

State of Florida



**Public Service Commission**

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

**Auditor's Report**

Gulf Power Company  
Rate Case Audit

**Twelve Months Ended December 31, 2012**

Docket No. 130140-EI  
Audit Control No. 13-207-1-1  
**September 27, 2013**

Handwritten signature of Debra M. Dobiac in black ink.

---

Debra M. Dobiac  
Audit Manager

Handwritten signature of Hymavathi Vedula in black ink.

---

Hymavathi Vedula  
Audit Staff

Handwritten signature of Lynn M. Deamer in blue ink.

---

Lynn M. Deamer  
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures..... 2

Audit Findings

    None..... 8

Exhibits

    1: Rate Base ..... 9

    2: Net Operating Income..... 10

    3: Capital Structure ..... 11

## 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 July 30, 2013. We have applied these procedures to the attached schedules prepared by Gulf Power Company in support of its filing for rate relief in Docket No. 130140-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**

#### Definitions

GPC/Utility refers to Gulf Power Company

Southern/Parent refers to The Southern Company

FERC refers to the Federal Energy Regulatory Commission

USOA refers to the FERC Uniform System of Accounts as adopted by Commission Rule 25-6.014 – Records and Reports in General, Florida Administrative Code. (F.A.C.)

#### Background

Gulf Power Company filed a petition for a permanent rate increase on May 9, 2013. GPC has provided electric utility service to its customers since 1926 and now serves more than 436,000 retail customers across 8 counties in Northwest Florida. The Utility is a wholly-owned subsidiary of The Southern Company.

The Utility's last petition for rate relief was granted in Docket No. 110138-EI, in Order No. PSC-12-0179-FOF-EI, Petition for Rate Increase, issued April 3, 2012, and in Order No. PSC-12-0400-FOF-EI, Motion for Reconsideration, issued August 3, 2012. Those orders established and reaffirmed historical rate base and capital structure balances for the Utility as of December 31, 2010.

**Objectives:** The objectives in this proceeding were to determine whether the Utility's 2012 historic year end filing in Docket No. 130140-EI is consistent and in compliance with Section 366.06 – Rates, Procedures for Fixing and Changing, Florida Statutes (F.S.), and Commission Rule 25-6.043 – Investor Owned Electric Utility Minimum Filing Requirements, F.A.C.

**Procedures:** We performed the following specific objectives and procedures to satisfy the overall objective identified above.

### **Rate Base**

#### Utility Plant in Service

**Objectives:** The objectives were to determine whether utility plant in service (UPIS) exists and is owned by the utility, additions are authentic and recorded at original cost, proper retirements were made when a replacement asset was put into service, UPIS is properly classified in compliance with the USOA, UPIS balances are properly stated based on Commission adjustments in the prior rate case in Order No. PSC-12-0179-FOF-EI, and to recalculate the 13-month average balance for UPIS as of December 31, 2012.

**Procedures:** We verified, based on a judgmental sample of UPIS additions, retirements and adjustments for selected plant accounts, that the Utility's UPIS is properly recorded for the period January 1, 2011 through December 31, 2012. We traced the UPIS adjustments to source

documents and noted that they were consistent with the order cited above. We recalculated a sample of 13-month average balances for UPIS included in the filing. No exceptions were noted.

#### Property Held for Future Use

**Objectives:** The objective was to determine the nature and purpose of utility properties recorded as plant held for future use (PHFU) and to disclose material additions or changes to the Utility's planned use for such properties, PHFU balances are properly stated based on Commission adjustments in the prior rate case in Order No. PSC-12-0179-FOF-EI, and to recalculate the 13-month average balance for PHFU as of December 31, 2012.

**Procedures:** We verified, based on a judgmental sample of PHFU properties presented in the filing, that the PHFU balance is properly stated as of December 31, 2012. We reviewed documents describing the planned use for properties in our sample and inquired about changes in use for existing properties. We traced the PHFU adjustments to source documents and noted that they were consistent with the order cited above. We recalculated a sample of 13-month average balances for PHFU included in the filing. No exceptions were noted.

#### Construction Work in Progress

**Objectives:** The objectives were to determine the nature and purpose of utility projects recorded as construction work in progress (CWIP), and whether projects that are eligible to accrue allowance for funds used during construction (AFUDC) are excluded from rate base pursuant to Commission Rule 25-6.0141, F.A.C. – Allowance for Funds Used During Construction, CWIP balances are properly stated based on Commission adjustments in the prior rate case in Order No. PSC-12-0179-FOF-EI, and to recalculate the 13-month average balance for CWIP as of December 31, 2012.

