

MEMORANDUM

June 24, 1998

ORIGINAL

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (DEVLIN) *KD*

RE: DOCKET NO. 980001-EI -- GULF POWER COMPANY
AUDIT REPORT - CAPACITY COST - PERIOD ENDED SEPTEMBER 30, 1997
AUDIT CONTROL NO. 98-094-1-1

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

Gulf Power Company
Warren E. Tate
One Energy Place
Pensacola, FL 32520-0780

TJD/sp

Attachment

cc: Chairman Johnson
Commissioner Clark
Commissioner Deason
Commissioner Garcia
Commissioner Jacobs
Mary Andrews Bane, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin/Causseaux/
File Folder)
Division of Electric and Gas (Ging)
Tallahassee District Office (Hicks)

Research and Regulatory Review (Harvey)
Office of Public Counsel



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING

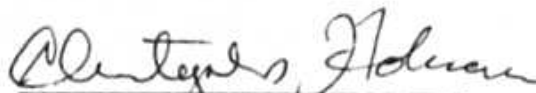
Tallahassee District Office


Gulf Power Company

Capacity Audit

HISTORICAL YEAR ENDED September 30, 1997

DOCKET NO. 980001-EI
AUDIT CONTROL NO. 98-094-1-1


Christopher Holman, Audit Manager


Rhonda Hicks, Audit Supervisor

DOCUMENT NUMBER DATE

06802 JUN 26 88

FPSC-RECORDS/REPORTING

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	OPINION	1
	SUMMARY OF SIGNIFICANT FINDINGS	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
ii.	EXHIBITS	
	COMPANY SCHEDULES:	
	CCA-1	4
	CCA-2	5
	CCA-3	6

**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

June 11, 1998

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Capacity Cost Recovery True Up Filing for the historical 12-month period ended September 30, 1997 for Gulf Power Company. These schedules were prepared by the utility as part of its petition filed in Docket No. 980001-El. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

In our opinion, the schedules referred to above present fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

SUMMARY OF SIGNIFICANT FINDINGS

Gulf Power Company changed its factors as of January 1, 1997 to base the calculated capacity on gas generation in lieu of fossil fuels. This changed the calculated rate factors, resulting in a reduction of approximately \$5 million dollars in capacity charges.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

NET OPERATING INCOME: The audit staff examined the exhibit amounts. Visually scanned the supporting accounts for error or inconsistency. Staff also verified selected amounts testing amounts directly from customers bills, as most of the revenue and expense were verified using summary schedules. Reviewed the Intercompany Interexchange Contracts (IIC) Payments/Receipts, and calculated a trial balance to determine that the monthly net settlement amount. Traced the reported IIC Payments/Receipts to the Southern Company Services (SCS) Power Pool Transaction and Billing Summary. Compiled the total net settlement (of which capacity payments/receipts are a component) presented on the SCS Power Pool Transaction and Billing Summary.

Traced the Capacity Cost Recovery Revenues to a company prepared spreadsheet which removed revenue taxes and interdepartmental use (Purchased Power Capacity Cost Revenue Net of Taxes). Traced the Purchased Power Capacity Cost Revenue-Gross to the monthly billing summaries. Recomputed the total kilowatt hours (KWH) presented on the monthly billing summaries entitled Capacity Clause Recovery Worksheet and reconciled to the billing register summary. Traced the capacity factors used to determine capacity clause revenue to Company Schedules to ensure that the correct factors were being applied to KWH usage.

Traced the Capacity amounts included in Retail Base Rate Revenue to the applicable Commission order.

OTHER: Recomputed the true-up and interest provision for the twelve month period ending September 30, 1997 from the filing and traced to the beginning true-up in the prior filing. Traced the interest rates used in the calculation were to the 30 Day Commercial Paper Rate.

The auditor also recalculated certain factors for the mid-course correction to ensure that the true-up amount was correct.

