

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 and Purchased Power Cost Recovery Clause

Twelve Months Ended December 31, 2013

Docket No. 140001-EI
Audit Control No. 14-027-1-1
May 1, 2014

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

Debra M. Dobiac
Audit Manager

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

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 Accounting and Finance in its audit service request dated January 27, 2014. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2013 filing for the Fuel and Purchased Power Cost Recovery Clause in Docket No. 140001-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

General

Definitions

Utility refers to the Gulf Power Company.

FAC refers to the Fuel and Purchased Power Cost Recovery Clause.

Revenue

Operating Revenue

Objectives: The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2013 through December 31, 2013, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the FAC.

Procedures: We reconciled the fuel revenues reported in the 2013 FAC Filing to the Utility's monthly revenue reports, and the general ledger. We selected a random sample of residential and commercial customers' bills and recalculated each to verify the use of the correct tariff rate approved in Order No. PSC-12-0664-FOF-EI, issued December 21, 2012 in Docket No. 120001-EI. No exceptions were noted.

Expenses

Fuel Cost of System Net Generation and Adjustments to Fuel Cost

Objectives: The objectives were to review fuel expenses for coal, oil, and natural gas included in the FAC Filing, and determine whether those expenses are properly recoverable based on the requirements established in Order No. 14546, issued July 8, 1985, in Docket No. 850001-EI.

Procedures: We recalculated the Schedule A-1 from the FAC Filing for each month of 2013. We prepared a schedule of coal, oil, and natural gas consumption for each month of 2013 from the Utility's generation fuel costs journal entries. We compiled charges by month and by account to obtain total fuel costs, which were reconciled to the general ledger and the Schedule A-1. We also prepared a schedule of charges by account and by generating plant, including amounts listed as "other generation" for each month for the year ended December 31, 2013, and reconciled total fuel costs to the consumption schedule prepared by audit staff. The fuel expenses included in the FAC Filing complied with the requirements established in Order No. 14546. No exceptions were noted.

Economy Energy Purchases

Objectives: The objective was to determine whether the energy costs of other economic purchases (non-broker) included in the FAC Filing reconciled to the books and records of the Utility.

Procedures: We compiled economy energy purchases from the Utility's Interchange Analysis Reports for each month of 2013 and reconciled the total to Schedule A-8, Schedule A-9, and Schedule A-1, Line 12. We also traced purchased amounts to the supporting Intercompany Interchange Contract (IIC) and Purchased Power Agreement (PPA) invoices and contracts for February, July, November, and December 2013. No exceptions were noted.

Waterborne and Rail Coal Transportation

Objectives: The objective was to review and verify the payments the Utility made in 2013 under waterborne and rail coal transportation contracts.

Procedures: We scheduled coal, freight, and rail car costs from the Utility's Accounts Payable (AP) analysis for each month of 2013, and reconciled the amounts to the general ledger. We reviewed the waterborne and rail coal transportation contracts. We also traced the general ledger inventory purchases to the AP Analyses to the supporting invoices to the transportation contract rates for the months of February, July, November, and December 2013. No exceptions were noted.

Vendor Credits and Rebates

Objectives: The objective was to determine whether vendor credits or rebates are credited to fuel costs.

Procedures: We verified that there were no vendor credits or rebates received during 2013.

Coal Inventory Adjustments

Objectives: The objective was to determine whether adjustments made to coal inventory due to the semi-annual coal inventory survey had been recorded as set forth in Order No. PSC-97-0359-FOF-EI, issued March 31, 1997, in Docket No. 970001-EI.

Procedures: We recalculated the inventory adjustments on the March and September 2013 aerial survey reports, compared them to the adjusted book balance, and traced them to the supporting journal vouchers. We also verified that the Utility complied with the procedures contained in the applicable order. No exceptions were noted.

Gains on Economy Sales

Objectives: The objective was to determine whether the Utility has credited generation-related gains from non-separated wholesale energy sales to the FAC Filing as set forth in Order No. PSC-00-1744-PAA-EI, issued September 26, 2000, in Docket No. 991779-EI.

Procedures: We scheduled the generation-related gains from the Utility's Interchange Analysis Reports for each month of 2013 and reconciled the total to Schedule A-6 and Schedule A-1, Line 15. We traced the gains to the IIC invoices and the imbalance service reports for February, July, November and December 2013. In addition, we reconciled the Utility's Interchange Analysis Report to Schedule A-6 and Schedule A-1, Line 18 for February and November 2013. We determined that the Utility was in compliance with the order noted above. No exceptions were noted.

Energy Payments to Qualified Facilities

Objectives: The objective was to determine whether energy payments to the qualified facilities are based on the appropriate standard offer or the negotiated contract price.

