

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: July 18, 2000

TO: Division of Safety & Electric Reliability (Lee)

FROM: Division of Regulatory Oversight (Vandiver) *W*

RE: Docket No. 000007-EI; Gulf Power Company
 Audit Report; Environmental Cost Recovery
 Historical Year Ended December 31, 2999
 Audit Control No. 00-021-1-1

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, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)
 Tallahassee District Office (Hicks)
 Division of Records and Reporting
 Division of Legal Services

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*


Tallahassee District Office

GULF POWER COMPANY

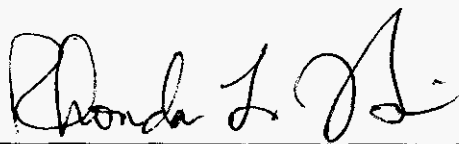
ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 1999

DOCKET NO. 000007-EI
AUDIT CONTROL NO. 00-021-1-1



Edward Bass II, Audit Manager



Rhonda Hicks, Audit Supervisor

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**DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT**

JULY 7, 2000

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Environmental Cost Recovery Clause (ECRC) schedules 2A and 3A for the historical year ended December 31, 1999, for Gulf Power Company. These schedules were prepared by the utility as part of its support of Docket No. 000007-EI. The above referenced ECRC schedules have been included as exhibits in this report, and they are representative of the utility's books and records.

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.

SUMMARY OF SIGNIFICANT FINDINGS

The 1999 Environmental Cost Recovery Clause (ECRC) expenses are understated; the utility included two non-related ECRC expenses; the utility began maintaining ECRC plant and expense subaccounts in 2000.

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.

Verify - The item was tested for accuracy and compared to the substantiating documentation.

INVESTMENT: Obtained supporting documentation for all additions to plant in service; traced all plant additions to supporting vendor invoices; performed a judgmental sample of plant in service and depreciation expense; agreed depreciation rates to Commission Order No. PSC-98-0921-FOF-EI, the utility's last depreciation study; tested separation of dismantlement expense from depreciation expense; agreed SO2 activity per the filing to supporting documentation; recalculated recoverable capital investment costs.

REVENUES: Recalculated ECRC revenues using the factors established per Commission Order No. PSC-98-1764-FOF-EI; performed a judgmental sample of customer bills for the correct ECRC factor.

EXPENSES: Reconciled operation and maintenance (O&M) expenses from subsidiary ledgers to the filing; performed a judgmental sample of O&M expenses and traced each to supporting vendor invoices; verified adjustments made to O&M expenses for costs recovered in base rates per Commission Order No. PSC-94-0044-FOF-EI.

OTHER: Recalculated true-up and interest provision; verified interest rates used in the calculation of the interest provision; verified that the utility is complying with Commission Order No. PSC-99-2513-FOF-EI, regarding the maintenance of separate subaccounts for items related to ECRC; scanned the ECRC plant and expense subaccounts.

DISCLOSURES

Disclosure No. 1

Subject: Operation and Maintenance (O&M) Expense - Error

Statement of Fact: The utility's filing reflects ECRC O&M expenses of \$3,164,576. Gulf Power Company incurred an additional \$156,568 in environmental costs for the historical year ended December 31, 1999. The utility did not recover these O&M expenses due to an error, but will recover these O&M expenses in its June 2000 ECRC filing.

Recommendation: The audit staff's calculation of ECRC O&M expenses based on the company's books and records is \$3,259,153. This yields an audit difference of \$94,577 ($\$3,259,153 - \$3,164,576$). The utility also acknowledges errors in the amount of \$61,989, which reflects a total difference of approximately \$156,566 ($\$94,577 + \$61,989$) that O&M expenses are understated for 1999.

Beginning in 2000, the utility is tracking environmental expenses by FERC and subaccounts for each project rather than by Performing Responsibility Center Numbers (PRCN). The utility believes this change will enable it to have more control to ensure against possible errors.

Disclosure No. 2

Subject: O&M Expense

Statement of Fact: The following reference numbers, invoice numbers, and amounts were recovered by Gulf Power Company in its 1999 Environmental Cost Recovery Clause (ECRC) filing.

