

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 24, 2006
TO: Peter H. Lester, Economic Analyst, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance *DNV*
RE: **Docket No:** 060001-EI; **Company Name:** Gulf Power Company
Audit Purpose: Fuel Audit Clause
Audit Control No: 06-046-1-1

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 confidential work papers associated with this audit.

DNV:bj
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 32520-0780

Beggs & Lane Law Firm
J. Stone/ R. Badders / S. Griffin
P.O. Box 12950
Pensacola, FL 32591-2950

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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, 2005

DOCKET NO. 060001-EI

AUDIT CONTROL NO. 06-046-1-1

Intesar Terkawi

Intesar Terkawi, Audit Manager

Mike Buckley

Mike Buckley, Audit Staff

Gennaro Jackson II

Gennaro Jackson, Audit Staff

Lynn M. Deamer

Lynn M. Deamer, Audit Supervisor

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

July 25, 2006

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. 0600001-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 were completely and properly recorded on the books of the company.

Procedures: - We compiled FAC revenues from company source documents and agreed to filing and General Ledger. Recalculated Fuel Adjustment Clause charge on selected customer bills from various rate classes and determined that the company used the correct rates approved by this Commission.

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. Agreed February, May, September and November to supporting IIC invoices: Southern Company, Nonassociated companies, Alabama Electric Co-op and Other Transactions. Agreed total to line 13 of schedule A-1.

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

Procedures: Scheduled Gains on Economy of Sales from Interchange reports. Verified through Order PSC-05-1252-FOF-EI that beginning January 1, 2005 gains are to be shared (between ratepayer and shareholder, 80% and 20% respectively) after reaching a benchmark. Traced the gains for January and April 2005 to source documentation. Traced the gains for 12 months of 2005 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 reported on invoices used as back up source documentation for Schedule A-8 to February, May, September and November of 2005.

Objective: To agree the fuel costs to the general ledger

Procedures: Obtained amounts charged to Account 501 and 547 by account by month for 2005 from Fuel Clause Journal # 2013. 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 A1 was recalculated for each month in 2005). Total Fuel Costs determined by auditor were compared to amounts filed.

Objective: To verify amounts of semi-annual Coal Inventory Adjustments for 2005 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 coal and oil purchases displayed on FPSC Form 423 with monthly company filings and source documentation.

Procedures: The audit staff obtained the records of stockpile and plant receipts, fuel and freight invoices for the 12 months ended December 31, 2005. We reconciled coal (Tons and MMBTU's) and oil (Bbls) purchases reported on Form 423 with Schedule A-5 of the fuel filing for the month of March 2005 and the differences were traced to general ledger. Staff also cross referenced coal and oil purchases reported on schedule A-5 and Form 423 to company journals and supporting documents. The staff vouched the coal and oil purchases from lead schedules to company Schedule A-5 and Form 423.

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 2005. 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 (ANOHR) reported on Schedule 3 of GPIF filing for October and December 2005. 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 (POH), Service Hours (SH), Period Hours (PH), Reserved Shutdown Outage Hours (RSH), Forced Outage Hours (FOH), and Maintenance Outage Hours (MOH) from the Outage Hours Report to Schedule 5 of the GPIF filing for the months of October and December 2005. The audit staff also traced both the Period Hours (PH) and Service Hours (SH) to Crist 4 Generation Summary Report from the Outage Hours Report. The audit staff agreed the MBTU, Net Generation (MWH) and ANOHR (Btu/KWH) values for October and December 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, 2005 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, 2005. 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 2005 FAC true-up, and agreed beginning true-up to prior audit, and to the Order PSC-03-1461-FOF-EI. 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 2005**