**Procedures:** We verified, based on a judgmental sample of CWIP projects included in the filing, that the CWIP balance is properly stated as of December 31, 2012. We reviewed utility documents describing each project sampled to determine whether it was eligible to accrue AFUDC. We verified that projects accruing AFUDC were not included in rate base in the filing. We traced the CWIP adjustments to source documents and noted that they were consistent with the order cited above. We recalculated a sample of 13-month average balances for CWIP included in the filing. No exceptions were noted.

#### Accumulated Depreciation

**Objectives:** The objectives were to determine whether accruals, retirements and adjustments to accumulated depreciation (AD) are properly recorded in compliance with the USOA, to determine whether the Utility used the depreciation rates established in Order No. PSC-10-0458-PAA-EI - Depreciation and Dismantlement study at December 31, 2009, by Gulf Power Company, balances are properly stated based on Commission adjustments in the prior rate case in Order No. PSC-12-0179-FOF-EI, and to recalculate the 13-month average balance for AD as of December 31, 2012.

**Procedures:** We verified, based on a judgmental sample of selected AD accounts, that the AD is properly recorded for the period January 1, 2011 through December 31, 2012, and the Utility properly restated and used the depreciation rates approved in the order cited above. We traced

the AD adjustments to source documents and noted that they were consistent with the order cited above. We recalculated a sample of 13-month average balances for selected AD accounts included in the filing. No exceptions were noted.

### Working Capital

**Objectives:** The objectives were to determine whether the working capital (WC) account balances are properly stated based on Commission adjustments in the prior rate case in Order No. PSC-12-0179-FOF-EI, and the provisions of Rule 25-6.0143, F.A.C. – Use of Accumulated Provision Accounts, and, to recalculate the 13-month average balance for WC as of December 31, 2012.

**Procedures:** We verified, based on a judgmental sample of selected accounts, that the WC balance is properly stated, utility in nature, non-interest bearing, does not include non-utility items, and is consistent with the order cited above. We verified, based on a judgmental sample of selected accounts, that the accumulated provision accounts year end balances comply with the Commission rule cited above. We recalculated a sample of 13-month average balances for selected WC accounts included in the filing. No exceptions were noted.

## **Net Operating Income**

### Operating Revenue

**Objectives:** The objectives were to determine whether 2012 revenues are properly calculated and recorded in compliance with the USOA and are based on approved tariff rates.

**Procedures:** We reconciled 2012 revenues to the general ledger. We reviewed Commission audits of the Utility’s cost recovery clauses, which included recalculations of a sample of customer bills, to ensure that the Utility was using the rates authorized in its approved tariffs. We verified that unbilled revenues were calculated correctly. We traced the revenue adjustments to source documents and noted that they were consistent with Order No. PSC-12-0179-FOF-EI. No exceptions were noted.

### Operation and Maintenance Expense

**Objectives:** The objectives were to determine whether 2012 operation and maintenance (O&M) expenses are properly recorded in compliance with the USOA, the O&M expenses are properly stated based on Commission adjustments in the prior rate case in Order No. PSC-12-0179-FOF-EI, and were reasonable for ongoing utility operations.

**Procedures:** We verified, based on a judgmental sample of utility transactions for select O&M expense accounts, that 2012 O&M expense balances are adequately supported by source documentation, utility in nature and do not include non-utility items. and are recorded consistent with the USOA. We reviewed samples of utility advertising expenses, legal fees, outside service expenses, sales expenses, customer service expenses, and administrative and general service expenses to ensure that amounts supporting non-utility operations were removed. We traced the O&M expense adjustments to source documents and noted that they were consistent with the order cited above. We obtained a breakdown of the Affordable Health Care Act and its impact on revenues, expenses, and tax liabilities. No exceptions were noted.

### Depreciation and Amortization

**Objectives:** The objectives were to determine whether 2012 depreciation expense is properly recorded in compliance with the USOA and based on Commission adjustments in the prior rate case in Order No. PSC-12-0179-FOF-EI, and to determine that depreciation expense accruals are calculated using the depreciation rates established in Order No. PSC-10-0458-PAA-EI.

**Procedures:** We recalculated a judgmental sample of depreciation expense accruals to verify that the Utility is using the correct depreciation rates established in the order cited above. We traced the depreciation expense adjustments to source documents and noted that they were consistent with the order cited above. No exceptions were noted.

### Taxes Other than Income

**Objectives:** The objective was to determine whether 2012 taxes other than income (TOTI) is properly recorded in compliance with the USOA and based on Commission adjustments in the prior rate case in Order No. PSC-12-0179-FOF-EI.

