

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 7, 2015  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 150001-EI  
Company Name: Gulf Power Company  
Company Code: EI804  
Audit Purpose: Fuel Cost Recovery Clause  
Audit Control No: 15-023-1-1

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Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of 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 is confidential work papers associated with this audit.

LMD/cp

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



**Public Service Commission**

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

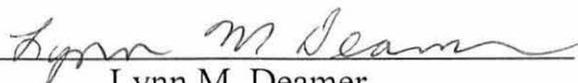
**Auditor's Report**

Gulf Power Company  
Fuel and Purchased Power Cost Recovery Clause

**Twelve Months Ended December 31, 2014**

Docket No. 150001-EI  
Audit Control No. 15-023-1-1  
**April 21, 2015**

  
George Simmons  
Audit Manager

  
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 22, 2015. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2014 filing for the Fuel and Purchased Power Cost Recovery Clause in Docket No. 150001-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**

#### Operating Revenues

**Objectives:** The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2014, through December 31, 2014, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the FAC.

**Procedures:** We reconciled the fuel revenues reported in the 2014 FAC Filing to the Utility's monthly revenue reports, and the general ledger. We selected a random sample of residential and commercial customers' bills and recalculated each to verify the use of the correct tariff rate approved in Order No PSC-13-0665-FOF-EI, issued December 18, 2013 in Docket No. 130001-EI. No exceptions were noted.

### **Expenses**

**Objectives:** The objectives were to review the expenses which the Utility has included in the FAC and determine whether those expenses were properly recoverable as required by Order No. 14546, issued July 8, 1985.

**Procedures:** We recalculated Schedule A-1 from the FAC Filing for each month of 2014. We prepared a schedule of coal, oil, and natural gas consumption for each month of 2014 from the Utility's generation fuel costs journal entries. We compiled charges by month and by account to obtain total fuel costs, which were reconciled to the general ledger and Schedule A-1. We also prepared a schedule of charges by account and by generating plant, including amounts listed as "other generation" for each month for the year ended December 31, 2014, and reconciled total fuel costs to the consumption schedule prepared by audit staff. The fuel expenses included in the FAC Filing complied with the requirements established in Order No. 14546. No exceptions were noted.

**Objectives:** The objective was to determine whether the Utility has credited generation-related gains from non-separated wholesale energy sales to the FAC Filing as set forth in Order No. PSC-00-1744-PAA-EI, issued September 26, 2000, in Docket No. 991779-EI.

**Procedures:** We scheduled the generation-related gains from the Utility's Interchange Analysis Reports for each month of 2014 and reconciled the total to Schedule A-6 and Schedule A-1, Line 15. We traced the gains to the IIC invoices and the imbalance service reports for February, July,

November and December 2014. In addition, we reconciled the Utility's Interchange Analysis Report to Schedule A-6 and Schedule A-1, Line 18 for February and November 2014. We determined that the Utility was in compliance with the order noted above. Please see Finding 1.

**Objectives:** 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 scheduled total KWHs purchased and energy costs for 2014. We traced amounts on Schedule A-8 to invoices for January, April, June, and December 2014. No exceptions were noted.

**Objectives:** The objective was to determine whether the amounts of gas storage expense recovered through the FAC Filing by gas storage facility for 2014 were calculated correctly and payments were in accordance with the applicable contract.

**Procedures:** We reviewed the gas storage contracts in effect for 2014. We recalculated the monthly reservation payment and reconciled the charges to the respective contract. No exceptions were noted.

**Objectives:** The objective was to determine whether Firm Transportation Service (FTS) charges for natural gas transportation agree with the appropriate FTS rate schedules from utility pipeline tariffs.

**Procedures:** We reconciled natural gas purchases and FTS charges from the accounts payable analysis for each month of 2014 and reconciled totals to the general ledger. We traced the purchased amounts and the total FTS charges to the paid invoices for March and August 2014. We traced the FTS rates to the appropriate rate schedule and agreement. No exceptions were noted.

## **Inventory**

**Objectives:** The objective was to determine whether adjustments made to coal inventory due to the semi-annual coal inventory survey had been recorded as set forth in Order No. PSC-97-0359-FOF-EI, issued March 31, 1997, in Docket No. 970001-EI.

**Procedures:** We recalculated the inventory adjustments on the March and September 2014 aerial survey reports, compared them to the adjusted book balance, and traced them to the supporting journal vouchers. We also verified that the Utility complied with the procedures contained in the applicable order. No exceptions were noted.

## **Other**

**Objectives:** The objective was to review and verify the payments the Utility made in 2014 under waterborne and rail coal transportation contracts.

**Procedures:** We scheduled coal, freight, and rail car costs from the Utility's Accounts Payable (AP) analysis for each month of 2014, and reconciled the amounts to the general ledger. We reviewed the waterborne and rail coal transportation contracts. We also traced the general ledger inventory purchases to the AP Analyses to the supporting invoices to the transportation contract rates for the months of February, July, November, and December 2014. No exceptions were noted.

