

MEMORANDUM

June 27, 1995

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NO. 950007-EI -- GULF POWER COMPANY  
ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT REPORT - PERIOD ENDED 03/31/95  
AUDIT CONTROL NO. 94-284-1-1

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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 four diskettes. The diskettes 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 report to:

Gulf Power Company  
Warren E. Tate  
P. O. Box 13470  
Pensacola, FL 32591-3470

DNV/sp

Attachment

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

Office of Public Counsel

DOCUMENT NUMBER-DATE  
05999 JUN 28 95  
FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

12 MONTHS ENDED MARCH 31, 1995

FIELD WORK COMPLETED

JUNE 23, 1995

GULF POWER COMPANY

PENSACOLA, FLORIDA

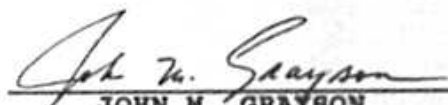
ESCAMBIA COUNTY

ENVIRONMENTAL COST RECOVERY CLAUSE

950007-EI

DOCKET ~~950007~~-EI

AUDIT CONTROL NUMBER 94-284-1-1

  
JOHN M. GRAYSON  
AUDIT MANAGER

Audit Staff

Michael Buckley

David Matchett

Minority Opinion

Yes \_\_\_ No Yes

Yes \_\_\_ No Yes

DOCUMENT NUMBER - DATE

05999 JUN 28 85

FPSC-RECORDS/REPORTING

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## **I. EXECUTIVE SUMMARY**

**AUDIT PURPOSE:** We have applied the procedures described in Section II of this report to audit the appended Environmental Cost Recovery Clause Filing Schedule 1, filed by Gulf Power Company in support of Docket 940042-EI for the six months ended September 30, 1994 and the six months ended March 31, 1995.

**SCOPE LIMITATION:** An audit exit conference was held June 23, 1995. There are no confidential documents associated with the audit report.

**DISCLAIM PUBLIC USE:** This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied on 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 audit standards and produce audited financial statements for public use.

**OPINION:** The appended exhibits, Schedule 1, Schedule 2, and Schedule 3 for the six months ended September 30, 1994 and Schedule 1, Schedule 2, pages 1 and 2 for the six months ended March 31, 1995, represent utility books and records maintained in substantial compliance with Commission Directives; the expressed opinions extend only to the scope of work described in section II of this report.

## II. AUDIT SCOPE

The opinions contained in this report are based on the audit work described below. When used in this report **COMPILED** means that audit work includes:

**COMPILED:** Reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and, except as noted performed no other audit work.

**ENVIRONMENTAL INVESTMENT:** Compiled additions to plant in service and construction work in progress for each Clean Air Act and Non Clean Air Act Plant Expenditure (PE); analyzed a judgmental sample of additions to plant in service and construction work in progress to determine whether the additions were recoverable through the ECR Clause; recomputed accumulated depreciation from April 1994 through December 1994, traced the working capital allowance to SO2 Emission Allowances recorded on the Company's books.

**ENVIRONMENTAL REVENUES:** Compiled ECR revenues; traced the KWH used to compute ECR revenues for March 1995 to a summary billing register; traced the environmental cost recovery factors used to compute ECR revenues to the applicable Commission order for the six months ended September 30, 1994 and the six months ended March 31, 1995.

**ENVIRONMENTAL EXPENSES:** Compiled O&M expenses for the 12 months ended March 31, 1995; analyzed a judgmental sample of invoices to determine whether they were recoverable through the ECR Clause; recalculated depreciation and dismantlement expense from April 1994 through December 1994; traced the depreciation and dismantlement rates used by the Company to the FPSC order prescribing these rates.

**OTHER:** Reconciled true-up and interest provision for the six months ended September 30, 1994 and the six months ended March 30, 1995; traced interest rates used in the calculation of the interest provision to the 30 Day Commercial Paper Rate.

### III. AUDIT DISCLOSURES

#### AUDIT DISCLOSURE NO. 1

**SUBJECT:** Generation Steam Studies

Southern Company Services Work Order No. 4429R - [Clean Air Act Compliance Strategy] is for the development of a Southern electric system clean air compliance strategy. Capital additions to Gulf Power Company Plant Expenditure (PE) 1236 - [Crist 7 Low Nox Burners] contained many charges from Southern Company Services described as Generation Steam Studies which is a sub-unit of Southern WO# 4429R.