**Procedures:** We verified, based on a judgmental sample of transactions for select TOTI accounts, that TOTI expenses are adequately supported by source documentation. We traced the TOTI adjustments to source documents and noted that they were consistent with the order cited above. No exceptions were noted.

### Income Taxes

**Objectives:** The objective was to reconcile the federal and state income taxes to the MFRs and the general ledger, and to determine whether deferred income tax expense and the deferred tax balances include proper bonus depreciation treatment of property additions.

**Procedures:** The Utility's 2012 federal and state tax returns were filed on September 15, 2013. We traced the Utility's net operating income reflected in the MFRs to the general ledger. The Utility's schedule that reconciles the MFR amounts for the taxable income per books, the temporary and permanent differences, and the deferred income tax balances to the tax returns was not completed as of the date of this audit report. No further work performed.

### **Capital Structure**

**Objectives:** The objectives were to determine whether the non-utility assets supported by the Utility's capital structure were removed in the rate base/capital structure reconciliation, the cost rates used in the computation of the cost of capital are appropriate, the rate base adjustments were adjusted in the capital structure, and to reconcile the Utility book amounts to the MFRs and the general ledger.

**Procedures:** We obtained the rate base/capital structure reconciliation and determined that the non-utility adjustments removed in rate base were removed in the capital structure. Audit staff reconciled the cost of capital cost rates for the historical base year to the debt documentation. We obtained a reconciliation of the rate base adjustments in the capital structure and traced it to the MFRs and the general ledger. No exceptions were noted.

## **Other**

### **Analytical Review**

**Objectives:** The objective was to perform an analytical review of the Utility's rate case filing using prior years FERC Form 1 filings with the Commission.

**Procedures:** We developed a five-year (2008 -2012) analytical review that compared the annual percentage change and the 2012 over 2007 total percentage change for the FERC account balances. Accounts that exhibited significant activity or percentage change, as determined by the auditor, were randomly selected for additional review. No exceptions were noted.

### **Affiliate Transactions**

**Objectives:** The objective was to review intercompany charges to and from divisions, affiliated companies, and non-regulated operations to determine if an appropriate amount of costs were allocated pursuant to Rule 25-6.1351, F.A.C. We were also to determine the original amounts allocated, whether the methodology was reasonable, and to check for accuracy and consistent application.

**Procedures:** Audit staff reviewed the Utility's policies and procedures relating to the recording of affiliate transactions and the cost/allocation manual for employees. During the review of rate base and net operating income, we examined items that were allocated as per the Utility's policies and procedures. No exceptions were noted.

### **Federal Energy Regulatory Commission Audit**

**Objectives:** The objective was to determine whether there were any exceptions and disclosures noted in the last FERC audit applicable to this current rate proceeding.

**Procedures:** We read the FERC audit, dated May 28, 2013 of Southern Company Affiliate Transactions, including its compliance with 1) cross-subsidization restrictions on affiliate transactions, 2) regulations under the Public Utility Holding Company Act of 2005, and 3) USOA for Public Utilities' accounting for service company billings. Southern agreed with the findings and recommendations in this audit and implemented corrective actions and improvements. No further audit work done.

### **Internal and External Audits**

**Objectives:** The objective was to determine whether there were any exceptions and disclosures noted in any internal or external audits applicable to this current rate proceeding.

**Procedures:** We reviewed the internal audits to determine if any adjustments materially affected the historical base year. We noted that the Utility had performed any required corrective action in the applicable follow-up audit. We reviewed the 2012 annual report and associated audit work papers for GPC. The annual report was released on February 27, 2013, and included the unqualified opinion by Deloitte and Touche LLP. No exceptions were noted.

**Board of Director Meetings**

**Objectives:** The objective was to review the minutes of the Board of Directors.

**Procedures:** We reviewed the BOD meeting minutes from January 11, 2011 through May 22, 2013, for activities or issues that could affect the Utility in the current rate case proceeding. No exceptions were noted.