**Objectives:** The objective was to determine whether vendor credits or rebates are credited to fuel costs.

**Procedures:** We verified that there were no vendor credits or rebates received during 2014.

**Objectives:** 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 (GPIF) Filing agree to source documentation.

**Procedures:** We traced the service hours, reserve shutdown hours, and unavailable hours filed in Schedule A-4 to Schedule 5 in the GPIF Filing and to source documentation for April and October 2014. No exceptions were noted.

**Objectives:** 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 for July 2014. We cross-referenced the coal and oil purchases by vendor from the AP analysis to the location cost transaction summaries, to the inventory details and the general ledger. We traced receipts to fuel invoices. No exceptions were noted.

**Objectives:** The objective was to determine whether the energy costs of other economic purchases (non-broker) included in the FAC Filing reconciled to the books and records of the Utility.

**Procedures:** We compiled economy energy purchases from the Utility's Interchange Analysis Reports for each month of 2014 and reconciled the total to Schedule A-8, Schedule A-9, and Schedule A-1, Line 12. We also traced purchased amounts to the supporting Intercompany Interchange Contract (IIC) and Purchased Power Agreement (PPA) invoices and contracts for February, July, November, and December 2014. No exceptions were noted.

## **True-Up**

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

**Procedures:** We traced the December 31, 2013, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2014, using the Commission approved beginning balance as of December 31, 2013, the Financial Commercial Paper rates, and the 2014 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 year.

**Procedures:** We compared 2014 to 2013 revenues and expenses. The Utility provided explanations for all significant variances. Further follow-up was not required.

## Audit Findings

### **Finding 1: Gains on Economy Sales**

**Audit Analysis:** On Schedule A-1 Line 15 - Gain on Economy Sales, the Utility calculated \$26,132 and \$45,691 for the months of November and December 2014, respectively. Based on source documentation, audit staff calculated \$23,669 and \$39,402 for November and December 2014, respectively. This resulted in gains on economy sales being overstated by \$2,463 and \$6,289 for November and December, respectively. The effect on the recoverable costs is immaterial. The Utility is aware of the variances and expects to make correcting adjustments, including interest, in the 2015 true-up filing.

**Effect on the General Ledger:** None

**Effect on the Filing:** 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: JANUARY 2014**

	CURRENT MONTH				PERIOD - TO - DATE			
	\$		DIFFERENCE		\$		DIFFERENCE	
	ACTUAL	ESTIMATED	AMOUNT (\$)	%	ACTUAL	ESTIMATED	AMOUNT (\$)	%
<b>A. Fuel Cost &amp; Net Power Transactions</b>								
1 Fuel Cost of System Net Generation	46,431,505.07	34,310,715	12,120,790.07	35.33	46,431,505.07	34,310,715	12,120,790.07	35.33
1a Other Generation	217,392.62	228,628	(11,235.38)	(4.91)	217,392.62	228,628	(11,235.38)	(4.91)
2 Fuel Cost of Power Sold	(26,166,795.00)	(9,270,000)	(16,896,795.00)	(182.26)	(26,166,795.00)	(9,270,000)	(16,896,795.00)	(182.26)
3 Fuel Cost - Purchased Power	25,890,323.05	14,028,362	11,861,961.05	84.56	25,890,323.05	14,028,362	11,861,961.05	84.56
3a Demand & Non-Fuel Cost Purchased Power	0.00	0	3.00	0.00	0.00	0	0.00	0.00
3b Energy Payments to Qualifying Facilities	1,784,533.44	0	1,784,533.44	100.00	1,784,533.44	0	1,784,533.44	100.00
4 Energy Cost - Economy Purchases	0.00	0	3.00	0.00	0.00	0	0.00	0.00
5 Hedging Settlement Cost	(1,412,120.00)	0	(1,412,120.00)	100.00	(1,412,120.00)	0	(1,412,120.00)	100.00
6 Total Fuel & Net Power Transactions	46,745,839.18	39,297,705	7,448,134.18	18.95	46,745,839.18	39,297,705	7,448,134.18	18.95
7 Adjustments To Fuel Cost*	266.30	0	266.30	100.00	266.30	0	266.30	100.00
8 Adj. Total Fuel & Net Power Transactions	46,746,105.48	39,297,705	7,448,400.48	18.95	46,746,105.48	39,297,705	7,448,400.48	18.95
<b>B. KY/TN Sales</b>								
1 Jurisdictional Sales	1,041,533.597	890,887,000	150,846,597	16.91	1,041,533.597	890,887,000	150,846,597	16.91
2 Non-Jurisdictional Sales	32,661,753	29,795,000	2,866,753	9.59	32,661,753	29,795,000	2,866,753	9.59
3 Total Territorial Sales	1,074,195,350	920,682,000	153,503,350	16.67	1,074,195,350	920,682,000	153,503,350	16.67
4 Juris. Sales as % of Total Terr. Sales	96.9603	96.7638	0.1965	0.20	96.9603	96.7638	0.1965	0.20