Procedures: We scheduled total KWHs purchased and energy costs for 2013. We traced amounts on Schedule A-8 to invoices for January, April, June, and December 2013. No exceptions were noted.

Coal and Oil Purchases

Objectives: 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: We reconciled coal and oil purchases reported on Form 423 with the Schedule A-5 filing for July 2013. We cross-referenced the coal and oil purchases by vendor from the AP analysis to the location cost transaction summaries, to the inventory details and the general ledger. We traced receipts to fuel invoices. No exceptions were noted.

Firm Transportation Service Charges

Objectives: The objective was to determine whether Firm Transportation Service (FTS) charges for natural gas transportation agree with the appropriate FTS rate schedules from utility pipeline tariffs.

Procedures: We reconciled natural gas purchases and FTS charges from the accounts payable analysis for each month of 2013 and reconciled totals to the general ledger. We traced the purchased amounts and the total FTS charges to the paid invoices for March and August 2013. We traced the FTS rates to the appropriate rate schedule and agreement. No exceptions were noted.

Natural Gas Storage

Objectives: The objective was to determine whether the amounts of gas storage expense recovered through the FAC Filing by gas storage facility for 2013 were calculated correctly and payments were in accordance with the applicable contract.

Procedures: We reviewed the gas storage contracts in effect for 2013. We recalculated the monthly reservation payment and reconciled the charges to the respective contract. No exceptions were noted.

Other

Generating Performance Incentive Factor

Objectives: The objective was to determine whether the service hours, reserve shutdown hours, and unavailable hours filed in Schedule A-4 for the Generating Performance Incentive Factor (GPIF) Filing agree to source documentation.

Procedures: We traced the service hours, reserve shutdown hours, and unavailable hours filed in Schedule A-4 to Schedule 5 in the GPIF Filing and to source documentation for April and October 2013. No exceptions were noted.

Litigation-Related Adjustments to Fuel Costs

Objectives: The objective was to review the litigation-related adjustments to fuel costs that the Utility incurred during 2013.

Procedures: We traced litigation expenses from the Utility's generation fuel costs schedules to the invoices and to the general ledger for each month of 2013. On June 26, 2013, the Eleventh Circuit Court of Appeals issued an opinion affirming all aspects of the final judgment in trial court. The time period for pursuing further appellate review has passed and the judgment entered by trial court is now final. In August 2013, Peabody Energy wire transferred sufficient funds to the Utility to fully satisfy the final judgment. The damage recovery has resulted in a credit to the Utility's retail customers through the FAC Filing in July 2013 and resulted in reduced fuel costs for customers.

True-up

Objectives: The objective was to determine whether the True-Up and Interest Provision as filed on Schedule A-2 was properly calculated.

Procedures: We traced the December 31, 2012 True-up Provision to the Commission Order. We recalculated the True-up and Interest Provision amounts as of December 31, 2013, using the Commission approved beginning balance as of December 31, 2012, the Financial Commercial Paper rates, and the 2013 FAC revenues and costs. No exceptions were noted.

Analytical Review

Objectives: The objective was to perform an analytical review of the Utility's FAC revenues and expenses.

Procedures: We compared 2013 to 2012 revenue and expenses. The Utility provided explanations for significant variances. Further follow-up was not required.

Audit Findings

None

Exhibits

Exhibit 1: Calculation of True-Up and Interest Provision

SCHEDULE A-2
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**CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2013**

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
A. Fuel Cost & Net Power Transactions								
1 Fuel Cost of System Net Generation	20,435,934.54	28,882,719	(8,446,784.46)	(29.25)	341,627,114.81	369,623,818	(27,996,703.19)	(7.57)
1a Other Generation	218,128.70	191,391	27,735.70	14.49	2,458,326.97	2,220,607	237,719.97	10.71
2 Fuel Cost of Power Sold	(6,223,597.48)	(9,516,000)	3,192,402.52	33.55	(94,695,181.90)	(94,164,000)	(531,181.80)	(0.56)
3 Fuel Cost - Purchased Power	20,101,744.63	18,753,000	1,348,744.63	7.19	208,524,799.87	202,161,000	4,363,799.87	2.16
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	951,974.39	0	951,974.39	100.00	10,160,978.48	0	10,160,978.48	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	(406,630.00)	0	(406,630.00)	100.00	14,654,866.00	0	14,654,866.00	100.00
6 Total Fuel & Net Power Transactions	34,978,552.78	38,311,110	(3,332,557.22)	(8.70)	480,730,904.23	478,841,425	889,478.23	0.19
7 Adjustments To Fuel Cost*	7,705.22	0	7,705.22	100.00	196,912.63	0	196,912.63	100.00
8 Adj. Total Fuel & Net Power Transactions	34,986,258.00	38,311,110	(3,324,852.00)	(8.68)	480,927,816.86	478,841,425	1,086,391.85	0.23
B. KWH Sales								
1 Jurisdictional Sales	824,274,387	852,320,000	(28,045,613)	(3.29)	10,619,888,663	11,239,814,000	(619,925,337)	(5.52)
2 Non-Jurisdictional Sales	25,618,104	28,961,000	(3,344,896)	(11.55)	309,856,040	356,827,000	(47,070,960)	(13.19)
3 Total Territorial Sales	849,890,491	881,281,000	(31,390,509)	(3.56)	10,929,744,703	11,596,741,000	(666,996,297)	(5.75)
4 Juris. Sales as % of Total Terr. Sales	96.9860	96.7138	0.2722	0.28	97.1650	96.9222	0.2428	0.25

