

State of Florida



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Public Service Commission

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

DATE: October 6, 2008
TO: Peter H. Lester, Economic Analyst, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *W*
RE: Docket No: 080001-EI; Company Name: Gulf Power Company;
Audit Purpose: Hedging Transactions for January – July 2008;
Company Code: EI804; Audit Control No: 08-221-1-1;

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 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 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

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

REVIEW OF HEDGING INFORMATION REPORT

FOR SEVEN MONTHS ENDED JULY 31, 2008

DOCKET NO. 080001-EI
AUDIT CONTROL NO. 08-221-1-1

A handwritten signature in cursive script, appearing to read "Debra Dobiac".

Debra Dobiac, Audit Manager

A handwritten signature in cursive script, appearing to read "Lynn M. Deamer".

Lynn M. Deamer, Audit Supervisor

DOCUMENT NUMBER-DATE

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**DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT**

September 26, 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 applied these procedures to the schedules prepared by Gulf Power Company in support of its filing on August 15, 2008 for its Hedging Information Report, 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. This audit contains confidential information.

OBJECTIVES and PROCEDURES

Objective: To review and verify the information presented in Gulf Power's Hedging Information Report filed with this Commission on August 15, 2008.

To verify that the accounting treatment for futures, options, and swap contracts between Gulf Power and one or more counterparties are consistent with FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002 and as clarified by FPSC Order No. PSC-08-0316-PAA-EI, issued May 14, 2008.

To reconcile the data included in the Hedging Information Report of August 15, with the books and records of the utility including gains (losses), option premiums, swap settlements as well as fees, commissions, and other transaction costs associated with each financial hedging instrument.

To verify that the quantities of gas, residual oil, and purchased power hedged are within the limits specified in Gulf Power's 2007 Risk Management Plan. Verify that the individual and group transactions limits and authorizations set forth in the Risk Management Plan have been followed as well as the utility's procedures for separating duties related to its hedging activities per the Hedging Plan.

To verify that the hedging operating and maintenance expenses associated with maintaining a non-speculative financial and/or physical hedging program are incremental in nature as set forth in FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002.

Procedures: The audit staff reviewed the Risk Management Plan for Fuel Procurement filed by Gulf Power with this Commission on April 5, 2007 in Docket No. 070001-EI. We compared pricing strategy included in the plan to the Hedging Information Report for the seven (7) months ended July 31, 2008 as filed by the utility on August 15, 2008.

The audit staff obtained the utility's supporting detail of the hedging settlements for the seven (7) months ended July 31, 2008. The support documentation was traced to the general ledger transaction detail for Hedging, Account No. 547-4. The audit staff reviewed the adherence of the hedging settlements to the risk management plan and verified that the accounting treatment for the hedging transactions as well as any transaction costs were consistent with FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002.

The audit staff discussed the quantity limits, individual and group transaction limits and authorizations as well as the procedures for separating duties related to the hedging program as set forth in the Risk Management Plan with utility staff. We obtained the utility's analysis of the monthly percent of fuel hedged in relation to fuel burned as well as the applicable average price of the financial transactions settled and the average cost of natural gas purchased for the seven (7) months ending July 31, 2008 and reviewed for reasonableness. We also obtained the 2008 Risk Management Plan filed September 2, 2008 in Docket No. 080001-EI. We compared the average prices/costs to the historical NYMEX Natural Gas Futures Prices and noted no exceptions. The audit staff noted adherence of the hedging transactions to the Risk Management Plan.