State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE:	August 6, 2007
TO:	Peter H. Lester, Economic Analyst, Division of Economic Regulation
FROM:	Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance DV
RE:	Docket No: 070001-EI; Company Name: Gulf Power Company; Audit Purpose: Capacity Cost Recovery Clause; Audit Control No: 07-022-1-2;

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)
Division of Commission Clerk & Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Ms. Susan D. Ritenour
Gulf Power Company
One Energy Place
Pensacola, FL 32520

Beggs & Lane Law Firm
J. Stone / R. Badders / S. Griffin
P. O. Box 12950
Pensacola, FL 32591

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

CAPACITY COST RECOVERY AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2006

DOCKET NO. 070001-EI

AUDIT CONTROL NO. 07-022-1-2

Robert T. Moore

Robert Moore, Audit Manager

Lynn M. Deamer, Audit Supervisor

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DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT

August 2, 2007

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 Capacity Cost Recovery, Docket No. 0700001-EI.

This audit was 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 filed Capacity Cost Recovery Clause (CCRC) revenues and KWH sold were properly recorded in the books of utility.

Procedures: - Agreed CCRC revenues on utility source documents to the filing and general ledger. Recalculated capacity charges on selected customer bills and rate classes. Determined the utility used the correct rates approved by the Florida Public Service Commission (PSC).

EXPENSES

Objective: - To verify the capacity costs agree to the general ledger and reconcile to the books and records of the utility.

Procedures: - Scanned utility filed schedules and IIC invoices from the 12 months ended December 31, 2006. Verified IIC payments/receipts filed on Line 1 of Schedule CCA-2 to IIC invoices and to the general ledger. Traced selected IIC capacity 2006 invoices to utility source documents.

Objective: - To verify transmission revenues derived from "non-separated, non-Energy Broker Network, Wholesale Energy Sales" are credited to the clause.

Procedures: - Scheduled "Summary of Transmission Revenues and Billing" details of monthly refunds for the year ended December 31, 2006. Determined transmission revenues comply with Order PSC-99-2512-FOF-EI, Docket 990001-EI, issued February 22, 1999. Agreed transmission revenues to the general ledger.

TRUE-UP

Objective: - To determine if the utility true-up and interest provision filed with the FPSC were computed correctly.

Procedures: - Recalculated the 2006 CCRC true-up and interest schedules using FPSC approved recoverable true-up computations, interest rates, and jurisdictional separation factor.

GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF TRUE-UP AND INTEREST PROVISION
FOR THE PERIOD JANUARY 2006 - DECEMBER 2006

		January	February	March	April	May	June	July	August	September	October	November	December	Total
1. IIC Payments / (Receipts) ($)		1,688,635	445,165	602,636	104,416	662,264	3,759,953	8,534,480	9,620,041	3,685,764	343,426	216,275	224,324	29,887,379
2. Transmission Revenue ($)		(9,032)	(10,499)	(11,348)	(4,830)	(5,550)	(9,921)	(15,453)	(10,415)	(3,622)	(9,032)	(43,601)	(20,340)	(153,643)
3. Total Capacity Payments/(Receipts) (Line 1 + 2) ($)		1,679,603	434,666	591,288	99,586	656,714	3,750,032	8,519,027	9,609,626	3,682,142	334,394	172,674	203,984	29,733,736
4. Jurisdictional %		0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872
5. Total Jurisdictional Recovery Amount (Line 3 * 4) ($)		1,623,315	420,099	571,472	96,249	634,706	3,624,358	8,233,531	9,287,581	3,558,743	323,188	166,887	197,148	28,737,277
6. Jurisdictional Capacity Cost Recovery Revenues Net of Taxes ($)		1,970,172	1,882,492	1,782,785	1,993,570	2,432,521	2,867,009	2,951,164	3,027,806	2,506,993	2,083,653	1,904,149	2,144,929	27,547,243
7. True-Up Provision ($)		111,821	111,821	111,821	111,821	111,821	111,821	111,821	111,821	111,821	111,821	111,821	111,820	1,341,851
8. Jurisdictional Capacity Cost Recovery Revenue (Line 6 + 7) ($)		2,081,993	1,994,313	1,894,606	2,105,391	2,544,342	2,978,830	3,062,985	3,139,627	2,618,814	2,195,474	2,015,970	2,256,749	28,889,094
9. Over/(Under) Recovery (Line 8 - 5) ($)		458,678	1,574,214	1,323,134	2,009,142	1,909,636	(645,528)	(5,170,546)	(6,147,954)	(939,929)	1,872,286	1,849,083	2,059,601	151,817
10. Interest Provision ($)		5,976	9,562	15,070	22,134	30,424	33,798	21,696	(3,812)	(19,835)	(18,367)	(10,762)	(2,733)	83,151
11. Beginning Balance True-Up & Interest Provision ($)		1,454,484	1,807,317	3,279,272	4,505,655	6,425,110	8,253,349	7,529,798	2,269,127	(3,994,460)	(5,066,045)	(3,323,947)	(1,597,447)	1,454,484
12. True-Up Collected/(Refunded) ($)		(111,821)	(111,821)	(111,821)	(111,821)	(111,821)	(111,821)	(111,821)	(111,821)	(111,821)	(111,821)	(111,821)	(111,820)	(1,341,851)
13. End of Period Total Net True-Up (Lines 9 + 10 + 11 + 12) ($)		1,807,317	3,279,272	4,505,655	6,425,110	8,253,349	7,529,798	2,269,127	(3,994,460)	(5,066,045)	(3,323,947)	(1,597,447)	347,601	347,601
Average Monthly Interest Rate		0.3671	0.3767	0.3879	0.4058	0.4154	0.4292	0.4438	0.4429	0.4388	0.4388	0.4383	0.4383	
Wall Street Annual Rate	4.30	4.51	4.53	4.78	4.96	5.01	5.29	5.36	5.27	5.26	5.27	5.25	5.27	
Average Annual Rate		4.405	4.520	4.655	4.870	4.985	5.150	5.325	5.315	5.265	5.265	5.260	5.260	

SCHEDULE CCA-3

GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF INTEREST PROVISION
FOR THE PERIOD JANUARY 2006 - DECEMBER 2006

	ACTUAL JANUARY	ACTUAL FEBRUARY	ACTUAL MARCH	ACTUAL APRIL	ACTUAL MAY	ACTUAL JUNE	ACTUAL JULY	ACTUAL AUGUST	ACTUAL SEPTEMBER	ACTUAL OCTOBER	ACTUAL NOVEMBER	ACTUAL DECEMBER	TOTAL
1. Beginning True-Up Amount ($)	1,454,484	1,807,317	3,279,272	4,505,655	6,425,110	8,253,349	7,529,798	2,269,127	(3,994,460)	(5,066,045)	(3,323,947)	(1,597,447)	
2. Ending True-Up Amount Before Interest ($)	1,801,341	3,269,710	4,490,585	6,402,976	8,222,925	7,496,000	2,247,431	(3,990,648)	(5,046,210)	(3,305,580)	(1,586,685)	350,334	
3. Total Beginning & Ending True-Up Amount ($) (Lines 1 + 2)	3,255,825	5,077,027	7,769,857	10,908,631	14,648,035	15,749,349	9,777,229	(1,721,521)	(9,040,670)	(8,371,625)	(4,910,632)	(1,247,113)	
4. Average True-Up Amount ($)	1,627,913	2,538,514	3,884,929	5,454,316	7,324,018	7,874,675	4,888,615	(860,761)	(4,520,335)	(4,185,813)	(2,455,316)	(623,557)	
5. Interest Rate - First Day of Reporting Business Month	0.043000	0.045100	0.045300	0.047800	0.049600	0.050100	0.052900	0.053600	0.052700	0.052600	0.052700	0.052500	
6. Interest Rate - First Day of Subsequent Business Month	0.045100	0.045300	0.047800	0.049600	0.050100	0.052900	0.053600	0.052700	0.052600	0.052700	0.052500	0.052700	
7. Total Interest Rate (Lines 5 + 6)	0.088100	0.090400	0.093100	0.097400	0.099700	0.103000	0.106500	0.106300	0.105300	0.105300	0.105200	0.105200	
8. Average Interest Rate	0.044050	0.045200	0.046550	0.048700	0.049850	0.051500	0.053250	0.053150	0.052650	0.052650	0.052600	0.052600	
9. Monthly Average Interest Rate (1/12 Of Line 8)	0.003671	0.003767	0.003879	0.004058	0.004154	0.004292	0.004438	0.004429	0.004388	0.004388	0.004383	0.004383	
10. Interest Provision For the Month (Lines 4 X 9) ($)	5,976	9,562	15,070	22,134	30,424	33,798	21,696	(3,812)	(19,835)	(18,367)	(10,762)	(2,733)	83,151

110138-OPC-POD-28-7

State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: October 22, 2007

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

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

RE: Docket No: 070001-EI; Company Name: Gulf Power Company;
Audit Purpose: Fuel Audit Clause;
Audit Control No: 07-022-1-1;

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 and Administrative Services. 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)
Division of Commission Clerk (2)
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, 2006

DOCKET NO. 070001-EI

AUDIT CONTROL NO. 07-022-1-1

Charleston J. Winston, Audit Manager

Mike Buckley, Audit Staff

Intesar Terkawi, Audit Staff

Lynn M. Deamer, Audit Supervisor

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DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT

October 10, 2007

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. 070001-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. This audit contains confidential information.

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 Capacity Cost Recovery (CCR), Environmental Compliance Cost Recovery(ECRC), and Energy Cost Recovery (ECR) are completely and properly recorded on the books of the company.

Procedures: We compiled FAC, CCR, ECRC, and ECR revenues from company source documents and agreed to filing and General Ledger.

EXPENSES

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 by month, by company, from the interchange reports. Traced selected months to supporting IIC invoices.

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 from Interchange reports. Verified that according to Commission Order PSC-05-1252-FOF-EI that beginning January 1, 2006 gains are to be shared (between ratepayer and shareholder, 80% and 20% respectively) after reaching a benchmark. Traced the gains for March and June 2006 to source documentation. Traced the gains for 12 months of 2006 to the Filed schedule A-1 to verify that gains derived from non-separated, non Energy Broker network, wholesale energy sales are credited to the fuel clause. Recalculated the appropriate separation factor for each month and traced it to the filed Schedule A-1 and verified that the factor is applied to separate between retail and wholesale customers.

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

Procedures: Scheduled payments to Qualified Facilities from Interchange Analysis Reports. Traced the KWH to invoices for February, May, September and November of 2006.

Objective: To agree the fuel costs to the general ledger

Procedures: Obtained amounts charged to Account 501 and 547 by account by month for 2006 from Fuel Clause Journal. Scheduled Charges by month, by Plant, by account, to obtain totals by plant, and by month. Total fuel costs for each month were agreed to the general ledger and to the Filing Schedule A-1 (Schedule A-1 was recalculated for each month in 2006). Total Fuel Costs determined by auditor were compared to amounts filed. Voucher amounts listed as "other generation" were traced from company general ledger to Journals Nos. 2035, 2053 and 2013 for the year ended 2006.

Objective: To verify amounts of semi-annual Coal Inventory Adjustments for 2006 were made in accordance with FPSC issued Order.

Procedures: For the March and September Flyover, the audit staff obtained Field Schedule of Flyover results, recalculated adjustment based on Source documentation, compared survey physical inventory (flyover) to adjusted book balance, agreed inventory adjustment to journal vouchers, obtained and read PSC-97-0359-FOF-EI for proper accounting procedures, and verified the company compliance to accounting procedures.

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

Procedures: The audit staff obtained 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 2006. 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 2006. 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 2006. 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 2006 reported on Schedule 5 to Schedule 3.

Objective: To verify the gains (losses) associated with each financial hedging instrument that Gulf Power implemented are consistent with Order No. PSC-02-1484-FOF-EI and to verify that the accounting treatment from futures, options, and swap contracts between Gulf Power and one or more counterparties are consistent with Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued October 30, 2002.

Procedures: The audit staff obtained the Risk Management Plan for Fuel Procurement, Docket No. 050001-EI, and compared the pricing strategy to actual charges to FERC Account No. 547-4 (Hedging) for the applicable months during the period ended December 31, 2006 as filed in Schedule A1 of the Fuel Adjustment Clause. Total Account No. 547-4 was compared to gas purchases for the same months. The audit staff also obtained company support detail of the hedging settlements and of the hedging support costs for the applicable months during the period ended December 31, 2006. Support documentation was traced to the General Ledger Transaction detail for Hedging Account No. 547-4 and for Hedging Account No. 547-5. The audit staff reviewed the adherence to the risk management plan.

Objective: Verify that Gulf Power's treatment of wholesale power sales sold via Inter Company Interchange Contract between operating companies comply with Commission Order No. PSC-00-1744-PAA-EI.

Procedures: The audit staff traced Total for Fuel adjustment for Southern Company Interchange reported on the A-6 schedule to supporting documentation provided by the company to verify that there is not a gain that should be credited back through the fuel clause.

TRUE-UP

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

Procedures: We recalculated the 2006 FAC true-up, and agreed beginning true-up to prior audit, and to the applicable FPSC Orders. The audit staff agreed the interest rates to the Commercial Paper rates.

SCHEDULE A-2

PAGE 1 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2006

		CURRENT MONTH $		DIFFERENCE		PERIOD - TO - DATE $		DIFFERENCE	
		ACTUAL	ESTIMATED	AMOUNT ($)	%	ACTUAL	ESTIMATED	AMOUNT ($)	%
A.	*Fuel Cost & Net Power Transactions*								
1	Fuel Cost of System Net Generation	41,018,460.70	39,393,150	1,625,310.70	4.13	503,993,709.76	494,795,307	9,198,402.76	1.86
1a	Other Generation	102,939.56	333,000	(230,060.44)	(69.09)	1,241,632.47	2,714,967	(1,473,334.53)	(54.27)
2	Fuel Cost of Power Sold	(14,251,099.79)	(16,347,000)	2,095,900.21	12.82	(143,801,948.71)	(171,084,000)	27,282,051.29	15.95
3	Fuel Cost - Purchased Power	762,835.37	2,002,000	(1,239,164.63)	(61.90)	30,399,349.87	25,631,000	4,768,349.87	18.60
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	41,915.00	0	41,915.00	100.00	503,259.00	0	503,259.00	#N/A
4	Energy Cost-Economy Purchases	0.00	0	0.00	#N/A	0.00	0	0.00	#N/A
5	Hedging Support Cost	11,079.88	8,059	3,020.88	37.48	105,753.51	64,896	40,857.51	62.96
6	Hedging Settlement Cost	1,022,893.10	0	1,022,893.10	100.00	18,714,561.92	0	18,714,561.92	100.00
7	Total Fuel & Net Power Transactions	28,709,023.82	25,389,209	3,319,815	13.08	411,156,317.82	352,122,170	59,034,148	16.77
8	AdjustmentsTo Fuel Cost*	31,004.54	0	31,004.54	#N/A	(552,901.44)	0	(552,901.44)	#N/A
9	Adj. Total Fuel & Net Power Transactions	28,740,028.36	25,389,209	3,350,819.36	13.20	410,603,416.38	352,122,170	58,481,246.38	16.61
B.	*KWH Sales*								
1	Jurisdictional Sales	842,407,764	878,432,000	(36,024,236)	(4.10)	11,428,879,960	11,314,682,000	114,197,960	1.01
2	Non-Jurisdictional Sales	31,761,115	33,573,000	(1,811,885)	(5.40)	401,502,563	397,094,000	4,408,563	1.11
3	Total Territorial Sales	874,168,879	912,005,000	(37,836,121)	(4.15)	11,830,382,523	11,711,776,000	118,606,523	1.01
4	Juris. Sales as % of Total Terr. Sales	96.3667	96.3188	0.0479	0.05	96.6062	96.6094	(0.0032)	0.00

*(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 2006

	CURRENT MONTH $				PERIOD - TO - DATE $			
			DIFFERENCE				DIFFERENCE	
	ACTUAL	ESTIMATED	AMOUNT ($)	%	ACTUAL	ESTIMATED	AMOUNT ($)	%
C. *True-up Calculation*								
1 Jurisdictional Fuel Revenue	28,641,594.20	27,001,128	1,640,466.20	6.08	353,973,081.18	347,789,211	6,183,870.18	1.78
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(955,051.38)	(955,056)	4.62	0.00	(11,460,617.00)	(11,460,617)	0.00	0.00
2b Incentive Provision	(36,805.87)	(36,806)	0.13	0.00	(441,670.00)	(441,672)	2.00	0.00
3 Juris. Fuel Revenue Applicable to Period	27,649,736.95	26,009,266	1,640,470.95	6.31	342,070,794.18	335,886,922	6,183,872.18	1.84
4 Adjusted Total Fuel & Net Power Transactions (Line A9)	28,740,028.36	25,389,209	3,350,819.36	13.20	410,603,416.38	352,122,170	58,481,246.38	16.61
5 Juris. Sales % of Total KWH Sales (Line B4)	96.3667	96.3188	0.0479	0.05	96.6062	96.6094	(0.0032)	0.00
6 Juris. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 *C5*1.0007)	27,715,203.98	24,471,700	3,243,503.98	13.25	397,003,657.42	340,410,929	56,592,728.42	16.62
7 True-Up Provision for the Month Over/(Under) Collection (C3-C6)	(65,467.03)	1,537,566	(1,603,033.03)	104.26	(54,932,863.24)	(4,524,007)	(50,408,856.24)	(1,114.25)
8 Interest Provision for the Month	(340,055.28)	(26,950)	(313,105.28)	(1,161.80)	(2,373,332.90)	(405,373)	(1,967,959.90)	(485.47)
9 Beginning True-Up & Interest Provision	(78,029,842.94)	(7,395,052)	(70,634,790.94)	(955.16)	(31,634,734.73)	(11,460,617)	(20,174,117.73)	(176.03)
10 True-Up Collected / (Refunded)	955,051.38	955,056	(4.62)	0.00	11,460,617.00	11,460,617	0.00	0.00
End of Period - Total Net True-Up, Before 11 Adjustment (C7+C8+C9+C10)	(77,480,313.87)	(4,929,380)	(72,550,933.87)	(1,471.81)	(77,480,313.87)	(4,929,380)	(72,550,933.87)	(1,471.81)

State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: May 7, 2008

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

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

RE: Docket No: 080001-EI; Company Name: Gulf Power Company;
Audit Purpose: Capacity Cost Recovery Clause Audit; Company Code: EI804;
Audit Control No: 08-003-1-2;

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)
Division of Commission Clerk (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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

Beggs & Lane Law Firm
J. Stone / R. Badders / S. Griffin
P.O. Box 12950
Pensacola, FL 32591

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

CAPACITY COST RECOVERY AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2007

DOCKET NO. 080001-EI

AUDIT CONTROL NO. 08-003-1-2

Intesar Terkawi, Audit Manager

Lynn M. Deamer, Audit Supervisor

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110138-OPC-POD-28-19

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT

May 6, 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 Capacity Cost Recovery, Docket No. 080001-EI.

This audit was 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 filed Capacity Cost Recovery Clause (CCRC) revenues and KWH sold were properly recorded in the books of utility.

Procedures: - Agreed CCRC revenues on utility source documents to the filing and general ledger. Recalculated capacity charges on selected customer bills and rate classes. Determined the utility used the correct rates approved by the Florida Public Service Commission (PSC).

EXPENSES

Objective: - To verify the capacity costs agree to the general ledger and reconcile to the books and records of the utility.

Procedures: - Scanned utility filed schedules and IIC invoices from the 12 months ended December 31, 2007. Verified IIC payments/receipts filed on Line 1 of Schedule CCA-2 to IIC invoices and to the general ledger. Traced selected IIC capacity 2007 invoices to utility source documents.

Objective: - To verify transmission revenues derived from "non-separated, non-Energy Broker Network, Wholesale Energy Sales" are credited to the clause.

Procedures: - Scheduled "Summary of Transmission Revenues and Billing" details of monthly refunds for the year ended December 31, 2007. Determined transmission revenues comply with Order PSC-99-2512-FOF-EI, Docket 990001-EI, issued February 22, 1999. Agreed transmission revenues to the general ledger.

TRUE-UP

Objective: - To determine if the utility true-up and interest provision filed with the FPSC were computed correctly.

