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DATE: May 12, 2008

TO: Peter H. Lester, Economic Analyst, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance W

RE: Docket No: 080001-EI; Company Name: Gulf Power Company;
Audit Purpose: Fuel Audit; Company Code: EI804;
Audit Control No: 08-003-1-1;

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 Commission Clerk. There are no confidential work papers associated with this audit.

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
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Division of Competitive Markets and Enforcement (Harvey)
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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

FUEL CLAUSE AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2007

DOCKET NO. 080001-EI

AUDIT CONTROL NO. 08-003-1-1

A handwritten signature in black ink, appearing to read "Debra M. Dobiac", written over a horizontal line.

Debra M. Dobiac, Audit Staff

A handwritten signature in black ink, appearing to read "Lynn M. Deamer", written over a horizontal line.

Lynn M. Deamer, Audit Supervisor

DOCUMENT NUMBER-DATE

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TABLE OF CONTENTS

I.	AUDITOR REPORT	PAGE
	PURPOSE.....	1
II.	OBJECTIVES and PROCEDURES.....	2
III.	EXHIBITS	
	COMPANY SCHEDULE A2, PAGE 1 OF 3, CALCULATION OF TRUE UP.....	5
	COMPANY SCHEDULE A2, PAGE 2 OF 3, CALCULATION OF TRUE UP.....	6

DOCUMENT NUMBER-DATE
03952 MAY 13 8
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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

April 29, 2008

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Gulf Power Company in support of its filing for Fuel Clause Audit, Docket No. 080001-EI.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES and PROCEDURES

REVENUES

Objective: To verify that Fuel Adjustment Clause (FAC) revenue and KWH sold as filed are completely and properly recorded on the books of the company. This audit also includes the verification that the clause revenues for Fuel Adjustment Clause (FAC), Capacity Cost Recovery (CCR), Environmental Cost Recovery (ECRC), and Energy Conservation Cost Recovery (ECCR) are completely and properly recorded on the books of the company.

Procedures: We compiled the FAC, CCR, ECRC, and ECCR revenues from company source documents and agreed to filing and general ledger.

EXPENSES

Objective: To agree the fuel costs to the general ledger

Procedures: Obtained amounts charged to Account 501, Steam Generation-Fuel, and 547, Other Generation-Fuel, for each month of 2007 from the fuel clause journals. Scheduled charges by month by account to obtain total fuel costs which were agreed to the general ledger and to the Schedule A-1 filing (Schedule A-1 was recalculated for each month in 2007). Scheduled charges by accounts by plant to obtain total fuel costs, including amounts listed as "other generation," for each month for the year ended December 31, 2007.

Objective: To verify the energy payments to the qualified facilities.

Procedures: Scheduled payments to qualified facilities from Schedule A-8 and agreed total to Schedule A-1, Line 11. Traced the KWH reported to customer bills for February, May, September and November of 2007.

Objective: To verify that the energy costs of other economic purchases (nonbroker) reconcile to the books and records of the company.

Procedures: Scheduled economy energy purchases (Schedule A-9) by company from the Interchange Analysis Reports for each month of 2007 and agreed the total to Schedule A-1, Line 12. Traced purchased amounts to supporting IIC invoices for March, May, September, and October of 2007.

Objective: To verify that generation related gains derived from non-separated, non-energy broker network, wholesale energy sales have been credited to the fuel clause.

Procedures: Scheduled gains on economy sales (Schedule A-6) from the Interchange Analysis Reports for each month of 2007 and agreed the total to Schedule A-1, Line 15. Verified through FPSC Order PSC-06-1057-FOF-EI, issued December 22, 2006, that gains are to be shared between ratepayer and shareholder (80% and 20%, respectively) after reaching an estimated benchmark. The appropriate separation factor was not recalculated in 2007 since the estimated

benchmark was not met. Traced the gains to the supporting IIC invoices for March and September 2007.

Objective: To verify that firm transportation service (FTS) charges for natural gas transportation agree with the appropriate FTS rate schedules from pipeline company tariffs.

Procedures: Scheduled natural gas purchases and applicable firm transportation service charges from the Accounts Payable Analysis for each month of 2007 and agreed totals to the general ledger. Traced purchased amounts and FTS charges to the paid invoices for March and December 2007. Recalculated FTS rates but was not able to agree the rates to specific FTS rate schedules because the supporting invoices did not breakdown FTS types, zones, or additional surcharges. Additional testing of invoices was beyond the scope of this audit and no further work was performed.

