

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: July 15, 2003
TO: Division of Economic Regulation (Bohrmann)
FROM: Division of Auditing and Safety (Vandiver)
RE: **Docket No.** 030001-EI; **Company Name:** Gulf Power Company;
Audit Purpose: Fuel Adjustment Audit; **Audit Control No.** 03-034-1-1

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

Beggs & Lane Law Firm
Jeffery Stone/Russell Badders
P. O. Box 12950
Pensacola, FL 32591-2950

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

DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

Tallahassee District Office

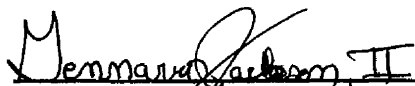
GULF POWER COMPANY

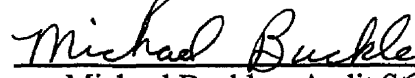
FUEL ADJUSTMENT AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2002

DOCKET NO. 030001-EI

AUDIT CONTROL NO. 03-034-1-1


Gennarro Jackson II, Audit Manager


Michael Buckley, Audit Staff

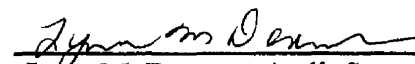

Lynn M. Deamer, Audit Supervisor

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

July 7, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying fuel adjustment schedules for the twelve month period ended December 31, 2002, for Gulf Power Company. These schedules were prepared by the utility as part of its petition filed in Docket No. 030001-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 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 substantiating documentation was examined.

FUEL REVENUE: Revenue was audited in Review of Billing, Audit Control Number 02-183-1-1. No exceptions were found.

FUEL EXPENSE: Compiled the fuel cost of system net generation. Scanned and recomputed energy payments and fuel cost purchased power. Verified Other Generation (Gas). Recomputed net purchases/sales. Verified that Gains derived from non-separated, non-energy broker network, wholesale energy sales were credited to the fuel clause and separated between retail and wholesale customers based on the appropriate separation factor. Judgmentally sampled inventory Account 151 - Fuel Stock - Coal. Verified that the adjustment to coal inventory due to differences between the per book inventory quantities and the semi-annual coal inventory survey quantities were performed per Commission Order NO. PSC - 97-0359-FOF-EI. Recomputed and traced on a test basis coal and oil purchases filed in FPSC Form 423 to Company filings and the general ledger.

OTHER: Recalculated true-up and interest provision. Verified Commercial Paper rates in calculation of interest provision. Verified both the hours shown on annual GPIF filing and heat rate filed in schedule A4. Verified prior year accounts to determine the accounting methodologies and procedures used by the Company to account for incremental hedging costs, costs that are not included in base rates. Determined that the hedging program is consistent with Company's risk management plan for 2002.

DISCLOSURES

Disclosure No. 1

Subject: (Gain)/Loss on Hedging Settlements

Statement of Fact: Gulf Power Company recorded settlement costs of \$38,750 to FERC Account # 547-4 (Hedging Settlement) for November 2002. In December 2002, Gulf recorded a settlement gain for gas hedging costs of (\$277,500) to FERC Account # 547-4. November and December 2002 net to (\$238,750) which is shown on the Company filed Schedule A-2, page 1 of 3, of the Fuel filing for December 2002. No administrative cost were charged for hedging in November or December 2002.

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY

FOR THE MONTH OF: DECEMBER 2002

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	ESTIMATED	AMOUNT (\$)	DIFFERENCE %	ACTUAL	ESTIMATED	AMOUNT (\$)	DIFFERENCE %
A. Fuel Cost & Net Power Transactions								
1 Fuel Cost of System Net Generation	25,617,210.60	23,682,370	1,934,840.60	8.17	267,193,510.89	303,530,586.00	(36,337,075.11)	(11.97)
1a Other Generation	208,047.59	425	207,622.59	48,852.37	2,275,474.19	217,158.00	2,058,316.19	947.84
1b (Gain)/Loss of Hedging Settlement	(277,500.00)	0	(277,500.00)	#N/A	(238,750.00)	0.00	(238,750.00)	#N/A
2 Fuel Cost of Power Sold	(7,285,449.25)	(7,001,000)	(284,449.25)	3.78	(62,984,977.09)	(105,918,000.00)	42,933,022.91	(40.53)
3 Fuel Cost - Purchased Power	416,173.24	569,000	(152,826.76)	(26.86)	38,453,864.27	21,398,000.00	17,055,864.27	79.71
3a Demand & Non-Fuel Cost Purchased Power	0.00	0	0.00	#N/A	0.00	0.00	0.00	#N/A
3b Energy Payments to Qualifying Facilities	30,239.00	0	30,239.00	#N/A	5,019,154.46	312,832.00	4,706,322.46	1,504.42
4 Energy Cost-Economy Purchases	0.00	0	0.00	#N/A	0.00	0.00	0.00	#N/A
5 Total Fuel & Net Power Transactions	18,728,721.18	17,250,795	1,477,926.18	8.57	249,718,276.72	219,540,576	30,177,700.72	13.75
6 Adjustments To Fuel Cost	10,069.14	0	10,069.14	#N/A	(1,811,150.88)	0	(1,811,150.88)	#N/A
7 Adj. Total Fuel & Net Power Transactions	18,738,790.32	17,250,795	1,487,995.32	8.63	248,107,126.04	219,540,576	28,566,550.04	13.01
B. KWH Sales								
1 Jurisdictional Sales	787,122,522	836,488,000	(49,365,478)	(5.90)	10,771,897,002	10,265,886,000	506,011,002	4.93
2 Non-Jurisdictional Sales	31,376,354	29,309,000	2,067,354	7.05	371,528,951	358,845,000	14,683,951	4.11
3 Total Territorial Sales	818,498,876	865,797,000	(47,298,124)	(5.46)	11,143,425,953	10,622,731,000	520,694,953	4.90
4 Juris. Sales as % of Total Terr. Sales	96.1666	96.6148	(0.4482)	(0.46)	96.6659	96.6407	0.0252	0.03