The audit staff has requested that the company provide the total dollar amount of capital expenditures related to Generation Steam Studies, for all PE's which are included in the Environmental Cost Recovery Clause.

The audit staff has requested that the Company provide the information requested above to the FPSC Electric & Gas Analyst for further technical review and disposition.

**AUDITOR OPINION:** The audit staff questions whether charges related to the development of strategy are recoverable through the ECR Clause.

**COMPANY COMMENT:** The work performed by Southern Company Services under work order 4429-04, "Generation System Studies" should be recoverable under the Environmental Cost Recovery Clause. This work consisted of evaluating and prioritizing alternative capital projects to obtain compliance with the Clean Air Act of 1990, so as to minimize capital outlay by Gulf Power Company and the Southern Company System. Additionally, the costs of these project engineering evaluations are properly capitalized as a cost of the PE projects recoverable under ECRC as opposed to expensing. The project-to-date expenditures for SCS work order 4429-04 capitalized to ECRC projects through March 1995 are \$110,160.82. (PE 1236 Crist 7 Low-nox burners \$71,812.83, PE 1228 Crist 7 Flue Gas Conditioning \$17,148.99, PE 1242 Crist 6 Low-nox burners \$21,199.00.)

**AUDIT DISCLOSURE NO. 2**

**SUBJECT:** Climate Challenge

**STATEMENT OF FACT:** Capital additions to Gulf Power Company Plant Expenditure (PE) 1236 - [Crist 7 Low Nox Burners] contained many charges with the description "Climate Challenge".

The audit staff has requested a description of the Climate Challenge charges along with the total dollar amount of capital expenditures related to Climate Challenge, for all PE's which are included in the Environmental Cost Recovery Clause. To date the Company has not provided a complete response.

The Company has stated that, "The Climate Challenge charges should have gone to environmental O&M and were erroneously charged to PE 1236 - [Crist 7 Low Nox Burners]"

The audit staff has requested that the Company provide the information requested above to the FPSC Electric & Gas Analyst for further technical review and disposition.

**AUDITOR OPINION:** If the analyst determines that the Climate Challenge charges are recoverable through the ECR Clause, the Company should make the necessary corrections to plant in service and accumulated depreciation to properly classify the expenditures as O&M expenses.

**COMPANY COMMENT:** The work performed by Southern Company Services under work order 4429-15, "Climate Challenge" represents various voluntary initiatives by the Southern Company in cooperation with the federal government to determine the impact of power plant emissions on CO<sub>2</sub> in the atmosphere. While some of these initiatives are related to recent environmental legislation such as clean air, they are not properly recoverable under ECRC. Cumulative charges to PE's 1242 and 1236, Crist 6&7 Low-nox burners, total \$486.05 and will be removed via journal entry and reclassified to non-recoverable expense in the month of June 1995.

**AUDIT DISCLOSURE NO. 3**

**SUBJECT:** Pending Request on O & M Expenses

**STATEMENT OF FACT:** During the review of O & M Expenses, the audit staff noted several charges for which recovery through the ECR Clause was questioned. A request for justification of these charges was made on June 22, 1995.

The audit staff has requested that the Company provide the information requested to the FPSC Electric & Gas Analyst for further technical review and disposition.

**COMPANY COMMENT:** This request from the auditor was submitted on June 22; as such there has not been adequate time to research these payable vouchers charged to ECRC expense. A full response will be made by the Company under separate written communication to the FPSC Electric & Gas Analyst.



**AUDIT DISCLOSURE NO. 4**

**SUBJECT:** Responsibility Reporting

**STATEMENT OF FACT:** Gulf Power Company's report titled, "Responsibility Reporting Environmental Compliance Summary" is a monthly report which provides detailed information of charges to Environmental O&M expense accounts by company location. This report also provides a total for all Environmental O&M expenses for the month. The amount presented in this report are considered per books as they were traced to the general ledger.

The total Environmental O&M expense presented on this report does not support the Company's Environmental O&M expenses as filed for the six months ending September 30, 1994 and the six months ended March 31, 1995. The difference between the total as presented in the responsibility report and the Company filing is attributable to adjustments made by the company.

The audit staff determined that a reconciliation of the monthly amount presented on the responsibility reports to the monthly amount presented in the Company filing would be overly time consuming because of the numerous adjustments. Alternatively, the audit staff requested that the Company provide a reconciliation by FERC account for each six month period instead of monthly. The Company provided detailed support for the reconciling amounts.