\*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: JANUARY 2014**

C True-Up Calculation	CURRENT MONTH				PERIOD - TO - DATE			
	\$		DIFFERENCE		\$		DIFFERENCE	
	ACTUAL	ESTIMATED	AMOUNT (\$)	%	ACTUAL	ESTIMATED	AMOUNT (\$)	%
1 Jurisdictional Fuel Revenue	43,044,663.21	37,117,916	5,926,746.63	15.97	43,044,663.21	37,117,916	5,926,746.53	15.97
2 Fuel Adj. Revnt. Not Applicable to Period								
2a True-Up Provision	(1,333,230.00)	(1,333,230)	3.00	0.00	(1,333,230.00)	(1,333,230)	0.00	0.00
2b Incentive Provision	(138,429.00)	(138,429)	3.00	0.00	(138,429.00)	(138,429)	0.00	0.00
3 Juris. Fuel Revenue Applicable to Period	41,573,004.21	35,646,259	5,926,745.21	16.63	41,573,004.21	35,646,259	5,926,745.21	16.63
Adjusted Total Fuel & Net Power								
4 Transactions (Line A6)	48,748,105.48	39,297,705	7,448,400.48	18.95	48,748,105.48	39,297,705	7,448,400.48	18.95
5 Juris. Sales % of Total KWH Sales (Line B4)	96.9663	96.7636	0.1965	0.20	96.9663	96.7636	0.1965	0.20
6 Juris. Total Fuel & Net Power Transactions								
6 A6, for Line Losses (C4*CS*1.0015)	45,393,151.88	38,082,992	7,310,159.88	19.20	45,393,151.88	38,082,992	7,310,159.88	19.20
True-Up Provision for the Month								
7 Over/Underly Collection (C3-C8)	(3,820,147.65)	(2,438,733)	(1,389,414.65)	(56.77)	(3,820,147.65)	(2,438,733)	(1,389,414.65)	(56.77)
8 Interest Provision for the Month	(1,398.39)	(1,043)	(355.39)	(34.07)	(1,398.39)	(1,043)	(355.39)	(34.07)
9 Beginning True-Up & Interest Provision	(20,953,273.78)	(15,998,781)	(4,954,514.78)	(30.97)	(20,953,273.78)	(15,998,781)	(4,954,514.78)	(30.97)
10 True-Up Collected / (Reinstated)	1,333,230.00	1,333,230	8.00	0.00	1,333,230.00	1,333,230	8.00	0.00
End of Period - Total Net True-Up, Before								
11 Adjustment (C7+C8+C9+C10)	(23,441,591.82)	(17,103,307)	(6,338,284.82)	(37.06)	(23,441,591.82)	(17,103,307)	(6,338,284.82)	(37.06)
12 Adjustment	0.00	0	8.00	0.00	0.00	0	8.00	0.00
13 End of Period - Total Net True-Up	(23,441,591.82)	(17,103,307)	(6,338,284.82)	(37.06)	(23,441,591.82)	(17,103,307)	(6,338,284.82)	(37.06)

CALCULATION OF TRUE-UP AND INTEREST PROVISION  
GULF POWER COMPANY  
FOR THE MONTH OF: JANUARY 2014

	CURRENT MONTH			
	ACTUAL	ESTIMATED	DIFFERENCE	
<b>D. Interest Provision</b>				
1 Beginning True-Up Amount (C8) Ending True-Up Amount	(20,953,275.78)	(15,006,761)	(4,954,514.78)	30.97
2 Before Interest (C7+C9+C10)	(23,440,183.43)	(17,102,264)	(6,337,922.43)	37.06
3 Total of Beginning & Ending True-Up Amts.	(44,393,459.21)	(32,101,025)	(11,292,444.21)	34.12
4 Average True-Up Amount Interest Rate	(22,196,724.61)	(10,550,513)	(5,640,221.61)	34.12
5 1st Day of Reporting Business Month Interest Rate	0.06	0.08	0.0000	
6 1st Day of Subsequent Business Month Interest Rate	0.07	0.07	0.0000	
7 Total (D5+D6)	0.15	0.15	0.0000	
8 Annual Average Interest Rate	0.08	0.08	0.0000	
9 Monthly Average Interest Rate (D8/12)	0.0063	0.0063	0.0000	
10 Interest Provision (D4*D9)	(1,296.29)	(1,043)	(255.39)	34.07
Jurisdictional Loss Multiplier (From Schedule A-1)	1.0015	1.0015		