Procedures: - Recalculated the 2007 CCRC true-up and interest schedules using FPSC approved recoverable true-up computations, interest rates, and jurisdictional separation factor.

GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF TRUE-UP AND INTEREST PROVISION
FOR THE PERIOD JANUARY 2007 - DECEMBER 2007

	January	February	March	April	May	June	July	August	September	October	November	December	Total
1. IIC Payments / (Receipts) ($)	1,149,354	379,768	578,776	217,665	576,266	3,541,079	8,691,200	10,887,628	4,177,725	658,317	266,686	212,065	31,336,529
2 Transmission Revenue ($)	(13,223)	(43,697)	(13,111)	(19,011)	(162,875)	(33,024)	(37,968)	(36,676)	(27,862)	(31,804)	(21,654)	(22,978)	(463,883)
3 Total Capacity Payments/(Receipts) (Line 1 + 2) ($)	1,136,131	336,071	565,665	198,654	413,391	3,508,055	8,653,232	10,850,952	4,149,863	626,513	245,032	189,087	30,872,646
4 Jurisdictional %	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	0.9664872	
5 Total Jurisdictional Recovery Amount (Line 3 * 4) ($)	1,098,056	324,808	546,708	191,997	399,537	3,390,490	8,363,238	10,487,306	4,010,780	605,517	236,820	182,750	29,838,016
6 Jurisdictional Capacity Cost Recovery Revenues Net of Taxes ($)	2,443,980	2,234,908	2,150,762	2,149,283	2,692,594	3,095,296	3,338,617	3,679,013	2,889,567	2,602,473	2,099,665	2,086,751	31,462,909
7 True-Up Provision ($)	(9,207)	(9,207)	(9,207)	(9,207)	(9,207)	(9,207)	(9,207)	(9,207)	(9,207)	(9,207)	(9,207)	(9,207)	(110,484)
8 Jurisdictional Capacity Cost Recovery Revenue (Line 6 + 7) ($)	2,434,773	2,225,701	2,141,555	2,140,076	2,683,387	3,086,089	3,329,410	3,669,806	2,880,360	2,593,266	2,090,458	2,077,544	31,352,425
9 Over/(Under) Recovery (Line 8 - 5) ($)	1,336,717	1,900,893	1,594,847	1,948,079	2,283,850	(304,401)	(5,033,828)	(6,817,500)	(1,130,429)	1,987,749	1,853,638	1,894,794	1,514,409
10. Interest Provision ($)	4,478	11,111	18,861	26,748	36,180	40,801	29,237	3,545	(14,128)	(11,212)	(3,296)	4,235	146,560
11 Beginning Balance True-Up & Interest Provision ($)	347,601	1,698,003	3,501,162	5,124,077	7,108,111	9,437,348	9,182,955	4,187,571	(2,617,177)	(3,752,527)	(1,766,783)	92,766	347,601
12 True-Up Collected/(Refunded) ($)	9,207	9,207	9,207	9,207	9,207	9,207	9,207	9,207	9,207	9,207	9,207	9,207	110,484
13. 2006 Revenue Adjustment	-	(118,052)	-	-	-	-	-	-	-	-	-	-	(118,052)
14. End of Period Total Net True-Up (Lines 9 + 10 + 11 + 12 + 13) ($)	1,698,003	3,501,162	5,124,077	7,108,111	9,437,348	9,182,955	4,187,571	(2,617,177)	(3,752,527)	(1,766,783)	92,766	2,001,002	2,001,002

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110138-OPC-POD-28-22

SCHEDULE CCA-3

GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF INTEREST PROVISION
FOR THE PERIOD JANUARY 2007 - DECEMBER 2007

	ACTUAL JANUARY	ACTUAL FEBRUARY	ACTUAL MARCH	ACTUAL APRIL	ACTUAL MAY	ACTUAL JUNE	ACTUAL JULY	ACTUAL AUGUST	ACTUAL SEPTEMBER	ACTUAL OCTOBER	ACTUAL NOVEMBER	ACTUAL DECEMBER	TOTAL
1 Beginning True-Up Amount ($)	347,601	1,698,003	3,501,162	5,124,077	7,108,111	9,437,348	9,182,955	4,187,571	(2,617,177)	(3,752,527)	(1,766,783)	92,766	
2 Ending True-Up Amount Before Interest ($)	1,693,525	3,372,000	5,105,216	7,081,303	9,401,108	9,142,154	4,158,334	(2,620,722)	(3,738,398)	(1,755,571)	96,062	1,996,767	
3 Total Beginning & Ending True-Up Amount ($) (Lines 1 + 2)	2,041,126	5,070,003	8,606,379	12,205,441	16,509,280	18,579,503	13,341,290	1,566,850	(6,355,575)	(5,508,097)	(1,670,720)	2,089,534	
4. Average True-Up Amount ($)	1,020,563	2,535,001	4,303,189	6,102,720	8,254,640	9,289,751	6,670,645	783,425	(3,177,788)	(2,754,049)	(835,360)	1,044,767	
5 Interest Rate - First Day of Reporting Business Month	0.052700	0.052600	0.052600	0.052600	0.052600	0.052600	0.052800	0.052400	0.056200	0.050500	0.047200	0.047500	
6. Interest Rate - First Day of Subsequent Business Month	0.052600	0.052600	0.052600	0.052600	0.052600	0.052800	0.052400	0.056200	0.050500	0.047200	0.047500	0.049800	
7. Total Interest Rate (Lines 5 + 6)	0.105300	0.105200	0.105200	0.105200	0.105200	0.105400	0.105200	0.108600	0.106700	0.097700	0.094700	0.097300	
8. Average Interest Rate	0.052650	0.052600	0.052600	0.052600	0.052600	0.052700	0.052600	0.054300	0.053350	0.048850	0.047350	0.048650	
9 Monthly Average Interest Rate (1/12 Of Line 8)	0.004388	0.004383	0.004383	0.004383	0.004383	0.004392	0.004383	0.004525	0.004446	0.004071	0.003946	0.004054	
10. Interest Provision For the Month (Lines 4 X 9) ($)	4,478	11,111	18,861	26,740	36,180	40,601	29,237	3,545	(14,128)	(11,212)	(3,296)	4,235	146,560

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State of Florida

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

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 DV

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)
Division of Commission Clerk (2)
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

Debra M. Dobiac, Audit Staff

Lynn M. Deamer, Audit Supervisor

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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			
		$		DIFFERENCE		$		DIFFERENCE	
		ACTUAL	ESTIMATED	AMOUNT ($)	%	ACTUAL	ESTIMATED	AMOUNT ($)	%
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	AdjustmentsTo 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.

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110138-OPC-POD-28-31

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

	Current Month				Period - To - Date			
	$		Difference		$		Difference	
C. *True-up Calculation*	ACTUAL	ESTIMATED	AMOUNT ($)	%	ACTUAL	ESTIMATED	AMOUNT ($)	%
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 A8)	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 Juris. 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 / (Refunded)	3,889,955.37	3,889,959	(3.63)	0.00	46,679,464.00	46,679,464	0.00	0.00
11 End of Period - Total Net True-Up, Before 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*

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State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE:	April 13, 2009
TO:	Kaley Giles, Regulatory Analyst II, Division of Economic Regulation
FROM:	Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance
RE:	Docket No: 090001-EI; Company Name: Gulf Power Company; Audit Purpose: Capacity Cost Recovery Clause; Company Code: EI804; Audit Control No: 09-041-1-3;

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 a response to the Office of the Commission Clerk. There are no confidential work papers associated with this audit.

DNV/tbm
Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey, District Offices, File Folder)
Office of Commission Clerk (2)
General Counsel
Office of Public Counsel

Ms. Susan D. Ritenour
Gulf Power Company
One Energy Place
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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

CAPACITY COST RECOVERY AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2008

DOCKET NO. 090001-EI

AUDIT CONTROL NO. 09-041-1-3

V Hymavathi

Hymavathi Vedula, Audit Manager

Lynn M Deamer

Lynn M. Deamer, Audit Supervisor

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DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT

March 27, 2009

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 Capacity Cost Recovery, Docket No. 0900001-EI.

This audit was 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 filed Capacity Cost Recovery Clause (CCRC) revenues and KWH sold were properly recorded in the books of utility.

Procedures: - Agreed CCRC revenues on utility source documents to the filing and general ledger. Recalculated capacity charges on selected customer bills and rate classes. Determined the utility used the correct rates approved by the Florida Public Service Commission (PSC).

EXPENSES

Objective: - To verify the capacity costs agree to the general ledger and reconcile to the books and records of the utility.

Procedures: - Scanned utility filed schedules and IIC invoices from the 12 months ended December 31, 2008. Verified IIC payments/receipts filed on Line 1 of Schedule CCA-2 to IIC invoices and to the general ledger. Traced selected IIC capacity 2008 invoices to utility source documents.

Objective: - To verify transmission revenues derived from "non-separated, non-Energy Broker Network, Wholesale Energy Sales" are credited to the clause.

Procedures: - Scheduled "Summary of Transmission Revenues and Billing" details of monthly refunds for the year ended December 31, 2008. Determined transmission revenues comply with Order
PSC-99-2512-FOF-EI, Docket 990001-EI, issued December 22, 1999. Agreed transmission revenues to the general ledger.

TRUE-UP

Objective: - To determine if the utility true-up and interest provisions filed with the FPSC were computed correctly.

Procedures: - Recalculated the 2008 CCRC true-up and interest schedules using FPSC approved recoverable true-up computations, interest rates, and jurisdictional separation factor.

SCHEDULE CCA-2

GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF TRUE-UP AND INTEREST PROVISION
FOR THE PERIOD JANUARY 2008 - DECEMBER 2008

	January	February	March	April	May	June	July	August	September	October	November	December	Total
1. IIC Payments / (Receipts) ($)	696,609	403,204	421,229	249,845	606,267	4,429,763	9,966,666	7,712,823	4,348,244	383,546	176,763	188,245	29,583,004
2. Transmission Revenue ($)	(30,265)	(26,038)	(23,349)	(27,638)	(18,537)	(57,432)	(36,078)	(23,879)	(50,456)	(14,586)	(13,739)	(21,650)	(343,647)
3. Total Capacity Payments/(Receipts) (Line 1 + 2) ($)	666,344	377,166	397,880	222,207	587,730	4,372,331	9,930,588	7,688,744	4,297,788	368,960	163,024	166,595	29,239,357
4. Jurisdictional %	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	
5. Total Jurisdictional Recovery Amount (Line 3 * 4) ($)	642,500	363,669	383,642	214,256	566,699	4,216,872	9,575,232	7,413,610	4,143,996	355,757	157,190	160,634	28,193,057
6. Jurisdictional Capacity Cost Recovery Revenues Net of Taxes ($)	2,214,048	1,834,611	1,770,782	1,816,809	2,303,878	2,616,182	2,876,995	2,626,848	2,506,683	1,984,116	1,828,505	2,059,094	26,438,551
7. True-Up Provision ($)	174,466	174,466	174,466	174,466	174,466	174,466	174,466	174,466	174,466	174,466	174,466	174,467	2,093,593
8. Jurisdictional Capacity Cost Recovery Revenue (Line 6 + 7) ($)	2,388,514	2,009,077	1,945,248	1,991,275	2,478,344	2,790,848	3,051,461	2,801,314	2,681,149	2,158,582	2,002,971	2,233,561	28,532,144
9. Over/(Under) Recovery (Line 8 - 5) ($)	1,746,014	1,645,408	1,561,606	1,777,019	1,911,645	(1,425,224)	(6,523,771)	(4,612,296)	(1,462,847)	1,802,825	1,845,781	2,072,927	339,087
10. Interest Provision ($)	9,358	11,083	13,697	16,559	19,660	18,380	10,007	(1,676)	(12,443)	(13,342)	(4,470)	(538)	66,275
11. Beginning Balance True-Up & Interest Provision ($)	2,001,002	3,581,908	5,063,933	6,464,770	8,083,882	9,840,721	8,259,411	1,571,181	(3,217,257)	(4,867,013)	(3,251,996)	(1,585,151)	2,001,002
12. True-Up Collected/(Refunded) ($)	(174,466)	(174,466)	(174,466)	(174,466)	(174,466)	(174,466)	(174,466)	(174,466)	(174,466)	(174,466)	(174,466)	(174,467)	(2,093,593)
13. End of Period Total Net True-Up (Lines 9 + 10 + 11 + 12) ($)	3,581,908	5,063,933	6,464,770	8,083,882	9,840,721	8,259,411	1,571,181	(3,217,257)	(4,867,013)	(3,251,996)	(1,585,151)	$\boxed{312,771}$	312,771

SCHEDULE CCA-3

GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF INTEREST PROVISION
FOR THE PERIOD JANUARY 2008 - DECEMBER 2008

	ACTUAL JANUARY	ACTUAL FEBRUARY	ACTUAL MARCH	ACTUAL APRIL	ACTUAL MAY	ACTUAL JUNE	ACTUAL JULY	ACTUAL AUGUST	ACTUAL SEPTEMBER	ACTUAL OCTOBER	ACTUAL NOVEMBER	ACTUAL DECEMBER	TOTAL
1 Beginning True-Up Amount ($)	2,001,002	3,581,808	5,063,833	6,464,779	8,083,862	8,840,721	8,258,411	1,571,181	(3,217,257)	(4,887,012)	(3,251,896)	(1,585,151)	
2 Ending True-Up Amount Before Interest ($)	3,572,556	5,052,858	6,451,073	8,087,323	9,821,061	8,241,031	1,561,174	(3,215,581)	(4,854,570)	(3,238,864)	(1,580,881)	313,309	
3 Total Beginning & Ending True-Up Amount ($) (Lines 1 + 2)	5,573,652	8,634,758	11,515,006	14,532,083	17,904,943	18,081,752	9,870,585	(1,644,400)	(8,071,827)	(8,105,887)	(4,832,877)	(1,271,842)	
4 Average True-Up Amount ($)	2,786,776	4,317,379	5,757,503	7,266,047	8,952,472	9,040,876	4,910,283	(822,200)	(4,035,914)	(4,052,834)	(2,416,300)	(635,921)	
5 Interest Rate - First Day of Reporting Business Month	0.049800	0.030800	0.030800	0.026300	0.028400	0.024300	0.024500	0.024400	0.024600	0.049500	0.029500	0.014900	
6 Interest Rate - First Day of Subsequent Business Month	0.030800	0.030800	0.026300	0.028400	0.024300	0.024500	0.024400	0.024500	0.049600	0.029500	0.014900	0.005400	
7 Total Interest Rate (Lines 5 + 6)	0.080600	0.061600	0.057100	0.054700	0.052700	0.048800	0.048900	0.048900	0.074000	0.079000	0.044400	0.020300	
8 Average Interest Rate	0.040300	0.030800	0.028550	0.027350	0.026350	0.024400	0.024450	0.024450	0.037000	0.039500	0.022200	0.010150	
9 Monthly Average Interest Rate (1/12 Of Line 8)	0.003358	0.002567	0.002379	0.002279	0.002196	0.002033	0.002038	0.002038	0.003083	0.003292	0.001850	0.000846	
10 Interest Provision For the Month (Lines 4 X 9) ($)	9,358	11,083	13,697	16,559	19,660	18,380	10,007	(1,676)	(12,443)	(13,343)	(4,470)	(538)	66,275

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State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: May 1, 2009

TO: Kaley Giles, Regulatory Analyst II, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance

RE: Docket No: 090001-EI; Company Name: Gulf Power Company;
Audit Purpose: Fuel Cost Recovery Clause; Company Code: EI804;
Audit Control No: 09-041-1-4;

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 a response to the Office of the Commission Clerk. There are no confidential work papers associated with this audit.

DNV/tbm
Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey, District Offices, File Folder)
Office of Commission Clerk (2)
General Counsel
Office of Public Counsel

Ms. Susan D. Ritenour
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J. Stone/R. Badders/S. Griffin
Beggs & Lane Law Firm
Post Office Box 12950
Pensacola, FL 32591

STATE OF FLORIDA

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

FUEL ADJUSTMENT CLAUSE AUDIT

TEST YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 090001-EI
AUDIT CONTROL NO. 09-041-1-4

Debra M. Dobiac, Audit Manager

Lynn M. Deamer, District Audit Supervisor

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DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT

April 24, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION

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. 090001-EI.

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

I. OBJECTIVES AND PROCEDURES

REVENUES

Objective: To verify that Fuel Adjustment Clause (FAC) revenue and KWHs 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: The audit staff compiled the FAC, CCR, ECRC, and ECCR revenues from company source documents and reconciled to the filing as well as the general ledger. We obtained one month of customers bills that are manually billed and verified that the Commission approved factors were used. In addition, we selected a judgmental sample of customer bills containing clause revenue, KWHs, and related data for FAC, CCR, ECRC, and ECCR, and recalculated revenue using KWHs and related information from the bills. The audit staff obtained supporting documentation used to record operating revenues for the historical 12 month period ended December 31, 2008 and reconciled operating revenue per the surveillance report to the general ledger including the adjustments to operating revenue.

EXPENSES

Objective: To reconcile the fuel costs to the general ledger.

Procedures: We obtained amounts charged to FERC Account 501, Steam Generation-Fuel, and FERC Account 547, Other Generation-Fuel, for each month of 2008 from the fuel clause journals. The audit staff scheduled charges by month by account to obtain total fuel costs which were reconciled to the general ledger and to the Schedule A-1 filing. Schedule A-1 was recalculated for each month in 2008. We also 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, 2008.

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

Procedures: The audit staff scheduled payments to qualified facilities from Schedule A-8 and reconciled the total to Schedule A-1, Line 11. We traced the KWHs reported on Schedule A-8 to customer bills for February, May, September and November of 2008.

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

Procedures: The audit staff scheduled economy energy purchases (Schedule A-9) by company from the Interchange Analysis Reports for each month of 2008 and reconciled the total to Schedule A-1, Line 12. We traced purchased amounts to the supporting Intercompany Interchange Contract (IIC) invoices for March, May, September, and October of 2008.

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: The audit staff scheduled gains on economy sales (Schedule A-6) from the Interchange Analysis Reports for each month of 2008 and reconciled the total to Schedule A-1, Line 15. We verified through FPSC Order PSC-08-0030-FOF-EI, issued January 8, 2008, 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 2008 since the estimated benchmark was not met. The audit staff traced the gains to the supporting IIC invoices for March, April, and September 2008.

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: We scheduled natural gas purchases and applicable firm transportation service charges from the Accounts Payable Analysis for each month of 2008 and reconciled totals to the general ledger. The audit staff traced purchased amounts and FTS charges to the paid invoices for April and December 2008. The audit staff 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. No further work was performed.

Objective: To verify amounts of the semi-annual Coal Inventory Adjustments for 2008 were made in accordance with FPSC Order PSC-97-0359-FOF-EI, issued March 31, 1997.

Procedures: For the March 2008 and September 2008 Flyovers, we obtained the Field Schedule of Flyover results, recalculated the inventory adjustments, compared them to the adjusted book balances, and traced them to the supporting journal vouchers. The audit staff reviewed FPSC Order PSC-97-0359-FOF-EI, issued March 31, 1997, for proper accounting procedures, and verified company compliance with those procedures.

Objective: To reconcile coal and oil purchases noted on FPSC Form 423 with the monthly Schedule A-5, contractual obligations, and source documentation.

Procedures: We reconciled coal and oil purchases reported on Form 423 with the Schedule A-5 filing for September 2008. The audit staff cross-referenced coal and oil purchases to company journals, stockpile receipt reports, fuel stock reports, in-transit reports, and accounts payable analysis. We traced receipts to the fuel invoices and verified that the rates as well as the adjustment calculations were in compliance with vendor contracts.

Objective: To 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 the 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 2008. We 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 2008. We reconciled 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 2008. We also traced both the Period Hours and Service Hours to Crist 4 Generation Summary Report from the Outage Hours Report. The audit staff reconciled the MBtu, Net Generation and Average Net Operating Heat Rate (Btu/KWH) values for October and December 2008 reported on Schedule 5 to Schedule 3.

Objective: To 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: We traced Total for Fuel Adjustment for Southern Company Interchange reported on Schedule A-6 to the IIC invoice and the company's Interchange Analysis for April 2008. The audit staff verified 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: We recalculated the 2008 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 reconciled the interest rates to the Commercial Paper rates.