**AUDITOR OPINION:** The audit staff finds it disturbing that there are so many monthly adjustments that the performance of a reconciliation of the amounts reported on the responsibility report to the Company filing would be overly time consuming. It also leads the audit staff to question whether the charges to environmental O&M accounts are being reviewed to the extent necessary to prevent charges to these accounts in error.

**COMPANY COMMENT:** The issue of adequate controls and the number of book adjustments was previously discussed in Audit Exception No. 2 for the audit report issued October 26, 1994 (Docket 940042-EI). During the previous audit period, it was Gulf's procedure to review charges to ECRC recoverable accounts on a lag basis, i.e., after they posted to the Company's books. Gulf believed this procedure was effective in ensuring that erroneous charges were removed and at the same time not impeding the flow and payment of vendor invoices.

Following issuance of the audit report in October 1994, Gulf undertook a re-evaluation of the controls surrounding ECRC charges. Effective March 1, 1995, as a result of this re-evaluation, Gulf instituted a procedure where all payments/transactions/entries to ECRC accounts are reviewed by one position in accounting in cooperation with Environmental Affairs section. This review is performed in advance of charges being posted to ECRC accounts.

**AUDIT DISCLOSURE NO. 4 [Continued]**

The months of March 1995 and following show a significant decrease in the amount of adjustments compared to prior months. Beginning with audit periods April 1, 1995 and following, there should be minimal or no book adjustments affecting ECRC accounts. Note that in this audit period and previous periods that Company books and records were fully reconciled to official filings with the Florida Public Service Commission.

Gulf Power Company  
Environmental cost Recovery (ECR) Clause True-Up Filing  
Calculation of Final True-Up Amount  
April 1994 - September 1994

	<u>Amount (\$)</u>
1 Estimated over/(under) - recovery for the period April 1994 - September 1994 (Schedule 1a approved in Order No. PSC-94-1207-FOF-EI) -	2,756,286
2 Actual over/(under) - recovery for the period April 1994 - September 1994 (Schedule 2, Line 19 + Line 20)	<u>2,827,958</u>
3 Amount to be refunded/(recovered) in the April 1995 - September 1995 projection period (Line 2 - Line 1)	<u><u>71,672</u></u>

Gulf Power Company

Environmental Cost Recovery (ECR) Clause  
Calculation of True-Up and Interest Provision  
April 1994 - September 1994

§

Docket No. 940042-E1  
Exhibit No. \_\_\_\_\_ (SOC -1)  
Schedule 2  
Page 1 of 3

Line	Mar 1994 (C)	April 1994	May 1994	June 1994	July 1994	August 1994	Estimated September 1994 (A)	Total
<b>Environmental Investment</b>								
1	25,400,862	25,426,391	25,648,193	25,720,183	25,747,032	26,429,027	38,356,027	
2	(1,329,861)	(1,405,685)	(1,481,623)	(1,557,939)	(1,634,703)	(1,711,610)	(1,789,574)	
<b>Construction Work In Progress</b>								
3	9,119,823	12,804,261	19,439,006	19,826,032	20,737,515	21,534,102	21,711,102	
4	(129,184)	(129,184)	(129,184)	(129,184)	(129,184)	(129,184)	(129,184)	
5	33,061,240	36,495,783	43,476,392	43,859,092	44,720,660	46,122,335	56,146,371	
6		34,778,512	39,980,088	43,567,743	44,189,877	45,421,408	52,135,354	
7		0.8906%	0.8906%	0.8906%	0.8906%	0.8906%	0.8906%	
8		309,738	358,118	388,915	393,555	404,524	464,318	2,316,206
<b>Environmental Expenses</b>								
9		103,363	55,508	63,967	29,153	72,980	93,807	
10		75,824	75,938	76,316	76,783	76,908	77,964	
11		30,580	30,580	30,580	30,580	30,580	30,580	
12		209,767	162,026	170,863	136,516	180,468	202,351	1,061,971
13		519,505	518,142	558,878	530,051	584,992	666,669	3,378,237
14		0.9867029	0.9845425	0.9832681	0.9874975	0.9841294	0.9859456	0.9858292
15		502,207	499,770	540,026	512,823	564,000	643,966	3,262,800
16		803,497	941,133	1,075,969	1,119,024	1,141,666	1,033,610	6,114,899
17		0	0	0	0	0	0	
18		803,497	941,133	1,075,969	1,119,024	1,141,666	1,033,610	6,114,899
19		301,290	441,363	535,943	606,201	577,858	389,644	2,852,099
20		(7,433)	(6,836)	(5,554)	(3,505)	(1,355)	542	(24,141)
21		(2,500,716)	(2,298,859)	(1,772,332)	(1,241,943)	(639,247)	(62,944)	(2,500,716)
22		0	0	0	0	0	0	0
23		(2,298,859)	(1,772,332)	(1,241,943)	(639,247)	(62,944)	327,242	327,242

Notes:

(A) Plant-in-Service and Construction Work in Progress - Non-Interest Bearing are estimated for the month of September 1994. The actual plant data required for these balances is not available in time for the calculation of the over or under-recovery to be recorded on the books.

