

State of Florida



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: August 1, 2002
TO: Division of Economic Regulation (Breman)
FROM: Division of Auditing and Safety (Vandiver)
RE: **Docket No.** 020007-EI; **Company Name:** Gulf Power Company; **Audit Purpose:** Environmental Cost Recovery Clause; **Audit Control No.** 02-032-1-1

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 the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Mr. Ronnie Labrato
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Ms. Susan D. Ritenour, Assistant Secretary
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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Tallahassee District Office

GULF POWER COMPANY

ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2001

DOCKET NO. 020007-EI
AUDIT CONTROL NO. 02-032-1-1

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Michael Buckley, Audit Manager

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TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	SUMMARY OF SIGNIFICANT FINDINGS	2
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	DISCLOSURES	
1.	OPERATION AND MAINTENANCE (O&M) EXPENSE - CONSUMPTIVE USE PERMIT..	3
2.	SO ₂ EMISSION ALLOWANCE COSTS.	4
3	FT. WALTON BEACH SUBSTATION	5
4.	PLANT CRIST STUDIES	6
III.	EXHIBITS	
	COMPANY SCHEDULE 2A, END OF PERIOD TRUE-UP.	7
	COMPANY SCHEDULE 3A, INTEREST PROVISION	8

**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

JULY 16, 2002

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 12-month period ended December 31, 2001, for Gulf Power Company. The attached schedules were prepared by the utility as part of its support in Docket No. 020007-EI.

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 Company charged a consumptive use permit to the Environmental Cost Recovery Clause (ECRC); SO₂ emission allowance costs associated with non-separated wholesale sales are understated.

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.

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

INVESTMENT: Obtained supporting documentation for all additions to environmental plant in service; traced all plant additions to supporting vendor invoices; reconciled plant in service and depreciation expense for each capital project; traced depreciation rates to Commission Order No. PSC-98-0921-FOF-EI, issued July 7, 1998, the company's last depreciation study; verified separation of dismantlement expense from depreciation expense; traced SO₂ allowance activity per the filing to supporting documentation; recalculated recoverable capital investment costs.

REVENUE: The ECRC revenue audit procedures and related work papers are included in the company's undocketed Revenue Sharing Refund Audit, Audit Control No. 02-149-1-1.

EXPENSE: Reconciled operation and maintenance (O&M) expense per the general ledger to the company's filing; obtained a list of outside vendors; compiled all accounts payable and traced to supporting vendor invoices; performed a judgmental sample of Southern Company Services (SCS) O&M expenses and traced each to supporting documentation; reviewed all legal expenses recovered in the ECRC; verified adjustments made to O&M expense for costs recovered in base rates per Commission Order No. PSC-94-0044-FOF-EI, issued January 12, 1994; scanned SO₂ allowance costs related to the company's non-separated wholesale sales for the period ended December 31, 2001.

OTHER: Recalculated the company's true-up and interest provision for the period ended December 31, 2001; traced interest rates used in the calculation of the interest provision to the 30-day commercial paper rates.

DISCLOSURES

Disclosure No. 1

Subject: Environmental Operation and Maintenance Expense -Consumptive Use Permit

Statement of Fact: Accounts Payable Voucher 01320114, issued in October, 2001, authorized the payment of \$3,000 to the Northwest Florida Water Management District for renewal of the Consumptive Use Permit for the Caryville future plant site, permitting extraction of over two million gallons of water per day. The site, recognized in base rates as Plant held for future use, is currently zoned as agricultural and is currently used as a tree farm and hunting preserve.

Recommendation: The Consumptive Use Permit is a necessary expenditure needed to insure that the site may be used as a generating plant in the future. Since the site is in base rates as future use property, the Consumptive Use Permit should also be in base rates. The costs of the Consumptive Use Permits for Plant Crist, Scholtz and Smith are not charged to environmental expense. The \$3,000 cost of the Consumptive Use Permit for Caryville should be removed from environmental expense.