II. EXHIBITS

EXHIBIT NO. 1 – Schedule A-2, Page 1 of 3

SCHEDULE A-2
PAGE 1 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2008

		CURRENT MONTH $ ACTUAL	CURRENT MONTH $ ESTIMATED	CURRENT MONTH DIFFERENCE AMOUNT ($)	CURRENT MONTH DIFFERENCE %	PERIOD - TO - DATE $ ACTUAL	PERIOD - TO - DATE $ ESTIMATED	PERIOD - TO - DATE DIFFERENCE AMOUNT ($)	PERIOD - TO - DATE DIFFERENCE %
A.	*Fuel Cost & Net Power Transactions*								
1	Fuel Cost of System Net Generation**	42,849,337.10	53,804,388	(10,955,060.90)	(20.36)	618,403,859.13	656,515,468	(38,111,608.87)	(5.81)
1a	Other Generation**	162,430.36	428,000	(265,569.64)	(62.05)	2,184,204.00	3,693,796	(1,509,592.00)	(40.87)
2	Fuel Cost of Power Sold	(7,120,189.09)	(12,284,000)	5,163,810.91	42.04	(130,690,404.55)	(229,165,000)	98,474,595.45	42.97
3	Fuel Cost - Purchased Power	2,770,122.58	4,193,000	(1,422,877.42)	(33.93)	64,626,308.83	30,052,000	34,574,308.83	115.05
3a	Demand & Non-Fuel Cost Purchased Power	0.00	0	0.00	0.00	0.00	0	0.00	0.00
3b	Energy Payments to Qualifying Facilities	357,702.15	0	357,702.15	100.00	2,746,386.55	0	2,746,386.55	100.00
4	Energy Cost-Economy Purchases	0.00	0	0.00	0.00	0.00	0	0.00	0.00
5	Hedging Settlement Cost	3,326,145.00	(883,000)	4,209,145.00	(476.69)	1,737,726.21	(9,093,000)	10,830,726.21	(119.11)
6	Total Fuel & Net Power Transactions	42,345,548.10	45,258,388	(2,912,839.90)	(6.44)	559,008,080.17	452,003,264	107,004,816.17	23.67
7	Adjustments To Fuel Cost*	61,557.38	0	61,557.38	100.00	121,602.79	0	121,602.79	100.00
8	Adj. Total Fuel & Net Power Transactions	42,407,105.48	45,258,388	(2,851,282.52)	(6.30)	559,129,682.96	452,003,264	107,126,418.96	23.70
B.	*KWH Sales*								
1	Jurisdictional Sales	806,168,680	908,085,000	(101,916,320)	(11.22)	11,543,399,139	11,700,084,000	(156,684,861)	(1.34)
2	Non-Jurisdictional Sales	29,858,803	35,260,000	(5,401,197)	(15.32)	386,323,756	423,898,000	(37,574,244)	(8.86)
3	Total Territorial Sales	836,027,483	943,345,000	(107,317,517)	(11.38)	11,929,722,895	12,123,982,000	(194,259,105)	(1.60)
4	Juris. Sales as % of Total Terr. Sales	96.4285	96.2622	0.1663	0.17	96.7617	96.5036	0.2581	0.27

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

**The sum of lines A1 and A1a PTD do not tie to Schedule A1, line 1 and Schedule A3, line 7 due to correction made in October which is reflected on A2, line C12

SCHEDULE A-2
PAGE 2 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2008

C. *True-up Calculation*	CURRENT MONTH $ ACTUAL	CURRENT MONTH ESTIMATED	CURRENT MONTH DIFFERENCE AMOUNT ($)	CURRENT MONTH DIFFERENCE %	PERIOD - TO - DATE $ ACTUAL	PERIOD - TO - DATE ESTIMATED	PERIOD - TO - DATE DIFFERENCE AMOUNT ($)	PERIOD - TO - DATE DIFFERENCE %
1 Jurisdictional Fuel Revenue	43,075,330.17	46,034,008	(2,958,677.83)	(6.43)	503,248,396.71	503,105,507	142,889.71	0.03
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(9,537,500.00)	(9,537,500)	0.00	0.00	(67,034,532.84)	(67,034,534)	1.36	0.00
2b Incentive Provision	17,079.12	17,080	(0.88)	(0.01)	204,949.44	204,949	0.44	0.00
3 Juris. Fuel Revenue Applicable to Period	33,554,909.29	36,513,588	(2,958,678.71)	(8.10)	436,418,813.51	436,275,922	142,891.51	0.03
4 Adjusted Total Fuel & Net Power Transactions (Line A8)	42,407,105.48	45,258,388	(2,851,282.52)	(6.30)	559,129,682.96	452,003,264	107,126,418.96	23.70
5 Juris. Sales % of Total KWH Sales (Line B4)	96.4285	96.2622	0.1663	0.17	96.7817	96.5036	0.2581	0.27
6 Juris. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 *C5*1.0007)	40,921,160.48	43,597,2'7	(2,676,056.52)	(6.14)	541,462,800.69	436,498,203	104,964,597.69	24.05
7 True-Up Provision for the Month Over/(Under) Collection (C3-C6)	(7,366,251.19)	(7,083,629)	(282,622.19)	(3.99)	(105,043,987.18)	(222,283)	(104,821,704.18)	(47,156.87)
8 Interest Provision for the Month	(82,683.34)	18,508	(101,191.34)	546.74	(2,155,732.86)	(363,229)	(1,792,503.88)	(493.49)
9 Beginning True-Up & Interest Provision	(98,820,073.14)	20,649,846	(119,469,919.14)	578.55	(56,627,734.30)	(43,326,799)	(13,300,935.30)	(30.70)
10 True-Up Collected / (Refunded)	9,537,500.00	9,537,500	0.00	0.00	67,034,532.64	67,034,536	(3.36)	0.00
End of Period - Total Net True-Up, Before 11 Adjustment (C7+C8+C9+C10)	(96,731,507.67)	23,122,225	(119,853,732.67)	518.35	(96,792,921.72)	23,122,225	(119,915,146.72)	518.61
12 Adjustment*	0.00	0	0.00	0.00	61,414.05	0	61,414.05	100.00
13 End of Period - Total Net True-Up	(96,731,507.67)	23,122,225	(119,853,732.67)	518.35	(96,731,507.67)	23,122,225	(119,853,732.67)	518.35

* Jan - Feb 2008 Coal Inventory Cost Adjustment & Sep 2008 Coal Purchases Corrected In Oct 2008

State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: May 1, 2009

TO: Peter H. Lester, Public Utilities Supervisor, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance DV

RE: Docket No: 090001-EI; Company Name: Gulf Power Company;
Audit Purpose: Intercompany Interchange Contract; Company Code: EI804;
Audit Control No: 09-023-1-1;

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 a response to the Office of the Commission Clerk. There are no confidential work papers associated with this audit.

DNV/tbm
Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey,
District Offices, File Folder)
Office of Commission Clerk (2)
General Counsel
Office of Public Counsel

Ms. Susan D. Ritenour
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Beggs & Lane Law Firm
Post Office Box 12950
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STATE OF FLORIDA

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

INTERCOMPANY INTERCHANGE CONTRACT AUDIT

TEST YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 090001-EI
AUDIT CONTROL NO. 09-023-1-1

Debra M. Dobiac, Audit Manager

Lynn M. Deamer, District Audit Supervisor

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AUDITOR'S REPORT

DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT

April 24, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION

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 Intercompany Interchange Contract and its supplemental schedules as filed with the Federal Energy Regulatory Commission (FERC) annually, and as it is applicable to Gulf Power Company in support of its filing for Fuel Clause Audit, Docket No. 090001-EI.

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

I. OBJECTIVES AND PROCEDURES

INTERCOMPANY INTERCHANGE CONTRACT (IIC)

A. Objective: To gain an understanding of the Intercompany Interchange Contract and the implementation of procedures under the Southern Company umbrella. To determine if the transactions between the companies within the IIC are consummated on terms equivalent to those that prevail in arm's length transactions. To determine that the procedures and policies followed by Gulf are in compliance with the IIC.

1. Reviewed the IIC including any addendums. Determined contract specifications to ensure compliance with the FERC Standards of Conduct and obtained the FERC issued Audit Report of Southern Company. Determined operating company responsibilities as per the contract. Reviewed Gulf's IIC Monthly Invoice Review Process with its Financial & Regulatory Reporting Desktop Procedures.

2. Reviewed the IIC supplemental schedules applicable to Gulf and filed with FERC annually. Recomputed peak period load ratios. Traced sample calculations for load, capacity and reserve determinations to Monthly Estimated Load Capacity Comparisons for the operating companies. Traced planned monthly estimated load capacity for Gulf during October 2008 to the actual October 2008 IIC invoice.

3. The audit staff was able to gain an understanding of the Intercompany Interchange Contract and the implementation of procedures under the Southern Company umbrella. The audit staff placed reliance on the audit performed by the FERC Office of Enforcement regarding the transactions between the utilities within the IIC, and whether the transactions are consummated on terms equivalent to those that prevail in arm's length transactions. The FERC audit report did note gaps in segregation of duties, but the utility did comply with the stated recommendations in order to remove the possibility of affiliate abuse. It appears that the procedures and policies followed by Gulf are in compliance with the IIC.

B. Objective: To determine that the ratepayers aren't being negatively affected by transactions under the IIC.

1. Obtained Schedules A-1, A-6, A-8, A-9, and A-12 that the utility filed in the FPSC Fuel docket for October 2008.

2. Obtained the Interchange Analysis, the pertinent IIC Invoice Reports, and the supplemental schedules for October 2008. Reconciled and/or recalculated the schedules to the invoice to the interchange analysis, and traced them to the filed "A" schedules.

3. The audit staff was able to trace and reconcile the reports and schedules without exception. The audit staff recognizes that the voluminous components and the constant changes on a minute-to-minute basis that exist in the decision-making process of choosing to purchase vs. generate energy can cause difficulty in recording the costs of supplying energy to its customers. However, based on discussions with Gulf employees as well as the testing of the computations, the audit staff believes that the ratepayers are not negatively affected by transactions under the IIC.

C. Objective: To investigate the trend in Gulf Power's sales into the Southern Company pool. To determine the effect of Gulf not leaving itself some coal spot market exposure.

1. From the Accounts Payable Analysis, scheduled coal, natural gas, and oil purchases monthly for the year 2008. Calculated average price for each commodity monthly.

2. From the Energy Information Administration website, obtained historical average spot coal prices and natural gas future prices for 2008. Compared Gulf's average prices to the market average spot prices for January, April, July, October, and December 2008. Determined if Gulf's costs were lower or higher than market for the different periods noted above.

3. Gulf's power sales into the intercompany interchange pool, as well as total power sold, have declined since 2007 but more significantly in 2008. In addition, total fuel costs have increased. Hence, the ratepayers ultimately are responsible for the increasing costs with less of the offsetting benefit of power sales for similar KWHs generated. However, Gulf paid less than market for coal purchases from April through December 2008, while it paid higher than market for natural gas purchases from July to December 2008. Gulf is locked into sales contracts for coal purchases through 2010. As of March 2009, the market rates are lower than the contract rates, and Gulf's activity should be monitored going forward to determine if conditions require spot purchases in order to reduce fuel generating costs.

State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: May 21, 2010

TO: Kenneth Franklin, Regulatory Analyst II, Division of Economic Regulation

FROM: Dale N. Mailhot, Director, Office of Auditing and Performance Analysis DNM

RE: Docket No.: 100001-EI
Company Name: Gulf Power Company
Company Code: EI804
Audit Purpose: Capacity Cost Recovery Clause
Audit Control No: 10-004-1-2

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 a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

DNM/ip
Attachment: Audit Report

cc: (With Attachment)
Office of Auditing and Performance Analysis (Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

STATE OF FLORIDA

FLORIDA PUBLIC SERVICE COMMISSION

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

CAPACITY COST RECOVERY AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2009

DOCKET NO. 100001-EI

AUDIT CONTROL NO. 10-004-1-2

Donna Brown

Donna Brown, Audit Manager

Lynn M Deamer

Lynn M. Deamer, District Audit Supervisor

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AUDITOR'S REPORT **PAGE**

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
AUDITOR'S REPORT

May 20, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION

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 Capacity Cost Recovery Clause (CCR), Docket No. 100001-EI.

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

OBJECTIVES AND PROCEDURES

REVENUES

Objective: To verify filed Capacity Cost Recovery Clause (CCR) customer revenues and KWH sold were properly recorded in the books of the utility.

Procedures: CCR revenues were audited jointly with the revenue portions of the other clause audits of Gulf Power Company. The work product is contained in Docket No. 100001-EI, Audit control number 10-004-1-1.

EXPENSES

Objective: To reconcile capacity costs and revenues as reflected in the general ledger and invoices with the final true-up filing.

Procedures: The audit staff recalculated filed true-up schedules CCA-2 and CCA-3. In addition, audit staff reconciled the CCA-2 and CCA-3 schedules to the general ledger and appropriate Intercompany Interchange Contract (IIC) invoices. Audit staff also verified twelve months of IIC receipts, IIC purchases, and transmission expenses as per the filing.

Objective: To verify that transmission revenues derived from non-separated, non-Energy Broker Network, wholesale energy sales are credited to the clause in compliance with FPSC Order PSC-08-0824-FOF-EI.

Procedures: Scheduled transmission revenues for the twelve month period ended December 31, 2009. Recalculated adjustments made to the transmission and ancillary dollars and traced transmission revenues to company filing and general ledger. Audit staff reviewed the filed transmission revenues and confirmed that they comply with FPSC Order PSC-99-2512-FOF-EI, issued December 22, 1999.

TRUE-UP

Objective: To determine if the utility true-up calculation and interest provisions for the period ended December 31, 2009 filed with this Commission were calculated correctly.

Procedures: Recalculated the 2009 Capacity Cost Recovery Clause true-up and interest schedules using FPSC approved recoverable true-up computations, interest rates, and jurisdictional separation factor.

III. EXHIBITS

EXHIBIT NO. 1 – Schedule CCA-2

SCHEDULE CCA-2

GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF TRUE-UP AND INTEREST PROVISION
FOR THE PERIOD JANUARY 2009 - DECEMBER 2009

		January	February	March	April	May	June	July	August	September	October	November	December	Total
1. IIC Payments / (Receipts) ($)		1,095,062	474,898	259,161	317,225	472,847	578,280	2,109,534	1,163,603	1,309,315	25,374	43,007	(93,572)	7,746,734
2 Other Capacity Payments / (Receipts)		-	-	-	-	-	5,322,362	5,431,358	5,344,748	5,390,622	592,131	954,981	954,981	23,991,183
3 Transmission Revenue ($)		(10,415)	(6,221)	(9,155)	(4,967)	(6,128)	(34,621)	(48,039)	(8,499)	(3,807)	(1,558)	(4,367)	(10,511)	(138,283)
4 Total Capacity Payments/(Receipts) (Line 1 + 2 + 3) ($)		1,084,647	468,677	250,006	312,258	466,719	5,868,021	7,492,863	6,499,852	6,696,135	615,947	993,621	850,898	31,599,034
5 Jurisdictional %		0.9642160	0.9642160	0.9642160	0.9642160	0.9642150	0.9642160	0.9642160	0.9642160	0.9642160	0.9642150	0.9642160	0.9642160	
6 Total Jurisdictional Recovery Amount (Line 4 * 5) ($)		1,045,834	451,906	241,060	301,064	450,018	5,658,040	7,224,729	6,267,281	6,456,521	593,906	958,085	820,449	30,488,873
7 Jurisdictional Capacity Cost Recovery Revenues Net of Taxes ($)		2,394,986	2,151,203	2,115,615	2,151,731	2,601,103	3,405,369	3,240,036	3,115,141	2,822,894	2,589,375	1,916,685	3,149,625	31,654,762
8 True-Up Provision ($)		(30,616)	(30,616)	(30,616)	(30,616)	(30,616)	(30,616)	(30,616)	(30,616)	(30,616)	(30,616)	(30,616)	(30,612)	(367,388)
9 Jurisdictional Capacity Cost Recovery Revenue (Line 7 + 8) ($)		2,364,370	2,120,587	2,085,999	2,121,115	2,570,487	3,374,753	3,209,419	3,084,525	2,792,278	2,558,759	1,886,069	3,119,013	31,287,374
10 Over/(Under) Recovery (Line 9 - 6) ($)		1,318,536	1,668,681	1,844,939	1,820,051	2,120,469	(2,283,287)	(4,015,310)	(3,182,736)	(3,664,243)	1,964,853	928,004	2,298,564	818,501
11 Interest Provision ($)		547	1,813	2,331	2,442	2,386	2,201	1,356	329	(383)	(568)	(227)	58	12,145
12 Beginning Balance True-Up & Interest Provision ($)		312,771	1,662,470	3,363,380	5,241,266	7,094,355	9,247,828	6,997,356	3,014,018	(137,773)	(3,771,783)	(1,776,822)	(818,429)	312,771
13 True-Up Collected/(Refunded) ($)		30,616	30,616	30,616	30,616	30,616	30,616	30,616	30,616	30,615	30,618	30,616	30,612	367,386
14 Adjustment		-	-	-	-	-	-	-	-	-	-	-	-	
15 End of Period Total Net True-Up (Lines 10 + 11 + 12 + 13 + 14) ($)		1,662,470	3,363,380	5,241,266	7,094,355	9,247,828	6,997,356	3,014,018	(137,773)	(3,771,783)	(1,776,822)	(818,429)	1,510,805	1,510,805
Average Monthly Interest Rate		0.0554%	0.0642%	0.0542%	0.0396%	0.0292%	0.0271%	0.0271%	0.0229%	0.0196%	0.0183%	0.0175%	0.0167%	
Wall Street Annual Rate	0.54%	0.79%	0.75%	0.55%	0.40%	0.30%	0.35%	0.30%	0.25%	0.22%	0.22%	0.20%	0.20%	
Average Annual Rate		0.665%	0.770%	0.650%	0.475%	0.350%	0.325%	0.325%	0.275%	0.235%	0.220%	0.210%	0.200%	

EXHIBIT NO. 2 – Schedule CCA-3

SCHEDULE CCA-3

GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF INTEREST PROVISION
FOR THE PERIOD JANUARY 2009 - DECEMBER 2009

	ACTUAL JANUARY	ACTUAL FEBRUARY	ACTUAL MARCH	ACTUAL APRIL	ACTUAL MAY	ACTUAL JUNE	ACTUAL JULY	ACTUAL AUGUST	ACTUAL SEPTEMBER	ACTUAL OCTOBER	ACTUAL NOVEMBER	ACTUAL DECEMBER	TOTAL
1 Beginning True-Up Amount ($)	312,771	1,862,470	3,363,560	5,241,286	7,094,355	9,247,826	6,997,356	3,014,018	(137,773)	(3,771,783)	(1,776,822)	(818,429)	
2 Ending True-Up Amount Before Interest ($)	1,661,923	3,361,767	5,238,935	7,091,913	9,245,440	8,995,155	3,012,652	(138,102)	(3,771,400)	(1,776,314)	(818,202)	1,510,747	
3 Total Beginning & Ending True-Up Amount ($) (Lines 1 + 2)	1,974,694	5,224,237	8,602,315	12,333,179	16,339,795	18,242,981	10,010,018	2,875,916	(3,909,173)	(5,548,097)	(2,595,024)	692,318	
4 Average True-Up Amount ($)	987,347	2,512,119	4,301,158	6,166,590	8,169,898	9,121,491	5,005,009	1,437,958	(1,954,587)	(2,774,049)	(1,297,612)	346,159	
5 Interest Rate - First Day of Reporting Business Month	0.54%	0.79%	0.75%	0.55%	0.40%	0.30%	0.35%	0.30%	0.25%	0.22%	0.22%	0.20%	
6 Interest Rate - First Day of Subsequent Business Month	0.79%	0.75%	0.55%	0.40%	0.30%	0.35%	0.30%	0.25%	0.22%	0.22%	0.20%	0.20%	
7 Total Interest Rate (Lines 5 + 6)	1.33%	1.54%	1.30%	0.95%	0.70%	0.65%	0.65%	0.55%	0.47%	0.44%	0.42%	0.40%	
8 Average Interest Rate	0.665%	0.770%	0.650%	0.475%	0.350%	0.325%	0.325%	0.275%	0.235%	0.220%	0.210%	0.200%	
9 Monthly Average Interest Rate (1/12 Of Line 8)	0.0554%	0.0642%	0.0542%	0.0396%	0.0292%	0.0271%	0.0271%	0.0229%	0.0196%	0.0183%	0.0175%	0.0167%	
10 Interest Provision For the Month (Lines 4 X 9) ($)	547	1,613	2,331	2,442	2,386	2,201	1,356	329	(383)	(508)	(227)	58	12,145

110138-OPC-POD-28-61

State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE:	May 21, 2010
TO:	Kenneth Franklin, Regulatory Analyst II, Division of Economic Regulation
FROM:	Dale N. Mailhot, Director, Office of Auditing and Performance Analysis DM
RE:	Docket No.: 100001-EI Company Name: Gulf Power Company Company Code: EI804 Audit Purpose: Fuel Cost Recovery Clause Audit Control No: 10-004-1-1

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 a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

DNM/ip
Attachment: Audit Report

cc: (With Attachment)
Office of Auditing and Performance Analysis (Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

STATE OF FLORIDA

FLORIDA PUBLIC SERVICE COMMISSION

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

FUEL ADJUSTMENT CLAUSE AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2009

DOCKET NO. 100001-EI
AUDIT CONTROL NO. 10-004-1-1

Donna Brown, Audit Manager

Hymavathi Vedula, Audit Staff

Lynn M. Deamer, District Audit Supervisor

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OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
AUDITOR'S REPORT

May 20, 2010

TO: FLORIDA PUBLIC SERVICE COMMISSION

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 Adjustment Clause, Docket No. 100001-EI.

