

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Debra Dobiac  
Audit Manager

Handwritten signature of Marisa N. Glover in blue ink.

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Marisa N. Glover  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Engineering in its audit service request dated February 8, 2017. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2016 filing for the Environmental Cost Recovery Clause in Docket No. 170007-EI.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. 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 objective was to verify all ECRC project-related plant additions, retirements and adjustments for the period January 1, 2016, through December 31, 2016.

**Procedure:** We reconciled Plant in Service (Line 2) and Accumulated Depreciation (Line 3) to the general ledger for each capital project listed on the 2016 Form 42-8A. No exceptions were noted.

#### Construction Work in Progress

**Objective:** The objectives were 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), Florida Administration Code (F.A.C.).

- 1) Air Quality Compliance Program,
- 2) Smith Water Conservation,
- 3) and Crist Water Conservation.

**Procedures:** We reconciled Construction Work in Process Non-Interest Bearing amounts (Line 4) to the general ledger for each capital project listed on Form 42-8A. We selected a sample of capital project additions, and determined whether the additions were recorded to the correct project and account. We, also, determined whether items that were replaced had a corresponding retirement, which was recorded in accordance with Rule 5-6.0142(4) (b), F.A.C. No exceptions were noted.

### **Revenue**

#### Operating Revenues

**Objectives:** The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2016, through December 31, 2016, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the ECRC.

**Procedures:** We reconciled the 2016 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 correct tariff rate. This work was performed jointly with the revenue portions of the other clause audits of the Utility. This work product is contained in Docket No. 170001-EI, Audit Control No. 17-023-1-1. 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 was supported by adequate documentation and that the expenses are appropriately recoverable through the ECRC.

**Procedures:** We reconciled the O&M expenses listed on Form 42-5A to the general ledger. We selected a sample of O&M expenses and traced the items to source documentation. We reviewed the invoices to ensure the expense was related to the ECRC and 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**

### Emission Allowances

**Objectives:** The objectives were to verify the Hg, SO<sub>2</sub>, and NO<sub>x</sub> emission allowance investments, inventory, expensed amounts, allowance auction proceeds, and to verify amounts included in Working Capital, Form 42-8A.

**Procedures:** We traced 2016 consumption for emission allowances, net of gains on sales of emission allowances, from the Utility's detailed Allowances Reports to the Total Emissions Schedules 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.

### Plant Scherer

**Objectives:** The objectives were to verify the O&M expenses and capital investments for Plant Scherer within Air Quality Compliance and Coal Combustion Residuals Programs.

**Procedures:** We scheduled the Utility's 25 percent ownership of Plant Scherer's net investments from the Air Quality Compliance and Coal Combustion Residuals project schedules. We recalculated the allocated portion of these investments recoverable through the ECRC and reconciled the net investment amounts to the general ledger. We also reconciled the Utility's share of Plant Scherer's O&M expenses to the general ledger. We recalculated the allocation

portion of these expenses recoverable through the ECRC and traced a sample of O&M expenses to source documents. 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, 2015, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2016, using the Commission approved beginning balance as of December 31, 2015, the Financial Commercial Paper rates, and the 2016 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 2016 to 2015 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 2016 - December 2016  
Calculation of the Current Period 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)	16,353,475	13,696,101	13,509,548	13,394,358	17,148,656	20,260,071	22,860,228	21,363,799	19,362,644	15,894,567	12,942,129	14,125,760	200,911,336
2	True-Up Provision (Order No. PSC-15-0536-FOU-E)	(217,662)	(217,659)	(217,659)	(217,659)	(217,659)	(217,659)	(217,659)	(217,659)	(217,659)	(217,659)	(217,659)	(217,659)	(2,611,911)
3	ECRC Revenues Applicable to Period (Lines 1 + 2)	16,135,813	13,478,442	13,291,889	13,176,699	16,930,997	20,042,412	22,642,569	21,146,140	19,144,985	15,676,908	12,724,470	13,908,101	198,299,425
4	Jurisdictional ECRC Costs													
a	O & M Activities (Schedule 5A, Line 9)	1,284,610	1,998,214	1,979,983	1,710,659	1,904,058	2,449,553	2,797,103	5,146,719	2,562,124	2,388,346	4,658,148	3,823,304	32,704,830
b	Capital Investment Projects (Schedule 7A Line 9)	13,356,998	13,332,482	13,315,006	13,214,214	13,194,183	13,371,405	13,268,156	13,244,685	13,262,133	13,249,939	13,247,352	14,989,934	161,046,486
c	Total Jurisdictional ECRC Costs	14,643,607	15,330,696	15,294,989	14,924,873	15,098,251	15,820,958	16,065,259	18,391,404	15,824,257	15,638,285	17,905,499	18,813,238	193,751,316
5	Over/(Under) Recovery (Line 3 - Line 4c)	1,492,206	(1,852,254)	(2,003,099)	(1,748,174)	1,832,746	4,221,455	6,577,310	2,754,736	3,320,728	38,623	(5,181,029)	(4,905,137)	4,548,110
6	Interest Provision (Schedule 3A, Line 10)	434	459	(132)	(658)	(516)	455	2,398	4,194	5,655	6,858	5,919	4,989	30,055
7	Beginning Balance True-Up & Interest Provision													
a	Actual Total for True-Up Period 2015	1,361,992	3,072,294	1,438,158	(347,414)	(1,878,587)	171,302	4,610,671	11,408,239	14,384,828	17,928,669	18,192,008	13,234,557	1,361,992
b	Final True-Up from January 2014 - December 2014 (Order No. PSC-15-0536-FOU-E)	(912,783)	(912,783)	(912,783)	(912,783)	(912,783)	(912,783)	(912,783)	(912,783)	(912,783)	(912,783)	(912,783)	(912,783)	(912,783)
8	True-Up Collected/(Refunded) (see Line 2)	217,662	217,659	217,659	217,659	217,659	217,659	217,659	217,659	217,659	217,659	217,659	217,659	2,611,911
9	Adjustments													0
10	End of Period Total True-Up (Lines 5 + 6 + 7a + 7b + 8 + 9)	2,159,511	525,375	(1,260,197)	(2,791,370)	(741,481)	3,698,088	10,495,456	13,472,045	17,016,086	17,279,225	12,321,774	7,639,285	7,639,285

Note: Includes the portion of Gulf's 25% ownership interest in Plant Scherer Unit 3 available to serve native load customers.