

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 27, 2018
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 20180007-EI
Company Name: Gulf Power Company
Company Code: EI804
Audit Purpose: A3d: Environmental Cost Recovery Clause
Audit Control No: 2018-036-1-1

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 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, 2017

Docket No. 20180007-EI
Audit Control No. 2018-036-1-1
June 20, 2018



George Simmons
Audit Manager



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 1, 2018. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2017 filing for the Environmental Cost Recovery Clause in Docket No. 20180007-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, 2017, through December 31, 2017.

Procedure: We reconciled Plant in Service (Line 2) and Accumulated Depreciation (Line 3) to the general ledger for each capital project listed on the 2017 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 Progress 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, 2017, through December 31, 2017, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the ECRC.

Procedures: We reconciled the 2017 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. 20180001-EI, Audit Control No. 2018-019-1-1. 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, SO₂, and NO_x emission allowance investments, inventory, expensed amounts, allowance auction proceeds, and to verify amounts included in Working Capital, Form 42-8A.

Procedures: We traced 2017 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, 2016, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2017, using the Commission approved beginning balance as of December 31, 2016, the Financial Commercial Paper rates, and the 2017 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 2017 to 2016 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 2017 - December 2017
 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 Tax on)	14,929,650	12,136,666	14,430,298	14,916,539	17,681,423	19,210,209	22,378,745	21,967,269	18,520,670	16,886,434	13,325,847	15,944,361	202,328,131
2 True-Up Provision (Order No. PSC-16-0535-FOF-EI)	908,460	908,465	908,465	908,465	908,465	908,465	908,465	908,465	908,465	908,465	908,465	908,465	10,901,575
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	15,838,110	13,045,131	15,338,763	15,825,004	18,589,888	20,118,674	23,287,210	22,875,734	19,429,135	17,794,919	14,234,312	16,852,826	213,229,706
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	2,714,366	2,996,924	3,908,479	3,074,115	303,190	2,340,942	3,852,354	3,382,882	5,135,820	2,246,992	3,502,190	3,327,819	36,786,074
b Capital Investment Projects (Schedule 7A, Line 9)	13,402,083	13,370,324	13,395,498	13,784,123	13,771,381	13,759,589	13,425,015	13,396,126	13,388,669	13,379,573	13,411,434	13,379,631	161,863,495
c Total Jurisdictional ECRC Costs	16,116,449	16,367,248	17,303,978	16,858,238	14,074,571	16,100,531	17,277,368	16,779,008	18,524,489	15,626,565	16,913,624	16,707,450	198,649,569
5 Over/(Under) Recovery (Line 3 - Line 4c)	(278,339)	(3,322,117)	(1,965,215)	(1,033,234)	4,515,317	4,018,143	6,009,841	6,096,676	904,646	2,168,354	(2,679,313)	145,376	14,580,137
6 Interest Provision (Schedule 3A, Line 10)	4,284	2,496	521	(1,211)	(591)	2,177	6,127	10,744	10,769	11,743	13,866	13,865	74,790
7 Beginning Balance True-Up & Interest Provision													
a Actual Total for True-Up Period 2016	4,578,165	3,395,650	(832,436)	(3,705,995)	(5,648,505)	(2,042,244)	1,069,611	6,177,114	11,376,069	11,343,019	12,654,651	9,080,740	4,578,165
b Final True-Up from January 2015 - December 2015 (Order No. PSC-16-0535-FOF-EI)	3,061,120	3,061,120	3,061,120	3,061,120	3,061,120	3,061,120	3,061,120	3,061,120	3,061,120	3,061,120	3,061,120	3,061,120	3,061,120
8 True-Up Collected/(Refunded) (see Line 2)	(908,460)	(908,465)	(908,465)	(908,465)	(908,465)	(908,465)	(908,465)	(908,465)	(908,465)	(908,465)	(908,465)	(908,465)	(10,901,575)
9 Adjustments													0
10 End of Period Total True-Up (Lines 5 + 6 + 7a + 7b + 8 + 9)	6,456,720	2,228,684	(844,475)	(2,587,385)	1,018,876	4,130,731	9,238,234	14,437,189	14,444,139	15,715,771	12,141,860	11,392,636	11,392,636