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

I. OBJECTIVES AND PROCEDURES

REVENUES

Objective: To determine that the Fuel Adjustment Clause (FAC) revenue and KWHs sold are 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 properly recorded on the books of the company.

Procedures: The audit staff compiled the FAC, CCR, ECRC, and ECCR revenues from company source documents and reconciled to the filing as well as the general ledger. We verified that the Commission approved factors were used in the billing of the manual bills. In addition, audit staff selected a judgmental sample of computerized customer bills to test that the applicable factors for FAC, CCR, ECCR, and ECRC were used in billing customers.

EXPENSES

Objective: To reconcile the fuel costs to the general ledger.

Procedures: Audit staff scheduled FERC Account 501, Steam Generation-Fuel, and FERC Account 547, Other Generation-Fuel, for each month of 2009 from the fuel clause journals. The audit staff scheduled charges by month by account to obtain total fuel costs which were reconciled to the general ledger and to the Schedule A-1 filing. Schedule A-1 was recalculated for each month in 2009. Audit staff also 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, 2009.

Objective: To review Purchase Power Agreements and reconcile company filings to books and records of the company.

Procedures: Audit staff reviewed Purchase Power Agreement Contracts from the company for Coral Baconton, Dahlberg, and Shell. In addition, audit staff also reviewed purchase power charges as per the company filing and reconciled them to actual invoices.

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

Procedures: The audit staff scheduled payments to qualified facilities from Schedule A-8 and reconciled the total to Schedule A-1, Line 11. Audit staff also traced the KWHs reported on Schedule A-8 to customer bills for January, March, May, July, September, November and December of 2009.

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

Procedures: The audit staff scheduled economy energy purchases (Schedule A-9) by company from the interchange Analysis Reports for each month of 2009 and reconciled the total to Schedule A-1, Line 12. Audit staff also traced purchased amounts to the supporting intercompany Interchange Contract (IIC) invoices for February, June, September, and November of 2009.

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: The audit staff scheduled gains on economy sales (Schedule A-6) from the Interchange Analysis Reports for each month of 2009 and reconciled the total to Schedule A-1, Line 15. Audit staff also verified through FPSC Order PSC-08-0030-FOF-EI, issued January 8, 2008, 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 2009 since the estimated benchmark was not met. The audit staff traced the gains to the supporting IIC invoices for March, June, September, and December of 2009.

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: Audit staff scheduled natural gas purchases and applicable firm transportation service charges from the Accounts Payable Analysis for each month of 2009 and reconciled totals to the general ledger. The audit staff traced purchased amounts and total FTS charges to the paid invoices for April and December 2009.

Objective: To verify that amounts of the semi-annual Coal Inventory Adjustments for 2009 were made in accordance with FPSC Order PSC-97-0359-FOF-EI, issued March 31, 1997.

Procedures: For the March 2009 and September 2009 Flyovers, we obtained the Field Schedule of Flyover results, recalculated the inventory adjustments, compared them to the adjusted book balances, supporting journal vouchers. Audit staff verified company compliance with procedures contained in applicable order.

Objective: To reconcile coal and oil purchases noted on FPSC Form 423 with the monthly Schedule A-5, contractual obligations, and source documentation.

Procedures: Audit staff reconciled coal and oil purchases reported on Form 423 with the Schedule A-5 filing for June 2009. The audit staff cross-referenced coal and oil purchases to company journals, stockpile receipt reports, fuel stock reports, in-transit reports, and accounts payable analysis. Audit staff also traced receipts to the fuel invoices and verified that the rates as well as the adjustment calculations were in compliance with vendor contracts.

Objective: To 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

Procedure: The audit staff reviewed the source documentation that supports the data reported on Schedule 3 and Schedule 5 of the annual GPIF filing for Crist 4 during September and December 2009. 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 September and December 2009. Audit staff reconciled any differences between Averaging 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 September and December 2009. 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 reconciled the Mbtu, Net Generation and Average Net Operating Heat Rate (Btu/KWH) values for September and December 2009 reported on Schedule 5 to Schedule 3.

Objective: To 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.

Procedure: Audit staff traced the total for Fuel Adjustment for Southern Company Interchange reported on Schedule A-6 to the IIC invoice and the company's Interchange Analysis for September 2009. The audit staff verified 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 markups/gains.

TRUE-UP

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

Procedures: Audit staff recalculated the 2009 Fuel Adjustment Clause true-up, and agreed the beginning true-up amount to the prior audit, and the true-up amounts to the applicable FPSC Order. The audit staff reconciled the interest rates to the Commercial Paper rates.

III. EXHIBITS

EXHIBIT NO. 1 – Schedule A-2, Page 1 of 3

SCHEDULE A-2
PAGE 1 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2009

		CURRENT MONTH				PERIOD - TO - DATE			
		$		DIFFERENCE		$		DIFFERENCE	
		ACTUAL	ESTIMATED	AMOUNT ($)	%	ACTUAL	ESTIMATED	AMOUNT ($)	%
A.	*Fuel Cost & Net Power Transactions*								
1	Fuel Cost of System Net Generation	47,703,921.92	57,839,963	(10,136,041.08)	(17.52)	487,114,613.04	692,591,443	(205,476,829.96)	(29.67)
1a	Other Generation	239,311.12	534,695	(295,383.88)	(55.24)	2,668,655.41	5,973,657	(3,305,001.59)	(55.33)
2	Fuel Cost of Power Sold	(7,496,351.20)	(12,182,000)	4,685,648.80	38.46	(60,981,841.06)	(206,568,000)	145,586,158.94	70.48
3	Fuel Cost - Purchased Power	3,098,146.68	1,879,000	1,219,146.68	64.88	61,286,565.60	46,081,000	15,205,565.60	33.00
3a	Demand & Non-Fuel Cost Purchased Power	0.00	0	0.00	0.00	0.00	0	0.00	0.00
3b	Energy Payments to Qualifying Facilities	522,888.34	0	522,888.34	100.00	4,301,816.56	0	4,301,816.56	100.00
4	Energy Cost - Economy Purchases	0.00	0	0.00	0.00	0.00	0	0.00	0.00
5	Hedging Settlement Cost	2,269,725.18	1,564,000	705,725.18	45.12	51,232,250.52	19,624,000	31,608,250.52	161.07
6	Total Fuel & Net Power Transactions	46,337,642.04	49,635,658	(3,298,015.96)	(6.64)	545,622,060.07	557,702,100	(12,080,039.93)	(2.17)
7	Adjustments To Fuel Cost*	43,632.66	0	43,632.66	100.00	347,012.02	0	347,012.02	100.00
8	Adj. Total Fuel & Net Power Transactions	46,381,274.70	49,635,658	(3,254,383.30)	(6.56)	545,969,072.09	557,702,100	(11,733,027.91)	(2.10)
B.	*KWH Sales*								
1	Jurisdictional Sales	885,244,133	867,182,000	18,062,133	2.08	10,902,824,031	11,450,213,000	(547,388,969)	(4.78)
2	Non-Jurisdictional Sales	32,686,403	32,132,000	554,403	1.73	373,480,173	407,714,000	(34,233,827)	(8.40)
3	Total Territorial Sales	917,930,536	899,314,000	18,616,536	2.07	11,276,304,204	11,857,927,000	(581,622,796)	(4.90)
4	Juris. Sales as % of Total Terr. Sales	96.4391	96.4271	0.0120	0.01	96.6879	96.5617	0.1262	0.13

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

EXHIBIT NO. 2 – Schedule A-2, Page 2 of 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2009

	CURRENT MONTH				PERIOD - TO - DATE			
	$		DIFFERENCE		$		DIFFERENCE	
C. *True-up Calculation*	ACTUAL	ESTIMATED	AMOUNT ($)	%	ACTUAL	ESTIMATED	AMOUNT ($)	%
1 Jurisdictional Fuel Revenue	49,001,837.58	49,636,631	(634,792.92)	(1.28)	622,413,566.18	655,397,537	(32,983,970.80)	(5.03)
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(3,997,794.12)	(3,997,794)	0.00	0.00	(47,973,529.00)	(47,973,529)	0.00	0.00
2b Incentive Provision	36,114.46	36,114	0.00	0.00	433,372.97	433,373	0.00	0.00
3 Juris. Fuel Revenue Applicable to Period	45,040,157.92	45,674,951	(634,793.08)	(1.39)	574,873,410.15	607,857,381	(32,983,970.85)	(5.43)
4 Adjusted Total Fuel & Net Power Transactions (Line A8)	46,381,274.70	49,635,658	(3,254,383.30)	(6.56)	545,969,073.09	557,702,100	(11,733,026.91)	(2.10)
5 Juris. Sales % of Total KWH Sales (Line B4)	96.4391	96.4271	0.0120	0.01	96.6879	96.5617	0.1262	0.13
6 Juris. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 *C5*1.0007)	44,760,994.67	47,895,729	(3,134,734.33)	(6.54)	528,246,977.47	538,921,385	(10,674,407.53)	(1.98)
7 True-Up Provision for the Month Over/(Under) Collection (C3-C6)	279,163.25	(2,220,778)	2,499,941.25	112.57	46,626,432.68	68,935,996	(22,309,563.32)	32.36
8 Interest Provision for the Month	(755.07)	11,366	(12,121.07)	106.64	(252,136.51)	22,459	(274,595.51)	1,222.65
9 Beginning True-Up & Interest Provision	(6,659,884.80)	67,170,073	(73,829,957.80)	109.91	(95,731,507.67)	(47,973,529)	(48,757,978.67)	(101.64)
10 True-Up Collected / (Refunded)	3,997,794.12	3,997,794	0.00	0.00	47,973,529.00	47,973,529	0.00	0.00
End of Period - Total Net True-Up, Before 11 Adjustment (C7+C8+C9+C10)	(2,383,682.50)	68,958,455	(71,342,137.50)	103.46	(2,383,682.50)	68,958,455	(71,342,137.50)	103.46
12 Adjustment	0.00	0	0.00	0.00	0.00	0	0.00	0.00
13 End of Period - Total Net True-Up	(2,383,682.50)	68,958,455	(71,342,137.50)	103.46	(2,383,682.50)	68,958,455	(71,342,137.50)	103.46

State of Florida

Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Gulf Power Company
Capacity Cost Recovery Clause

Twelve Months Ended December 31, 2010

Docket No. 110001-EI
Audit Control No. 11-006-1-1
May 27, 2011

Donna D. Brown
Audit Manager

Andrew Von Euw
Audit Staff

Lynn M. Deamer
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated January 6, 2011. We have applied these procedures to the attached summary exhibit prepared by Gulf Power Company and to several of its related schedules in support of its filing for Capacity Cost Recovery Clause (CCRC), Docket No. 110001-EI.

This audit was performed following general standards and fieldwork standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

Revenues

Customer Revenues

Objectives: The objective was to verify that Capacity Cost Recovery Clause (CCRC) customer revenues and KWH sold as filed reconciled with the amounts that were recorded on the books of the Utility, and that these amounts were completely and properly recorded.

Procedures: We compiled total CCRC revenues for the twelve-month period ended December 31, 2010. We recalculated revenue using KWH and related information from bills. We also traced CCRC revenues to the general ledger. There are no exceptions.

Transmission Revenues

Objectives: The objective was to determine that transmission revenues derived from non-separated, non-Energy Broker Network, wholesale energy sales are credited to the clause in compliance with FPSC Order PSC-99-2512-FOF-EI[1].

Procedures: We compiled transmission revenues for the twelve-month period ended December 31, 2010. We recalculated adjustments made to the transmission and ancillary dollars and traced transmission revenues to utility filings and the general ledger. We reviewed the filed transmission revenues and confirmed that they comply with FPSC Order PSC-99-2512-FOF-EI. There are no exceptions.

Expenses

Objectives: The objective was to reconcile capacity costs as reflected in the general ledger and invoices with the final true-up filing.

Procedures: We reconciled the Utility filed CCA-2 and CCA-3 schedules to the general ledger and appropriate Intercompany Interchange Contract (IIC) invoices. We also verified twelve months of IIC receipts, IIC purchases, and transmission expenses as per the filing. There are no exceptions.

True Up

Objectives: The objective was to verify that the true-up and interest provision amount at December 31, 2010 was properly calculated.

Procedures: We recalculated the true up and interest provision amount as of December 31, 2010 using the Commission approved beginning balance as of December 31, 2009, the Commercial paper rates, and the 2010 CCRC Revenues and Costs. There are no exceptions.

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[1] See Order No. PSC-99-2512-FOF-EI, issued December 22, 1999, Docket No. 990001-EI, In Re: Fuel and purchased power cost recovery clause and generating performance incentive factor.

Audit Findings

Findings: None

Exhibits

Exhibit 1: Schedule CCA-2 – True-Up

SCHEDULE CCA-2

GULF POWER COMPANY
PURCHASED POWER CAPACITY COST RECOVERY CLAUSE
CALCULATION OF TRUE-UP AND INTEREST PROVISION
FOR THE PERIOD JANUARY 2010 - DECEMBER 2010

	January	February	March	April	May	June	July	August	September	October	November	December	Total
1. IIC Payments / (Receipts) ($)	(40,921)	119,833	(263,892)	41,791	100,025	1,294,689	3,410,583	1,400,611	232,728	268,679	(178,216)	(16,734)	6,369,176
2. Other Capacity Payments / (Receipts)	1,222,069	1,222,069	954,981	954,981	2,141,559	6,283,022	9,628,046	7,352,899	6,414,865	1,790,867	1,823,689	1,415,992	41,206,039
3. Transmission Revenue ($)	(12,639)	(3,612)	(2,003)	(2,749)	(6,767)	(8,495)	(11,971)	(13,558)	(5,464)	(31,600)	(7,394)	(11,860)	(117,912)
4. Total Capacity Payments/(Receipts) (Line 1 + 2 + 3) ($)	1,168,509	1,338,290	689,086	994,023	2,234,817	7,569,216	13,026,658	8,739,952	6,642,129	2,027,946	1,638,079	1,387,598	47,456,303
5. Jurisdictional %	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	0.9642160	
6. Total Jurisdictional Recovery Amount (Line 4 * 5) ($)	1,126,695	1,290,401	664,428	958,453	2,154,846	7,298,359	12,560,512	8,427,202	6,404,447	1,955,378	1,579,462	1,337,944	45,758,127
7. Jurisdictional Capacity Cost Recovery Revenues Net of Taxes ($)	4,269,570	3,800,660	3,263,569	3,034,841	4,174,157	4,827,778	5,217,972	4,959,779	4,573,168	3,378,001	2,964,326	4,096,937	48,560,758
8. True-Up Provision ($)	(92,284)	(92,284)	(92,284)	(92,284)	(92,284)	(92,284)	(92,284)	(92,284)	(92,284)	(92,284)	(92,284)	(92,286)	(1,107,410)
9. Jurisdictional Capacity Cost Recovery Revenue (Line 7 + 8) ($)	4,177,286	3,708,376	3,171,285	2,942,557	4,081,873	4,735,494	5,125,688	4,867,495	4,480,884	3,285,717	2,872,042	4,004,651	47,453,348
10. Over/(Under) Recovery (Line 9 - 6) ($)	3,050,591	2,417,975	2,506,857	1,984,104	1,927,027	(2,562,865)	(7,434,824)	(3,559,707)	(1,923,563)	1,330,339	1,292,580	2,666,707	1,695,221
11. Interest Provision ($)	515	1,010	1,491	1,987	3,072	3,653	2,046	554	(60)	(99)	193	524	14,886
12. Beginning Balance True-Up & Interest Provision ($)	1,510,805	4,654,195	7,165,464	9,818,736	11,897,111	13,919,494	11,452,566	4,112,072	845,203	(1,186,136)	236,388	1,621,445	1,510,805
13. True-Up Collected/(Refunded) ($)	92,284	92,284	92,284	92,284	92,284	92,284	92,284	92,284	92,284	92,284	92,284	92,286	1,107,410
14. Adjustment [1]	-	-	52,640	-	-	-	-	-	-	-	-	-	52,640
15. End of Period Total Net True-Up (Lines 10 + 11 + 12 + 13 + 14) ($)	4,654,195	7,165,464	9,818,736	11,897,111	13,919,494	11,452,566	4,112,072	845,203	(1,186,136)	236,388	1,621,445	4,381,062	4,381,062
Average Monthly Interest Rate	0.0167%	0.0171%	0.0175%	0.0183%	0.0238%	0.0288%	0.0263%	0.0233%	0.0221%	0.0208%	0.0208%	0.0208%	
Wall Street Annual Rate 0.20%	0.20%	0.21%	0.21%	0.23%	0.34%	0.35%	0.28%	0.28%	0.25%	0.25%	0.25%	0.25%	
Average Annual Rate	0.200%	0.205%	0.210%	0.220%	0.285%	0.345%	0.315%	0.280%	0.265%	0.250%	0.250%	0.250%	

(1) Adjustment for January 2010 capacity clause revenue revision.

State of Florida

Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Gulf Power Company
Fuel Adjustment Clause

Twelve Months Ended December 31, 2010

Docket No. 110001-EI
Audit Control No. 11-006-1-2
May 27, 2011

Donna D. Brown

Donna D. Brown
Audit Manager

Andrew Von Euw

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Audit Staff

Lynn M. Deamer

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Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated January 6, 2011. We have applied these procedures to the attached summary exhibit prepared by Gulf Power Company and to several of its related schedules in support of its filing for Fuel Cost Recovery Clause (FAC), Docket No. 110001-EI.

This audit was performed following general standards and fieldwork standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

Revenues

Objectives: The objectives were to verify that the revenues and Kilowatt Hours (KWH) sold were completely and properly recorded on the books of the Utility and those revenues on the Fuel Cost Recovery Clause filing agreed with the Utility's general ledger.

Procedures: We compiled the FAC, revenues from Utility source documents and reconciled to the filing as well as the general ledger. We verified that the Utility used the Commission approved factors in the billing of the manual bills. We also selected a judgmental sample of computerized customer bills to test that the applicable factors for FAC were used in billing customers. There are no exceptions.

Expenses

Objective: The objective was to reconcile the fuel costs to the general ledger.

Procedures: We prepared a schedule for FERC Account 501, Steam Generation-Fuel, and FERC Account 547, Other Generation-Fuel, for each month of 2010 from the fuel clause journals. We compiled charges by month by account to obtain total fuel costs, which were reconciled to the general ledger and to the Schedule A-1 filing. We recalculated the A-1 Schedule for each month in 2010. We also prepared a schedule of charges by accounts by generation plant to obtain total fuel costs, including amounts listed as "other generation" for each month for the year ended December 31, 2010. There are no exceptions.