(B) Sum of line 16 on page 2 of Schedule 2, and line 15 on page 3 of Schedule 2.

(C) The balance for March reflects the adjustments made on Lines 24-27 and 29 of Schedule 1b of the projection filing made on June 27, 1994.

Gulf Power Company  
 Environmental Cost Recovery (ECR) Clause  
 Calculation of Interest Provision  
 For the Period April 1994 - September 1994  
 \$

Docket No 940042 - E1  
 Exhibit No \_\_\_\_\_ (SDC-1)  
 Schedule 3

	April 1994	May 1994	June 1994	July 1994	August 1994	September 1994
1 Beginning True-Up Amount	(2,500,716)	(2,208,859)	(1,772,332)	(1,241,943)	(639,247)	(62,944)
2 Ending True-Up Amount Before Interest	<u>(2,199,426)</u>	<u>(1,785,498)</u>	<u>(1,236,389)</u>	<u>(635,742)</u>	<u>(61,589)</u>	<u>326,700</u>
3 Total Beginning & Ending True-up Amount (Line 1 + Line 2)	<u>(4,700,142)</u>	<u>(3,972,355)</u>	<u>(3,008,721)</u>	<u>(1,877,685)</u>	<u>(700,836)</u>	<u>263,756</u>
4 Average True-Up Amount	<u>(2,350,071)</u>	<u>(1,986,178)</u>	<u>(1,504,361)</u>	<u>(938,843)</u>	<u>(350,418)</u>	<u>131,878</u>
5 Interest Rate-First Day of Reporting Business Month	0.036900	0.039000	0.043600	0.045000	0.044600	0.048200
6 Interest Rate-First Day of Subsequent Business Month	<u>0.039000</u>	<u>0.043600</u>	<u>0.045000</u>	<u>0.046600</u>	<u>0.048200</u>	<u>0.050400</u>
7 Total Interest Rate (Line 5 + Line 6)	<u>0.075900</u>	<u>0.082600</u>	<u>0.088600</u>	<u>0.091600</u>	<u>0.092800</u>	<u>0.098600</u>
8 Average Interest Rate	0.037950	0.041300	0.044300	0.044800	0.046400	0.049300
9 Monthly Average Interest Rate (1/12 of Line 8)	<u>0.003163</u>	<u>0.003442</u>	<u>0.003692</u>	<u>0.003733</u>	<u>0.003867</u>	<u>0.004108</u>
10 Interest Provision for the Month	<u>(7,433)</u>	<u>(6,836)</u>	<u>(5,554)</u>	<u>(3,505)</u>	<u>(1,355)</u>	<u>542</u>

Docket No. 950007-EI  
Exhibit No. \_\_\_\_\_ (SDC-1)  
Schedule 1

**Gulf Power Company**  
Environmental Cost Recovery Clause (ECRC)  
Calculation of Final True-Up Amount  
October 1994 - March 1995 Final True-Up

	<u>Amount (\$)</u>
1 Estimated over/(under) - recovery for the period October 1994 - March 1995 (Approved in Order No. PSC-95-0384-FOF-EI)	333,228
2 Actual over/(under) - recovery for the period October 1994 - March 1995 (Schedule 2, line 5 + line 6 + lines 10-13)	<u>434,656</u>
3 Amount to be refunded/(recovered) in the October 1995 - March 1996 projection period (line 2 - line 1)	<u><u>101,428</u></u>

**Gulf Power Company**

Environmental Cost Recovery Clause (ECRC)  
 Calculation of True-Up and Interest Provision  
 Total Jurisdictional Recoverable Environmental Costs  
 October 1994 - March 1995 Final True-Up  
 (\$)