Disclosure No. 2**Subject: SO₂ Emission Allowance Costs**

Statement of Fact: Commission Order No. PSC-01-2371-FOF-EI, issued December 7, 2001, states, "that portion of sales price associated with the SO₂ emission allowance shall be credited to either the fuel and purchased power cost recovery clause or the environmental cost recovery clause."

The Company's fuel clause filing was credited \$1,051,733 in SO₂ allowance costs related to the non-separated wholesale sales for the period ended December 31, 2001. This amount excluded \$385,796 due to a correction of August 2000 costs. Upon reviewing the interchange bills that include these SO₂ emission allowance costs, the auditor discovered an error in its billing. The Company's SO₂ allowance costs would have been \$1,052,865 had this error not occurred. The error results in an understatement of \$1,132 (\$1,051,733 - \$1,052,865) in SO₂ allowance costs for the period ended December 31, 2001. The Company states that it corrected this error in its May 2002 fuel clause filing.

Recommendation: This disclosure is provided for informational purposes.

Disclosure No. 3

Subject: Ft. Walton Beach Substation - Environmental Expenses

Statement of Fact: The Environmental Cost Recovery Clause includes costs for treatment plant operation, plant operator, spray field operation, sludge hauling and sludge disposal for continuing operations at the Ft. Walton Beach substation. The utility explained that these costs are related to the General Water Quality, Groundwater Contamination Investigation, Substation Groundwater Monitoring program. This program has been approved by the Commission in Order No. PSC-94-0044-FOF-EI in Docket No. 930613-EI for inclusion in the Environmental Cost Recovery Clause. The program involves assessments, remedial actions and groundwater treatment at Gulf substations. Due to contamination of groundwater at the substations the utility instituted this program which effectively removes contaminants from groundwater with iron co-precipitation. The process produces a by-product which must be managed as sludge in accordance with applicable regulations.

Recommendation: This is an on-going project authorized by the Commission. This disclosure is provided for informational purposes.

Disclosure Number 4

Subject: Southern Company's Studies at Plant Crist

Statement of Fact: Gulf incurred costs of \$103,913 in 2001 from Southern Company for environmental engineering type studies for pollution reduction scenarios at Plant Crist. These costs were for Gulf Power to be able to respond to public and agency inquiries regarding proactive plans to reduce ozone and other pollutants outlined in Federal or State pollution reduction proposals.

Recommendation: This disclosure provided for informational purposes.

Gulf Power Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount for the Period
January 2001 - December 2001

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)	796,043	582,328	645,628	657,724	766,887	869,501	944,077	909,773	797,173	684,645	624,164	686,443	8,964,386
2 True-Up Provision (Order No. PSC-00-xxxx-FOF-EI)	150,710	150,710	150,710	150,710	150,710	150,710	150,710	150,709	150,710	150,709	150,710	150,709	1,808,517
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	946,753	733,038	796,338	808,434	917,597	1,020,211	1,094,787	1,060,482	947,883	835,354	774,874	837,152	10,772,903
4 Jurisdictional ECRC Costs													
a O & M Activities (Schedule 5A, Line 9)	90,504	717,068	65,713	50,811	176,836	122,432	319,803	147,842	121,962	58,194	88,501	136,930	2,096,596
b Capital Projects (Schedule 7A, Line 9)	663,881	663,371	661,916	660,824	657,910	656,127	654,145	651,838	650,996	651,016	651,185	651,824	7,875,033
c Total Jurisdictional ECRC Costs	754,385	1,380,439	727,629	711,635	834,746	778,559	973,948	799,680	772,958	709,210	739,686	788,754	9,971,629
5 Over/(Under) Recovery (Line 3 - Line 4c)	192,368	(647,401)	68,709	96,799	82,851	241,652	120,839	260,802	174,925	126,144	35,188	48,398	801,274
6 Interest Provision (Schedule 3A, Line 10)	12,423	9,400	7,095	6,313	5,411	5,093	5,081	4,994	4,431	3,539	2,964	2,490	69,234
7 Beginning Balance True-Up & Interest Provision	1,808,517	1,864,462	1,075,751	1,000,845	953,247	890,799	986,834	962,044	1,077,131	1,105,777	1,084,751	972,193	1,808,517
a Deferred True-Up from January 1999 - December 1999 (Order No. PSC-01-2463-FOF-EI)	643,068	643,068	643,068	643,068	643,068	643,068	643,068	643,068	643,068	643,068	643,068	643,068	643,068
8 True-Up Collected/(Refunded) (See line 2)	(150,710)	(150,710)	(150,710)	(150,710)	(150,710)	(150,710)	(150,710)	(150,709)	(150,710)	(150,709)	(150,710)	(150,709)	(1,808,517)
9 End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 7b + 8)	2,505,666	1,718,819	1,643,913	1,596,315	1,533,867	1,629,902	1,605,112	1,720,199	1,748,845	1,727,819	1,615,261	1,515,440	1,513,576
10 Adjustments to Period Total True-Up Including Interest													
a O&M Changes per Audit *	1,864												1,864
11 End of Period Total Net True-Up (Lines 9 + 10)	2,507,530	1,718,819	1,643,913	1,596,315	1,533,867	1,629,902	1,605,112	1,720,199	1,748,845	1,727,819	1,615,261	1,515,440	1,515,440