Objective: The objective was to review Purchase Power Agreements and reconcile Utility filings to books and records of the Utility.

Procedures: We reviewed Purchase Power Agreement Contracts provided by the Utility. We also reviewed purchase power charges as per the Utility filing and reconciled them to actual invoices. There are no exceptions.

Objective: The objective was to verify the energy payments to the qualified facilities.

Procedures: We compiled payments to qualified facilities from Schedule A-8 and reconciled the total to Schedule A-1, Line 11. We also traced the KWHs reported on Schedule A-8 to customer bills for January, May, July, September, November and December of 2010. There are no exceptions.

Objective: The objective was to verify that the energy costs of other economic purchases (non-broker) reconcile to the books and records of the Utility.

Procedures: We compiled economy energy purchases (Schedule A-9) by company from the Interchange Analysis Reports for each month of 2010 and reconciled the total to Schedule A-1, Line 12. We also traced purchased amounts to the supporting Intercompany Interchange Contract (IIC) invoices for March, June, September, and December of 2010. There are no exceptions.

Objective: The objective was to verify that generation related gains derived from non-separated wholesale energy sales were credited to the fuel clause thereby reducing fuel clause expenses.

Procedures: We compiled gains on economy sales (Schedule A-6) from the Interchange Analysis Reports for each month of 2010 and reconciled the total of Schedule A-1, Line 15. We verified through FPSC Order PSC-09-0795-FOF-EI, issued December 2, 2009, 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 2010 since the estimated benchmark was not met. We also traced the gains to the supporting IIC invoices for January, May, July, September, November, and December of 2010. There are no exceptions.

Objective: The objective was to verify that firm transportation services (FTS) charges for natural gas transportation agree with the appropriate FTS rate schedules from pipeline Utility tariffs.

Procedures: We reconciled natural gas purchases and applicable firm transportation service charges from the Accounts Payable Analysis for each month of 2010 and reconciled totals to the general ledger. We also traced purchased amounts and total FTS charges to the paid invoices for March and August 2010. There are no exceptions.

Objective: The objective was to verify that amounts of the semi-annual Coal Inventory Adjustments for 2010 made were in accordance with FPSC Order PSC-97-0359-FOF-EI, issued March 31, 1997.

Procedures: We recalculated the inventory adjustments on the March 2010 and September 2010 aerial survey reports and compared them to the adjusted book balances, and supporting journal vouchers. In addition, we verified Utility compliance with procedures contained in applicable order. There are no exceptions.

Objective: The objective was to reconcile coal and oil purchases noted on FPSC Form 423 with the monthly Schedule A-5, contractual obligations, and source documentation.

Procedures: Audit staff reconciled coal and oil purchases reported on Form 423 with the Schedule A-5 filing for January 2010. We cross-referenced coal and oil purchases to Utility journals, stockpile receipts reports, fuel stock reports, in-transit reports, and accounts payable analysis. We also traced receipts to the fuel invoices and verified that the rates as well as the adjustments calculations were in compliance with vendor contracts. There are no exceptions.

Objective: The objective was to 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 (Generating Performance Incentive Factor) units with the annual GPIF filing and source documentation.

Procedures: We reviewed the source documentation that supports the data reported on Schedule 3 and Schedule 5 of the annual GPIF filing for Crist 4 during January and December 2010. We 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. We recalculated the Average Net Operating Heat Rate reported on Schedule 3 based on calculation procedures stated by the Utility. We prepared 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 the GPIF filing for January and December 2010. We reconciled any differences between Average Net Heat Rate reported on Schedule A-4 and Schedule 3 of the GPIF filing to

Utility records. We 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 on Schedule 5 of the GPIF filing for the months of January and December 2010. In addition, we also traced both the period hours and service hours to Crist 4 Generation Summary Report from the Outage Hours Report. We also reconciled the Mbtu, Net Generation and Average Net Operating Heat Rate (Btu/KWH) values for January and December 2010 reported on Schedule 5 to Schedule 3. There are no exceptions.

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

Procedures: We traced the total for Fuel Adjustment for Southern Company Interchange reported on Schedule A-6 to the IIC invoice and the Utility's Interchange Analysis for March 2010. There are no gains that were credited back through the fuel clause. Wholesale sales via the intercompany exchange are intercompany transfers without markups/gains. There are no exceptions.

Other

Objective: The objective was to review the litigation-related adjustments to fuel costs that the Utility has incurred since 2005.

Procedures: We compiled the litigation expenses by month with a detailed description of each expense above $100. We also reconciled the expenses to Utility provided invoices. There are no exceptions

True-up

Objective: The objective was to verify that the true-up and interest provision amount at December 31, 2010 was properly calculated.

Procedures: We recalculated the true up and interest provision amount as of December 31, 2010 using the Commission approved beginning balance as of December 31, 2009, the Commercial paper rates, and the 2010 FAC Revenues and Costs. There are no exceptions.

Audit Findings

None

Exhibit 1: Schedule A-2 – Calculation of True-up and Interest Provision

SCHEDULE A-2
PAGE 1 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2010

	CURRENT MONTH				PERIOD - TO - DATE			
	$		DIFFERENCE		$		DIFFERENCE	
	ACTUAL	ESTIMATED	AMOUNT ($)	%	ACTUAL	ESTIMATED	AMOUNT ($)	%
A. *Fuel Cost & Net Power Transactions*								
1 Fuel Cost of System Net Generation	56,657,068.53	59,031,124	(2,374,055.47)	(4.02)	603,827,384.15	645,374,625	(41,547,240.85)	(6.44)
1a Other Generation	397,713.15	137,446	260,267.15	189.36	2,616,306.23	4,332,969	(1,716,662.77)	(39.62)
2 Fuel Cost of Power Sold	(7,180,873.33)	(11,953,000)	4,772,126.67	39.92	(104,679,690.63)	(92,842,000)	(11,837,690.63)	(12.75)
3 Fuel Cost - Purchased Power	2,380,701.07	1,493,000	887,701.07	59.46	112,767,972.25	31,774,516	80,993,456.25	254.90
3a Demand & Non-Fuel Cost Purchased Power	0.00	0	0.00	0.00	0.00	0	0.00	0.00
3b Energy Payments to Qualifying Facilities	847,932.84	0	847,932.84	100.00	6,281,413.00	0	6,281,413.00	100.00
4 Energy Cost - Economy Purchases	0.00	0	0.00	0.00	0.00	0	0.00	0.00
5 Hedging Settlement Cost	1,010,918.00	741,010	269,908.00	36.42	19,667,161.00	8,397,860	11,269,301.00	134.19
6 Total Fuel & Net Power Transactions	54,113,460.26	49,449,580	4,663,880.26	9.43	640,480,546.00	597,037,970	43,442,576.00	7.28
7 Adjustments To Fuel Cost*	13,544.17	0	13,544.17	100.00	(555,558.69)	0	(555,558.69)	100.00
8 Adj. Total Fuel & Net Power Transactions	54,127,004.43	49,449,580	4,677,424.43	9.46	639,924,987.31	597,037,970	42,887,017.31	7.18
B. *KWH Sales*								
1 Jurisdictional Sales	968,070,870	829,940,000	138,130,870	16.64	11,359,195,303	11,117,598,000	241,597,303	2.17
2 Non-Jurisdictional Sales	37,096,074	29,294,000	7,802,074	26.63	391,464,366	374,773,000	16,691,366	4.45
3 Total Territorial Sales	1,005,166,944	859,234,000	145,932,944	16.98	11,750,659,669	11,492,371,000	258,288,669	2.25
4 Juris. Sales as % of Total Terr. Sales	96.3095	96.5907	(0.2812)	(0.29)	96.6686	96.7389	(0.0703)	(0.07)

(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 2010

	CURRENT MONTH				PERIOD - TO - DATE			
	$		DIFFERENCE		$		DIFFERENCE	
	ACTUAL	ESTIMATED	AMOUNT ($)	%	ACTUAL	ESTIMATED	AMOUNT ($)	%
C. *True-up Calculation*								
1 Jurisdictional Fuel Revenue	50,494,840.66	44,314,646	6,180,194.36	13.95	604,273,297.78	593,621,748	10,651,549.44	1.79
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(1,028,589.12)	(1,028,589)	0.00	0.00	(12,343,069.00)	(12,343,069)	0.00	0.00
2b Incentive Provision	(9,424.64)	(9,425)	0.00	0.00	(113,095.57)	(113,096)	0.00	0.00
3 Juris. Fuel Revenue Applicable to Period	49,456,826.90	43,276,633	6,180,193.90	14.28	591,817,133.21	581,165,584	10,651,549.21	1.83
4 Adjusted Total Fuel & Net Power Transactions (Line A8)	54,127,004.43	49,449,580	4,677,424.43	9.46	639,924,987.31	597,037,971	42,887,016.31	7.18
5 Juris. Sales % of Total KWH Sales (Line B4)	96.3095	96.5907	(0.2812)	(0.29)	96.6686	96.7389	(0.0703)	(0.07)
6 Juris. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 *C5*1.0007)	52,165,937.94	47,797,130	4,368,807.94	9.14	619,023,295.86	577,982,091	41,041,204.86	7.10
7 True-Up Provision for the Month Over/(Under) Collection (C3-C6)	(2,709,111.04)	(4,520,497)	1,811,385.96	40.07	(27,206,162.65)	3,183,492	(30,389,654.65)	954.60
8 Interest Provision for the Month	(3,451.31)	1,027	(4,478.31)	436.06	(30,895.26)	7,636	(38,531.26)	504.60
9 Beginning True-Up & Interest Provision	(15,752,575.37)	6,682,009	(22,434,584.37)	335.75	(2,383,682.50)	(12,343,069)	9,959,386.50	80.69
10 True-Up Collected / (Refunded)	1,028,589.12	1,028,589	0.00	0.00	12,343,069.00	12,343,069	0.00	0.00
End of Period - Total Net True-Up, Before								
11 Adjustment (C7+C8+C9+C10)	(17,436,548.60)	3,191,128	(20,627,676.60)	646.41	(17,277,671.41)	3,191,128	(20,468,799.41)	641.43
12 Adjustment [(1)]	0.00	0	0.00	0.00	(158,877.19)	0	(158,877.19)	100.00
13 End of Period - Total Net True-Up	(17,436,548.60)	3,191,128	(20,627,676.60)	646.41	(17,436,548.60)	3,191,128	(20,627,676.60)	646.41

(1) Adjustment for January 2010 fuel clause revenue

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2010

		CURRENT MONTH			
		$		DIFFERENCE	
		ACTUAL	ESTIMATED	AMOUNT ($)	%
D.	*Interest Provision*				
1	BeginningTrue-Up Amount (C9)	(15,752,575.37)	6,682,009	(22,434,584.37)	(335.75)
2	Ending True-Up Amount				
	Before Interest (C7+C9+C10+C12+C12)	(17,433,097.29)	3,190,101	(20,623,198.29)	(646.47)
3	Total of Beginning & Ending True-Up Amts.	(33,185,672.66)	9,872,110	(43,057,782.66)	(436.16)
4	Average True-Up Amount	(16,592,836.33)	4,936,055	(21,528,891.33)	(436.16)
5	Interest Rate				
	1st Day of Reporting Business Month	0.25	0.25	0.0000	
6	Interest Rate				
	1st Day of Subsequent Business Month	0.25	0.25	0.0000	
7	Total (D5+D6)	0.50	0.50	0.0000	
8	Annual Average Interest Rate	0.25	0.25	0.0000	
9	Monthly Average Interest Rate (D8/12)	0.0208	0.0208	0.0000	
10	Interest Provision (D4*D9)	(3,451.31)	1,027	(4,478.31)	(436.06)
	Jurisdictional Loss Multiplier (From Schedule A-1)	1.0007	1.0007		

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Southern Company Services Inc.	Docket Nos. PA08-6-000
Alabama Power Company	EL05-102-000
Georgia Power Company	EL05-104-000
Gulf Power Company	ER03-713-000
Mississippi Power Company	
Southern Power Company	

NOTICE OF AUDIT REPORT ISSUANCE AND INVITATION TO COMMENT

(December 12, 2008)

On October 5, 2006, the Commission issued an Order on Settlement (Settlement Order) accepting in part and rejecting in part an Offer of Settlement (Settlement Offer) submitted by the settling parties[1] in Docket No. EL05-102-000, *et al.*[2] The Settlement Order required numerous modifications to the Settlement Offer intended to provide immediate benefits to consumers and competitors that operate in the Southern region.

The Settlement Order also directed the Office of Enforcement to conduct an audit of the Southern Operating Companies (Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Southern Power Company (Southern Power)) to: 1) ensure that the Southern Operating Companies are fully complying with all the conditions set forth in the Settlement Order, and 2) determine whether the conditions imposed there were sufficient to address any remaining opportunities for affiliate abuse under the Intercompany Interchange Contract (IIC) related to Southern Power.[3]

In the Settlement Order, the Commission advised that it will notice the audit report for comment and, after considering the comments on it, determine what, if any, further

[1] Southern Company Services, Inc. (acting for itself and as agent for Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, Savannah Electric and Power Company, and Southern Power Company, collectively Southern Company), Calpine Corporation, Coral Power, L.L.C., and the Board of Water, Light and Sinking Fund Commissioners of the City of Dalton (collectively the settling parties).

[2] *Southern Company Services, Inc.*, 117 FERC ¶ 61,021 (2006).

[3] Settlement Order at P 60.

action is appropriate.[4] The Commission added that if affiliate abuse concerns remain, it would either set such concerns for hearing or require further changes immediately.[5] The Office of Enforcement has recently completed its audit report. A copy of the report is attached to this Notice.

All interested persons desiring to comment on what, if any, further action is appropriate on the matters addressed by the audit report, including the IIC and remaining opportunities for affiliate abuse, may file written comments on or before January 12, 2009. After reviewing these comments, the Commission will determine whether further action is appropriate.

The Commission encourages electronic submission of comments in lieu of paper using the "eFiling" link at http://www.ferc.gov. Persons unable to file electronically should submit an original and 14 copies of the comments to the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426.

Comment Date: 5:00 pm Eastern Time on January 12, 2009.

Kimberly D. Bose,
Secretary.

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[4] *Id.*

[5] *Id.*

Federal Energy Regulatory Commission

Audit Report of Southern Company's

- Compliance with the Conditions Imposed by the Commission in Docket No. EL05-102-000, et al., and

- Remaining Opportunities for Affiliate Abuse related to Southern Power under the Intercompany Interchange Contract

Docket No. PA08-06-000
December 12, 2008

Office of Enforcement
Division of Audits

TABLE OF CONTENTS

I. Executive Summary

A. *Overview*

On October 5, 2006, the Commission issued an Order on Settlement (Settlement Order) accepting in part and rejecting in part an Offer of Settlement (Settlement Offer) submitted by the settling parties[6] in Docket No. EL05-102-000, et al.[7] The Settlement Order required numerous modifications intended to provide immediate benefits to consumers and competitors that operate in the Southern region. The Settlement Order also directed the Division of Audits (DA) within the Office of Enforcement (OE) to conduct an audit of the Southern Operating Companies (Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Southern Power Company (Southern Power)) to: 1) ensure that the Southern Operating Companies are fully complying with all the conditions set forth in the order, and 2) determine whether the conditions imposed therein were sufficient to address any remaining opportunities for affiliate abuse under the Intercompany Interchange Contract (IIC) related to Southern Power.

The Southern Operating Companies made a compliance filing on November 6, 2006, notifying the Commission that they had implemented the modifications required by the Settlement Order. The Southern Operating Companies also provided a projected implementation schedule reflecting the compliance efforts to date and a seven-month timeline to complete the remaining compliance milestones. The Commission accepted the compliance filing on April 19, 2007 (Acceptance Order), subject to further modifications to the IIC, Separation of Functions and Communications Protocol (Separation Protocol), and Generator Support Service Tariff (GSS Tariff).[8] The Commission required the Southern Operating Companies to fully implement all the compliance efforts included in its implementation schedule within seven months from the issuance of the Acceptance Order. The Commission also directed OE to monitor the Southern Operating Companies' implementation progress and, once the implementation

[6] Southern Company Services, Inc. (acting for itself and as agent for Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, Savannah Electric and Power Company, and Southern Power Company, collectively Southern Company), Calpine Corporation, Coral Power, L.L.C., and the Board of Water, Light and Sinking Fund Commissioners of the City of Dalton (collectively the settling parties).

[7] Southern Company Services, Inc., 117 FERC ¶ 61,021 (2006).

[8] Southern Company Services, Inc., 119 FERC ¶ 61,065 (2007).

is complete, to commence its audit and finish the audit within 12 months. The Southern Operating Companies completed the implementation on November 16, 2007, and filed a Notice of Completion with the Commission. The Commission accepted the Southern Operating Companies' Notice of Completion on January 11, 2008.[9] OE commenced the audit of the Southern Operating Companies on November 19, 2007.

OE has completed its audit of the Southern Operating Companies. The audit examined whether the Southern Operating Companies are fully complying with the modifications the Commission set forth in the Settlement and Acceptance Orders and whether the conditions imposed therein are sufficient to address any remaining opportunities for affiliate abuse under the IIC related to Southern Power. The audit covered the period from November 19, 2007 through August 29, 2008.

Audit staff concluded that the Southern Operating Companies properly implemented the modifications and generally complied with the conditions imposed by the Commission in the Settlement and Acceptance Orders. However, audit staff determined that Southern Company should implement additional corrective actions to prevent the potential for Southern Power employees to access non-public market information. Moreover, Southern Company should follow the Commission's and its company's policies for posting non-public market information on its Open Access Same-Time Information System (OASIS). OE's audit findings and recommendations are summarized below in sections D and E of this audit report (report), and discussed comprehensively in section IV of this report.

Audit staff's conclusions are based on evidence obtained through 85 employee interviews, four face-to-face meetings, weekly phone conferences, four site visits, facility inspections, extensive data inquiries and examinations, and review of approximately 7,000 emails and 2,800 voice recordings.

B. ***Southern Company***

Southern Company is an electric utility holding company and the parent company of the Southern Operating Companies, Southern Company Services, Inc., and other direct and indirect subsidiaries. The primary business of Southern Company is the supply and sale of electricity in the Southeast region of the United States. Southern Power, a wholesale energy provider, constructs, acquires, and manages generation assets in the wholesale market, where it sells electricity at market-based rates. Southern Power is the large wholesale energy provider in the Southeast, owning and operating more than 6,500

[9] *Southern Company Services, Inc.*, Docket Nos. EL05-102-005 and EL05-102-006 (January 11, 2008) (unpublished letter order)

megawatts of generating assets. The other Southern Operating Companies are vertically integrated utilities that provide electric service in the states of Alabama, Georgia, Florida, and Mississippi.

Southern Company Services, Inc. is a centralized service company which provides various services, at cost, to the Southern Operating Companies and its subsidiaries. For example, Southern Company Services, Inc. acts as agent to the Southern Operating Companies for administering and carrying out the operational activities under the IIC and for the sale of wholesale power at market-based rates. Southern Company Services, Inc. also acts as agent to the Southern Operating Companies for providing transmission service under Southern Company's OATT. Further, Southern Company Services, Inc. enters into gas purchase and sales agreements, and transportation and storage contracts, as agent on behalf of the Southern Operating Companies.

The Southern Operating Companies function as an integrated public utility system through the joint commitment and economic dispatch of their generating resources to meet their collective load obligations. The integrated operation of their respective electric generating facilities and system operations (generally referred to as the pool) is governed by the IIC, which is a rate schedule on file with the Commission pursuant to the Federal Power Act.[10] The IIC provides for the coordinated and integrated operation of the generating facilities and resources owned, contractually controlled, and operated by the Southern Operating Companies, as well as the pooling of surplus energy for short-term wholesale energy sale opportunities. In essence, the IIC: 1) specifies the types of transactions involved in system operations; 2) provides for the sharing of the benefits and burdens associated with the operation of facilities that are used for the mutual benefit of the Southern Operating Companies; and 3) provides guidance for pool operations. Southern Company Services, Inc. operates the pool in accordance with the IIC using a centralized economic dispatch model to serve the obligations of the Southern Operating Companies with the lowest cost resources while at the same time reliably operating the interconnected system. Any energy generated in excess of these obligations becomes available to the pool for making short-term wholesale energy sales to third parties on behalf of the Southern Operating Companies. Southern Company Services, Inc. is responsible for billing the Southern Operating Companies for transactions and services under the IIC on a monthly basis.

