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Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION CLERK

DATE: June 7, 2004
TO: Todd Bohrmann, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing
Division of Regulatory Compliance and Consumer Assistance
RE: Docket No. 040001-EI ; Company Name: Gulf Power Company ; Audit Purpose: Fuel Adjustment Clause Audit – High Priority Items ; Audit Control No. 04-023-1-1

Attached is the audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

This audit report contains the high priority items designated on your audit service request. The final audit report on the medium priority items listed on the audit service request is expected to be issued later this month, using Audit Control No. 04-153-1-1.

DNV/jcp
Attachment

cc: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

Tallahassee District Office


GULF POWER COMPANY

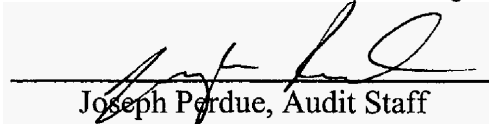
FUEL ADJUSTMENT CLAUSE AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2003

DOCKET NO. 040001-EI

AUDIT CONTROL NO. 04-023-1-1


Gennaro Jackson II, Audit Manager


Joseph Perdue, Audit Staff

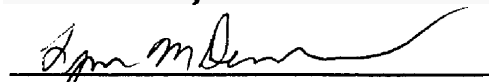

Lynn M. Deamer, Audit Supervisor

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

MARCH 29, 2004

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying fuel adjustment schedules for the twelve month period ended December 31, 2003, for Gulf Power Company. These schedules were prepared by the utility as part of its petition filed in Docket No. 040001-EI.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

FUEL EXPENSE: Compiled the fuel cost of system net generation. Scanned and recomputed energy payments and fuel cost purchased power. Verified Other Generation (Gas). Verified energy payments to qualifying facilities by comparing KWH reported on Schedule A-8 to Company invoices. Verified Economy purchases of non-associate companies, IIC purchases, and recalculated Mark-up on Economy sales. Verified that Gains derived from non-separated, non-energy broker network, wholesale energy sales were credited to the fuel clause and separated between retail and wholesale customers based on the appropriate separation factor.

OTHER: Recalculated true-up and interest provision. Verified Commercial Paper rates in calculation of interest provision. Reviewed prior year accounts to determine the accounting methodologies and procedures used by the Company to account for incremental hedging costs, costs that are not included in base rates. Determined that the hedging program is consistent with Company's risk management plan for 2003.

DISCLOSURES

Disclosure No. 1

Subject: Hedging Support Cost Incremental to Base

Statement of Fact: Gulf Power Company reported hedging support costs of \$14,811.14 as administrative cost recoverable through the fuel clause. These costs are associated with the Hedging Settlement Cost reported on Schedule A-1 for year ended December 31, 2003 . The Commission set criteria for costs that are allowed to be recovered through the Fuel Clause in Order No. 14546 and outlined criteria for prudently incurred cost incremental to base in Order No. PSC-02-1484-FOF-EI. Although administrative cost normally would be considered as ordinary O&M expenses recovered in base, the Commission gave an incentive for Companies that try to mitigate fuel cost through hedging programs by allowing procurement cost related to hedging activity to also be recoverable through the fuel clause as stated in Order No. PSC-02-1484-FOF-EI. Southern Company (Parent of Gulf Power Company) records this cost on the books and a work order is issued to allocate the cost directly to Gulf Power Company (Subsidiary) or the applicable sister company that engaged in the hedging activity.

After further review, the auditor agrees that this process for booking and allocating administrative cost related to hedging activity is appropriate and in accordance with Commission orders.

**CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY**

**SCHEDULE A-2
PAGE 1 OF 3**

FOR THE MONTH OF: DECEMBER 2003

	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	25,899,670.47	23,777,369	2,122,301.47	8.93	314,467,752.88	312,745,343	1,722,409.88	0.55
1a Other Generation	149,517.24	0	149,517.24	#N/A	2,267,488.34	19,253	2,248,235.34	11,677.32
2 Fuel Cost of Power Sold	(8,766,234.56)	(6,950,000)	(1,816,234.56)	26.13	(87,397,406.91)	(98,584,000)	11,186,593.09	(11.95)
3 Fuel Cost - Purchased Power	1,790,529.77	168,000	1,622,529.77	965.79	29,841,796.88	6,877,000	22,964,796.88	333.94
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	95,633.00	0	95,633.00	100.00	1,333,110.00	35,775	1,297,335.00	3,626.37
4 Energy Cost-Economy Purchases	0.00	0	0.00	#N/A	0.00	0	0.00	#N/A
5 Hedging Support Cost	1,560.06	6,604	(5,043.94)	(76.36)	14,810.14	79,240	(64,429.86)	(81.31)
6 Hedging Settlement Cost	0.00	0	0.00	(100.00)	(4,862,077.00)	0	(4,862,077.00)	(100.00)
7 Total Fuel & Net Power Transactions	19,170,675.98	17,001,973	2,168,703	12.76	255,665,474.31	221,172,611	34,492,863	15.60
8 Adjustments To Fuel Cost	1,562.64	0	1,562.64	#N/A	(484,450.98)	0	(484,450.98)	#N/A
9 Adj. Total Fuel & Net Power Transactions	19,172,238.62	17,001,973	2,170,265.62	12.76	255,201,023.33	221,172,611	34,028,412.33	15.39
B. KWH Sales								
1 Jurisdictional Sales	903,430,327	838,039,000	65,391,327	7.80	10,884,788,539	10,337,090,000	547,698,539	5.30
2 Non-Jurisdictional Sales	33,300,488	29,787,000	3,513,488	11.80	364,068,548	362,476,000	1,592,548	0.44
3 Total Territorial Sales	936,730,815	867,826,000	68,904,815	7.94	11,248,857,087	10,699,566,000	549,291,087	5.13
4 Juris. Sales as % of Total Terr. Sales	96.4450	96.5676	(0.1226)	(0.13)	96.7635	96.6122	0.1513	0.16

Note: Line 8 - (Gain)/Loss on Sales of Natural Gas

**CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2003**

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	\$ ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL	\$ ESTIMATED	DIFFERENCE AMOUNT (\$)	%
C. True-up Calculation								
1 Jurisdictional Fuel Revenue	21,405,221.15	19,662,998	1,742,222.79	8.86	254,729,055.19	242,540,245	12,188,810.27	5.03
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(2,422,599.87)	(2,422,600)	(0.04)	0.00	(29,071,198.00)	(29,071,198)	(0.04)	0.00
2b Incentive Provision	30,769.35	30,769	0.00	0.00	369,232.20	369,232	0.00	0.00
3 Juris. Fuel Revenue Applicable to Period	<u>19,013,390.63</u>	<u>17,271,168</u>	<u>1,742,222.63</u>	10.09	<u>226,027,089.39</u>	<u>213,838,279</u>	<u>12,188,810.39</u>	5.70
4 Adjusted Total Fuel & Net Power Transactions (Line A9)	19,172,238.62	17,001,973	2,170,265.62	12.76	255,201,024.33	221,172,611	34,028,413.33	15.39
5 Juris. Sales % of Total KWH Sales (Line B4)	96.4450	96.5676	(0.1226)	(0.13)	96.7635	96.6122	0.1513	0.16
6 Juris. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 *C5*1.0007)	<u>18,503,609.00</u>	<u>16,429,890</u>	<u>2,073,719.00</u>	12.62	<u>247,104,480.78</u>	<u>219,825,708</u>	<u>33,278,772.78</u>	15.58
7 True-Up Provision for the Month Over/(Under) Collection (C3-C8)	509,781.83	841,278	(331,496.37)	(39.40)	(21,077,392.39)	12,573	(21,089,965.39)	#####
8 Interest Provision for the Month	(18,686.44)	(1,580)	(17,126.44)	1,087.85	(311,094.32)	(200,900)	(110,194.32)	54.85
9 Beginning True-Up & Interest Provision*	(23,245,282.45)	(3,450,645)	(19,794,617.45)	573.85	(28,014,278.68)	(29,071,198)	1,056,919.32	(3.64)
10 True-Up Collected / (Refunded)	<u>2,422,599.87</u>	<u>2,422,600</u>	<u>0.04</u>	0.00	<u>29,071,198.00</u>	<u>29,071,198</u>	<u>0.04</u>	0.00
11 End of Period - Total Net True-Up (C7+C8+C9+C10)	<u>(20,331,567.39)</u>	<u>(188,327)</u>	<u>(20,143,240.39)</u>	10,895.89	<u>(20,331,567.39)</u>	<u>(188,327)</u>	<u>(20,143,240.39)</u>	10,895.89

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