

State of Florida



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## Public Service Commission

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**DATE:** October 5, 2009  
**TO:** Kaley Thompson , Regulatory Analyst II, Division of Economic Regulation  
**FROM:** Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*  
**RE:** Docket No.: 090001-EI  
Company Name: Gulf Power Company  
Company Code: EI804  
Audit Purpose: Hedging August 2008 - July 2009  
Audit Control No: 09-190-1-1

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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.

DNM/ch  
Attachment: Audit Report

cc: (With Attachment)  
Division of Regulatory Compliance (Salak, Mailhot, File Folder)  
Office of Commission Clerk  
Office of the General Counsel

(Without Attachment)  
Division of Regulatory Compliance (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

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STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE  
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

HEDGING INFORMATION REPORT AUDIT

AUGUST 1, 2008 – JULY 31, 2009

DOCKET NO. 090001-EI  
AUDIT CONTROL NO. 09-190-1-1

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

Debra M. Dobiak, Audit Manager

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

Lynn M. Deamer, District Audit Supervisor

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

**September 30, 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 dated July 7, 2009. We applied these procedures to the schedules prepared by Gulf Power Company in support of its filing on August 13, 2009 for its Hedging Information Report, 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. There are confidential workpapers included in this audit.

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## **II. OBJECTIVES AND PROCEDURES**

*Objective:* To review and verify the information presented in Gulf Power's Natural Gas Hedging Transactions Report filed with this Commission on March 9, 2009 and its Hedging Information Report filed with this Commission on August 13, 2009.

*Procedures:* The audit staff reviewed the Risk Management Plan for Fuel Procurement filed by Gulf Power with this Commission on September 2, 2008 in Docket No. 080001-EI. We compared pricing strategy included in the plan to the Hedging Reports for the twelve (12) months ended July 31, 2009 as filed by the utility on March 9, 2009 and August 13, 2009.

*Objectives:* 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 two Hedging Reports 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.

*Procedures:* The audit staff obtained the utility's supporting detail of the hedging settlements for the twelve (12) months ended July 31, 2009. 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.

*Objectives:* To verify that the quantities of gas, residual oil, and purchased power hedged are within the limits specified in Gulf Power's 2008 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 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 and noted that it remained consistent with prior years. 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 twelve (12) months ending July 31, 2009 and reviewed for reasonableness. We also obtained the 2009 Risk Management Plan filed August 4, 2009 in Docket No. 090001-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.