

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 18, 2019  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 20190007-EI  
Company Name: Gulf Power Company  
Company Code: EI804  
Audit Purpose: A3d: Environmental Cost Recovery Clause  
Audit Control No: 2019-018-1-1

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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, 2018**

Docket No. 20190007-EI  
Audit Control No. 2019-018-1-1  
**June 3, 2019**

*M Glover for D. Brown*

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Donna Brown  
Audit Staff

*[Signature]*

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Thomas Wolff  
Audit Manager

*VM Glover*

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Marisa N. Glover  
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures ..... 2

Audit Findings

    None..... 5

Exhibit

    1: True-Up..... 6

## 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 January 24, 2019. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2018 filing for the Environmental Cost Recovery Clause in Docket No. 20190007-EI.

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, 2018, through December 31, 2018.

**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) Project No. 1.2 Crist 5, 6, & 7 Precipitator Projects,
- 2) Project No. 1.4 Low NOx Burners,
- 3) Project 1.19 Crist FDEP Agreement for Ozone Attainment
- 4) Project No. 1.26 Air Quality Compliance Program.

**Procedures:** We reconciled Construction Work in Progress Non-Interest Bearing amounts to the general ledger for capital projects listed above and six randomly selected projects 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 25-6.0142(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, 2018, through December 31, 2018, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the ECRC.

**Procedures:** We reconciled the 2018 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. 20190001-EI, Audit Control No. 2019-017-1-1. 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 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 2018 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, 2017, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2018, using the Commission approved beginning balance as of December 31, 2017, the Financial Commercial Paper rates, and the 2018 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 2018 to 2017 revenues and expenses. The Utility had no significant variances. 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 2018 - December 2018  
 Calculation of the Current Period True-Up Amount  
 Current Period True-Up Amount  
 (in Dollars)

<u>Line</u>	<u>Actual</u> <u>January</u>	<u>Actual</u> <u>February</u>	<u>Actual</u> <u>March</u>	<u>Actual</u> <u>April</u>	<u>Actual</u> <u>May</u>	<u>Actual</u> <u>June</u>	<u>Actual</u> <u>July</u>	<u>Actual</u> <u>August</u>	<u>Actual</u> <u>September</u>	<u>Actual</u> <u>October</u>	<u>Actual</u> <u>November</u>	<u>Actual</u> <u>December</u>	<u>End of</u> <u>Period</u> <u>Amount</u>
1 ECRC Revenues (Net of Revenue Taxes)	19,347,230	12,525,702	12,904,346	12,024,352	16,456,165	19,092,175	20,525,428	19,124,715	18,564,961	14,776,710	12,915,065	13,196,948	191,453,797
2 True-Up Provision (Order No. PSC-2018-0014-FOF-EI)	684,416	684,414	684,414	684,414	684,414	684,414	684,414	684,414	684,414	684,414	684,414	684,414	8,212,970
3 ECRC Revenues Applicable to Period (Lines 1 - 2)	<u>20,031,646</u>	<u>13,210,116</u>	<u>13,588,760</u>	<u>12,708,766</u>	<u>17,140,579</u>	<u>19,776,589</u>	<u>21,209,842</u>	<u>19,809,129</u>	<u>19,249,375</u>	<u>15,461,124</u>	<u>13,599,479</u>	<u>13,881,362</u>	<u>199,666,767</u>
4 Jurisdictional ECRC Costs:													
a O & M Activities (Schedule 5A, Line 9)	2,340,398	2,514,023	3,320,895	3,357,958	2,327,291	3,446,632	3,920,780	2,935,347	3,003,522	3,831,518	3,622,139	2,922,022	37,542,526
b Capital Investment Projects (Schedule 7A, Line 9)	12,695,882	12,689,162	12,708,589	12,702,810	12,718,484	12,743,527	12,469,054	12,436,410	12,526,040	12,457,624	12,449,763	12,468,199	151,065,546
c Total Jurisdictional ECRC Costs	<u>15,036,281</u>	<u>15,203,185</u>	<u>16,029,484</u>	<u>16,060,768</u>	<u>15,045,775</u>	<u>16,190,159</u>	<u>16,389,834</u>	<u>15,371,757</u>	<u>15,529,562</u>	<u>16,289,142</u>	<u>16,071,902</u>	<u>15,390,221</u>	<u>188,608,072</u>
5 Over/(Under) Recovery (Line 3 - Line 4c)	4,995,365	(1,993,070)	(2,440,724)	(3,352,002)	2,094,804	3,586,430	4,820,008	4,437,372	3,719,813	(828,018)	(2,472,423)	(1,508,859)	11,058,696
6 Interest Provision (Schedule 3A, Line 10)	17,165	18,452	16,674	12,268	10,257	14,082	20,351	26,892	34,430	38,302	34,689	30,643	274,206
7 Beginning Balance True-Up & Interest Provision													
a Actual Total for True-Up Period 2017	14,654,926	18,983,040	16,324,008	13,215,544	9,191,396	10,612,224	13,528,311	17,684,257	21,464,107	24,533,937	23,059,807	19,937,659	14,654,926
b Final True-Up from January 2016 - December 2016 (Order No. PSC-2018-0014-FOF-EI)	(3,262,290)	(3,262,290)	(3,262,290)	(3,262,290)	(3,262,290)	(3,262,290)	(3,262,290)	(3,262,290)	(3,262,290)	(3,262,290)	(3,262,290)	(3,262,290)	(3,262,290)
8 True-Up Collected (Refunded) (see Line 2)	(684,416)	(684,414)	(684,414)	(684,414)	(684,414)	(684,414)	(684,414)	(684,414)	(684,414)	(684,414)	(684,414)	(684,414)	(8,212,970)
9 Adjustments					182	(10)						(0)	172
10 End of Period Total True-Up (Lines 5 + 6 - 7a - 7b - 8 - 9)	<u>15,720,750</u>	<u>13,061,718</u>	<u>9,953,254</u>	<u>5,929,106</u>	<u>7,349,934</u>	<u>10,266,021</u>	<u>17,211,966</u>	<u>18,201,817</u>	<u>21,271,647</u>	<u>19,797,517</u>	<u>16,675,368</u>	<u>14,512,739</u>	<u>14,512,739</u>