Reference Number	Invoice Number	Amount
99173071	9052556	\$42,888
99319065	102899-25769	\$25,008

Recommendation: The audit staff performed a judgmental sample of the O&M expenses for the historical year ended December 31, 1999. The following table compares the utility's amount with the audit staff's amount.

Reference Number	Invoice Number	Per Utility	Per Audit	Adjustment
99173071	9052556	\$42,888	\$0.00	(\$42,888)
99319065	102899-25769	25,008	23,528	(1,480)
Totals		\$67,896	\$23,528	(\$44,368)

The first invoice in the amount of \$42,888 is related to general labor and materials and is not an ECRC expense. This invoice should not have been recovered under the ECRC. The second invoice for \$25,008 was related to legal services concerning environmental matters. This voucher included state and local taxes in the amount of \$1,480. The voucher was incorrectly coded as taxable. These taxes should not have been recovered under the ECRC. The O&M expenses for the historical year ended December 31, 1999, are overstated by \$44,368.

Disclosure No. 3

Subject: ECRC Plant and Expense Subaccounts

Statement of Fact: Commission Order No. PSC-99-2513-FOF-EI, issued December 22, 1999, states, "In order to address the concerns in the most recent audit report, the Company is willing to begin making manual entries to the general ledger no later than the first quarter of 2000. These entries will separately identify the plant related Environmental Cost Recovery Clause (ECRC) amounts in the applicable FERC accounts."

In March 2000, Gulf Power Company began making the manual ECRC plant in service entries. The following FERC and subaccounts related to ECRC plant in service are as follows:

FERC	SUB	DESCRIPTION
101	901	ECRC - Plant in Service
108	901	ECRC - Accumulated Depreciation
108	902	ECRC - Accumulated Dismantlement
111	901	ECRC - Accumulated Amortization

Also beginning in 2000, the utility is maintaining ECRC expenses by FERC and subaccounts for each environmental project.

Recommendation: The audit staff was able to verify that these ECRC FERC and subaccounts are being used in 2000, and will allow future audit staff to verify items related to the utility's ECRC filing.

Gulf Petro Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount for the Period
January 1999 - December 1999

End-of-Period True-Up Amount
(in Dollars)

Line	January	February	March	April	May	June	July	August	September	October	November	December	End of Period Amount
1 ECRC Revenues (net of Revenue Taxes)	639,006	520,170	547,563	608,853	682,845	792,350	890,896	926,143	798,808	646,132	551,624	750,470	8,354,860
2 True-Up Provision (Order No. PSC-98-1764-FOF-EI)	328,613	328,613	328,613	328,613	328,613	328,613	328,613	328,613	328,613	328,613	328,613	328,612	3,943,355
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	967,619	848,783	876,176	937,466	1,011,458	1,120,963	1,219,509	1,254,756	1,127,421	974,745	880,237	1,079,082	12,298,215
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	147,115	777,354	45,481	22,121	557,246	270,979	108,853	17,588	452,287	192,920	269,988	195,602	3,057,534
b Capital Projects (Schedule 7A, Line 9)	721,073	717,149	715,931	712,870	709,556	708,473	706,709	704,376	704,758	702,843	688,958	687,360	8,480,056
c Total Jurisdictional ECRC Costs	868,188	1,494,503	761,412	734,991	1,266,802	979,452	815,562	721,964	1,157,045	895,763	958,946	882,962	11,537,590
5 Over/(Under) Recovery (Line 3 - Line 4c)	99,431	(645,720)	114,764	202,475	(255,344)	141,511	403,947	532,792	(29,624)	78,982	(78,709)	196,120	760,625
6 Interest Provision (Schedule 3A, Line 10)	15,695	13,254	10,995	10,297	8,880	7,556	7,542	8,383	8,240	6,919	5,628	4,556	107,945
7 Beginning Balance True-Up & Interest Provision	3,943,355	3,729,868	2,768,789	2,565,935	2,450,094	1,875,017	1,695,471	1,778,347	1,990,909	1,640,912	1,398,200	996,506	3,943,355
a Deferred True-Up from October 1997 - September 1998 (Order No. PSC-99-2513-POF-EI)	(14,963)	(14,963)	(14,963)	(14,963)	(14,963)	(14,963)	(14,963)	(14,963)	(14,963)	(14,963)	(14,963)	(14,963)	(14,963)
b Deferred True-Up from October 1998 - December 1998 (Order No. PSC-99-2513-POF-EI)	65,238	65,238	65,238	65,238	65,238	65,238	65,238	65,238	65,238	65,238	65,238	65,238	65,238
8 True-Up Collected/(Refunded) (See line 2)	(328,613)	(328,613)	(328,613)	(328,613)	(328,613)	(328,613)	(328,613)	(328,613)	(328,613)	(328,613)	(328,613)	(328,612)	(3,943,355)
9 End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 7b + 8)	3,780,143	2,819,064	2,616,210	2,500,369	1,925,292	1,745,746	1,828,622	2,041,184	1,691,187	1,448,475	1,046,781	918,845	918,845
10 Adjustments to Period Total True-Up Including Interest	0	0	0	0	0	0	0	0	0	0	0	0	0
11 End of Period Total Net True-Up (Lines 9 + 10)	3,780,143	2,819,064	2,616,210	2,500,369	1,925,292	1,745,746	1,828,622	2,041,184	1,691,187	1,448,475	1,046,781	918,845	918,845