* A reduction was made to Environmental Auditing effective December 2000.

The Shield Water Project (capital) was approved with Order No. PSC-01-1788-PAA-EI which necessitated an adjustment beginning in May.

Gulf Power Company
 Environmental Cost Recovery Clause (ECRC)
 Calculation of the Final True-Up Amount for the Period
 January 2001 - December 2001

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)	2,453,449	2,507,530	1,718,819	1,643,913	1,596,315	1,533,867	1,629,902	1,605,112	1,720,199	1,748,845	1,727,819	1,615,261	
2 Ending True-Up Amount Before Interest (Line 1 + Sch 2A-2, Lines 5 + 8)	2,495,107	1,709,419	1,636,818	1,590,002	1,528,456	1,624,809	1,600,031	1,715,205	1,744,414	1,724,280	1,612,297	1,512,950	
3 Total of Beginning & Ending True-up (Lines 1 + 2)	4,948,556	4,216,949	3,355,637	3,233,915	3,124,771	3,158,676	3,229,933	3,320,317	3,464,613	3,473,125	3,340,116	3,128,211	
4 Average True-Up Amount (Line 3 x 1/2)	2,474,278	2,108,475	1,677,819	1,616,958	1,562,386	1,579,338	1,614,967	1,660,159	1,732,307	1,736,563	1,670,058	1,564,106	
5 Interest Rate (First Day of Reporting Business Month)	0.065000	0.055500	0.051500	0.050000	0.043700	0.039400	0.038000	0.037500	0.034700	0.026700	0.022200	0.020400	
6 Interest Rate (First Day of Subsequent Business Month)	0.055500	0.051500	0.050000	0.043700	0.039400	0.038000	0.037500	0.034700	0.026700	0.022200	0.020400	0.017800	
7 Total of Beginning & Ending Interest Rates (Line 5 + Line 6)	0.120500	0.107000	0.101500	0.093700	0.083100	0.077400	0.075500	0.072200	0.061400	0.048900	0.042600	0.038200	
8 Average Interest Rate (Line 7 x 1/2)	0.060250	0.053500	0.050750	0.046850	0.041550	0.038700	0.037750	0.036100	0.030700	0.024450	0.021300	0.019100	
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.005021	0.004458	0.004229	0.003904	0.003463	0.003225	0.003146	0.003008	0.002558	0.002038	0.001775	0.001592	
10 Interest Provision for the Month (Line 4 x Line 9)	12,423	9,400	7,095	6,313	5,411	5,093	5,081	4,994	4,431	3,539	2,964	2,490	69,234