The Southern Operating Companies also make wholesale sales at market-based rates, pursuant to market-based rate tariffs, which include a code of conduct and a Separation Protocol. The code of conduct provides important protections concerning the business relationship amongst the Southern Operating Companies and marketing

[10] Second Revised Rate Schedule FERC Number 138.

affiliates with market-based rate authority. The Separation Protocol places protections between Southern Power and the other Southern Operating Companies in the codes of conduct. Specifically, the Separation Protocol requires the functional separation of the wholesale activities that Southern Power carries out for the sole benefit of its shareholders from the activities of the other Southern Operating Companies. Further, the Separation Protocol allows Southern Power to use employees of Southern Company Services, Inc. or any other affiliate as long as those employees are dedicated exclusively to Southern Power. Southern Power is also permitted to use shared support employees as long as it does so consistent with the independent functioning requirements of the Standards of Conduct.[11] In addition, the Separation Protocol contains other restrictions designed to protect against Southern Power's physical and electronic access to non-public market information, receiving preferential treatment with regard to the purchase or sale of transmission service or electric energy, and abuses related to the purchase or the sale of non-power goods and services.

C. ***Summary of Commission Proceedings in Docket No. EL05-102 et. al.***

Southern Power is a wholly-owned subsidiary of Southern Company and affiliate of the other Southern Operating Companies. Southern Power is a competitive generation provider that does not have a franchised obligation to serve at retail. In this capacity, it raises several regulatory concerns, which were described by the Commission in the Settlement Order. As the Commission explained therein, when a competitive affiliate is a member of a power pool with its regulated operating company affiliates, an incentive exists for the regulated affiliates to subsidize the sales of the competitive affiliate to benefit their mutual shareholders.[12] Second, when Southern Power sells power to other Southern Operating Companies, there is a concern that the competitive affiliate not be granted an undue preference.[13] When the competitive affiliate sells to a regulated affiliate, the Commission's concern is that the price not be set too high.[14] Conversely, when the regulated affiliate sells to a competitive affiliate, the Commission's principal concern is that the price not be set too low.[15] When sales are made to third parties, the Commission's principal concern is that the regulated Southern Operating Companies

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[11] 18 C.F.R. § 358.4(a)(5) (2008).

[12] Settlement Order, 117 FERC ¶ 61,021 at P 31.

[13] *Id*. at P 38.

[14] *Id*.

[15] *Id*. at P 43.

continue to compete for such sales rather than favoring sales by Southern Power.[16] Finally, the Commission expressed concerns that the integration of the companies created by the pool could lead to potential violations of the Standards of Conduct and hence the obligation to provide transmission service on a nondiscriminatory basis.[17] Together, these concerns form the basis for the conditions and modifications the Commission imposed on Southern Company that is the subject of this audit.

The proceeding in Docket No. EL05-102-000 began on May 5, 2005, when the Commission instituted an investigation to determine whether the role of Southern Power in Southern Company's pool continued to be appropriate and consistent with the Commission's regulations and precedents regarding affiliate abuse.[18] Specifically, the Commission set for hearing the following issues: 1) the justness and reasonableness of the IIC, including the justness and reasonableness of Southern Power's inclusion in the pool and whether such inclusion involves undue preference and undue discrimination that adversely affected wholesale competition and wholesale customers in the Southeast; 2) whether any of the Southern Operating Companies had violated or were violating the Commission's Standards of Conduct which were in effect at the time; and 3) whether the Southern Operating Companies' Code of Conduct was just and reasonable and whether the Code of Conduct should continue to define Southern Power as a "system company."

On April 11, 2006, Southern Company Services, Inc., on behalf of the Southern Operating Companies, filed the Settlement Offer to resolve the regulatory proceedings in Docket No. EL05-102 and other related proceedings. The purpose of the Settlement Offer was to resolve all allegations that the IIC and certain other aspects of the Southern Operating Companies' structure and operations provided Southern Power with an undue preference over non-affiliated power suppliers. The Settlement Offer also encompassed other measures that the Southern Operating Companies were planning to implement in response to allegations that their operations improperly favored affiliates. On October 5, 2006, the Commission issued its Settlement Order, which accepted in part and rejected in part the Settlement Offer.[19] The Commission explained that the Settlement Offer did not adequately protect customers against affiliate abuse. As a result, the Commission ordered the Southern Operating Companies to make significant changes to the Settlement relating

[16] *Id*. at P 47.

[17] *Id*. at P 51.

[18] *Southern Company Services, Inc.*, 111 FERC ¶ 61,146 (Hearing Order), *clarified*, 112 FERC ¶ 61,015 (2005).

[19] Settlement Order at P 3.

to the IIC, Separation Protocol, and GSS Tariff, to adequately protect customers from affiliate abuse in the sale of wholesale power and the provision of transmission service. In the Settlement Order, the Commission directed the OE to conduct an audit of Southern Power and its regulated Operating Company affiliates. Further, the Commission advised that it will notice the audit report for comment and after considering the comments on it, determine what further action is appropriate.[20] Moreover, the Commission stated that if affiliate abuse concerns remained, it will either set such concerns for hearing or require further changes immediately. Lastly, the Commission advised that it would keep the section 206 investigation open until receiving the audit, any public comments on it, and determine what further action is appropriate in this docket.

On November 6, 2006, Southern Company Services, Inc., acting as agent for the Southern Operating Companies, submitted a modified compliance filing, as directed by the Settlement Order. The compliance filing included the required amendments to the IIC, Separation Protocol, and GSS Tariff, as well as a projected implementation schedule outlining the actions taken to date and the expected timeframe for implementing the Separation Protocol over a seven-month period. On April 19, 2007, the Commission issued an Acceptance Order, which accepted the modified compliance filing and projected implementation schedule, but directed a further compliance filing be made.[21] On May 18, 2007, Southern Company Services, Inc. filed a revised compliance filing in Docket No. EL05-102-003, as directed by the Commission in its Acceptance Order. The Commission accepted, by delegated authority, this revised compliance filing with minor modifications on July 16, 2007.[22] On August 13, 2007, Southern Company Services, Inc. filed these minor modifications in Docket No. EL05-102-004, which the Commission accepted by delegated authority on September 12, 2007.[23]

On November 16, 2007, Southern Company Services, Inc. filed, on behalf of the Southern Operating Companies, a Notice of Completion and Conformed Compliance Filing in connection with the Settlement and Acceptance Orders. The Southern Operating Companies stated that the implementation of the requirements set forth in the Settlement and Acceptance Orders was complete. Moreover, the Southern Operating Companies submitted an effective conformed version of the Separations Protocol. The

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[20] Settlement Order at P 60.

[21] Acceptance Order, at P. 2.

[22] *Southern Company Services, Inc.*, Docket No. EL05-102-003 (July 16, 2007) (unpublished letter order).

[23] *Southern Company Services, Inc.*, Docket No. EL05-102-004 (September12, 2007) (unpublished letter order).

filing also conformed the definition of "market information" used in the Separation Protocol and IIC to the definition of that term established by the Commission in Order No. 697.[24] The Southern Operating Companies requested that the Commission accept the Order No. 697 conformed rates for filing.[25] The Southern Operating Companies later determined that the November 16, 2007 filing should not have included the section 205 request that the definition of "market information" established by the Commission in Order No. 697 apply to that same term as used in the Southern Operating Companies' Separation Protocol. Accordingly, on December 4, 2007, the Southern Operating Companies amended its Notice of Completion filing to remove the section 205 aspect of its submission. On January 11, 2008, the Commission, by delegated authority, accepted the Southern Operating Companies' Notice of Completion and the Separation Protocol with an effective date of November 19, 2007.[26]

On November 19, 2007, OE commenced the audit of the Southern Operating Companies in Docket No. PA08-6-000.

D. ***Summary of Compliance Findings***

Although audit staff determined that the Southern Operating Companies generally complied with the conditions in the Settlement and Acceptance Orders, audit staff identified three areas where the Southern Operating Companies should strengthen and further its compliance measures related to electronic separation, employee separation, and posting of Separation Protocol violations on OASIS.[27] Below is a summary of audit staff's compliance findings. A more detailed discussion of audit staff's compliance findings is included in section IV.

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[24] *Market-Based Rates for Wholesale Sales of Electric Energy, Capacity and Ancillary Services by Public Utilities*, Order No. 697, FERC Stats. & Regs. ¶ 31,252, *clarified*, 121 FERC ¶ 61,260 (2007), *order on reh'g,* Order No. 697-A, 73 Fed. Reg 25,832 (May 7, 2008), FERC Stats. & Regs. ¶ 31,268 (2008).

[25] Southern Company Services' November 16, 2007 transmittal letter, page 1.

[26] *Southern Company Services, Inc.*, Docket Nos. EL05-102-005 and EL05-102-006 (January 11, 2008) (unpublished letter orders).

[27] The time frame for the audit covers a period prior to the effective date of Order No. 717. Therefore, the audit measures compliance with then-existing regulations. The Commission recently changed certain posting requirements for Standards of Conduct regulations (see *Standards of Conduct for Transmission Providers, Order No. 717*, 125 FERC ¶ 61,064 (2008).

- *Electronic Separation* -- Although Southern Company implemented electronic controls to prevent Southern Power employees from accessing non-public market information, audit staff detected some gaps in the controls that potentially provided Southern Power employees with access to non-public market information. Specifically, a Southern Power employee was able to breach Southern Company's network access restrictions through a non-Southern Power computer workstation and the wireless network. Additionally, Southern Company did not have adequate procedures in place to review for non-public market information available through: 1) personal network drives of employees who transferred jobs and 2) files transferred to shared network drives by non-Southern Power employees.

- *Employee Separation* -- Audit staff observed an employee performing transmission activities that support the long-term wholesale energy transactions of Southern Power, while at the same time performing transmission and energy trading activities that support the short-term wholesale energy transactions made by the pool on behalf of the Southern Operating Companies. Audit staff believes that Southern Company should dedicate separate employees to perform the transmission activities supporting Southern Power's long-term wholesale energy transactions and the transmission activities supporting the short-term wholesale energy transactions made for the pool on behalf of the Southern Operating Companies to prevent the potential for any undue preference.

- *Posting of Separation Protocol Violations on OASIS* -- Southern Company did not immediately post, date, and time stamp all the postings it made to OASIS in accordance with the Commission's Standards of Conduct requirements in effect during the audit period.

E. ***Summary of Recommendations and Corrective Actions Taken***

Audit staff provides the following recommendations to ensure adequate corrective actions are taken by Southern Company to address the remaining opportunities for potential affiliate abuse under the IIC related to Southern Power.

- Create procedures for reviewing files posted to Southern Power shared drives by non-Southern Power employees for non-public market information. Additionally, create procedures for reviewing the personal network drives of all employees who transfer into Southern Power for non-public market information. For each review, remove all files that contain non-public market information from the personal network drive of the transferred employee.

On November 14, 2008, Southern Company implemented new policies governing the monitoring and review of Southern Power shared drives and the personnel network drives of employees transferring into Southern Power.

- Perform periodic reviews to ensure that Southern Power employees do not have access rights to applications, databases, and shared network drives containing non-public market information. Additionally, these periodic reviews should include testing of the segmented network to determine whether Southern Power employees can bypass the segmented network and potentially access non-public market information.

  On November 14, 2008, Southern Company implemented new procedures requiring a periodic review of Southern Power shared drives and periodic testing of the segmented network.

- Add the “SPC” designator to Southern Power employee names in Cool Compliance, as is already done in the Global Address List for emails, to spotlight a Southern Power employee having access rights granted in Cool Compliance.[28]

  On November 10, 2008, Southern Company informed audit staff that it will identify and label all Southern Power employees in Cool Compliance. However, Southern Company did not provide an implementation date.

- Dedicate employees performing transmission activities that support Southern Power’s long-term wholesale energy transactions solely to Southern Power.

  On November 7, 2008, Southern Company informed audit staff that it transferred the responsibilities associated with the procurement of transmission service for Southern Power's long-term wholesale energy transactions to Southern Power.

- Post all violations of the Separation Protocol immediately, in accordance with the Standards of Conduct at 18 C.F.R. § 358.5(b)(3). In addition to the date the violation occurred, include on each document the date and time Southern Company posted the violation in accordance with the OASIS regulations at 18 C.F.R. § 37.6(g)(2).

[28] Cool Compliance is a computer application originally created to maintain Sarbanes Oxley controls, which Southern Company also adopted as a tool to provide a consistent automated process for evaluating and managing access requests.

On November 14, 2008, Southern Company revised its Separation Protocol Violations Investigative Procedure to reflect that upon determining an actual violation has occurred, the incident must immediately be posted on OASIS. Further, Southern Company implemented a procedural change to include a date and time stamp for each document posted on OASIS relating to the violation.

- Strengthen procedures and controls for maintaining email distribution lists and providing reports to Southern Power that may contain non-public market information. Incorporate these procedures and other pertinent procedural enhancements in the Separation Protocol compliance training program to achieve a reduction in the number of future violations.

  On November 14, 2008, Southern Company implemented new procedures requiring employees to maintain and periodically review their e-mail distribution lists to verify employee memberships. Further, Southern Company revised its Separation Protocol training regarding electronic communications with Southern Power employees and the development and maintenance of e-mail distribution lists.

II. Southern Company's Compliance with Commission Orders

The Southern Operating Companies' efforts to comply with the Settlement and Acceptance Orders included the following activities: 1) tariff modifications filed with the Commission; 2) functional separation through organizational restructuring, relocation of employees and infrastructure changes; 3) electronic access controls (information technology); 4) training of employees; and 5) a compliance filing to conform to the definition of "market information" used in the Separation Protocol and IIC to the definition of that term established by the Commission in Order No. 697. Further, the Southern Operating Companies expended almost $20 million to implement the modifications required by the Commission's Settlement and Acceptance Orders. In addition, the Southern Operating Companies anticipate there will be on-going costs for compliance, including the purchasing of equipment, additional staffing, training, and other costs that are difficult to quantify at this time.

Tariff Modifications

Subsequent to the issuance of the Settlement Order, the Southern Operating Companies made several compliance filings, which the Commission has approved, that changed the tariff language of the IIC, Separation Protocol, and GSS Tariff to comply with the Commission's Settlement and Acceptance Orders.[29] The IIC changes pertained to sales between the Southern Operating Companies that were outside the pool operating window, but less than a year in length, opportunity sales made on behalf of the pool members, Southern Power taking transmission service under the OATT, Southern Power as an Energy Affiliate under the Standards of Conduct in effect at the time, and defining "market information" consistently with Order No. 697.

The Separation Protocol changes pertained to broadening the separated functions responsibilities to any function undertaken for the benefit of Southern Power's shareholders (except joint economic dispatch and reserve sharing), prohibiting the sharing of any information, protecting against preferential treatment in regard to the purchase or sale of transmission service or electric energy between the Southern Operating Companies, and the pricing of non-power goods and services. The GSS tariff changes pertained to filing the GSS tariff with the Commission to provide all similarly situated merchant generators access to back-up power by the Southern Operating

[29] *Southern Company Services, Inc.*, Docket No. EL05-102-003 (July 16, 2007) (unpublished letter order); *Southern Company Services, Inc.*, Docket No. EL05-102-004 (September12, 2007) (unpublished letter order), *Southern Company Services, Inc.*, Docket Nos. EL05-102-005 and EL05-102-006 (January 11, 2008) (unpublished letter order).

Companies, and requiring the just and reasonable standard, as opposed to the public interest standard, to govern all revisions to the GSS tariff. The Commission accepted all of these modifications to the IIC, Separation Protocol, and GSS tariff.

Functional Separation

In addition to the tariff filings, the Southern Operating Companies made several organizational and structural changes to comply with the Settlement and Acceptance Orders. The Southern Operating Companies began to evaluate the measures necessary to comply with the Settlement Order in late 2006 and, after the Commission issued the Acceptance Order in April 2007, initiated the compliance effort. Based on the schedule accepted by the Commission, the Southern Operating Companies were afforded seven months to complete the functional separation of Southern Power, implement the required information sharing restrictions, and provide Separation Protocol training to its employees.

Southern Company evaluated its corporate structure and made various organizational changes. To functionally separate Southern Power's wholesale activities from the other Southern Operating Companies, Southern Company created Southern Wholesale Energy and Southern Power as divisions within Southern Company Services, Inc., Southern Wholesale Energy, a business unit within Southern Company Services, Inc. performs all of the bilateral, long-term wholesale activities of the Southern Operating Companies, with the exception of Southern Power. Southern Power, as subsidiary of Southern Company performs wholesale activities including asset management and trading, market analysis and structure, generation development, and asset acquisition on behalf of its shareholders. Southern Power also created its own finance, accounting, budgeting, and compliance groups separate from the other Southern Operating Companies. In addition, Southern Power established separate officer positions, including President, Chief Commercial Officer, Senior Production Officer, Chief Financial Officer, and Compliance Officer.

Southern Company reviewed its physical facilities and, as a result, relocated employees, made changes to its electronic infrastructure, and implemented physical access controls. Southern Company relocated 65 Southern Power employees and 90 other Southern Operating Companies employees within the Birmingham, Alabama, and Atlanta, Georgia, offices as a result of functionally separating Southern Power from the other Southern Operating Companies. In Birmingham, Southern Company physically separated employees solely dedicated to Southern Power to a separate floor and developed Southern Power's own trading floor. Southern Power's separate floor contains its asset management and trading, market analysis and structure, generation development, and asset acquisition functions. Southern Power installed electronic card key access controls on this separate floor to provide access only to employees solely dedicated to Southern Power. Southern Company also implemented electronic card key access controls to restrict Southern Power employees' access to non-public market information in other areas of the building where the other Southern Operating Companies perform operating and trading activities. Further, Southern Company instituted sign-in procedures for all non-authorized visitors in these areas to provide extra protection. Southern Company included these same protections in its Atlanta facilities and the generating plants owned and operated by Southern Power.

Electronic Access Controls

Southern Company conducted an extensive review of its computer and email systems, business software applications and databases, and intranet sites to establish controls that prevent Southern Power employees from having electronic access to or receiving non-public market information from the other Southern Operating Companies. As a result of this review, Southern Company installed a segmented network to comply with the electronic separation requirements ordered by the Commission's Settlement and Acceptance Orders. The segmented network allows Southern Power to coexist on the same information technology infrastructure as the rest of Southern Company, yet at the same time precludes Southern Power from obtaining non-public market information electronically. Southern Company also created separate intranet websites for Southern Power and the other Southern Operating Companies to ease the burden of electronic separation and Southern Power's restriction to non-public market information. Further, all shared drives that contain non-public market information are electronically protected and restrict Southern Power employees' access. In addition to these protective measures, Southern Company added an "SPC" notation next to the email addresses of Southern Power employees to clearly distinguish them from non-Southern Power employees and avoid the inadvertent exchange of non-public market information.

Employee Training

Southern Company informed audit staff that the Southern Operating Companies provided the Separation Protocol training required by the Commission's Settlement Order to over 15,000 employees. This training educated employees on functional separation requirements, physical separation requirements, "prohibited information" definitions, electronic access requirements, no conduit rules, and violation reporting instructions. The type of training provided (instructor-led or on-line) was based on the priority level of employees. Employees in the high priority level included employees of Southern Power, generation employees, transmission employees, shared support service employees and corporate officers of the other Southern Operating Companies responsible for these areas. These high priority level employees received instructor-led training while others participated in an on-line training program. Continued education and training on the Separation Protocol is provided on an annual basis. Additionally, training materials for the Separation Protocol are available on the intranets of both Southern Company and Southern Power.

Order No. 697 Compliance Filing

In the Acceptance Order, the Commission directed Southern Company Services, Inc. to revise its Separation Protocol and IIC to prohibit the sharing of any market information, whether or not such information is public.[30] Subsequent to the Acceptance Order, the Commission issued Order No. 697, which, among other things, codified a new definition of "market information." Pursuant to the Commission's regulations, "market information" means non-public information related to the electric energy and power business including, but not limited to, information regarding sales, cost of production, generator outages, generator heat rates, unconsummated transactions, and historical generator volumes. Market information includes information from either affiliates or non-affiliates.[31] This new definition not only provides greater specificity regarding the type of information falling within its scope, but also limits its application to non-public information.

