

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

11 OCT -5 PM 3: 23

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

DOCKET NO. 110001-EI

COMMISSION CLERK

DATED: October 5, 2011

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of

Donna D. Brown has been served by U.S. Mail this 5th day of October, 2011, to the following:

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COM	5
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RAD	1
SRC	1
ADM	1
OPC	1
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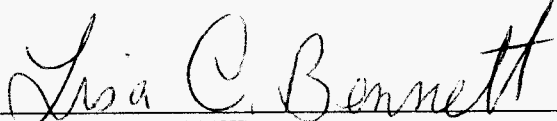
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Docket No. 110001-EI: Fuel and Purchased Power Cost Recovery Clause. **Gulf Power Company's** Hedging Activities

Witness: **Direct Testimony of Donna D. Brown**, Appearing on Behalf of the staff of The Florida Public Service Commission

Date Filed: October 5, 2011

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DIRECT TESTIMONY OF DONNA D. BROWN

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Q. Please state your name and business address.

A. My name is Donna D. Brown, and my business address is 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission as a Professional Accountant in the Office of Auditing and Performance Analysis.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since February 2008.

Q. Briefly review your educational and professional background.

A. I graduated from Florida A&M University's School of Business & Industry in 2006 with a Bachelor of Arts degree in accounting.

Q. Please describe your current responsibilities.

A. Currently, I am a Professional Accountant with the responsibilities of managing regulated utility financial audits. I am also responsible for creating audit work papers and programs to meet the specific purpose of each audit.

Q. Have you presented testimony before this Commission?

A. Yes,

Q. What is the purpose of your testimony today?

1 A. The purpose of my testimony is to sponsor the staff audit report of Gulf Power Company
2 (Company or Utility) which addresses the Utility's filing in Docket No. 110001-EI Fuel and
3 purchased power cost recovery clause for costs associated with its hedging activities. We issued
4 an audit report in this Docket for the hedging activities on September 30, 2011. This audit
5 report is filed with my testimony and is identified as Exhibit DDB-1.

6
7 **Q. Was this audit prepared by you or under your direction?**

8 A. Yes, it was prepared by me and other audit staff under my direction,
9

10 **Q. Please describe the work you performed in this audit.**

11 A.

12 Hedging Transaction and Information Report Verification

13 We reviewed Gulf Power Company's 2010 and 2011 Risk Management Plans for Fuel
14 Procurement filed in Docket No. 090001-EI and Docket No. 100001-EI respectively. We
15 compared pricing strategy included in the plan to the Hedging Reports for the 12 months ended
16 July 31, 2011 as filed by Gulf Power Company on April 1, 2011 and August 15, 2011.

17 Accounting Treatments for Financial Contracts

18 We obtained Gulf Power Company's supporting detail of the hedging settlements for the 12
19 months ended July 31, 2011. The support documentation was traced to the general ledger
20 transaction detail. We reviewed the compliance of the hedging settlements to the Risk
21 Management Plan and verified that the accounting treatment for the hedging transactions and
22 any transaction costs, were consistent with Commission Order PSC-02-1484-FOF-EI, issued
23 October 30, 2002 in Docket No. 011605-EI and as clarified by FPSC Order No. PSC 08-0316-
24 PAA-EI, issued May 14, 2008 and FPSC Order No. PSC-08-0667-PAA-EI, issued October 8,
25 2008 in Docket No.080001-EI.

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Risk Management Plan

We 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. We also obtained Gulf Power Company's analysis of the monthly percent of fuel hedged in relation to fuel burned, the applicable average price of the financial transactions settled, and the average costs of natural gas purchased for the 12 months ended July 31, 2011 and reviewed for reasonableness. The hedging transactions complied with the Risk Management Plan.

Q. Does the staff audit report of Gulf Power Company which addresses the Utility's annual Hedging Information Report and marked as Exhibit DDB-1 contain any findings noting any errors or exceptions taken by staff?

A. No it does not.

Q. Does this conclude your testimony?

A. Yes it does.

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Gulf Power Company
Hedging Activities

12 Months Ended July 31, 2011

Docket No. 110001-EI
Audit Control No. 11-129-1-1
September 30, 2011

Handwritten signature of Donna D. Brown in cursive script.

Donna D. Brown
Audit Manager

Handwritten signature of Lynn M. Deamer in cursive script.

Lynn M. Deamer
Reviewer

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Purpose

To: Florida Public Service Commission

We performed the procedures enumerated in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated May 9, 2011. Audit staff applied these procedures to the schedules prepared by Gulf Power Company in support of its filing for its Hedging Activities in Docket No. 110001-EI.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

Hedging Transaction and Information Report Verification

Objectives: The objectives were to review and verify the information presented in Gulf Power Company's Natural Gas Hedging Transactions Report filed with this Commission on April 1, 2011 and its Hedging Information Report filed with this Commission on August 15, 2011.

Procedures: We reviewed Gulf Power Company's 2010 and 2011 Risk Management Plans for Fuel Procurement filed in Docket No. 100001-EI. We compared pricing strategy included in the plan to the Hedging Reports for the 12 months ended July 31, 2011 as filed by Gulf Power Company on April 1, 2011 and August 15, 2011.

Accounting Treatments for Financial Contracts

Objectives: The objectives were to verify that the accounting treatments for futures, options, and swap contracts between Gulf Power Company 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 and FPSC Order No. PSC-08-0667-PAA-EI, issued October 8, 2008. An additional objective was to reconcile the data included in the two Hedging Reports with the books and records of Gulf Power Company including gains (losses), option premiums, swap settlements as well as fees, commissions, and other transaction costs associated with each financial hedging instrument.

Procedures: We obtained Gulf Power Company's supporting detail of the hedging settlements for the 12 months ended July 31, 2011. The support documentation was traced to the general ledger transaction detail. We reviewed the compliance of the hedging settlements to the Risk Management Plan and verified that the accounting treatment for the hedging transactions, and any transaction costs, were consistent with FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002.

Risk Management Plan

Objectives: The objectives were to verify that the quantities of gas hedged are within the limits specified in Gulf Power Company's 2010 and 2011 Risk Management Plans. The Company does not hedge purchased power and residual oil. We were also required to verify that the individual and group transactions limits and authorizations set forth in the Risk Management Plan have been followed as well as Gulf Power Company's procedures for separating duties related to its hedging activities. An additional objective was 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: We 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. We also obtained Gulf Power Company's analysis of the monthly percent of fuel hedged in relation to fuel burned, the applicable average price of the financial transactions settled, and the average costs of natural gas purchased for the 12 months

ended July 31, 2011 and reviewed for reasonableness. The hedging transactions complied with the Risk Management Plan.

Audit Findings

None