	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	36,664,596.01	40,662,616	(3,998,019.99)	(9.83)	431,233,695.46	424,056,464	7,177,231.46	1.69
1a Other Generation	102,166.84	158,444	(56,277.16)	(35.52)	1,721,613.24	2,326,960	(605,346.96)	(26.01)
2 Fuel Cost of Power Sold	(12,473,556.29)	(18,278,000)	5,804,443.71	(31.76)	(119,523,318.37)	(139,954,000)	20,430,681.63	(14.60)
3 Fuel Cost - Purchased Power	3,461,664.06	1,117,000	2,344,664.06	209.91	61,482,447.37	26,645,000	34,837,447.37	130.75
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	9,962.00	0	9,962.00	100.00	726,066.00	0	726,066.00	#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	6,622.58	2,759	3,863.58	140.04	43,637.87	33,086	10,551.87	31.89
6 Hedging Settlement Cost	(2,661,584.00)	0	(2,661,584.00)	(100.00)	(22,571,976.00)	0	(22,571,976.00)	(100.00)
7 Total Fuel & Net Power Transactions	25,109,871.20	23,662,819	1,447,052	6.12	353,112,165.57	313,107,510	40,004,655	12.78
8 Adjustments To Fuel Cost	(19,832.20)	0	(19,832.20)	#N/A	(545,300.21)	0	(545,300.21)	#N/A
9 Adj. Total Fuel & Net Power Transactions	25,090,039.00	23,662,819	1,427,220.00	6.03	352,566,865.36	313,107,510	39,459,355.16	12.60
B. KWH Sales								
1 Jurisdictional Sales	917,538,697	863,122,000	54,416,697	6.30	11,238,895,864	11,091,105,000	147,790,864	1.33
2 Non-Jurisdictional Sales	35,196,234	31,320,000	3,876,234	12.38	402,768,010	379,819,000	22,949,010	6.04
3 Total Territorial Sales	952,734,931	894,442,000	58,292,931	6.52	11,641,663,874	11,470,924,000	170,739,874	1.49
4 Juris. Sales as % of Total Terr. Sales	96.3058	96.4984	(0.1926)	(0.20)	96.5403	96.6889	(0.1486)	(0.15)

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 2005**

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	\$ ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL	\$ ESTIMATED	DIFFERENCE AMOUNT (\$)	%
C. True-up Calculation								
1 Jurisdictional Fuel Revenue	26,749,176.92	24,339,778	2,409,398.92	9.90	317,955,134.75	312,765,792	5,189,343.10	1.66
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(2,214,412.62)	(2,214,408)	(4.62)	0.00	(26,572,951.00)	(26,572,951)	0.00	0.00
2b Incentive Provision	(52,069.14)	(52,071)	1.86	0.00	(624,830.08)	(624,830)	(0.08)	0.00
3 Juris. Fuel Revenue Applicable to Period	<u>24,482,695.16</u>	<u>22,073,299</u>	<u>2,409,396.16</u>	10.92	<u>290,757,353.67</u>	<u>285,568,011</u>	<u>5,189,342.67</u>	1.82
4 Adjusted Total Fuel & Net Power Transactions (Line A9)	25,090,039.00	23,662,819	1,427,220.00	6.03	352,566,865.36	313,107,510	39,459,355.36	12.60
5 Juris. Sales % of Total KWH Sales (Line B4)	96.3058	96.4984	(0.1926)	(0.20)	96.5403	96.6889	(0.1486)	(0.15)
6 Juris. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 *C5*1.0007)	<u>24,180,076.99</u>	<u>22,850,226</u>	<u>1,329,850.99</u>	5.82	<u>340,674,331.01</u>	<u>302,951,331</u>	<u>37,723,000.01</u>	12.45
7 True-Up Provision for the Month Over/(Under) Collection (C3-C6)	302,618.17	(776,927)	1,079,545.17	(138.95)	(49,916,977.34)	(14,678,613)	(35,238,364.34)	240.07
8 Interest Provision for the Month	(116,227.32)	(55,918)	(60,309.32)	107.85	(359,487.31)	(427,804)	68,316.69	(15.97)
9 Beginning True-Up & Interest Provision*	(34,035,538.20)	(16,487,980)	(17,547,558.20)	106.43	(7,931,221.08)	(26,572,951)	18,641,729.92	(70.15)
10 True-Up Collected / (Refunded)	<u>2,214,412.62</u>	<u>2,214,408</u>	<u>4.62</u>	0.00	<u>26,572,951.00</u>	<u>26,572,951</u>	<u>0.00</u>	0.00
End of Period - Total Net True-Up, Before								
11 Adjustment (7+C8+C9+C10)	<u>(31,634,734.73)</u>	<u>(15,106,417)</u>	<u>(16,528,317.73)</u>	109.41	<u>(31,634,734.73)</u>	<u>(15,106,417)</u>	<u>(16,528,317.73)</u>	109.41