

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: April 30, 2018
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 20180001-EI
Company Name: Gulf Power Company
Company Code: EI804
Audit Purpose: A3a: Capacity Cost Recovery Clause
Audit Control No: 2018-019-1-2

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 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
Capacity Cost Recovery Clause

Twelve Months Ended December 31, 2017

Docket No. 20180001-EI
Audit Control No. 2018-019-1-2
April 23, 2018

A handwritten signature in black ink, appearing to read "Debra Dobiac", written over a horizontal line.

Debra Dobiac
Audit Manager

A handwritten signature in black ink, appearing to read "Marisa N. Glover", written over a horizontal line.

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 Accounting and Finance in its audit service request dated January 18, 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 Capacity Cost Recovery Clause in Docket No. 20180001-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

Definitions

Utility refers to the Gulf Power Company.
CCRC refers to the Capacity Cost Recovery Clause.

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 CCRC.

Procedures: We reconciled the 2017 filing to the Utility's monthly Revenue Reports. We computed the factors by rate code and compared them to the last Commission Order No. PSC-2016-0547-FOF-EI. This work was performed jointly with the revenue portions of the other clause audits of the Utility. The work product is contained in Docket No. 20180001-EI, ACN 2018-019-1-1. No exceptions were noted.

Transmission Revenues

Objectives: The objective was to determine whether transmission revenues derived from non-separated, non-energy broker network, wholesale energy were credited to the CCRC per Commission Order PSC-1999-2512-FOF-EI.

Procedures: We compiled transmission revenues for the twelve month period ended December 31, 2017 from the utility provided documentation and reconciled the revenues with the general ledger and the filing. We determined that these revenues comply with Order No. PSC-1999-2512-FOF-EI. 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 filing was supported by adequate documentation and that the expenses are appropriately recoverable through the CCRC.

Procedures: We traced expenses in the filing to the general ledger. We also verified twelve months of Intercompany Interchange Contract (IIC) receipts, IIC purchases, and transmission expenses as per the filing. The source documentation for selected items was reviewed to ensure the expense was related to the CCRC and that the expense was charged to the correct accounts. No exceptions were noted.

IIC Invoices and Contracts

Objective: The objective was to determine whether the Southern Company's IIC invoices for capacity purchases are in accordance with the terms and conditions of the IIC contract.

Procedures: We reconciled the Capacity transactions from Schedule A-12 to the respective Capacity contract. We also verified contract expiration dates to ensure that those expired were no longer being utilized. No exceptions were noted.

Incremental Security Costs

Objectives: The objective was to determine whether the security costs recovered are incremental to the security costs recovered in base rates.

Procedures: We reviewed the general ledger account detail for vendors charging security costs to the Utility. We noted that all security costs were recovered through base rates and not through the CCRC. No further work performed.

Purchased Power Contracts

Objectives: The objective was to determine whether the invoices for capacity purchase amounts are in accordance with the terms and conditions of the contract.

Procedures: We reviewed the purchased power contracts. We traced the purchased power capacity costs from the filing to the general ledger. We reconciled invoices for capacity purchases to the contract to determine whether they were recorded according to the terms and conditions of the contract. No exceptions were noted.

True-up

Objective: The objective was to determine if the True-Up and Interest Provision as filed 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 CCRC revenues and costs. No exceptions were noted.

Analytical Review

Objective: The objective was to perform an analytical review of the Utility's CCRC 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 CCA-2

**GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF TRUE-UP AND INTEREST PROVISION
FOR THE PERIOD JANUARY 2017 - DECEMBER 2017**