Audit Findings

**None**

## Exhibits

### Exhibit 1: Rate Base

<u>Schedule B-1</u>	<b>ADJUSTED RATE BASE</b>	Page 3 of 3
FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: Provide a schedule of the 13-month average adjusted ratebase for the test year, the prior year and the most recent historical year. Provide the details of all adjustments on Schedule B-2.	Type of Data Shown: <input type="checkbox"/> Projected Test Year Ended 12/31/14 <input type="checkbox"/> Prior Year Ended 12/31/13 <input checked="" type="checkbox"/> Historical Year Ended 12/31/12
COMPANY: GULF POWER COMPANY		Witness: S. D. Ritanour
DOCKET NO.: 130140-EI		

Adjusted 13-Month Average Rate Base  
(\$000's)

(1) Line No.	(2) Rate Base Components	(3) Total Company per Books	(4) Non-Electric Utility	(5) Electric Utility (3) + (4)	(6) Commission Adjustments Made in Last Case as Applicable (Sch. B-2)	(7) Adjusted per Commission (5)+(6)	(8) Company Adjustments (Sch. B-2)	(9) Total Utility with Commission & Company Adjustments (7) + (8)	(10) Unit Power Sales Rate Base	(11) Total Utility Adjusted for UPS (9) - (10)	(12) Jurisdictional Rate Base Factor	(13) Jurisdictional Utility Adjusted Per Company & Commission (11) x (12)
1	Plant-in-Service	4,048,835	0	4,048,835	(998,452)	3,050,383	0	3,050,383	(368,523)	2,681,860	0.9814230	2,632,039
2	Accumulated Depreciation & Amortization	(1,368,987)	0	(1,368,987)	76,804	(1,292,183)	0	(1,292,183)	115,150	(1,177,033)	0.8804978	(1,154,079)
3	Net Plant-in-Service (1) - (2)	2,679,848	0	2,679,848	(821,648)	1,758,200	0	1,758,200	(253,373)	1,504,827	0.9821468	1,477,961
4	Plant Held for Future Use	15,451	0	15,451	(10,018)	5,435	0	5,435	0	5,435	0.9707452	5,276
5	Construction Work-in-Progress	214,726	0	214,726	(160,443)	54,283	0	54,283	(3,840)	50,443	0.9767680	49,271
6	Plant Acquisition Adjustment	2,414	0	2,414	0	2,414	0	2,414	(2,414)	0		0
7	Net Utility Plant (3)+(4)+(5) +(6)	2,912,439	0	2,912,439	(1,092,107)	1,820,332	0	1,820,332	(259,627)	1,560,705	0.9819332	1,532,508
8	Working Capital Allowance	215,545	(13,218)	202,327	(3,788)	198,541	0	198,541	(12,190)	186,351	0.9769414	182,054
9	Total Rate Base (7) + (8)	<u>3,127,884</u>	<u>(13,218)</u>	<u>3,114,766</u>	<u>(1,095,893)</u>	<u>2,018,873</u>	<u>0</u>	<u>2,018,873</u>	<u>(271,817)</u>	<u>1,747,056</u>		<u>1,714,582</u>

## Exhibit 2: Net Operating Income

Schedule C-1

### ADJUSTED JURISDICTIONAL NET OPERATING INCOME

Page 3 of 3

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the calculation of the jurisdictional net operating income for the test year, the prior year and the most recent historical year.

Type of Data Shown:  
 Projected Test Year Ended 12/31/14  
 Prior Year Ended 12/31/13  
 Historical Year Ended 12/31/12  
 Witness: S. D. Ritanour

COMPANY: GULF POWER COMPANY

DOCKET NO.: 130140-EI

(\$000's)