On December 4, 2007, Southern Company Services, Inc., on behalf of the Southern Operating Companies, made a section 205 filing in Docket No. ER08-298-000 to conform the definition of "market information" as used in the Separation Protocol and the IIC to the definition of that term established in Order No. 697. On January 11, 2008, the Commission accepted the filing.[32]

Standards of Conduct Compliance

In the Settlement Order, the Commission directed Southern Operating Companies to revise section 4.4 of the IIC to make clear that the IIC is not to serve as a means whereby transmission information is shared in a manner contrary to the Commission's Standards of Conduct.[33] The Settlement Order also required revision of section 4.4 of the IIC to make clear that Southern Power is treated as an Energy Affiliate under the Standards of Conduct and therefore cannot receive any nonpublic transmission information. [34]

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[30] Acceptance Order at P 26.

[31] 18 C.F.R. § 35.36(a)(8).

[32] *See Southern Company Services, Inc.*, Docket No. ER08-298-000 (January 11, 2008) (unpublished letter order).

[33] Settlement Order, at P 55.

[34] The Commission recently eliminated the concept of "energy affiliate" from the Standards of Conduct regulations (see *Standards of Conduct for Transmission Providers, Order No. 717*, 125 FERC ¶ 61,064 (2008).

While the Commission recently revised its Standards of Conduct regulations, the fundamental principle prohibiting a transmission provider's transmission function employees from disclosing nonpublic transmission information (which includes customer information) to marketing function employees is retained. The revisions do not affect either Southern Operating Company's compliance with the recommendations regarding shared employees or the information restrictions discussed herein. We also note that the Southern Operating Companies are subject to restrictions similar to those in the Standards of Conduct regulations based on its market-based rate authority.[35] In addition to restricting information sharing between a franchised public utility with captive customers and a market-regulated power sales affiliate, those rules contain separation of function requirements and a no conduit provision.

[35] 18 C.F.R. § 35.39 (2008).

Introduction

A. *Objectives*

The primary objective of the audit was to determine whether the Southern Operating Companies fully complied with the conditions and modifications imposed by the Commission in its Settlement and Acceptance Orders. The audit also evaluated whether the conditions and modifications set forth in both orders are sufficient to address any remaining opportunities for affiliate abuse related to Southern Power under the IIC. The audit covered the period from November 19, 2007 through August 29, 2008.

B. *Scope and Methodology*

Audit staff conducted a series of reviews prior to the commencement of the audit to gain an understanding of Southern Company's corporate environment, and state and federal regulatory affairs. Audit staff also monitored the implementation of the modifications imposed upon the Southern Operating Companies by the Commission in Docket No. EL05-102-000 through a series of phone conferences and compliance filing reviews. The audit activities conducted included:

- *Corporate Review* -- Audit staff conducted a corporate review prior to the commencement of the audit to obtain a preliminary understanding of Southern Company's corporate structure, system design and operations, and market and financial activities. Audit staff reviewed publicly available materials and references including Southern Company's: OASIS and corporate websites; Federal Energy Regulatory Commission (FERC) Electric Quarterly Reports (EQR); FERC Forms No. 1, 60, and 714; IIC Annual Informational Filing; Securities and Exchange Commission (SEC) Forms 8-K, 10-Q, and 10-K; annual stockholder reports; various industry websites; and trade press releases.

- *Internal Auditor and External Accountant Review* -- Audit staff reviewed relevant audit reports and workpapers of the Southern Companies' internal audit department and external audit firm, Deloitte & Touche LLP. The audit staff also reviewed the prior SEC audit report relating to service company costs and revenue allocations.

- *Federal Regulatory Review* -- Audit staff reviewed numerous company filings and Commission orders to obtain an understanding of the issues involved in the audit, including: Docket Nos. EL05-102, EL05-104, and ER03-713; market-based rate tariffs and authorizations, including Docket Nos. ER95-1468, ER96-780, ER00-1655, ER03-3240, ER01-1633, and ER03-1383; and various dockets authorizing Southern Power to sell power to Alabama Power and

Georgia Power. Additionally, audit staff reviewed company filings and orders relating to Southern Company's OATT and Order No. 697 compliance filings.

- *State Regulatory Review* -- Audit staff performed a comprehensive review of each State Commission's (Georgia, Alabama, Mississippi, and Florida) website to obtain an understanding of their oversight responsibilities and regulatory involvement with Southern Company. Additionally, audit staff conducted phone conferences with staff at each State Commission to establish points of contact for the audit and to discuss its past regulatory review of Southern Company. In particular, audit staff inquired about each State Commission's compliance audits related to affiliated transactions and cross-subsidization, their understanding and review of the terms and conditions of the IIC and related billing process, and their involvement in solicitation of competitive bids for generation suppliers.

- *Monitoring of Compliance Implementation* -- To ensure that Southern Company adhered to the Commission-approved compliance implementation schedule, audit staff monitored Southern Company's progress prior to the audit. Specifically, audit staff reviewed compliance filings made with the Commission by Southern Company Services, Inc. on behalf of the Southern Operating Companies. Further, audit staff held three phone conferences with Southern Company regarding the status and completion of its projected compliance implementation plan before the commencement of the audit on November 19, 2007.

Audit staff also reviewed specific areas related to the objectives of the audit and conducted testing in those areas to evaluate the Southern Operating Companies' compliance with the conditions imposed by the Settlement and Acceptance Orders, and whether those conditions were sufficient to address any remaining opportunities for affiliate abuse by Southern Power under the IIC. Audit staff held regular conference calls and formal meetings with Southern Company, and performed three site visits at Southern Company's facilities in Birmingham, Alabama, and one site visit in Atlanta, Georgia. Further, audit staff issued nearly two hundred data requests to obtain information for review and testing purposes, and to collect evidence to support its conclusions. The specific areas audit staff reviewed and tested include the Separation Protocol, wholesale sales, transmission, and GSS tariff.

- *Separation Protocol* -- Audit staff conducted multiple tests to evaluate the Southern Operating Companies' compliance with the conditions imposed by the Commission and remaining opportunities for affiliate abuse relating to the separation of functions and employee workspace, restriction of non-public market information, separation protocol training, and sale of non-power goods and services. Specifically, audit staff:

- Reviewed Southern Company's organizational structure and conducted interviews with several employees to ensure that Southern Company functionally separated all wholesale activities carried out for the sole benefit of Southern Power shareholders, including its trading activities by the other Southern Operating Companies.

- Toured and inspected Southern Power and other facilities in Birmingham, Alabama, and Atlanta, Georgia, to ensure that the workspace of all employees conducting separated functions of Southern Power were separated from the workspace of the other Southern Operating Companies.

- Inspected the physical and electronic information security restrictions in place and tested the information system processes and controls in place at the network, application, and workstation level to ensure non-public market information is protected from employees conducting the separated functions of Southern Power.

- Reviewed various physical and electronic means by which Southern Power could access or receive non-public market information from the other Southern Operating Companies to ensure they did not violate the Separation Protocol. The various means inspected included: employee emails and voice recordings; access to shared drives and databases containing non-public market information; electronic card key access permissions at facilities containing non-public market information; records of joint meetings between Southern Power and other Southern Operating Companies; and visitor sign-in logs at facilities containing non-public market information. Further, audit staff conducted interviews with employees who conduct separated functions for Southern Power and interviews with employees performing pool operations and trading as a secondary level of testing.

- Reviewed the training program Southern Company developed to educate employees affected by the Separation Protocol to assess its adequacy and completeness. Audit staff also interviewed compliance officers involved with providing training and employees receiving training to assess their knowledge and understanding of the Separation Protocol. As part of this testing, audit staff reviewed the processes in place for detecting and investigating potential violations of the Separation Protocol, and procedures for posting actual violations of the Separation Protocol on OASIS.

- Reviewed the allocation methodologies and pricing for non-power goods and services provided and purchased amongst Southern Company Services, Inc., Southern Power, and the other Southern Operating Companies, to determine whether such allocation methodologies and pricing were consistent with the Separation Protocol and did not result in subsidization. Audit staff reviewed all service agreements in effect that provide for non-power goods and services to identify the types of non-power goods and services provided and purchased amongst Southern Company Services, Inc. and the Southern Operating Companies, and the pricing for such non-power goods and services. Audit staff also reviewed the methods used to allocate cost amongst the Southern Operating Companies.

- *Wholesale Sales* -- Audit staff conducted several tests to evaluate the Southern Operating Companies' compliance with the conditions imposed by the Commission and remaining opportunities for affiliate abuse relating to wholesale sales, including the IIC provisions for: reserve sharing and generation expansion plans; sales between the Southern Operating Companies; and wholesale sales to third parties. Specifically, audit staff:

    - Conducted group discussions and interviews with operational, trading, and shared employees to obtain an in-depth knowledge and understanding of the provisions of the IIC and the operation of Southern Company's integrated system. Further, audit staff reviewed business practices and procedures, observed operational and trading activities, and reviewed transactional and other business data to determine how to apply these provisions for testing compliance.

    - Reviewed Southern Company's annual IIC informational filing, conducted employee interviews, and analyzed data to determine how the Southern Operating Companies derived recognized capacity for the reserve sharing calculation. As part of the data analysis, audit staff reviewed expansion plans to verify Southern Power did not automatically include new capacity resources in the reserve sharing calculation as recognized capacity that was not part of the coordinated planning process. Further, audit staff analyzed reserve sharing calculations and billings to verify the payments to and receipts from the Southern Operating Companies for reserve sharing were in accordance with the provisions of the IIC.

    - Analyzed transactions, billings, and other documents to validate the payments to and receipts from the pool for interchange energy and opportunity interchange energy were in accordance with the provisions of the IIC. Audit staff reviewed pool interchange energy sale transactions between the Southern Operating Companies to validate the charges were based upon the variable costs of the generating resource supplying the interchange energy. Audit staff also reviewed pool opportunity interchange energy sales transactions to verify the Southern Operating Companies received revenues based upon approved peak period load ratios and paid costs based upon the variable dispatch costs.

- o Reviewed regulatory filings to determine whether the Commission approved any sales between the Southern Operating Companies outside the pool operating window for the periods of less than one year and greater than one year. Audit staff also analyzed transactional data and conducted employee interviews to independently assess whether any sales between the Southern Operating Companies occurred outside the pool operating window without prior Commission approval.

- o Analyzed transactional data and other supporting documents to verify Southern Power made all of its wholesale sales outside the pool operating window using its own generating capacity. Audit staff also interviewed Southern Operating Companies' employees to assess the adequacy of procedures and controls in place for ensuring all of Southern Power's wholesale sales occur outside the pool operating window and that Southern Power has available capacity from its own generating resources to support these wholesale sales.

- o Reviewed the Southern Operating Companies' coordinated planning process to verify Southern Power independently developed its generation expansion plans and did not participate in reviewing and recommending the generation expansion plans of the other Southern Operating Companies. Further, audit staff reviewed emails and interviewed the Southern Power Senior Production Officer on the Operating Committee to ensure Southern Power did not receive non-public market information from other Operating Committee members.

- *Transmission* -- Audit staff conducted several tests to evaluate the Southern Operating Companies' compliance with the conditions imposed by the Commission and remaining opportunities for affiliate abuse relating to the Southern Operating Companies' access to non-public transmission information and Southern Power's adherence to the terms and conditions of the OATT and treatment as an Energy Affiliate under the Standards of Conduct. Specifically, audit staff:

  - o Conducted interviews with Southern Company transmission function managers and employees to understand the physical aspects and operations of Southern Company's electric transmission system.

- Reviewed corporate organizational charts and employee job descriptions to assess the functional separation of Southern Power and other marketing functions from the transmission function.

- Reviewed all transmission services provided to each of the Southern Operating Companies by Southern Company's transmission function and then analyzed transmission service agreements, reservations, schedules, and billing statements to validate that Southern Power adhered to the terms and conditions of the OATT.

- Reviewed various physical and electronic means for Southern Power and other employees performing marketing activities to access or receive non-public transmission information to ensure that they did not violate the Commission's Standards of Conduct regulations in effect during the audit period. The various means inspected included: employee emails and voice recordings; marketing employees' access to shared drives and transmission databases; transmission facilities' electronic card key access permissions; records of joint meetings between transmission and marketing function employees; and records for visitor sign-in logs at the operating control center. Audit staff also conducted interviews with personnel who work in separated functions for Southern Power and interviews with employees performing pool operations and trading as a secondary level of testing.

- Reviewed OASIS to determine whether the Southern Operating Companies made required postings in accordance with the Standards of Conduct as in effect at the time.

- *GSS Tariff* -- Audit staff conducted testing to evaluate the Southern Operating Companies' compliance with the conditions imposed by the Commission and remaining opportunities for affiliate abuse relating to similarly-situated merchant generators' access to back-up power. Audit staff reviewed all filings made by Southern Company Services, Inc. to validate that Southern Company complied with the Commission's order to file a GSS tariff that offered all similarly-situated merchant generators access to back-up power. Audit staff issued data requests and conducted interviews to assess the internal processes and procedures related to the administration of the GSS tariff. Audit staff also used these data requests and interviews to verify whether any scheduling entity requested service under the GSS tariff, and to determine whether any scheduling entity was improperly denied service under the GSS tariff.

III. Findings and Recommendations

1. __Electronic Separation__

Although Southern Company implemented electronic controls to prevent Southern Power employees from accessing non-public market information, audit staff detected gaps that could have potentially provided Southern Power employees with access to non-public market information. Specifically, as part of our audit testing, a Southern Power employee was able to breach Southern Company's network access protections through a non- Southern Power computer workstation and the wireless network.

Additionally, Southern Company did not have adequate procedures in place to review: 1) personal network drives that may contain non-public market information when employees transferred jobs and 2) files transferred to shared network drives by non-Southern Power employees for non-public market information.

Pertinent Guidance

The Commission's Settlement Order required the Southern Operating Companies to "adopt a clear separation of functions, including restrictions on information sharing," for transactions benefitting Southern Power's shareholders. The Settlement Order also required Southern to make clear that Southern Power is to be treated as an Energy Affiliate under the Standards of Conduct and therefore cannot receive any nonpublic transmission information.[36] In response to implementing these modifications, Southern Company included language in its Separation Protocol to protect against the electronic sharing of non-public market information. Specifically, the Separation Protocol applicable to Southern Power states in paragraph no. 4:

> Prohibited information will be electronically protected from employees conducting the separated functions of Southern Power through restricted access to any shared drive that includes such information. Access to these shared drives by employees conducting the separated functions of Southern Power will require pre-approval under an authorization process administered by the Southern Company Generation Compliance Officer.

[36] Settlement Order at P. 3.

Background

Southern Company conducted a comprehensive review of its computer network environment, business software applications and databases, intranet websites, and other computer related systems to ensure it had adequate controls in place to restrict Southern Power employees from having electronic access to non-public market information. Southern Company implemented a segmented network as its overarching control to comply with the electronic separation and information sharing requirements set forth in the Commission's Settlement Order. The segmented network allows Southern Power to co-exist on the same information technology infrastructure as the rest of Southern Company, yet at the same time is designed to preclude Southern Power from electronically accessing non-public market information. The implementation of the segmented network and other computer infrastructure related changes required extensive employee hours and cost approximately $1.3 million.

The compliance measures taken by Southern Company required re-engineering of its existing computer infrastructure with the implementation of a segmented network. Audit staff's review of the segmented network determined that it is an effective first line of defense in electronically protecting Southern Power employees' access to non-public market information. However, audit staff's testing of Southern Company's electronic separation control environment for the segmented network detected some minor weaknesses that could have potentially provided Southern Power employee's access to non-public market information through personal employee computers workstations and the wireless network had they been left unresolved.

Further, Southern Company did not have adequate procedures in place to review for non-public market information: 1) personal network drives when employees transferred jobs and 2) files transferred to shared network drives by non-Southern Power employees.

Segmented Network

The segmented network was achieved by installing dedicated computer infrastructure, such as dedicated servers, switches and firewalls, and by implementing automated rules with Microsoft's Active Directory and Group Policy within the infrastructure to electronically separate Southern Power from the remainder of Southern Company and to control access to non-public market information. Southern Company's segmented network is an effective first line of defense in electronically protecting non-public market information from Southern Power employees.

The segmented network is ultimately controlled through Microsoft's Active Directory and relies on an internally designed set of scripts to ensure that Southern Power employees cannot access non-public market information. The scripts, known as the

Validator program, ensure that three conditions are met before allowing Southern Power employees electronic access: the employee must be a member of the restricted user group, the workstation must be a member of the restricted workstation group, and the location must be a restricted site. If any of these three conditions is not met, the Validator program should shut down the workstation for Southern Power employees.

Audit staff conducted testing at non-Southern Power computer workstations to determine whether the segmented network controls adequately blocked Southern Power employees' access to restricted areas containing non-public market information. One test confirmed that the segmented network successfully blocked a Southern Power employee from gaining access to the protected segmented network using a non-Southern Power computer workstation located in an employee's office. However, the other test detected that the segmented network could be breached by a Southern Power employee through the use of a non-Southern Power computer workstation located in a non-Southern Power conference room. In comparing the two different outcomes, Southern Company explained that the Southern Power employee successfully logged onto the conference room computer workstation because it resided on the SOCOGEN network.

Upon discovery, Southern Company took immediate action to resolve the conference room workstation breach. Southern Company explained that most of the workstations on the SOCOGEN network are in secure areas to which Southern Power employees do not have access privileges. Therefore, Southern Company believed it was not necessary to implement the "deny access" log-on controls applied to Southern Power employees on the SOCOGEN network. Rather than applying the "deny access" log-on controls to these conference room workstations, Southern Company addressed this breach by applying the log-on restrictions across the entire SOCOGEN network, in case there were additional SOCOGEN workstations in non-secure areas of the building. Had this problem been left uncorrected, this breach could have potentially provided a Southern Power employee access to non-public market information.

Wireless Network

Southern Company implemented a separate wireless network for Southern Power in order to restrict access to non-public market information. Southern Power employees should be capable of accessing only the Southern Power wireless network, placing them behind Southern Power's dedicated firewalls and subjecting them to all of the rules applied to a Southern Power workstation connected to the network through wired access. Southern Company's other employees can connect to the "Office wireless network." Southern Power employees should not be able to connect to the Office wireless network.

Audit staff's testing of the wireless network from a Southern Power laptop computer revealed that the employee using a Southern Power restricted workstation was able to connect to the Office wireless network. Essentially, by successfully connecting to

Southern Company's Office wireless network, a Southern Power employee was able to bypass the segmented network. This connection potentially allowed the Southern Power employee access to non-public market information. According to Southern Company, some users had Active Directory permission inadvertently enabled on their laptop computers for remote access. This permission superseded the Active Directory "deny access" configuration applied to all Southern Power users for the Office wireless network. To correct this issue, Southern Company modified the configuration to ignore this Active Directory property for remote access, removing the conflict in permissions. Audit staff's re-testing of the wireless network demonstrated that the system did not allow the Southern Power employee connection.

Employee Computer Workstations

Audit staff conducted testing of Southern Power employee computer workstations to determine whether they could access non-public market information through personal network drives, shared network drives, and applications and databases. Audit staff's testing did not detect any evidence that Southern Power employees accessed or received non-public market information through its personal computer workstations. However, audit staff observed that Southern Company had some procedural weaknesses related to personal network drives, shared drives, and computer applications and databases that could potentially provide Southern Power the opportunity to access non-public market information.

During interviews, audit staff learned that each employee has a personal network drive and if an employee transfers from one area of Southern Company to another, such as from the Transmission function into Southern Power, the employee's personal network drive is transferred with the employee. However, Southern Company did not have a policy in place to review the contents of the transferred employees' personal network drive for non-public market information. Audit staff also learned that the network server access restrictions are one-directional (i.e. Southern Power to the other Southern Operating Companies). As a result, a non-Southern Power employee with write access to a shared network drive could transfer files containing non-public market information to the network drive it shares with Southern Power. Southern Company also did not have a policy in place to review shared network drives for non-public market information. Currently, the Separation Protocol and Standards of Conduct training programs are the only control mechanisms in place to prevent Southern Power access to non-public market information through personal and shared network drives.

