

State of Florida



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

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**DATE:** July 9, 2003  
**TO:** Division of Economic Regulation (Bohrmann)  
**FROM:** Division of Auditing and Safety (Vandiver) W  
**RE:** **Docket No.** 030001-EI; **Company Name:** Gulf Power Company; **Audit Purpose:** Base Year Hedging Costs Audit; **Audit Control No.** 02-340-1-1

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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  
Chief Financial Officer & Comptroller  
Gulf Power Company  
One Energy Place  
Pensacola, Florida 32520

Ms. Susan D. Ritenour, Assistant Secretary  
Gulf Power Company  
One Energy Place  
Pensacola, FL 32520-0780

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY  
BUREAU OF AUDITING*

*Tallahassee District Office*

GULF POWER COMPANY

BASE YEAR HEDGING COSTS AUDIT

PROJECTED TEST YEAR ENDED MAY 31, 2003

DOCKET NUMBER 030001-EI

AUDIT CONTROL NO. 02-340-1-1

*Michael Buckley*  
Michael Buckley, Audit Manager

*Lynn M. Deamer*  
Lynn M. Deamer, Audit Supervisor

TABLE OF CONTENTS

<b>I.</b>	<b>AUDITOR’S REPORT</b>	<b>PAGE</b>
	PURPOSE .....	1
	SCOPE LIMITATION .....	1
	DISCLAIM PUBLIC USE .....	1
	SUMMARY OF SIGNIFICANT FINDINGS .....	2
	SUMMARY OF SIGNIFICANT PROCEDURES .....	2
<b>II.</b>	<b>DISCLOSURE</b>	
	1. HEDGING .....	3

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

**June 10, 2003**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit base year hedging costs to be considered in the Fuel and Capacity Cost Recovery clause proceedings before this Commission.

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 audit found that Gulf Power Company did not include any administrative financial hedging costs for the projected test year ended 5/31/03 as filed in Docket No. 010949-EI. The audit also did not find any actual administrative charges for financial hedging made before November 2002.

## **SUMMARY OF SIGNIFICANT PROCEDURES**

Our audit was performed by examining 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 utility. 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 substantiating documentation was examined.

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Obtained organization charts of Southern Company Services, Inc. to show what departments are involved in the physical and financial hedging process for the time period 1999 to 2003.

Obtained employee count for these departments from 1999 to 2003.

Obtained charges and percentage allocations for these departments from 1999 to 2003.

Verified actual FERC Account #501 (Fuel Handling Expense) and FERC Account #547 (Other Fuel Handling Expense) to estimated for the year 2002.

Verified actual account FERC Account #501 (Fuel Handling Expense) and FERC Account #547 (Other Fuel Handling Expense) to estimated for the first three months 2003.

## II. DISCLOSURE

### Disclosure No. 1

**Subject:** Hedging

**Statement of Fact:** Southern Company Services, Inc.(SCS), a subsidiary of Southern Company, charges its Fuel Services and Risk Management groups for financial hedging and other gas related activities. The Gas Procurement section in the SCS Fuel Services Organization procures physical gas, gas transportation, and gas storage, develops gas financial hedging strategy and executes financial hedging deals with counter parties. The Fuel Accounting group in the SCS Fuel Services Organization provides accounting services for gas procurement and gas financial hedging deals. The SCS Risk Management group confirms financial hedging deals with the counter parties, performs credit analysis on counter parties, performs overall risk analysis on financial hedging deals, and produces daily gas financial hedging reports.

These charges are then allocated to affiliates. In 1999, 2000, 2001 and 2002, the methodology for allocations were determined by each affiliates' percent ownership of total installed fossil fuel fired capacity for fossil fuel related charges. For 2003, the methodology for allocations were determined by each affiliates' percent ownership of gas fired capacity for charges related to gas supply activities and each affiliates' percent ownership of coal fired capacity for charges related to coal supply activities. Gulf Power Company experienced increasing charges each year up to 2002. For 2003, in spite of increased gas usage and additional administrative financial hedging costs, Gulf Power Company's expected allocation is lower. This is because of the new allocation method and several affiliates having new gas fired plants.

The estimated monthly administrative financial hedging charge for 2003 is \$6,600. Gulf Power Company did not include any administrative financial hedging costs for the projected test year ended 5/31/03 as filed in Docket No. 010949-EI.

The only other hedging activity Gulf Power uses is physical, which has been used for many years. This is done through long term coal contracts. Costs are not kept separate. All physical hedging costs are included in base year costs.