* (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 2013**

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
C. True-up Calculation								
1 Jurisdictional Fuel Revenue	32,692,774.49	32,387,002	305,772.81	0.94	404,431,870.40	427,302,627	(22,870,956.89)	(5.35)
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	2,202,120.00	2,202,120	0.00	0.00	26,425,418.00	26,425,418	0.00	0.00
2b Incentive Provision	(86,662.00)	(86,662)	0.00	0.00	(1,039,911.00)	(1,039,911)	0.00	0.00
3 Juris. Fuel Revenue Applicable to Period	34,808,232.49	34,502,460	305,772.49	0.89	429,817,377.40	452,688,334	(22,870,956.60)	(5.05)
Adjusted Total Fuel & Net Power								
4 Transactions (Line A8)	34,988,258.00	38,311,110	(3,324,852.00)	(8.66)	480,927,820.25	479,841,425	1,086,395.25	0.23
5 Juris. Sales % of Total KWH Sales (Line B4)	96.9860	96.7199	0.2722	0.28	97.1650	96.9222	0.2428	0.25
Juris. Total Fuel & Net Power Transactions								
6 Adj. for Line Losses (C4*C5*1.0015)	33,982,668.84	37,107,708	(3,125,038.16)	(8.42)	468,006,148.53	465,767,733	2,238,415.53	0.48
True-Up Provision for the Month								
7 Over/(Under) Collection (C3-C6)	825,562.65	(2,605,246)	3,430,810.65	131.69	(38,188,771.13)	(13,079,398)	(25,109,373.13)	(181.98)
8 Interest Provision for the Month	(1,175.30)	(619)	(556.30)	(89.87)	(1,892.05)	7,200	(9,092.05)	126.28
9 Beginning True-Up & Interest Provision	(19,575,543.13)	(8,264,211)	(11,311,332.13)	(138.87)	17,091,723.14	26,425,418	(9,333,694.86)	35.32
10 True-Up Collected / (Refunded)	(2,202,120.00)	(2,202,120)	0.00	0.00	(26,425,418.00)	(26,425,418)	0.00	0.00
End of Period - Total Net True-Up, Before								
11 Adjustment (C7+C8+C9+C10)	(20,953,275.78)	(13,072,198)	(7,881,077.78)	(60.29)	(47,524,358.04)	(13,072,198)	(34,452,160.04)	(263.55)
12 Adjustment	0.00	0	0.00	0.00	26,571,082.26	0	26,571,082.26	100.00
13 End of Period - Total Net True-Up	(20,953,275.78)	(13,072,198)	(7,881,077.78)	(60.29)	(20,953,275.78)	(13,072,198)	(7,881,077.78)	(60.29)

**CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2013**

	CURRENT MONTH		DIFFERENCE	
	ACTUAL	ESTIMATED	AMOUNT (\$)	%
D. Interest Provision				
1 Beginning True-Up Amount (C9)	(19,575,543.13)	(8,284,211)	(11,311,332.13)	136.87
Ending True-Up Amount				
2 Before Interest (C7+C9+C10)	(20,862,100.48)	(13,071,579)	(7,890,521.48)	60.29
3 Total of Beginning & Ending True-Up Amts.	(40,527,643.61)	(21,335,790)	(19,191,853.61)	89.85
4 Average True-Up Amount	(20,263,821.81)	(10,667,895)	(9,595,926.81)	89.65
Interest Rate				
5 1st Day of Reporting Business Month	0.06	0.06	0.0000	
Interest Rate				
6 1st Day of Subsequent Business Month	0.08	0.08	0.0000	
7 Total (D5+D6)	0.14	0.14	0.0000	
8 Annual Average Interest Rate	0.07	0.07	0.0000	
9 Monthly Average Interest Rate (D8/12)	0.0058	0.0058	0.0000	
10 Interest Provision (D4*D9)	(1,175.30)	(619)	(556.30)	89.87
Jurisdictional Loss Multiplier (From Schedule A-1)	1.0015	1.0015		