

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-**

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**DATE:** May 31, 2012  
**TO:** Office of Commission Clerk  
**FROM:** Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 120001-EI  
Company Name: Tampa Electric Company  
Company Code: EI806  
Audit Purpose: A3a Fuel Cost Cost Recovery Clause  
Audit Control No: 12-013-1-2

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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 Commission Clerk. There were confidential work papers associated with this audit.

CJP/klh  
Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

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State of Florida



**Public Service Commission**

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

**Auditor's Report**

Gulf Power Company  
Fuel and Purchased Power Cost Recovery Clause

**Twelve Months Ended December 31, 2011**

Docket No. 120001

Audit Control No. 12-013-1-2

**May 31, 2012**

A handwritten signature in cursive script, reading "Donna D. Brown".

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Donna D. Brown  
Audit Manager

A handwritten signature in cursive script, reading "Lynn M. Deamer".

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Lynn M. Deamer  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated January 27, 2012. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2011 filing for the Fuel and Purchased Power Cost Recovery Clause in Docket No. 120001-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

### **General**

#### Definition

Utility refers to the Gulf Power Company.

FAC refers to the Fuel and Purchased Power Cost Recovery Clause.

### **Revenue**

#### Customer Revenues

**Objectives:** The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2011 through December 31, 2011, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the FAC.

**Procedures:** We reconciled the 2011 filing to the Utility's monthly Fuel Revenue Reports. We selected a random sample of residential and commercial customers' bills and recalculated each to verify the use of the correct tariff rate. No exceptions were noted.

### **Expense**

**Objective:** The objective was to reconcile the fuel costs to the general ledger.

**Procedures:** We prepared a schedule for Account 501- Steam Generation-Fuel, and Account 547- Other Generation-Fuel, for each month of 2011 from the fuel clause journals. We compiled charges by month and by account to obtain total fuel costs, which were reconciled to the general ledger and to the Schedule A-1 filing. We recalculated the Schedule A-1 for each month in 2011. We also prepared a schedule of charges by accounts and by generation plant to obtain total fuel costs, including amounts listed as "other generation" for each month for the year ended December 31, 2011. No exceptions were noted.

**Objective:** The objective was to review Purchase Power Agreements and reconcile the Utility filing to books and records of the Utility.

**Procedures:** We reviewed Purchase Power Agreement Contracts provided by the Utility. We also reviewed purchase power charges as per the Utility filing and reconciled them to actual invoices. No exceptions were noted.

**Objective:** The objective was to verify that energy payments to the qualified facilities are based on the appropriate standard offer or the negotiated contract price.

**Procedures:** We prepared a schedule showing total KWHs purchased and energy costs for 2011. We traced amounts on the FAC Schedule A-8 to invoices for February, March, April, June, August, and October of 2011. No exceptions were noted.

**Objective:** The objective was to verify that the energy costs of other economic purchases (non-broker) reconcile to the books and records of the Utility.

**Procedures:** We compiled economy energy purchases (Schedule A-9) by company from the Interchange Analysis Reports for each month of 2011 and reconciled the total to Schedule A-1, Line 12. We also traced purchased amounts to the supporting Intercompany Interchange Contract (IIC) invoices for January, May, August, and November of 2011. No exceptions were noted.

**Objective:** The objective was to verify that generation related gains derived from non-separated wholesale energy sales were credited to the fuel clause.

**Procedures:** We compiled gains on economy sales (Schedule A-6) from the Interchange Analysis Reports for each month of 2011 and reconciled the total of Schedule A-1, Line 15. We verified through FPSC Order PSC-11-0579-FOF-EI, issued December 16, 2011, 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 2011 since the estimated benchmark was not met. We also traced the gains to the supporting IIC invoices for February, April, August, October, and December of 2011. No exceptions were noted.

**Objective:** The objective was to verify that Firm Transportation Services (FTS) charges for natural gas transportation agree with the appropriate FTS rate schedules from pipeline Utility tariffs.

**Procedures:** We reconciled natural gas purchases and applicable firm transportation service charges from the Accounts Payable Analysis for each month of 2011 and reconciled totals to the general ledger. We traced purchased amounts and total FTS charges to the paid invoices for June and November 2011. In addition, we reconciled the centralized bill amount for May and the gas transportation charges for October to the appropriate rate schedule and agreement. No exceptions were noted.

**Objective:** The objective was to verify that adjustments for the semi-annual Coal Inventory for 2011 made were in accordance with FPSC Order PSC-97-0359-FOF-EI, issued March 31, 1997.

**Procedures:** We recalculated the inventory adjustments on the March 2011 and September 2011 aerial survey reports and compared them to the adjusted book balances, and supporting journal vouchers. In addition, we verified Utility compliance with procedures contained in the applicable order. No exceptions were noted.