Note: Line 6 - (Gain)/Loss on Sales of Natural Gas

**CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2002**

	CURRENT MONTH				PERIOD - TO - DATE			
	\$ ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%	\$ ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
C. True-up Calculation								
1 Jurisdictional Fuel Revenue	17,596,202.99	18,212,243	(616,039.93)	(3.38)	235,612,766.16	18,659,381	216,953,385.59	1,162.70
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(891,807.58)	(891,803)	(4.58)	0.00	(10,701,690.96)	(10,701,691)	0.04	0.00
2b Incentive Provision	(31,146.92)	(31,147)	0.08	0.00	(373,763.04)	(373,764)	0.96	0.00
3 Juris. Fuel Revenue Applicable to Period	<u>16,673,248.49</u>	<u>17,289,293</u>	<u>(616,044.51)</u>	<u>(3.56)</u>	<u>224,537,312.16</u>	<u>7,588,926</u>	<u>216,953,386.16</u>	<u>2,860.70</u>
4 Adjusted Total Fuel & Net Power Transactions (Line A7)	18,738,790.32	17,250,795	1,487,995.32	8.63	248,107,126.04	219,540,576	28,566,550.04	13.01
5 Juris. Sales % of Total KWH Sales (Line B4)	<u>96.1666</u>	<u>96.6148</u>	<u>(0.4482)</u>	<u>(0.46)</u>	<u>96.6659</u>	<u>96.6407</u>	<u>0.0252</u>	<u>0.03</u>
6 Juris. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 *C5*1.0007)	<u>18,033,071.85</u>	<u>16,890,155</u>	<u>1,342,916.85</u>	<u>8.05</u>	<u>240,077,260.95</u>	<u>212,467,038</u>	<u>27,610,222.95</u>	<u>13.00</u>
7 True-Up Provision for the Month Over/(Under) Collection (C3-C6)	(1,359,823.36)	599,138	(1,958,961.36)	(326.96)	(15,530,042.90)	(30,579)	(15,499,463.90)	50,686.63
8 Interest Provision for the Month	(29,942.60)	(885)	(29,057.60)	3,283.34	(373,988.49)	(44,624)	(329,364.49)	738.09
9 Beginning True-Up & Interest Provision*	(27,516,320.30)	(1,585,259)	(25,951,061.30)	1,657.94	(23,069,814.80)	(10,701,691)	(12,368,123.80)	115.57
10 True-Up Collected / (Refunded)	<u>891,807.58</u>	<u>891,803</u>	<u>4.58</u>	<u>0.00</u>	<u>10,701,690.96</u>	<u>10,701,691</u>	<u>(0.04)</u>	<u>0.00</u>
11 End of Period - Total Net True-Up, Before Adjustment (C7+C8+C9+C10)	<u>(28,014,278.68)</u>	<u>(75,203)</u>	<u>(27,939,075.68)</u>	<u>37,151.54</u>	<u>(28,272,155.23)</u>	<u>(75,203)</u>	<u>(28,196,952.23)</u>	<u>37,494.45</u>
12 2001 Revenue Sharing Refund True-Up	0	0	0.00	#N/A	257,876.55	0	257,876.55	#N/A
13 End of Period - Total Net True-Up (C11 + C12)	<u>(28,014,278.68)</u>	<u>(75,203)</u>	<u>(27,939,075.68)</u>	<u>37,151.54</u>	<u>(28,014,278.68)</u>	<u>(75,203)</u>	<u>(27,939,075.68)</u>	<u>37,151.54</u>