

State of Florida



RECEIVED-FPSC **Public Service Commission**

09 MAY -5 PM 2:03 CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

COMMISSION
CLERK

-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 *D*
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
Gulf Power Company
One Energy Place
Pensacola, FL 32520-0780

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

DOCUMENT NUMBER-DATE

04268 MAY-5 8

FPSC-COMMISSION CLERK

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

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

Debra M. Dobiak, Audit Manager

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

Lynn M. Deamer, District Audit Supervisor

DOCUMENT NUMBER-DATE

04268 MAY-5 8

FPSC-COMMISSION CLERK

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES	2
III. EXHIBITS	5
1. COMPANY SCHEDULE A2, PAGE 1 OF 3, CALCULATION OF TRUE UP	5
2. COMPANY SCHEDULE A2, PAGE 2 OF 3, CALCULATION OF TRUE UP	6

DOCUMENT NUMBER-DATE

04268 MAY-5 8

FPSC-COMMISSION CLERK

**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

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

	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**	42,849,337.10	53,804,388	(10,955,050.90)	(20.36)	618,403,859.13	666,515,468	(38,111,606.87)	(5.81)
1a Other Generation**	162,430.36	428,000	(265,569.64)	(62.03)	2,184,204.00	3,693,796	(1,509,592.00)	(40.87)
2 Fuel Cost of Power Sold	(7,120,189.06)	(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)	64,626,306.83	30,052,000	34,574,306.83	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	(478.89)	1,737,726.21	(9,063,000)	10,800,726.21	(119.11)
6 Total Fuel & Net Power Transactions	42,345,548.10	45,258,388	(2,912,839.90)	(6.44)	559,008,060.17	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)	559,129,662.96	452,003,264	107,126,418.96	23.70
B. KWH Sales								
1 Jurisdictional Sales	906,168,880	908,685,000	(101,816,320)	(11.22)	11,543,398,139	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	423,896,000	(37,572,244)	(8.86)
3 Total Territorial Sales	936,027,683	943,945,000	(107,917,317)	(11.38)	11,929,722,895	12,123,980,000	(194,257,105)	(1.60)
4 Jurs. 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.

5

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

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL ³	ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL ⁸	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
C. True-up Calculation:								
1 Jurisdictional Fuel Revenue	43,078,330.17	46,094,008	(2,956,677.83)	(6.43)	503,248,396.71	503,105,507	142,869.71	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	(67,034,532.64)	(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 Jurs. Fuel Revenue Applicable to Period	33,554,909.29	36,513,588	(2,958,678.71)	(8.10)	436,418,813.51	436,279,822	147,991.51	0.03
4 Adjusted Total Fuel & Net Power Transactions (Line A8)	42,407,105.48	45,256,368	(2,851,262.52)	(6.30)	559,129,682.96	452,003,264	107,126,418.96	23.70
5 Jurs. Sales % of Total KWH Sales (Line B4)	96.4285	96.2622	0.1663	0.17	96.7817	96.5036	0.2561	0.27
6 Jurs. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 * C5 * 1.0007)	40,921,180.48	43,597,217	(2,676,056.52)	(6.14)	541,462,800.69	436,496,203	104,964,597.69	24.06
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	(82,583.34)	18,508	(101,191.34)	546.74	(2,155,732.88)	(363,229)	(1,792,503.88)	(493.45)
9 Beginning True-Up & Interest Provision	(88,820,073.14)	20,648,846	(119,469,919.14)	578.55	(56,627,734.30)	(43,328,799)	(13,300,935.30)	(30.70)
10 True-Up Collected / (Refunded) End of Period - Total Net True-Up, Before Adjustment (C7+C8+C9+C10)	9,537,500.00	9,537,500	0.00	0.00	67,034,532.64	67,034,536	(3.36)	0.00
11 Adjustment	(66,731,507.67)	23,122,225	(119,853,732.67)	518.35	(66,731,507.67)	23,122,225	(119,853,732.67)	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	(66,731,507.67)	23,122,225	(119,853,732.67)	518.35	(66,731,507.67)	23,122,225	(119,853,732.67)	518.35

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