

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: May 21, 2010
TO: Kenneth Franklin, Regulatory Analyst II, Division of Economic Regulation
FROM: Dale N. Mailhot, Director, Office of Auditing and Performance Analysis *DNM*
RE: Docket No.: 100001-EI
Company Name: Gulf Power Company
Company Code: EI804
Audit Purpose: Fuel Cost Recovery Clause
Audit Control No: 10-004-1-1

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 Commission Clerk. There were no confidential work papers associated with this audit.

DNM/ip

Attachment: Audit Report

cc: (With Attachment)
Office of Auditing and Performance Analysis (Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER-DATE

04338 MAY 21 0

FPSC-COMMISSION CLERK

STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

FUEL ADJUSTMENT CLAUSE AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2009

DOCKET NO. 100001-EI
AUDIT CONTROL NO. 10-004-1-1

A handwritten signature in cursive script that reads "Donna Brown".

Donna Brown, Audit Manager

A handwritten signature in cursive script that reads "V. Hymavathi".

Hymavathi Vedula, Audit Staff

A handwritten signature in cursive script that reads "Lynn M. Deamer".

Lynn M. Deamer, District Audit Supervisor

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**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
AUDITOR'S REPORT**

May 20, 2010

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 Adjustment Clause, Docket No. 100001-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 determine that the Fuel Adjustment Clause (FAC) revenue and KWHs sold are 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 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 verified that the Commission approved factors were used in the billing of the manual bills. In addition, audit staff selected a judgmental sample of computerized customer bills to test that the applicable factors for FAC, CCR, ECCR, and ECRC were used in billing customers.

EXPENSES

Objective: To reconcile the fuel costs to the general ledger.

Procedures: Audit staff scheduled FERC Account 501, Steam Generation-Fuel, and FERC Account 547, Other Generation-Fuel, for each month of 2009 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 2009. Audit staff 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, 2009.

Objective: To review Purchase Power Agreements and reconcile company filings to books and records of the company.

Procedures: Audit staff reviewed Purchase Power Agreement Contracts from the company for Coral Baconton, Dahlberg, and Shell. In addition, audit staff also reviewed purchase power charges as per the company filing and reconciled them to actual invoices.

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. Audit staff also traced the KWHs reported on Schedule A-8 to customer bills for January, March, May, July, September, November and December of 2009.

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 2009 and reconciled the total to Schedule A-1, Line 12. Audit staff also traced purchased amounts to the supporting intercompany Interchange Contract (IIC) invoices for February, June, September, and November of 2009.

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 2009 and reconciled the total to Schedule A-1, Line 15. Audit staff also 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 2009 since the estimated benchmark was not met. The audit staff traced the gains to the supporting IIC invoices for March, June, September, and December of 2009.

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: Audit staff scheduled natural gas purchases and applicable firm transportation service charges from the Accounts Payable Analysis for each month of 2009 and reconciled totals to the general ledger. The audit staff traced purchased amounts and total FTS charges to the paid invoices for April and December 2009.

Objective: To verify that amounts of the semi-annual Coal Inventory Adjustments for 2009 were made in accordance with FPSC Order PSC-97-0359-FOF-EI, issued March 31, 1997.

Procedures: For the March 2009 and September 2009 Flyovers, we obtained the Field Schedule of Flyover results, recalculated the inventory adjustments, compared them to the adjusted book balances, supporting journal vouchers. Audit staff verified company compliance with procedures contained in applicable order.

Objective: To reconcile coal and oil purchases noted on FPSC Form 423 with the monthly Schedule A-5, contractual obligations, and source documentation.

Procedures: Audit staff reconciled coal and oil purchases reported on Form 423 with the Schedule A-5 filing for June 2009. 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. Audit staff also 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

Procedure: 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 September and December 2009. 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 reported on Schedule 3 of GPIF filing for September and December 2009. Audit staff reconciled any differences between Averaging 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 September and December 2009. Audit staff 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 September and December 2009 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.

Procedure: Audit staff traced the total for Fuel Adjustment for Southern Company Interchange reported on Schedule A-6 to the IIC invoice and the company's Interchange Analysis for September 2009. 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 markups/gains.

TRUE-UP

Objective: To determine if the True-Up Calculation and interest provision as filed with this Commission was correctly calculated.

Procedures: Audit staff recalculated the 2009 Fuel Adjustment Clause true-up, and agreed the beginning true-up amount to the prior audit, and the true-up amounts to the applicable FPSC Order. The audit staff reconciled the interest rates to the Commercial Paper rates.