* Note: See Schedule 5A for details of adjustments made to O & M activities for July since the estimated true-up filing.

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount for the Period
January 1999 - December 1999

Interest Provision
(in Dollars)

Line	January	February	March	April	May	June	July	August	September	October	November	December	12-Month Total
1 Beginning True-Up Amount (Sch 2A-2, Lines 7 + 7a + 7b + 10)	3,993,630	3,780,143	2,819,064	2,616,210	2,500,369	1,925,292	1,745,746	1,828,622	2,041,184	1,691,187	1,448,475	1,046,781	
2 Ending True-Up Amount Before Interest (Line 1 + Sch 2A-2, Lines 5 + 8)	3,764,448	2,805,810	2,605,215	2,490,072	1,916,412	1,738,190	1,821,080	2,032,801	1,682,947	1,441,556	1,041,153	914,289	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	7,758,078	6,585,953	5,424,279	5,106,282	4,416,781	3,663,482	3,566,826	3,861,423	3,724,131	3,132,743	2,489,628	1,961,070	
4 Average True-Up Amount (Line 3 x 1/2)	3,879,039	3,292,977	2,712,140	2,553,141	2,208,391	1,831,741	1,783,413	1,930,712	1,862,066	1,566,372	1,244,814	980,535	
5 Interest Rate (First Day of Reporting Business Month)	0.049000	0.048100	0.048500	0.048800	0.048000	0.048500	0.050500	0.051000	0.053200	0.053000	0.053000	0.055500	
6 Interest Rate (First Day of Subsequent Business Month)	0.048100	0.048500	0.048800	0.048000	0.048500	0.050500	0.051000	0.053200	0.053000	0.053000	0.055500	0.056000	
7 Total of Beginning & Ending Interest Rates (Line 5 + Line 6)	0.097100	0.096600	0.097300	0.096800	0.096500	0.099000	0.101500	0.104200	0.106200	0.106000	0.108500	0.111500	
8 Average Interest Rate (Line 7 x 1/2)	0.048550	0.048300	0.048650	0.048400	0.048250	0.049500	0.050750	0.052100	0.053100	0.053000	0.054250	0.055750	
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.004046	0.004025	0.004054	0.004033	0.004021	0.004125	0.004229	0.004342	0.004425	0.004417	0.004521	0.004646	
10 Interest Provision for the Month (Line 4 x Line 9)	15,695	13,254	10,995	10,297	8,880	7,556	7,542	8,383	8,240	6,919	5,628	4,556	107,945