Objective: To verify amounts of semi-annual Coal Inventory Adjustments for 2007 were made in accordance with FPSC Order PSC-97-0359-FOF-EI.

Procedures: For the March and September Flyover, the audit staff obtained Field Schedule of Flyover results, recalculated the inventory adjustments, compared them to the adjusted book balances, and traced them to the supporting journal vouchers. We read FPSC Order PSC-97-0359-FOF-EI, issued March 31, 1997, for proper accounting procedures, and verified company compliance with those procedures.

Objective: Reconcile coal and oil purchases noted on FPSC Form 423 with company filings and source documentation.

Procedures: Reconciled coal and oil purchases reported on Form 423 with the Schedule A-5 filing for September 2007. Cross-referenced coal and oil purchases to company journals, stockpile receipt reports, fuel stock reports, in-transit reports, and accounts payable analysis.

Objective: Reconcile both the hours (service hours, reserve shutdown hours, and unavailable hours) and the heat rate as filed in the monthly Schedule A-4 for GPIF units with the annual GPIF filing and source documentation.

Procedures: The audit staff reviewed source documentation that supports the data reported on Schedule 3 and Schedule 5 of the annual GPIF filing for Crist 4 during October and December 2007. The audit staff traced and recalculated both the oil reported on the Oil Consumed Report and gas reported on the Start Up and Generation MMBTU by Unit Report (respectively) to Schedule 3. The Average Net Operating Heat Rate reported on Schedule 3 was recalculated based on calculation procedures stated by the Company. The audit staff generated a schedule by unit, by fuel burned, to reconcile the Average Net Heat Rate reported on Schedule A-4 with the Average Net Operating Heat Rate reported on Schedule 3 of GPIF filing for October and December 2007. The audit staff agreed any differences between Average Net Heat Rate reported on Schedule A-4 and Schedule 3 of the GPIF filing to company records. The audit staff traced the Planned Outage Hours, Service Hours, Period Hours, Reserved Shutdown Outage Hours, Forced Outage Hours, and Maintenance Outage Hours from the Outage Hours Report to

Schedule 5 of the GPIF filing for the months of October and December 2007. The audit staff also traced both the Period Hours and Service Hours to Crist 4 Generation Summary Report from the Outage Hours Report. The audit staff agreed the MBtu, Net Generation and Average Net Operating Heat Rate (Btu/KWH) values for October and December 2007 reported on Schedule 5 to Schedule 3.

Objective: Verify that Gulf Power's treatment of wholesale energy sales sold via the Intercompany Interchange Contract between operating companies comply with FPSC Order No. PSC-00-1744-PAA-EI, issued September 26, 2000.

Procedures: The audit staff traced Total for Fuel Adjustment for Southern Company Interchange reported on Schedule A-6 to the IIC invoice and the company's Interchange Analysis to verify that there is not a gain that should be credited back through the fuel clause. Wholesale sales via the intercompany exchange are intercompany transfers without mark-ups/gains.

TRUE-UP

Objective: To determine if the True-up Calculation and interest provision as filed with this Commission was correctly calculated.

Procedures: The audit staff recalculated the 2007 FAC true-up, and agreed the beginning true-up amount to prior audit and the true-up adjustments to the applicable FPSC Orders. The audit staff agreed the interest rates to the Commercial Paper rates.