**Objective:** The objective was 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 and the 58 Schedule for January, July, and September 2011. We cross-referenced coal and oil purchases to Utility journals, stockpile receipts reports, fuel stock reports, in-transit reports, and accounts payable analysis. We also traced receipts to the fuel invoices and verified that the rates as well as the adjustments calculations were in compliance with vendor contracts. No exceptions were noted.

**Objective:** The objective was 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 (Generating Performance Incentive Factor) units with the annual GPIF filing and source documentation.

**Procedures:** We reconciled Schedule 3 of the GPIF filing for March and December 2011 to the applicable Schedule A-4. In addition, we reconciled Schedule 5 to Schedule 3 for March and December 2011, and traced Schedule 5 to source documentation. No exceptions were noted.

**Objective:** The objective was to verify that Gulf Power's treatment of wholesale energy sold via the Intercompany Interchange Contract between operating companies complies with FPSC Order No. PSC-00-1744-PAA-EI, issued September 26, 2000.

**Procedures:** We traced the total for Fuel Adjustment for Southern Company Interchange reported on Schedule A-6 to the IIC invoice and the Utility's Interchange Analysis for May and August 2011. There are no gains that were credited back through the fuel clause. Wholesale sales via the intercompany exchange are intercompany transfers without markups/gains. No exceptions were noted.

## **Other**

### Litigation-related adjustments to Fuel Costs

**Objective:** The objective was to review the litigation-related adjustments to fuel costs that the Utility has incurred since 2005.

**Procedures:** We compiled the litigation expenses by month with a detailed description of each expense. We also reconciled the expenses to Utility provided invoices. No exceptions were noted.

### Gas Storage Expense

**Objective:** The objective was to determine the amounts of gas storage expense recovered through the fuel clause by gas storage facility.

**Procedures:** We reviewed gas storage contracts in effect for 2011. We verified the monthly reservation payment calculation and reconciled charges to the respective contract. No exceptions were noted.

## **True-up**

**Objective:** The objective was to verify that the True-Up and Interest Provision as filed on Schedule A-2 was properly calculated.

**Procedures:** We traced the December 31, 2010, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2011, using the Commission approved beginning balance as of December 31, 2010, the Financial Commercial Paper rates, and the 2011 FAC Revenues and costs. No exceptions were noted.

## **Analytical Review**

**Objective:** The objective was to perform an analytical review of the Utility's FAC Revenues and Expenses to determine if there were any material changes or inconsistencies from the prior years.

**Procedures:** We compared 2011 to 2010 revenues and expenses. Further follow-up was not required.

Audit Findings

**None**

Exhibit

**Exhibit 1: True-up**

SCHEDULE A-2  
PAGE 1 OF 3

**CALCULATION OF TRUE-UP AND INTEREST PROVISION  
GULF POWER COMPANY  
FOR THE MONTH OF: DECEMBER 2011**

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
<b>A. Fuel Cost &amp; Net Power Transactions</b>								
1 Fuel Cost of System Net Generation	28,953,702.20	39,866,276	(10,912,573.80)	(27.37)	493,049,379.13	571,369,879	(78,320,499.87)	(13.71)
1a Other Generation	281,544.52	119,262	162,282.52	136.07	3,520,987.68	2,293,190	1,227,797.68	53.54
2 Fuel Cost of Power Sold	(11,731,863.45)	(2,599,000)	(9,132,863.45)	(351.40)	(107,800,295.37)	(45,608,000)	(62,192,295.37)	(136.36)
3 Fuel Cost - Purchased Power	12,776,242.79	6,059,000	6,717,242.79	110.86	138,204,251.76	54,576,000	83,628,251.76	153.23
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	1,222,425.76	0	1,222,425.76	100.00	11,237,123.97	0	11,237,123.97	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	1,305,768.00	28,120	1,277,648.00	4,543.56	15,444,523.00	4,688,050	10,756,473.00	229.44
6 Total Fuel & Net Power Transactions	32,807,819.82	43,473,658	(10,665,838.18)	(24.53)	553,655,970.17	587,319,119	(33,663,148.83)	(5.73)
7 Adjustments To Fuel Cost*	6,287.00	0	6,287.00	100.00	105,068.90	0	105,068.90	100.00
8 Adj. Total Fuel & Net Power Transactions	32,814,106.82	43,473,658	(10,659,551.18)	(24.52)	553,761,039.07	587,319,119	(33,558,079.93)	(5.71)
<b>B. KWH Sales</b>								
1 Jurisdictional Sales	768,340,737	874,774,000	(106,433,263)	(12.17)	11,040,286,590	11,306,382,000	(266,095,410)	(2.35)
2 Non-Jurisdictional Sales	28,050,132	32,908,000	(4,857,868)	(14.76)	368,940,919	379,216,000	(12,275,081)	(3.24)
3 Total Territorial Sales	796,390,869	907,682,000	(111,291,131)	(12.26)	11,407,227,509	11,685,598,000	(278,370,491)	(2.38)
4 Juris. Sales as % of Total Terr. Sales	96.4778	96.3745	0.1033	0.11	96.7833	96.7548	0.0285	0.03