14

Line No.	Description	October	November	December	January	February	March	6-Month Total
1	ECRC Revenues (net of Revenue Taxes)	906,152	757,886	959,405	914,683	827,924	794,376	5,160,426
2	True-Up Provision	42,467	42,467	42,466	42,467	42,467	42,466	254,800
3	ECRC Revenues Applicable to Period (Line 1 + Line 2)	948,619	800,353	1,001,871	957,150	870,391	836,842	5,415,226
4	Jurisdictional ECRC Costs							
a	Jurisdictional O & M Expenses	114,584	73,082	120,195	85,545	500,188	233,937	1,127,531
b	Jurisdictional Investment-Related Costs	553,208	567,825	615,115	700,115	740,040	734,976	3,911,279
c	Total Jurisdictional ECRC Costs	667,792	640,907	735,310	785,660	1,240,228	968,913	5,038,810
5	Over/(Under) Recovery (Line 3 - Line 4c)	280,827	159,446	266,561	171,490	(369,837)	(132,071)	376,416
6	Interest Provision	2,021	2,944	4,073	5,139	4,457	2,999	21,633
7	Beginning Balance Total Net True-Up (Including Interest)	327,242	604,230	724,153	952,321	1,086,483	678,636	327,242
8	True-Up Collected/(Refunded)	(42,467)	(42,467)	(42,466)	(42,467)	(42,467)	(42,466)	(254,800)
9	Unadjusted End of Period Total Net True-Up (Sum of Lines 5 - 8)	567,623	724,153	952,321	1,086,483	678,636	507,098	470,491
	Adjustments (Including Interest)							
10	Actualize September Plant-in-Service and CWIP-NIB	28,076						28,076
11	Delete Expenditures Included in Error	1,572						1,572
12	Adjust O & M Expense	4,703						4,703
13	Exclude P.E. 1558 from CWIP-NIB (Interest-Bearing Project)	2,256						2,256
14	End of Period Total Net True-Up (Sum of Lines 9 - 13)	604,230	724,153	952,321	1,086,483	678,636	507,098	507,098

Gulf Power Company  
 Environmental Cost Recovery Clause (ECRC)  
 Calculation of Interest Provision  
 October 1994 - March 1995 Final True-Up  
 (\$)

	October	November	December	January	February	March	6-Month Total
1 Beginning True-Up Amount (Adjusted) (Page 1, Lines 7, 10-13)	363,849	604,230	724,153	952,321	1,086,483	678,636	
2 Ending True-Up Amount Before Interest (Page 1, Lines 5, 7, 8, 10-13)	602,209	721,209	948,248	1,081,344	674,179	504,099	
3 Total Beginning & Ending True-up Amount (Line 1 + Line 2)	966,058	1,325,439	1,672,401	2,033,665	1,760,662	1,182,735	
4 Average True-Up Amount (Line 3 / 2)	483,029	662,720	836,201	1,016,833	880,331	591,368	
5 Interest Rate-First Day of Reporting Business Month	0.050400	0.050000	0.056600	0.060300	0.061000	0.060500	
6 Interest Rate-First Day of Subsequent Business Month	0.050000	0.056600	0.060300	0.061000	0.060500	0.061200	
7 Total Interest Rate (Line 5 + Line 6)	0.100400	0.106600	0.116900	0.121300	0.121500	0.121700	
8 Average Interest Rate (Line 7 / 2)	0.050200	0.053300	0.058450	0.060650	0.060750	0.060850	
9 Monthly Average Interest Rate (1/12 of Line 8)	0.004183	0.004442	0.004871	0.005054	0.005063	0.005071	
10 Interest Provision for the Month (Line 8 x Line 9)	2,021	2,944	4,073	5,139	4,457	2,999	21,633



State of Florida

Commissioners:  
SUSAN F. CLARK, CHAIRMAN  
J. TERRY DEASON  
JULIA L. JOHNSON  
DIANE K. KIESLING  
JOE GARCIA



DIVISION OF RECORDS &  
REPORTING  
BLANCA S. BAYO  
DIRECTOR  
(904) 413-6770

**Public Service Commission**

June 28, 1995

Gulf Power Company  
Attn: Mr. Warren E. Tate  
Post Office Box 13470  
Pensacola, Florida 32591-3470

Dear Mr. Tate:

RE: Docket No. 950007-EI - Gulf Power Company  
Environmental Cost Recovery Clause Audit - Period Ending 03/31/95  
Audit Control # 94-284-1-1

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date 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. Bayo*  
Blanca S. Bayo

BSB/mas  
Enclosure  
cc: Public Counsel  
Beggs & Lane Law Firm