

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 12, 2020
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 20200007-EI
Company Name: Gulf Power Company
Company Code: EI804
Audit Purpose: A3d: Environmental Cost Recovery Clause
Audit Control No: 2020-015-1-1

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, 2019

Docket No. 20200007-EI
Audit Control No. 2020-015-1-1
June 1, 2020

Handwritten signature of Hymavathi Vedula in black ink.

Hymavathi Vedula
Audit Manager

Handwritten signature of Marisa N. Glover in blue ink.

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 January 14, 2020. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2019 filing for the Environmental Cost Recovery Clause in Docket No. 20200007-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, 2019, through December 31, 2019.

Procedure: We reconciled Plant in Service (Line 2) and Accumulated Depreciation (Line 3) to the general ledger for each capital project listed on the 2019 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. 1.22 Precipitator Upgrades for CAM Compliance,
- 2) Project No. 1.28 Coal Combustion Residuals,
- 3) Project No. 1.29 Steam Electric Effluent Limitations Guidelines
- 4) Project No. 1.34 Regulatory Asset Smith Units 1& 2.

Procedures: We reconciled Construction Work in Process Non-Interest Bearing amounts (Line 4) to the general ledger for each capital projects listed above and four 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, 2019, through December 31, 2019, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the ECRC.

Procedures: We reconciled the 2019 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. 20200001-EI, Audit Control No. 2020-007-1-1. 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 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 2019 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, 2018, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2019, using the Commission approved beginning balance as of December 31, 2018, the Financial Commercial Paper rates, and the 2019 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 2019 to 2018 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 2019 - December 2019
Calculation of the Current Period Estimated 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)	13,657,836	10,323,250	11,590,808	11,609,091	15,888,312	17,740,586	19,067,936	18,248,759	17,848,622	14,426,385	11,140,882	12,316,985	173,859,453
2 True-Up Provision (Order No. PSC-2018-0594-FOF-EI)	1,051,379	1,051,384	1,051,384	1,051,384	1,051,384	1,051,384	1,051,384	1,051,384	1,051,384	1,051,384	1,051,384	1,051,384	12,616,603
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	14,709,215	11,374,634	12,642,192	12,660,475	16,939,696	18,791,970	20,119,320	19,300,143	18,900,006	15,477,769	12,192,266	13,368,369	186,476,056
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	3,049,120	1,766,665	2,466,911	1,741,240	2,502,734	2,158,170	2,631,490	1,645,808	2,846,122	2,283,134	1,820,854	1,778,567	26,690,815
b Capital Investment Projects (Schedule 7A, Line 9)	12,457,436	12,459,241	12,496,274	12,531,591	12,530,598	12,519,701	12,559,382	12,563,487	12,566,666	12,577,162	12,626,443	12,569,421	150,457,402
c Total Jurisdictional ECRC Costs	15,506,556	14,225,906	14,963,185	14,272,831	15,033,332	14,677,871	15,190,872	14,209,295	15,412,788	14,860,297	14,447,297	14,347,988	177,148,216
5 Over/(Under) Recovery (Line 3 - Line 4c)	(797,341)	(2,851,271)	(2,320,992)	(1,612,356)	1,906,364	4,114,099	4,928,448	5,090,848	3,487,218	617,472	(2,255,031)	(979,619)	9,327,840
6 Interest Provision (Schedule 3A, Line 10)	27,353	21,566	14,519	8,431	6,475	10,188	15,970	21,862	26,639	25,617	20,940	17,845	217,405
7 Beginning Balance True-Up & Interest Provision													
a Actual Total for True-Up Period 2018	11,333,073	9,511,706	5,630,617	2,272,760	(382,550)	478,905	3,551,809	7,444,843	11,506,169	13,968,642	13,560,348	10,976,177	11,333,073
b Final True-Up from January 2017 - December 2017 (Order No. PSC-2018-0594-FOF-EI)	3,179,666	3,179,666	3,179,666	3,179,666	3,179,666	3,179,666	3,179,666	3,179,666	3,179,666	3,179,666	3,179,666	3,179,666	3,179,666
8 True-Up Collected/(Refunded) (see Line 2)	(1,051,379)	(1,051,384)	(1,051,384)	(1,051,384)	(1,051,384)	(1,051,384)	(1,051,384)	(1,051,384)	(1,051,384)	(1,051,384)	(1,051,384)	(1,051,384)	(12,616,603)
9 Adjustments											701,304	254,861	956,165
10 End of Period Total True-Up (Lines 5 + 6 + 7a + 7b + 8 - 9)	12,691,372	8,810,283	5,452,426	2,797,116	3,658,571	6,731,475	10,624,509	14,685,835	17,148,308	16,740,014	14,155,843	12,397,545	12,397,545