\* (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 2011

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
<i>C. True-up Calculation</i>								
1 Jurisdictional Fuel Revenue	38,583,107.36	44,611,724	(6,028,617.09)	(13.51)	562,462,749.47	576,604,356	(14,141,606.36)	(2.45)
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(1,152,234.88)	(1,152,235)	0.00	0.00	(13,826,819.00)	(13,826,819)	0.00	0.00
2b Incentive Provision	(6,849.18)	(6,849)	0.00	0.00	(82,190.82)	(82,191)	0.00	0.00
3 Juris. Fuel Revenue Applicable to Period	37,424,023.30	43,452,640	(6,028,616.70)	(13.87)	548,553,739.65	562,695,346	(14,141,606.35)	(2.51)
Adjusted Total Fuel & Net Power								
4 Transactions (Line A8)	32,814,106.82	43,473,658	(10,659,551.18)	(24.52)	553,761,039.06	587,319,119	(33,558,079.94)	(5.71)
5 Juris. Sales % of Total KWH Sales (Line B4)	96.4778	96.3745	0.1033	0.11	96.7833	96.7548	0.0285	0.03
Juris. Total Fuel & Net Power Transactions								
6 Adj. for Line Losses (C4-C5*1.0007)	31,680,489.18	41,926,849	(10,246,359.82)	(24.44)	536,322,373.36	568,680,495	(32,358,121.64)	(5.69)
True-Up Provision for the Month								
7 Over/(Under) Collection (C3-C6)	5,743,534.12	1,525,791	4,217,743.12	(276.43)	12,231,367.29	(5,985,150)	18,216,517.29	304.36
8 Interest Provision for the Month	375.87	(426)	801.87	188.23	(25,633.68)	(19,324)	(6,309.68)	(32.65)
9 Beginning True-Up & Interest Provision	3,032,548.82	(8,682,074)	11,714,622.82	134.93	(17,436,548.60)	(13,826,819)	(3,609,729.60)	(26.11)
10 True-Up Collected / (Refunded)	1,152,234.88	1,152,235	0.00	0.00	13,826,819.00	13,826,819	0.00	0.00
End of Period - Total Net True-Up, Before								
11 Adjustment (C7+C8+C9+C10)	9,928,693.69	(6,004,474)	15,933,167.69	265.35	8,596,004.01	(6,004,474)	14,600,478.01	243.16
12 Adjustment**	0.00	0	0.00	0.00	1,332,689.68	0	1,332,689.68	100.00
13 End of Period - Total Net True-Up	9,928,693.69	(6,004,474)	15,933,167.69	265.35	9,928,693.69	(6,004,474)	15,933,167.69	265.35

\*\*Adjustment to include NOX component in energy sales revenues.

**CALCULATION OF TRUE-UP AND INTEREST PROVISION  
GULF POWER COMPANY  
FOR THE MONTH OF: DECEMBER 2011**

	CURRENT MONTH			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
<b>D. Interest Provision</b>				
1 Beginning True-Up Amount (C9) Ending True-Up Amount	3,032,548.82	(8,682,074)	11,714,622.82	(134.93)
2 Before Interest (C7+C9+C10)	9,928,317.82	(6,004,048)	15,932,365.82	(265.36)
3 Total of Beginning & Ending True-Up Amts.	12,960,866.64	(14,686,122)	27,646,988.64	(188.25)
4 Average True-Up Amount	6,480,433.32	(7,343,061)	13,823,494.32	(188.25)
Interest Rate				
5 1st Day of Reporting Business Month Interest Rate	0.11	0.11	0.0000	
6 1st Day of Subsequent Business Month	0.03	0.03	0.0000	
7 Total (D5+D6)	0.14	0.14	0.0000	
8 Annual Average Interest Rate	0.07	0.07	0.0000	
9 Monthly Average Interest Rate (D8/12)	0.0058	0.0058	0.0000	
10 Interest Provision (D4*D9)	375.87	(426)	801.87	(188.23)
Jurisdictional Loss Multiplier (From Schedule A-1)	1.0007	1.0007		