Florida Public Service Commission
Docket No. 980001-EI
GULF POWER COMPANY
Witness: S. D. Cranmer
Exhibit No. ____ (SDC -1)
SCHEDULE CCA-1

**GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF FINAL TRUE-UP AMOUNT
OCTOBER 1996 - SEPTEMBER 1997**

1. Estimated over/(under)-recovery for the period OCTOBER 1996 - SEPTEMBER 1997 with the mid-course correction filing (Schedule CCE-1a approved in Order No. PSC-97-0021-FOF-EI dated January 6, 1997)	3,315,668
2. Incremental Estimated over/(under) -recovery for the period OCTOBER 1996 - SEPTEMBER 1997 (Schedule CCE-1a approved in Order No. PSC-97-1045-FOF-EI dated September 5, 1997)	<u>(523,967)</u>
3. Net Estimated over/(under)-recovery for the period OCTOBER 1996 - SEPTEMBER 1997 (Schedule CCE-1a approved in Order No. PSC-97-1045-FOF-EI dated September 5, 1997) (Line 1 + Line 2)	2,791,701
4. Actual over/(under)-recovery for the period OCTOBER 1996 - SEPTEMBER 1997 (Schedule CCA-2 Line 11+12 in the Total column)	<u>4,270,156</u>
5. Amount to be refunded/(recovered) in the OCTOBER 1998 - DECEMBER 1998 projection period (Line 4 - Line 3)	<u>1,478,455</u>

GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF TRUE-UP AND INTEREST PROVISION
FOR THE PERIOD OCTOBER 1996 - SEPTEMBER 1997

	ACTUAL OCTOBER	ACTUAL NOVEMBER	ACTUAL DECEMBER	ACTUAL JANUARY	ACTUAL FEBRUARY	ACTUAL MARCH	ACTUAL APRIL	ACTUAL MAY	ACTUAL JUNE	ACTUAL JULY	ACTUAL AUGUST	ACTUAL SEPTEMBER	ACTUAL TOTAL
1 IC Payments / (Receipts) (1)	(175,878)	(543,623)	133,338	453,501	1,385,129	1,407,388	(8,866)	653,305	208,088	310,528	138,711	13,184	4,152,718
2 Capacity Payments to Monitors (2)	62,202	62,202	62,202	62,202	62,202	62,202	62,202	62,202	62,202	62,202	62,202	62,202	748,434
3 Total Capacity Payments/(Receipts) (1 line 1 + 2) (3)	(113,676)	(481,421)	195,541	515,703	1,447,331	1,549,590	53,207	715,507	308,300	372,730	200,813	75,386	4,901,142
4 Jurisdictional %	0.8631890	0.8631890	0.8631890	0.8631890	0.8631890	0.8631890	0.8631890	0.8631890	0.8631890	0.8631890	0.8631890	0.8631890	0.8631890
5 Jurisdictional Capacity Payments / (Receipts) (1 line 3 x 4) (5)	(108,490)	(463,698)	188,343	486,719	1,394,054	1,462,527	51,248	689,217	254,742	309,010	183,518	72,811	4,718,800
6 Amount Included in Retail Base Rate Revenues (6)	(137,667)	(137,667)	(137,667)	(137,667)	(137,666)	(137,666)	(137,667)	(137,667)	(137,667)	(137,667)	(137,666)	(137,666)	(1,852,005)
7 Total Jurisdictional Recovery Amount (6 line 5 - 6) (7)	29,177	(54,832)	378,010	624,386	1,531,779	1,630,183	188,815	826,884	492,409	498,877	321,184	210,277	6,370,800
8 Jurisdictional Capacity Cost Recovery Revenue Net of Taxes (8)	852,864	803,199	768,704	455,850	379,713	379,477	384,621	444,766	510,148	618,707	804,835	490,843	8,572,427
9 True Up Provision (9)	85,405	85,405	85,405	85,405	85,405	85,405	85,405	85,405	85,405	85,405	85,405	85,405	949,890
10 Jurisdictional Capacity Cost Recovery Revenue (line 8 + 9) (10)	938,269	888,604	854,109	541,255	465,118	464,882	470,026	530,171	595,553	704,112	890,240	576,248	9,522,317
11 Over/(Under) Recovery (line 10 - 7) (11)	604,602	1,194,636	509,099	222,802	(740,389)	(808,278)	587,144	29,320	428,177	531,409	685,000	681,805	4,200,787
12 Interest Provision (12)	4,409	8,924	13,171	13,863	10,277	5,008	2,573	2,071	1,228	1,533	2,468	3,746	68,369
13 Beginning Balance True-Up & Interest Provision (13)	583,492	1,412,766	2,550,923	3,007,788	2,843,115	1,701,385	455,877	633,858	253,809	272,878	384,459	670,376	583,492
14 True-Up Collected/(Refunded) (14)	(85,405)	(85,405)	(85,405)	(85,405)	(85,405)	(85,405)	(85,405)	(85,405)	(85,405)	(85,405)	(85,405)	(85,405)	(854,089)
15 End Of Period Total Net True-Up (line 11 + 12 + 13 + 14) (15)	1,412,766	2,550,923	3,007,788	2,843,115	1,701,385	455,877	633,858	253,809	272,878	384,459	670,376	854,488	954,488

**GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF INTEREST PROVISION
FOR THE PERIOD OCTOBER 1996 - SEPTEMBER 1997**

	ACTUAL OCTOBER	ACTUAL NOVEMBER	ACTUAL DECEMBER	ACTUAL JANUARY	ACTUAL FEBRUARY	ACTUAL MARCH	ACTUAL APRIL	ACTUAL MAY	ACTUAL JUNE	ACTUAL JULY	ACTUAL AUGUST	ACTUAL SEPTEMBER	TOTAL
1 Beginning True-Up Amount (\$)	563,492	1,412,768	2,550,923	3,007,788	2,843,115	1,701,285	455,877	633,956	253,909	272,876	394,459	870,576	
2 Ending True-Up Amount (Before Interest) (\$)	1,408,279	2,541,999	2,994,817	2,829,252	1,691,108	450,669	631,283	251,838	271,648	292,908	668,110	950,742	
3 Total Beginning & Ending True-Up Amount (\$) (Lines 1 + 2)	1,991,771	3,954,767	5,545,540	5,837,040	4,534,223	2,152,054	1,087,060	885,794	525,557	665,782	1,062,569	1,621,318	
4 Average True-Up Amount (\$)	995,886	1,977,384	2,772,770	2,918,520	2,267,111	1,076,027	543,530	442,897	262,778	332,891	531,285	810,659	
5 Interest Rate - First Day of Reporting Business Month	0.054600	0.053800	0.054500	0.059500	0.054500	0.054300	0.057400	0.056200	0.056000	0.056200	0.055800	0.055600	
6 Interest Rate - First Day of Subsequent Business Month	0.053800	0.054500	0.059500	0.054500	0.054300	0.057400	0.056200	0.056000	0.056200	0.055800	0.055600	0.055300	
7 Total Interest Rate (Lines 5 + 6)	0.108200	0.108300	0.114000	0.114000	0.108900	0.111700	0.113600	0.112200	0.112200	0.112000	0.111400	0.110900	
8 Average Interest Rate	0.054100	0.054150	0.057000	0.057000	0.054400	0.058950	0.056800	0.056100	0.056100	0.056000	0.055700	0.055450	
9 Monthly Average Interest Rate (1/12 Of Line 8)	0.004508	0.004513	0.004750	0.004750	0.004533	0.004854	0.004733	0.004675	0.004675	0.004667	0.004642	0.004621	
10 Interest Provision For the Month (Lines 4 X 9) (\$)	4,489	8,924	13,171	13,863	10,277	5,008	2,573	2,071	1,228	1,553	2,466	3,746	69,389

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



DIVISION OF RECORDS & REPORTING
BLANCA S. BAYÓ
DIRECTOR
(850) 413-6770

Public Service Commission

June 29, 1998

Warren E. Tate, Secretary and Treasurer
Gulf Power Company
One Energy Place
Pensacola, Florida 32520-0780

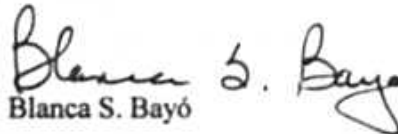
Re: Docket No. 980001 - EI - Gulf Power Company
Audit Report - Capacity Cost - Period Ended September 30, 1997
Audit Control # 98-094-1-1

Dear Mr. Tate:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above case will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,


Blanca S. Bayó

BSB/ABF
Enclosure

cc: Public Counsel
Division of Audit and Financial Analysis