

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: September 25, 2012
TO: Office of Commission Clerk
FROM: Patti Daniel, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120001-EI
Company Name: GPC
Company Code: EI804
Audit Purpose: A3a Hedging
Audit Control No: 12-130-1-1

RECEIVED-FPSC
12 SEP 25 AM 8:56
COMMISSION
CLERK

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.

PD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

06430 SEP 25 12

FPSC-COMMISSION CLERK

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

Twelve Months Ended July 31, 2012

Docket No. 120001-EI
Audit Control No. 12-130-1-1
September 24, 2012

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

Donna D. Brown
Audit Manager

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

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 Accounting and Finance in its audit service request dated May 9, 2012. We have applied these procedures to the schedules prepared by Gulf Power Company (GPC or Utility) in support of its filing for hedging activities in Docket No. 120001-EI for the twelve months ended July 31, 2012.

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

Accounting Treatment

Objective: The objective was to verify that the accounting treatment for futures, options, and swap contracts between GPC and its counterparties is consistent with Commission Order No. PSC-02-1484-FOF-EI, issued October 30, 2002, in Docket No. 011605-EI, and as clarified by Order No. PSC-08-0316-PAA-EI, issued May 14, 2008, and Order No. PSC-08-0667-PAA-EI, issued October 8, 2008, in Docket No. 080001-EI.

Procedures: We obtained GPC's supporting detail of the hedging settlements for the twelve months ended July 31, 2012. The support documentation was traced to the general ledger transaction detail. We verified that the hedging settlements are in compliance with the Risk Management Plan and verified that the accounting treatment for hedging transactions and transactions costs is consistent with Commission orders relating to hedging activities. No exceptions were noted.

Gains and Losses

Objective: The objective was to verify that the gains and losses associated with each financial hedging instrument that GPC implemented are in compliance with Commission Order Nos. PSC-02-1484-FOF-EI, PSC-08-0316-PAA-EI, and PSC-08-0667-PAA-EI relating to hedging activities.

Procedures: We traced the monthly balances of all hedging transactions from GPC's Hedging Information Report to its transaction report and its general ledger for the period August 1, 2011 to July 31, 2012. We reviewed existing tolling agreements whereby the Utility's natural gas is provided to generators under purchased power agreements. We recalculated the gains and losses, traced the price to the confirmation notice, and compared the price to the gas futures rates published by the NYMEX Henry Hub gas futures contract rates. We compared these recalculated gains and losses with GPC's journal entries for realized gains and losses. No exceptions were noted.

Hedged Volume and Limits

Objective: The objective was to verify that the quantities of natural gas, residual oil, and purchased power are hedged within the limits (percentage range), as listed in the Utility's Risk Management Plan.

Procedures: We reviewed the quantity limits and authorizations. We also obtained GPC's analysis of the monthly percent of fuel hedged in relation to fuel burned for the twelve months ended July 31, 2012, and compared them with the Utility's Risk Management Plan. There were immaterial variances for all the months between the percentages of actual and projected gas burned that were hedged.

Separation of Duties

Objectives: The objectives were to review: 1) GPC's procedures for separating duties related to hedging activities for Front Office, Middle Office, and Back Office and 2) Internal and external audit work papers.

Procedures: We reviewed the Utility's procedures for separating duties related to hedging activities. Audit staff reviewed the only internal audit specifically performed on the separation of duties related to hedging activities. No exceptions were noted.

Audit Findings

None