To prevent the type of breaches audit staff detected during its examination of the segmented network and wireless network, Southern Company should implement multiple strategies to electronically restrict Southern Power employees' access to non-public market information. For example, Southern Company should implement procedures to ensure Southern Power employees are electronically restricted from obtaining non-public market information through access rights to shared network drives. Further, Southern Company should develop procedures to review and remove non-public market information from personal network drives for employees who transfer to Southern Power from another area of the company.

Recommendations

We recommend Southern Company:

1. Create procedures for reviewing files posted to Southern Power shared drives by non-Southern Power employees for non-public market information. Additionally, create procedures for reviewing the personal network drives of all employees who transfer into Southern Power for non-public market information. For each review, remove all files that contain non-public market information from the personal network drive of the transferred employee.

2. Perform periodic reviews to ensure that Southern Power employees do not have access rights to shared network drives containing non-public market information. Additionally, these periodic reviews should include testing of the segmented network to determine whether Southern Power employees can bypass the segmented network and potentially access non-public market information.

3. Add the SPC designator to Southern Power employee names in Cool Compliance, as is already done in the Global Address List for emails, to spotlight a Southern Power employee having access rights granted in Cool Compliance.

Corrective Action Taken

On November 14, 2008, Southern Company implemented new procedures governing the monitoring and review of shared drives and personnel network drives. For shared drives the new procedures require any non-Southern Power employee who posts material to a Southern Power shared folder to send an email notifying the Southern Power employee of the posting content. For personnel network drives the new procedures requires a Southern Power business manager and transferred employee to review and remove any documents containing non-public market information from the personnel network drive and to a complete and submit a transfer checklist to a compliance officer for review.

Southern Company also implemented new procedures that require a semi-annual review of approved access lists and content of Southern Power shared drives by a generation compliance officer. Further, the new procedures also require periodic testing of the segmented network to verify the integrity of the preventive controls and to confirm that Southern Power employees do not have access to network drives that contain non-public market information.

On November 10, 2008, Southern Company informed audit staff that it will begin identifying and labeling all Southern Power employees in Cool Compliance to help prevent inadvertent disclosure of non-public market information. However, Southern Company did not provide an the implementation date for this new procedure.

Employee Separation

Audit staff observed a shared employee performing transmission activities that support the long-term wholesale energy transactions of Southern Power, while at the same time performing transmission and energy trading activities that support the short-term wholesale energy transaction made by the pool on behalf of the Southern Operating Companies. Audit staff believes that Southern Company should dedicate separate employees to perform the transmission activities supporting Southern Power's long-term wholesale energy transactions and the transmission activities supporting the short-term wholesale energy transactions made for the pool on behalf of the Southern Operating Companies to prevent the potential for any undue preference.

Pertinent Guidance

The Settlement Order clarified that where a competitive affiliate enters into transactions for its own benefit, it must separate its functions from those of its regulated affiliates.[37] This separation of functions obligation includes, in part, a requirement to maintain separate staffs to perform the sales functions and a restriction on the sharing of any non-public market information. These protections ensure that the parent corporation cannot favor sales by the competitive affiliate over those of the regulated affiliates.

Moreover, the Commission's Acceptance Order further clarified that the Southern Operating Companies must adopt a clear separation of functions, including restrictions on information sharing, and a separation of personnel, for any function that is undertaken for the benefit of Southern Power's shareholders (i.e. any function except joint economic dispatch and reserve sharing under the IIC).[38]

To implement these modifications, Southern Company Services, Inc. included specific language in its Separation Protocol regarding the functional separation of Southern Power employees from the other Southern Operating Companies. Specifically, the Southern Company Services, Inc. Separation Protocol approved by the Commission applicable to Southern Power, Items No. 1 and 2, states:

> The wholesale activities of Southern Power carried on for the sole benefit of Southern Power are to be functionally separated from the other Southern Operating Companies. These activities (collectively referred to as separated

[37] Southern Company Services, Inc., 117 FERC ¶ 61,021 (2006).

[38] Acceptance Order at P. 16-17.

> functions) consist of any function undertaken for the benefit of Southern Power's shareholders.
>
> Personnel who conduct separated functions for Southern Power may be employees of Southern Power or they may be employees of a service company or other affiliated company. To the extent the service company or other affiliated company employees conduct these separated functions, such employees must be dedicated exclusively to Southern Power and all associated costs (direct and indirect) must be borne by Southern Power or its shareholders.

Background

The Southern Operating Companies did not solely dedicate a shared employee performing transmission activities that support the long-term wholesale energy transactions of Southern Power and a different employee to support the short-term wholesale energy transactions made by the pool on behalf of the Southern Operating Companies. Southern Power relies on a shared employee to procure transmission service (e.g., negotiate transmission service agreements and reserve transmission service) that supports its long-term wholesale energy transactions made outside the pool operating window. This same shared employee is responsible for performing energy trading and the transmission activities for the pool on behalf of the Southern Operating Companies for short-term wholesale energy transactions made under the IIC.

During the audit period, audit staff did not identify any occurrences where Southern Power received an undue preference. However, absent having an employee solely dedicated to Southern Power for performing transmission activities, there is a potential risk for Southern Power to receive an undue preference due to this shared employee's co-existing duties as a term energy trader for the pool and associated transmission responsibilities performed on behalf of the pool and Southern Power. Audit staff believes that the Commission's Settlement and Acceptance Orders and the Southern Company Services, Inc. Separation Protocol require further separation of the transmission activities performed by this shared employee by solely dedicating this person or another employee to Southern Power.

Audit staff's review of transmission service agreements between Southern Power and Southern Company's transmission function acknowledged the shared employee signed transmission service agreements on behalf of Southern Power. In addition to transmission service agreements, audit staff obtained transactional data from OASIS showing that the same shared employee made transmission service reservations to support Southern Power's wholesale energy transactions and the wholesale energy transactions made by the pool on behalf of the Southern Operating Companies. Further, audit staff reviewed the job description of this shared employee and interviewed the shared employee to confirm his job responsibilities included: 1) optimizing daily and long-term point-to-point (PTP) transmission positions on behalf of the Southern Operating Companies including purchasing, reselling, and/or redirecting transmission through OASIS; 2) querying OASIS to determine available transfer capability on all Southern Company interfaces; 3) requesting long-term PTP transmission for the Southern Operating Companies (through OASIS); 4) executing transmission service agreements; and 5) conducting term energy trading on behalf of the pool.

Southern Company explained that when Southern Power needs long-term (i.e., one month or greater) transmission service as the result of its entry into a wholesale energy purchase or sale contract, Southern Power notifies this shared employee of that transmission need. The shared employee then pursues available long-term transmission that meets Southern Power's needs through queries on Southern Company's or a non-affiliated Transmission Provider's OASIS and through inquiries to potential counterparties. When such transmission is found, a transmission service agreement is executed on behalf of Southern Power and provided to it. This same shared employee, within the nearer-term operational window as provided by the IIC, procures transmission service for the Southern Operating Companies to support any short-term wholesale energy transactions made on behalf of the pool. This process applies to transmission procured from Southern Company's transmission function as well as from non-affiliated Transmission Providers.

Southern Company stated that it uses this shared employee to perform the transmission activities for Southern Power and the pool on behalf of the Southern Operating Companies because of the integrated operating nature of the pool. Further, Southern Company stated that the pool seeks to optimize all of the Southern Operating Companies' resources related to unit commitment and joint economic dispatch, including generation, purchased power, transmission and fuel arrangements (e.g., natural gas supply, transportation and storage). Audit staff agrees that the pool must operate on an integrated basis and that all reserved transmission capacity should be obtained by the pool in accordance with the terms and conditions of the OATT. However, as required by the Commission's Settlement and Acceptance Orders and the Southern Company Services, Inc. Separation Protocol, the procurement of transmission service supporting Southern Power's long term wholesale energy transactions should not be a pool responsibility performed by a shared employee, but rather a responsibility performed by an employee solely dedicated to Southern Power.

Audit staff is concerned that there is a potential risk for Southern Power to receive an undue preference if this shared employee continues to have co-existing duties as an energy trader for the pool, along with the transmission responsibilities associated to the wholesale energy transactions conducted on behalf of the pool and Southern Power.

Recommendation

We recommend Southern Company:

4. Dedicate employees performing transmission activities that support Southern Power's long-term wholesale energy transactions solely to Southern Power.

Corrective Action Taken

On November 7, 2008, Southern Company informed audit staff that it transferred the responsibilities associated with the procurement of transmission service for Southern Power's long-term wholesale energy transactions to Southern Power.

Posting of Separation Protocol Violations on OASIS

Southern Company did not immediately post, date, and time stamp the postings it made to OASIS in accordance with the Commission's Standards of Conduct requirements in effect during the audit period.

Pertinent Guidance

Pursuant to the Separation Protocol paragraph 6, the Southern Operating Companies are required to post any violation of the Separation Protocol on OASIS in a manner consistent with the process under the Standards of Conduct.[39] The Standards of Conduct require the Transmission Provider to post immediately information that an employee of the Transmission Provider discloses in a manner contrary to the requirements of § 358.5(b)(1) on its OASIS or Internet Web site.[40] The requirement of 18 C.F.R § 358.5(b)(1) (2008) states:

> An employee of the Transmission Provider may not disclose to its Marketing or Energy Affiliates any information concerning the transmission system of the Transmission Provider or the transmission system of another. . . through non-public communications conducted off the OASIS or Internet Web site, through access to information not posted

[39] Southern Company Services, FERC Electric Tariff, Second Revised Volume No. 4, Original Sheet No. 6.

[40] 18 C.F.R § 358.5(b)(3)(2008).

> on the OASIS or Internet Web site that is not contemporaneously available to the public, or though information on the OASIS or Internet Web site that is not at the same time publicly available.

The Commission's Standards of Conduct regulations also require all OASIS database transactions, except other transmission-related communications provided for under 18 C.F.R. § 37.6(g)(2)(2008), must be stored, dated, and time stamped.[41] Further, the Commission explained, in 18 C.F.R § 37.6(g)(1)(2008), that other transmission-related communications may include "want ads" or "other communications" such as using the OASIS as a transmission-related conference space or making transmission-related messaging services between OASIS users.

Background

On November 19, 2007, the Separation Protocol applicable to Southern Power became effective and in part required the Southern Operating Companies to post any violation of the Separation Protocol on OASIS in a manner consistent with the Commission's Standards of Conduct requirements. In accordance with this requirement, Southern Company has made fourteen postings covering violations of the Separation Protocol on its OASIS between November 19, 2007 and August 31, 2008. However, Southern Company did not immediately post, date and time stamp the postings it made to OASIS. The fourteen violations included the following:

- Eleven e-mails containing non-public market information that were electronically sent to Southern Power employees from employees of the other Southern Operating Companies. The non-public market information included in these emails pertained to non-Southern Power plant outages, unit status, plant damage, plant equipment issues, and plant performance. Some of the non-public market information shared also pertained to system load data and financial information such as mark-to-market accounting and budgets. The Compliance Officer's investigation of these violations determined that Southern Power employees viewed non-public market information in seven of the eleven emails received. One of the violations involved the distribution of the same non-public market information sent to Southern Power employees in a previous email. The other three emails contained non-public market information which was received, but not viewed by, Southern Power employees. Most of the violations occurred from having outdated email distribution lists that contained Southern Power employees and from reports

[41] 18 C.F.R. § 37.7(a) (2008).

received by Southern Power employees, where the senders did not realize the contents included non-public market information.

- One involved a Southern Power employee who obtained access to the power pool trading floor, which is a physically restricted access area. The review performed by a compliance official determined that the Southern Power employee did not view or review any non-public market information.

- One violation involved a meeting where employees from Southern Power and the other Southern Operating Companies were present. During this meeting, non-public market information pertaining to a plant outage with a third party that sold the output of the plant to Georgia Power Company was shared with Southern Power. A compliance official informed the Southern Operating employee that they should not do this going forward when meeting with Southern Power employees.

- One involved computer access to an application containing load forecast data of Georgia Power Company. The initial Separation Protocol review did not detect any problems with this application; however, a modification to the application was made subsequent to this review which granted Southern Power employees access to non-public market information. A compliance official interviewed each employee with access to the load forecast data and determined that none of these employees accessed or viewed this information. Southern Company resolved this problem by removing the Southern Power employee's access to non-public information of Georgia Power Company.

Audit staff requested copies of documents related to all potential and actual Separation Protocol violations that were investigated since November 19, 2007. Audit staff's review of these reports determined Southern Company posted many of the Separation Protocol violations days or weeks after the Southern Power employee received access to the non-public market information. For example, Southern Company posted one incident over one full month following the receipt of the non-public market information by a Southern Power employee. Moreover, audit staff determined that Southern Company identified the date of occurrence, but did not date or time stamp any of the Separation Protocol violations it posted on OASIS. As a result, non-affiliated transmission customers could not determine whether Southern Company posted the Separation Protocol violations immediately, as required by the Standards of Conduct.

The Standards of Conduct require Southern Company to immediately post information that an employee of the Transmission Provider discloses in a manner contrary to the requirements of § 358.5(b)(1) on the OASIS.[42] Further, all OASIS database transactions, except other transmission-related communications provided for under 18 C.F.R. § 37.6(g)(2)(2008), must be stored, dated, and time stamped.[43] Accordingly, Southern Company should immediately post all non-public market information that a Southern Power employee receives and include a date and time stamp in accordance with the Standards of Conduct.[44]

Recommendations

We recommend Southern Company:

5. Post all violations of the Separation Protocol immediately in accordance with 18 C.F.R. § 358.5(b)(3). In addition to the date the violation occurred, Southern Company should include on each document the date and time Southern Company posted the violation to OASIS in accordance with 18 C.F.R. § 37.6(g)(2).

6. Strengthen procedures and controls for maintaining email distribution lists and providing reports to Southern Power that may contain non-public market information. Incorporate these procedures and other pertinent procedural enhancements in the Separation Protocol compliance training program to achieve a reduction in the number of future violations.

Corrective Action Taken

On November 14, 2008, Southern Company revised its Separation Protocol Violations Investigative Procedure to reflect that upon determining an actual violation has occurred, the incident must immediately be posted on OASIS. Further, Southern Company implemented a procedural change to include a date and time stamp for each document posted on OASIS relating to the violation.

Southern Company also implemented new procedures requiring employees to maintain and periodically review their e-mail distribution lists to verify employee memberships. Further, Southern Company revised its Separation Protocol training to

[42] 18 C.F.R § 358.5(b)(3)(2008).

[43] 18 C.F.R. § 37.7(a) (2008).

[44] 18 C.F.R. § 37.6(g)(2)(2008).

provide additional and more detailed guidance with regard to electronic communications with Southern Power employees and, the development and maintenance of e-mail distribution lists. The revised training will be conducted online, with an anticipated completion deadline of December 31, 2008.

Attachment A

Prepared for Non-Public Audit
FERC Docket No. PA08-6-000
November 19, 2008

V. Southern Companies' Comments on the Draft Audit Report

FERC Docket No. PA08-6-000

Southern Company Services, Inc., acting as agent for Alabama Power Company, Georgia Power Company, Gulf Power Company, Mississippi Power Company, and Southern Power Company (collectively, "Southern Companies"), submits the following comments on the Draft Audit Report provided by the Division of Audits on November 4, 2008.

In this submission, Southern Companies have purposefully sought to focus their comments on more substantive matters, and thus have not undertaken to address each and every aspect with which they disagree. In like manner, Southern Companies saw no need to set forth the substantive reasons for their disagreement with any recommendations that they have nonetheless agreed to implement. Accordingly, the absence of comment directed to a given statement, assertion, representation, or conclusion in the Draft Audit Report should not be interpreted as their agreement or tacit admission as to accuracy or completeness thereof.

1. ELECTRONIC SEPARATION

Recommendation No. 1: Create procedures for reviewing files posted to Southern Power shared drives by non-Southern Power employees for non-public market information. Additionally, create procedures for reviewing the personal network drives of all employees who transfer into Southern Power for non-public market information. For each review, remove all files that contain non-public market information from the personal network drive of the transferred employee.

Southern Companies' Comments on Recommendation No. 1:

Effective November 14, 2008, Southern Companies have implemented the "Separation Protocol Policy to Govern Monitoring of the Southern Power Shared Folders," which is a new policy regarding information posted to Southern Power Company ("Southern Power") shared folders by non-Southern Power employees. This new procedure includes periodic reviews of approved access lists and content. The procedure also includes a requirement that any non-Southern Power employee who posts material to a Southern Power shared folder will notify the owner of such folder by e-mail of the posting. Southern Companies have submitted this policy to Audit Staff for review.

Effective November 14, 2008, Southern Companies have implemented the "Separation Protocol Policy to Govern Employee Transfers to Southern Power

Company," which is a new policy that addresses the personal network drives of employees who transfer into Southern Power. This policy will insure that these employees do not retain any documents (hard copy or electronic) containing Prohibited Information. Southern Companies have submitted this policy to Audit Staff for review.

Recommendation No. 2: Perform periodic reviews to ensure that Southern Power employees do not have access rights to shared network drives containing non-public market information. Additionally, these periodic reviews should include testing of the segmented network to determine whether Southern Power employees can bypass the segmented network and potentially access non-public market information.

Southern Companies' Comments on Recommendation No. 2:

Effective November 14, 2008, Southern Companies have implemented the "Separation Protocol Policy to Govern Monitoring of the Segmented Network," which is a new policy that requires periodic testing of the segmented network to verify the integrity of the preventive controls and to confirm that Southern Power employees do not have access to network drives that contain Prohibited Information. Southern Companies have submitted this policy to Audit Staff for review.

Recommendation No. 3: Add the SPC designator to Southern Power employee names in Cool Compliance, as is already done in the Global Address List for e-mails, to spotlight a Southern Power employee having access rights granted in Cool Compliance.

Southern Companies' Comments on Recommendation No. 3:

The designator "(SPC)" will be added to Southern Power employee names in Cool Compliance. Southern Companies have submitted evidence of this implementation to Audit Staff.

2. EMPLOYEE SEPARATION

Recommendation No. 4: Dedicate employees performing transmission activities that support Southern Power's long-term wholesale energy transactions solely to Southern Power.

Southern Companies' Comments on Recommendation No. 4:

Southern Companies disagree with the findings in this section of the Draft Audit Report and the related recommendation. However, in order to resolve this issue, the procurement of long-term transmission service associated with the long-term wholesale energy transactions of Southern Power has been moved to Southern. Accordingly, all long-term transmission service requests associated with Southern Power's long-term energy transactions will be made on OASIS by Southern Power employees.

3. POSTING OF SEPARATION PROTOCOL VIOLATIONS ON OASIS

Recommendation No. 5: Post all violations of the Separation Protocol immediately in accordance with 18 C.F.R. § 358.5(b)(3). In addition to the date the violation occurred, Southern Company should include on each document the date and time Southern Company posted the violation to OASIS in accordance with 18 C.F.R. § 37.6(g)(2).

Southern Companies' Comments on Recommendation No. 5:

Southern Companies have revised their "Separation Protocol Violations Investigative Procedure" to state that when "it is determined that an actual violation has occurred, the incident must be posted on OASIS ***immediately***." Southern Companies have submitted the revised protocol to Audit Staff for review.

Southern Companies have implemented the changes necessary so that the date and time a violation is posted on OASIS will be included for each posting.

Recommendation No. 6: Strengthen procedures and controls for maintaining e-mail distribution lists and providing reports to Southern Power that may contain non-public market information. Incorporate these procedures and other pertinent procedural enhancements in the Separation Protocol compliance training program to achieve a reduction in the number of future violations.

Southern Companies' Comments on Recommendation No. 6:

Effective November 14, 2008, Southern Companies have implemented the revised "Fleet Operations and Trading Floor Information, Physical Access and Visitor's Policy," which revision requires employees to maintain their e-mail distribution lists and to periodically review such lists to verify employee memberships. Southern Companies have also revised the Separation Protocol training to provide additional and more detailed guidance with regard to electronic communications with Southern Power employees and, the development and maintenance of e-mail distribution lists. This revised training will be conducted online, with an anticipated completion deadline of December 31, 2008. In addition, Southern Companies will continue to conduct individual training and counseling for employees that are involved in Separation Protocol investigations. Southern Companies have submitted the revised policy and applicable portions of the revised training materials to Audit Staff for review.

Document Content(s)