

State of Florida



# Public Service Commission

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**DATE:** April 30, 2013  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 130001-EI  
Company Name: Gulf Power Company  
Company Code: EI804  
Audit Purpose: A3a Fuel Cost Recovery Clause  
Audit Control No.: 13-016-1-1

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Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of 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.

LD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

SEARCHED

DOCUMENT NUMBER-DATE

02338 APR 30 2013

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  
Fuel and Purchased Power Cost Recovery Clause

**Twelve Months Ended December 31, 2012**

Docket No. 130001

Audit Control No. 13-016-1-1

**April 29, 2013**

Handwritten signature of Andrew Von Euw in cursive script.

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Andrew Von Euw  
Audit Manager

Handwritten signature of Lynn M. Deamer in cursive script.

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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 Accounting and Finance in its audit service request dated January 16, 2013. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2012 filing for the Fuel and Purchased Power Cost Recovery Clause in Docket No. 130001-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, 2012 through December 31, 2012, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the FAC.

**Procedures:** We reconciled the 2012 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 2012 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 2012. 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, 2012. 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 to the invoices. No exceptions were noted.

**Objective:** The objective was to determine whether 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 2012. We traced amounts on the FAC Schedule A-8 to invoices for January, April, June, October, November, and December of 2012. No exceptions were noted.

**Objective:** The objective was to determine whether 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 2012 and reconciled the total to Schedule A-1, Line 12. We also traced purchased amounts to the supporting Intercompany Interchange Contract (IIC) invoices for February, July, November, and December of 2012. No exceptions were noted.

**Objective:** The objective was to determine whether 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 2012 and traced to credits in the fuel clause. We also traced the gains to the supporting IIC invoices for February, July, November, and December of 2012. No exceptions were noted.

**Objective:** The objective was to determine whether 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 2012 and reconciled totals to the general ledger. We traced purchased amounts and total FTS charges to the paid invoices for March and August 2012. In addition, we reconciled the centralized bill amount for April and the gas transportation charges for October to the appropriate rate schedule and agreement. No exceptions were noted.

**Objective:** The objective was to determine whether adjustments for the semi-annual Coal Inventory for 2012 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 2012 and September 2012 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 Schedule 58 for April, July, and October 2012. 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 adjustment calculations were in compliance with vendor contracts. No exceptions were noted.

**Objective:** The objective was to review and verify payments Gulf Power made in 2012 under waterborne and rail coal transportation contracts.

**Procedures:** We obtained and reviewed Gulf Power's waterborne and rail transportation contracts in effect during 2012, and reviewed payments Gulf Power made under these contracts for the months of January, March, August, and November 2012. We verified that the payments agreed to the terms of the contracts. We also reconciled Gulf Power's accounts payable for coal to the general ledger for each month of 2012. No exceptions were noted.

**Objective:** The objective was to determine whether the service hours, reserve shutdown hours, and unavailable hours filed in Schedule A-4 for the Generating Performance Incentive Factor filing agree to source documentation.

**Procedures:** We traced the service hours, reserve shutdown hours, and unavailable hours filed in Schedule A-4 to source documentation for the months of April and October 2012. No exceptions were noted.

**Objective:** The objective was to determine whether 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 February and November 2012. 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 incurred during 2012.

**Procedures:** We compiled the litigation expenses by month for 2012 and traced them to Gulf Power's Generation Fuel Costs Schedules. We also reconciled the expenses to Utility-provided invoices. No exceptions were noted.

### **Gas Storage Expense**

**Objective:** The objective was to determine whether the amounts of gas storage expense recovered through the fuel clause for the gas storage facility for 2012 were calculated correctly and payments were in accordance with the applicable contract.

**Procedures:** We reviewed gas storage contracts in effect for 2012. 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 determine whether the True-Up and Interest Provision as filed on Schedule A-2 was properly calculated.

**Procedures:** We traced the December 31, 2011, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2012, using the Commission approved beginning balance as of December 31, 2011, the Financial Commercial Paper rates, and the 2012 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 2012 to 2011 revenues and expenses. We requested explanations from the Utility for significant variances. Explanations provided were sufficient. Further follow-up was not required.