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2007

	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	47,128,328.72	52,450,500	(5,322,171.28)	(10.15)	547,039,808.83	589,672,128	(42,632,319.17)	(7.23)
1a Other Generation	123,772.92	276,000	(152,227.08)	(55.15)	1,971,461.17	3,613,168	(1,641,706.83)	(45.44)
2 Fuel Cost of Power Sold	(17,966,327.41)	(19,415,000)	1,448,672.59	7.46	(142,153,995.39)	(203,587,000)	61,433,004.61	30.18
3 Fuel Cost - Purchased Power	321,841.97	1,057,000	(735,158.03)	(69.55)	27,888,729.41	32,025,000	(4,136,270.59)	(12.92)
3a Demand & Non-Fuel Cost Purchased Power	0.00	0	0.00	#N/A	0.00	0	0.00	#N/A
3b Energy Payments to Qualifying Facilities	199,370.00	0	199,370.00	100.00	2,284,766.00	0	2,284,766.00	#N/A
4 Energy Cost-Economy Purchases	0.00	0	0.00	#N/A	0.00	0	0.00	#N/A
5 Hedging Settlement Cost	820,133.41	0	820,133.41	100.00	9,197,432.70	0	9,197,432.70	100.00
6 Total Fuel & Net Power Transactions	30,627,119.61	34,368,500	(3,741,380)	(10.89)	446,228,202.72	421,723,296	24,504,907	5.81
7 Adjustments To Fuel Cost*	7,917.32	0	7,917.32	#N/A	(157,092.75)	0	(157,092.75)	#N/A
8 Adj. Total Fuel & Net Power Transactions	30,635,036.93	34,368,500	(3,733,463.07)	(10.86)	446,071,109.97	421,723,296	24,347,813.97	5.77
B. KWH Sales								
1 Jurisdictional Sales	820,870,860	897,882,000	(77,011,140)	(8.58)	11,520,888,320	11,534,609,000	(13,720,680)	(0.12)
2 Non-Jurisdictional Sales	30,869,808	34,328,000	(3,458,192)	(10.07)	405,676,993	413,545,000	(7,868,007)	(1.90)
3 Total Territorial Sales	851,740,668	932,210,000	(80,469,332)	(8.63)	11,926,565,313	11,948,154,000	(21,588,687)	(0.18)
4 Juris. Sales as % of Total Terr. Sales	96.3757	96.3176	0.0581	0.06	96.5985	96.5388	0.0597	0.06

* (Gain)/Loss on sales of natural gas and costs of contract dispute litigation.

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2007

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	\$ ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL	\$ ESTIMATED	DIFFERENCE AMOUNT (\$)	%
C. True-up Calculation								
1 Jurisdictional Fuel Revenue	32,284,419.31	35,333,153	(3,048,733.69)	(8.63)	453,249,177.30	453,906,090	(656,912.70)	(0.14)
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(3,889,955.37)	(3,889,959)	3.63	0.00	(46,679,464.00)	(46,679,464)	0.00	0.00
2b Incentive Provision	70,189.01	70,189	0.01	0.00	842,267.57	842,268	(0.43)	0.00
3 Juris. Fuel Revenue Applicable to Period	28,464,652.95	31,513,383	(3,048,730.05)	(9.67)	407,411,980.87	408,068,894	(656,913.13)	(0.16)
4 Adjusted Total Fuel & Net Power Transactions (Line AB)	30,635,036.93	34,368,500	(3,733,463.07)	(10.86)	446,071,109.97	421,723,296	24,347,813.97	5.77
5 Juns. Sales % of Total KWH Sales (Line B4)	96.3757	96.3176	0.0581	0.06	96.5985	96.5388	0.0597	0.06
6 Juris. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 *C5*1.0007)	29,545,398.60	33,126,086	(3,580,687.40)	(10.81)	431,201,672.08	407,418,733	23,782,939.08	5.84
7 True-Up Provision for the Month Over/(Under) Collection (C3-C6)	(1,080,745.65)	(1,612,703)	531,957.35	32.99	(23,789,691.21)	650,161	(24,439,852.21)	3,759.05
8 Interest Provision for the Month	(234,313.20)	(7,033)	(227,280.20)	(3,231.63)	(3,504,585.46)	(1,253,469)	(2,251,116.46)	(179.59)
9 Beginning True-Up & Interest Provision	(59,202,630.82)	(2,873,531)	(56,329,099.82)	(1,960.27)	(77,480,313.87)	(46,679,464)	(30,800,849.87)	(65.98)
10 True-Up Collected / (Retfunded)	3,889,955.37	3,889,959	(3.63)	0.00	46,679,464.00	46,679,464	0.00	0.00
End of Period - Total Net True-Up, Before								
11 Adjustment (C7+C8+C9+C10)	(56,627,734.30)	(603,308)	(56,024,426.30)	(9,286.21)	(58,095,126.54)	(603,308)	(57,491,818.54)	(9,529.43)
12 Adjustment*	0.00	0	0.00	#N/A	1,467,392.24	0	1,467,392.24	#N/A
13 End of Period - Total Net True-Up	(56,627,734.30)	(603,308.00)	(56,024,426.30)	(9,286.21)	(56,627,734.30)	(603,308.00)	(56,024,426.30)	(9,286.21)

* 2005 Revenue Adjustment & March - June 2007 Coal Inventory Cost Adjustment

200

-9-