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2009

	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	47,703,921.92	57,839,963	(10,136,041.08)	(17.52)	487,114,613.04	692,591,443	(205,476,829.96)	(29.67)
1a Other Generation	239,311.12	534,695	(295,383.88)	(55.24)	2,668,655.41	5,973,657	(3,305,001.59)	(55.33)
2 Fuel Cost of Power Sold	(7,496,351.20)	(12,182,000)	4,685,648.80	38.46	(60,981,841.06)	(206,568,000)	145,586,158.94	70.48
3 Fuel Cost - Purchased Power	3,098,146.68	1,879,000	1,219,146.68	64.88	61,286,565.60	46,081,000	15,205,565.60	33.00
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	522,888.34	0	522,888.34	100.00	4,301,816.56	0	4,301,816.56	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	2,269,725.18	1,564,000	705,725.18	45.12	51,232,250.52	19,624,000	31,608,250.52	161.07
6 Total Fuel & Net Power Transactions	46,337,642.04	49,635,658	(3,298,015.96)	(6.64)	545,622,060.07	557,702,100	(12,080,039.93)	(2.17)
7 Adjustments To Fuel Cost*	43,632.66	0	43,632.66	100.00	347,012.02	0	347,012.02	100.00
8 Adj. Total Fuel & Net Power Transactions	46,381,274.70	49,635,658	(3,254,383.30)	(6.56)	545,969,072.09	557,702,100	(11,733,027.91)	(2.10)
B. KWH Sales								
1 Jurisdictional Sales	885,244,133	867,182,000	18,062,133	2.08	10,902,624,031	11,450,213,000	(547,388,969)	(4.78)
2 Non-Jurisdictional Sales	32,686,403	32,132,000	554,403	1.73	373,480,173	407,714,000	(34,233,827)	(8.40)
3 Total Territorial Sales	917,930,536	899,314,000	18,616,536	2.07	11,276,304,204	11,857,927,000	(581,622,796)	(4.90)
4 Juris. Sales as % of Total Terr. Sales	96.4391	96.4271	0.0120	0.01	96.6879	96.5617	0.1262	0.13

* (Gain)/Loss on sales of natural gas and costs of contract dispute litigation.

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2009

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
<i>C. True-up Calculation</i>								
1 Jurisdictional Fuel Revenue	49,001,837.58	49,636,631	(634,792.92)	(1.28)	622,413,566.18	655,397,537	(32,983,970.80)	(5.03)
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(3,997,794.12)	(3,997,794)	0.00	0.00	(47,973,529.00)	(47,973,529)	0.00	0.00
2b Incentive Provision	36,114.46	36,114	0.00	0.00	433,372.97	433,373	0.00	0.00
3 Juris. Fuel Revenue Applicable to Period	45,040,157.92	45,674,951	(634,793.08)	(1.39)	574,873,410.15	607,857,381	(32,983,970.85)	(5.43)
4 Adjusted Total Fuel & Net Power Transactions (Line A8)	46,381,274.70	49,635,658	(3,254,383.30)	(6.56)	545,968,073.09	557,702,100	(11,733,026.91)	(2.10)
5 Juris. Sales % of Total KWH Sales (Line B4)	96.4391	96.4271	0.0120	0.01	96.6879	96.5617	0.1262	0.13
6 Juns. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 *C5*1.0007)	44,760,994.67	47,895,729	(3,134,734.33)	(6.54)	528,246,977.47	538,921,385	(10,674,407.53)	(1.98)
7 True-Up Provision for the Month								
Over/(Under) Collection (C3-C6)	279,163.25	(2,220,778)	2,499,941.25	112.57	46,626,432.68	68,935,996	(22,309,563.32)	32.36
8 Interest Provision for the Month	(755.07)	11,366	(12,121.07)	106.64	(252,136.51)	22,459	(274,595.51)	1,222.65
9 Beginning True-Up & Interest Provision	(6,659,884.80)	67,170,073	(73,829,957.80)	109.91	(96,731,507.67)	(47,973,529)	(48,757,978.67)	(101.64)
10 True-Up Collected / (Refunded)	3,997,794.12	3,997,794	0.00	0.00	47,973,529.00	47,973,529	0.00	0.00
End of Period - Total Net True-Up, Before								
11 Adjustment (C7+C8+C9+C10)	(2,383,682.50)	68,958,455	(71,342,137.50)	103.46	(2,383,682.50)	68,958,455	(71,342,137.50)	103.46
12 Adjustment	0.00	0	0.00	0.00	0.00	0	0.00	0.00
13 End of Period - Total Net True-Up	(2,383,682.50)	68,958,455	(71,342,137.50)	103.46	(2,383,682.50)	68,958,455	(71,342,137.50)	103.46