#### Adjusted Jurisdictional Net Operating Income Calculation for the Twelve Months Ended

(1) Line No.	(2) Description	(3) Total Company per Books	(4) Non-Electric Utility	(5) Electric Utility (4) - (5)	(6) Commission Adjustments (Sch. C-3)	(7) Adjusted per Commission (6) + (7)	(8) Utility Company Adjustments (Sch. C-3)	(9) Total Adjusted Utility (8) + (9)	(10) Unit Power Sales Net Operating Income	(11) Total Adjusted Utility net of UPS (10) - (11)	(12) Jurisdictional Separation Factor	(13) Jurisdictional Amount (12) x (13)
<b>1 Operating Revenues:</b>												
2	Sales of Electricity	1,363,071	-	1,363,071	(810,791)	552,280	-	552,280	(59,245)	493,035	0.9754561	480,934
3	Other Operating Revenues	76,825	-	76,825	(48,437)	28,388	-	28,388	-	28,388	0.8675849	24,629
4	<b>Total Operating Revenues</b>	<b>1,439,896</b>	<b>-</b>	<b>1,439,896</b>	<b>(859,228)</b>	<b>580,668</b>	<b>-</b>	<b>580,668</b>	<b>(59,245)</b>	<b>521,423</b>	<b>0.9695832</b>	<b>505,563</b>
<b>5 Operating Expenses:</b>												
6	Recoverable Fuel	572,512	-	572,512	(572,512)	-	-	-	-	-	-	-
7	Recoverable Capacity	45,500	-	45,500	(45,500)	-	-	-	-	-	-	-
8	Recoverable Conservation	20,910	-	20,910	(20,910)	-	-	-	-	-	-	-
9	Recoverable Environmental	25,185	-	25,185	(25,185)	-	-	-	-	-	-	-
10	Other Operation & Maintenance	269,243	-	269,243	(814)	268,429	-	268,429	(7,360)	261,069	0.9806803	256,025
11	Depreciation & Amortization	142,390	-	142,390	(38,607)	103,783	-	103,783	(7,633)	96,150	0.9819407	94,414
12	Amortization of Investment Credit	(1,352)	-	(1,352)	-	(1,352)	-	(1,352)	331	(1,021)	0.9821029	(1,003)
13	Taxes Other Than Income Taxes	97,313	-	97,313	(67,331)	29,982	-	29,982	(1,531)	28,451	0.9786299	27,843
14	Income Taxes											
15	Federal	(92,341)	-	(92,341)	(22,773)	(115,114)	-	(115,114)	15,884	(99,230)	0.9229757	(91,587)
16	State	(2,439)	-	(2,439)	(3,788)	(6,227)	-	(6,227)	445	(5,782)	0.9229757	(5,337)
17	Deferred Income Taxes - Net											
18	Federal	161,110	-	161,110	-	161,110	-	161,110	(27,713)	133,397	0.9229757	123,122
19	State	13,212	-	13,212	-	13,212	-	13,212	(2,412)	10,800	0.9229757	9,968
20	<b>Total Operating Expenses</b>	<b>1,251,243</b>	<b>-</b>	<b>1,251,243</b>	<b>(797,420)</b>	<b>453,823</b>	<b>-</b>	<b>453,823</b>	<b>(29,989)</b>	<b>423,834</b>	<b>0.9754899</b>	<b>413,446</b>
21	<b>Net Operating Income</b>	<b>188,653</b>	<b>-</b>	<b>188,653</b>	<b>(61,808)</b>	<b>126,845</b>	<b>-</b>	<b>126,845</b>	<b>(29,258)</b>	<b>97,589</b>	<b>0.9439301</b>	<b>82,117</b>

### Exhibit 3: Capital Structure

Schedule D-1a

#### COST OF CAPITAL - 13-MONTH AVERAGE

Page 3 of 3

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the company's 13-month average cost of capital for the test year, the prior year, and historical base year.

Type of Data Shown:

Projected Test Year Ended 12/31/14

Prior Year Ended 12/31/13

Historical Year Ended 12/31/12

COMPANY: GULF POWER COMPANY

Witness: S. D. Ritenour

DOCKET NO.: 130140-EI

(1) Line No.	(2) Class of Capital	(3) Company Total Per Books (\$000's)	(4) Specific Adjustments (\$000's)	(5) Pro Rata Adjustments (\$000's)	(6) System Adjusted (\$000's)	(7) Jurisdictional Factor %	(8) Jurisdictional Capital Structure (\$000's)	(9) Ratio %	(10) Cost Rate %	(11) Weighted Cost Rate %
1	Long-Term Debt	1,222,347	(109,377)	(428,140)	684,830	0.9811631	671,930	39.19	4.96	1.94
2	Short-Term Debt	72,767	(8,821)	(25,469)	38,477	0.9811631	37,752	2.20	0.38	0.01
3	Preference Stock	97,998	(8,772)	(34,324)	54,902	0.9811631	53,868	3.14	6.33	0.20
4	Common Equity	1,160,164	(99,619)	(407,972)	652,573	0.9811631	640,281	37.34	11.50	4.29
5	Customer Deposits	35,821	-	(13,780)	22,041	1.0000000	22,041	1.29	4.75	0.06
6	Deferred Income Taxes	554,770	(45,092)	(196,062)	313,616	0.9811631	307,709	17.95	0.00	0.00
7	FASB 109 Deferred Taxes	(39,782)	3,234	14,059	(22,489)	0.9811631	(22,066)	-1.29	0.00	0.00
8	Investment Credit - Zero Cost	6,084	(1,036)	(1,942)	3,106	0.9811631	3,047	0.18	8.08	0.01
9	Total	<u>3,110,169</u>	<u>(269,483)</u>	<u>(1,093,630)</u>	<u>1,747,056</u>		<u>1,714,562</u>	<u>100.00</u>		<u>6.51</u>