Audit Findings

**None**

## Exhibit

### Exhibit 1: Calculation of True-up and Interest Provision

SCHEDULE A-2  
PAGE 1 OF 3

**CALCULATION OF TRUE-UP AND INTEREST PROVISION  
GULF POWER COMPANY  
FOR THE MONTH OF: DECEMBER 2012**

	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	21,959,688.21	24,956,891	(2,997,202.79)	(12.01)	331,177,012.44	433,603,453	(102,426,440.64)	(23.62)
1a Other Generation	213,647.44	92,478	121,169.44	131.03	2,829,784.58	1,996,512	831,272.58	41.59
2 Fuel Cost of Power Sold	(11,118,462.58)	(6,112,000)	(5,006,462.58)	(81.91)	(113,915,789.16)	(45,749,000)	(68,166,789.16)	(149.00)
3 Fuel Cost - Purchased Power	19,609,190.77	15,116,000	4,493,190.77	29.72	182,681,852.04	108,708,000	74,173,852.04	68.23
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	706,746.08	0	706,746.08	100.00	6,324,126.90	0	6,324,126.90	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	1,965,204.00	1,783,760	181,444.00	10.17	32,865,554.00	18,441,340	14,424,214.00	78.22
6 Total Fuel & Net Power Transactions	33,336,013.92	35,837,129	(2,501,115.08)	(6.98)	442,162,540.80	517,002,305	(74,839,764.28)	(14.48)
7 Adjustments To Fuel Cost*	4,262.37	0	4,262.37	100.00	175,523.25	0	175,523.25	100.00
8 Adj. Total Fuel & Net Power Transactions	33,340,276.29	35,837,129	(2,496,852.71)	(6.97)	442,338,064.05	517,002,305	(74,664,241.03)	(14.44)
<b>B. KWH Sales</b>								
1 Jurisdictional Sales	784,560,799	864,446,000	(79,885,201)	(9.24)	10,662,633,576	11,462,735,000	(800,101,424)	(6.98)
2 Non-Jurisdictional Sales	25,693,660	31,075,000	(5,381,340)	(17.32)	325,194,179	384,391,000	(59,196,821)	(15.40)
3 Total Territorial Sales	810,254,459	895,521,000	(85,266,541)	(9.52)	10,987,827,755	11,847,126,000	(859,298,245)	(7.25)
4 Juris. Sales as % of Total Terr. Sales	96.8289	96.5300	0.2989	0.31	97.0404	96.7554	0.2850	0.29

\*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 2012**

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
<b>C. True-up Calculation</b>								
1 Jurisdictional Fuel Revenue	29,175,742.62	31,509,057	(2,333,314.08)	(7.41)	437,599,847.24	477,860,350	(40,260,502.80)	(8.43)
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	7,617,648.00	7,617,648	0.00	0.00	49,663,840.76	49,663,841	0.00	0.00
2b Incentive Provision	(53,753.89)	(53,754)	0.00	0.00	(645,046.57)	(645,047)	0.00	0.00
3 Juris. Fuel Revenue Applicable to Period	36,739,636.73	39,072,951	(2,333,314.27)	(5.97)	486,618,641.43	526,879,144	(40,260,502.57)	(7.64)
Adjusted Total Fuel & Net Power								
4 Transactions (Line A8)	33,340,276.29	35,837,129	(2,496,852.71)	(6.97)	442,338,064.05	517,002,305	(74,664,240.95)	(14.44)
5 Juris. Sales % of Total KWH Sales (Line B4)	96.8289	96.5300	0.2989	0.31	97.0404	96.7554	0.2850	0.29
Juris. Total Fuel & Net Power Transactions								
6 Adj. for Line Losses (C4*C5*1.0015)	32,331,447.32	34,645,471	(2,314,023.68)	(6.68)	429,813,850.72	500,716,362	(70,902,511.28)	(14.16)
True-Up Provision for the Month								
7 Over/(Under) Collection (C3-C6)	4,406,189.41	4,427,480	(19,290.59)	0.44	56,804,790.71	26,162,783	30,642,007.71	(117.12)
8 Interest Provision for the Month	1,645.14	(2,990)	4,635.14	155.02	33,964.49	(24,777)	58,741.49	237.08
9 Beginning True-Up & Interest Provision	20,299,536.59	(32,383,862)	52,683,398.59	162.68	9,928,693.69	(12,051,185)	21,979,878.69	182.39
10 True-Up Collected / (Refunded)	(7,617,648.00)	(7,617,648)	0.00	0.00	(49,663,840.76)	(49,663,841)	0.00	0.00
11 End of Period - Total Net True-Up, Before	17,091,723.14	(35,577,020)	52,668,743.14	148.04	17,103,608.13	(35,577,020)	52,680,628.13	148.07
12 Adjustment*	0.00	0	0.00	0.00	(11,884.99)	0	(11,884.99)	100.00
13 End of Period - Total Net True-Up	17,091,723.14	(35,577,020)	52,668,743.14	148.04	17,091,723.14	(35,577,020)	52,668,743.14	148.04

\*Interest associated with coal transportation costs that were understated January - May and corrected in June.

**CALCULATION OF TRUE-UP AND INTEREST PROVISION  
GULF POWER COMPANY  
FOR THE MONTH OF: DECEMBER 2012**

	CURRENT MONTH			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
<b>D. Interest Provision</b>				
1 Beginning True-Up Amount (C9) Ending True-Up Amount	20,299,536.59	(32,383,862)	52,683,398.59	(162.68)
2 Before Interest (C7+C9+C10)	17,090,078.00	(35,574,030)	52,664,108.00	(148.04)
3 Total of Beginning & Ending True-Up Amts.	37,389,614.59	(67,957,892)	105,347,506.59	(155.02)
4 Average True-Up Amount	18,694,807.30	(33,978,946)	52,673,753.30	(155.02)
Interest Rate				
5 1st Day of Reporting Business Month Interest Rate	0.16	0.16	0.0000	
6 1st Day of Subsequent Business Month Interest Rate	0.05	0.05	0.0000	
7 Total (D5+D6)	0.21	0.21	0.0000	
8 Annual Average Interest Rate	0.11	0.11	0.0000	
9 Monthly Average Interest Rate (D8/12)	0.0088	0.0088	0.0000	
10 Interest Provision (D4*D9)	1,645.14	(2,990)	4,635.14	(155.02)
Jurisdictional Loss Multiplier (From Schedule A-1)	1.0015	1.0015		