| | <u>January</u> | <u>February</u> | <u>March</u> | <u>April</u> | <u>May</u> | <u>June</u> | <u>July</u> | <u>August</u> | <u>September</u> | <u>October</u> | <u>November</u> | <u>December</u> | <u>Total</u> |
|---|----------------|-----------------|--------------|--------------|-------------|-------------|-------------|---------------|------------------|----------------|-----------------|-----------------|--------------|
| 1. IIC Payments / (Receipts) (\$) | (2,274) | (3,069) | (3,069) | (3,069) | (3,069) | (3,069) | (1,228) | (3,069) | (3,069) | (3,069) | (3,069) | (3,069) | (34,196) |
| 2. Other Capacity Payments / (Receipts) | 7,217,678 | 7,217,678 | 7,217,678 | 7,217,678 | 7,247,274 | 7,188,682 | 7,200,762 | 7,200,762 | 7,200,761 | 7,186,850 | 7,197,284 | 7,197,284 | 86,489,772 |
| 3. Transmission Revenue (\$) | (16,278) | (11,779) | (17,358) | (17,196) | (17,128) | (22,815) | (19,145) | (13,033) | (14,873) | (19,197) | (12,082) | (12,286) | (193,167) |
| 4. Scherer/Flint Credit | - | - | - | - | - | - | (777,380) | (777,162) | (710,522) | (662,789) | (676,787) | (647,336) | (4,251,976) |
| 5. Total Capacity Payments/(Receipts) (Line 1 + 2 + 3 + 4) (\$) | 7,199,126 | 7,202,830 | 7,197,253 | 7,197,413 | 7,227,077 | 7,162,198 | 6,403,009 | 6,407,488 | 6,472,296 | 6,501,794 | 6,505,346 | 6,534,593 | 82,010,434 |
| 6. Jurisdictional % | 0.9721125 | 0.9721125 | 0.9721125 | 0.9721125 | 0.9721125 | 0.9721125 | 0.9718277 | 0.9718277 | 0.9718277 | 0.9718277 | 0.9718277 | 0.9718277 | |
| 7. Total Jurisdictional Recovery Amount (Line 5 * 6) (\$) | 6,998,360 | 7,001,961 | 6,996,540 | 6,996,695 | 7,025,532 | 6,962,462 | 6,222,622 | 6,226,984 | 6,289,956 | 6,318,624 | 6,322,075 | 6,350,499 | 79,712,310 |
| 8. Jurisdictional Capacity Cost Recovery Revenues Net of Taxes (\$) | 6,044,372 | 4,932,948 | 5,836,898 | 6,118,466 | 7,087,985 | 7,436,427 | 8,209,717 | 8,071,798 | 6,831,199 | 6,205,085 | 4,924,536 | 6,003,450 | 77,702,880 |
| 9. True-Up Provision (\$) | (68,041) | (68,045) | (68,045) | (68,045) | (68,045) | (68,045) | (68,045) | (68,045) | (68,045) | (68,045) | (68,045) | (68,045) | (816,536) |
| 10. Jurisdictional Capacity Cost Recovery Revenue (Line 8 + 9) (\$) | 5,976,331 | 4,864,903 | 5,768,853 | 6,050,421 | 7,019,940 | 7,368,382 | 8,141,672 | 8,003,753 | 6,763,153 | 6,137,040 | 4,856,491 | 5,935,405 | 76,886,344 |
| 11. Over/(Under) Recovery (Line 10 - 7) (\$) | (1,022,029) | (2,137,058) | (1,227,687) | (946,274) | (5,592) | 405,920 | 1,919,050 | 1,776,769 | 473,197 | (181,584) | (1,465,584) | (415,094) | (2,825,966) |
| 12. Interest Provision (\$) | (455) | (1,299) | (2,550) | (3,672) | (4,002) | (4,267) | (3,501) | (1,730) | (533) | (390) | (1,252) | (2,511) | (26,162) |
| 13. Beginning Balance True-Up & Interest Provision (\$) | (270,577) | (1,225,020) | (3,295,332) | (4,457,524) | (5,339,425) | (5,280,974) | (4,811,276) | (2,827,682) | (984,598) | (443,889) | (557,818) | (1,956,609) | (270,577) |
| 14. True-Up Collected/(Refunded) (\$) | 68,041 | 68,045 | 68,045 | 68,045 | 68,045 | 68,045 | 68,045 | 68,045 | 68,045 | 68,045 | 68,045 | 68,045 | 816,536 |
| 15. Adjustment | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 16. End of Period Total Net True-Up (Lines 11 + 12 + 13 + 14 + 15) (\$) | (1,225,020) | (3,295,332) | (4,457,524) | (5,339,425) | (5,280,974) | (4,811,276) | (2,827,682) | (984,598) | (443,889) | (557,818) | (1,956,609) | (2,306,169) | (2,306,169) |
| Average Monthly Interest Rate | 0.0608% | 0.0575% | 0.0658% | 0.0750% | 0.0754% | 0.0846% | 0.0917% | 0.0908% | 0.0746% | 0.0779% | 0.0998% | 0.1179% | |
| Commercial Paper Annual Rate | 0.72% | 0.74% | 0.64% | 0.94% | 0.88% | 0.95% | 1.08% | 1.12% | 1.06% | 0.73% | 1.14% | 1.25% | 1.58% |
| Average Annual Rate | 0.73% | 0.69% | 0.79% | 0.90% | 0.91% | 1.02% | 1.10% | 1.09% | 0.90% | 0.94% | 1.20% | 1.42% | |