

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: April 28, 2016
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 160001-EI
Company Name: Gulf Power Company
Company Code: EI804
Audit Purpose: Fuel Cost Recovery Clause
Audit Control No: 16-020-1-1

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/cm

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 Cost Recovery Clause

December 31, 2015

Docket No. 160001-EI
Audit Control No. 16-020-1-1

April 15, 2016

A blue ink signature of George Simmons, written in a cursive style, positioned above a horizontal line.

George Simmons
Audit Manager

A blue ink signature of Marisa N. Glover, written in a cursive style, positioned above a horizontal line.

Marisa N. Glover
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures 2

Audit Findings

 1: Gains on Economy Sales 6

Exhibit

 1: True Up 7

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated January 20, 2016. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2015 filing for the Fuel Cost Recovery Clause in Docket No. 160001-EI.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. 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 Cost Recovery Clause.

Revenue

Operating Revenues

Objectives: The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2015, through December 31, 2015, 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 2015 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-14-0701-FOF-EI, issued December 19, 2014 in Docket No. 140001-EI. No exceptions were noted.

Expenses

Operation and Maintenance Expense

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 2015. We prepared a schedule of coal, oil, and natural gas consumption for each month of 2015 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, 2015, 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 2015 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, May, July, and November 2015. In addition, we reconciled the Utility's Interchange Analysis Report to Schedule A-6 and Schedule A-1, Line 18 for February and July 2015. We determined that the Utility was in compliance with the order noted above. Finding 1 discusses the generation-related gains adjustment.

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 2015. We traced amounts on Schedule A-8 to invoices for February, May, July, and November 2015. 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 2015 were calculated correctly and payments were in accordance with the applicable contract.

Procedures: We reviewed the gas storage contracts in effect for 2015. 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 2015 and reconciled totals to the general ledger. We traced the purchased amounts and the total FTS charges to the paid invoices for June and December 2015. 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 2015 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 2015 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 2015, 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, May, July, and November 2015. 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 2015.

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 2015. 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 2015. 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 2015 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, May, July, and November 2015. 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, 2014, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2015, using the Commission approved beginning balance as of December 31, 2014, the Financial Commercial Paper rates, and the 2015 Fuel 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 2015 to 2014 revenues and expenses. We requested explanations from the Utility for significant variances. Explanations provided were sufficient. 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 \$82,970 for July 2015. Based on source documentation, audit staff calculated \$5,369.81 for July 2015. This resulted in a variance of \$77,600.48 in July. The Utility is aware of the variance and has made the correct adjustment including interest, in the March 2016 true-up filing.

Effect on the General Ledger: The Utility will determine the effect on the General Ledger.

Effect on the Filing: The Utility has adjusted the true-up filing in March 2016 to reflect the adjustment.

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 2015									
	CURRENT MONTH				PERIOD - TO - DATE				
	\$	DIFFERENCE			\$	DIFFERENCE			
	ACTUAL	ESTIMATED	AMOUNT (\$)	%	ACTUAL	ESTIMATED	AMOUNT (\$)	%	
A. Fuel Cost & Net Power Transactions									
1 Fuel Cost of System Net Generation	6,957,837.35	18,765,033	(11,807,195.65)	(62.92)	267,222,277.82	284,893,215	(17,670,937.18)	(6.20)	
1a Other Generation	155,721.30	204,032	(48,310.70)	(23.68)	2,448,189.80	2,935,354	(487,164.20)	(16.60)	
2 Fuel Cost of Power Sold	(1,520,266.01)	(5,425,000)	3,904,733.99	71.98	(53,982,545.71)	(54,588,801)	606,255.29	1.11	
3 Fuel Cost - Purchased Power	11,245,799.38	14,956,000	(3,710,200.62)	(24.81)	155,211,034.53	174,080,000	(18,868,965.47)	(10.84)	
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	490,567.24	0	490,567.24	100.00	5,839,300.75	0	5,839,300.75	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	6,234,099.00	2,774,905	3,459,194.00	124.66	50,572,362.43	20,691,815	29,880,547.43	144.41	
6 Total Fuel & Net Power Transactions	23,563,758.26	31,274,970	(7,711,211.74)	(24.66)	427,310,619.62	428,011,583	(700,963.38)	(0.16)	
7 Adjustments To Fuel Cost*	0.00	0	0.00	0.00	(102,101.62)	0	(102,101.62)	100.00	
8 Adj. Total Fuel & Net Power Transactions	23,563,758.26	31,274,970	(7,711,211.74)	(24.66)	427,208,518.00	428,011,583	(803,065.00)	(0.19)	
B. KWH Sales									
1 Jurisdictional Sales	762,082,457	862,199,000	(100,116,543)	(11.61)	11,085,871,921	11,010,982,000	74,889,921	0.68	
2 Non-Jurisdictional Sales	23,396,033	27,359,000	(3,962,967)	(14.49)	314,546,965	337,465,000	(22,918,035)	(6.79)	
3 Total Territorial Sales	785,478,490	889,558,000	(104,079,510)	(11.70)	11,400,418,886	11,348,447,000	51,971,886	0.46	
4 Juris. Sales as % of Total Terr. Sales	97.0214	96.9244	0.0970	0.10	97.2409	97.0263	0.2146	0.22	

*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 2015

	CURRENT MONTH				PERIOD - TO - DATE			
	\$		DIFFERENCE		\$		DIFFERENCE	
	ACTUAL	ESTIMATED	AMOUNT (\$)	%	ACTUAL	ESTIMATED	AMOUNT (\$)	%
C. True-up Calculation								
1 Jurisdictional Fuel Revenue	29,752,013.31	37,351,158	(7,599,144.90)	(20.35)	476,514,008.57	477,004,648	(490,639.75)	(0.10)
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(3,996,375.00)	(3,996,375)	0.00	0.00	(47,956,495.00)	(47,956,495)	0.00	0.00
2b Incentive Provision	(210,177.00)	(210,177)	0.00	0.00	(2,522,122.00)	(2,522,122)	0.00	0.00
3 Juris. Fuel Revenue Applicable to Period	25,545,461.31	33,144,606	(7,599,144.69)	(22.93)	426,035,391.57	426,526,031	(490,639.43)	(0.12)
Adjusted Total Fuel & Net Power								
4 Transactions (Line A8)	23,563,758.26	31,274,970	(7,711,211.74)	(24.66)	427,208,518.25	428,011,583	(803,064.75)	(0.19)
5 Juris. Sales % of Total KWH Sales (Line B4)	97.0214	96.9244	0.0970	0.10	97.2409	97.0263	0.2146	0.22
6 Juris. Total Fuel & Net Power Transactions								
Adj. for Line Losses (C4*C5*1.0015)	22,896,180.99	30,358,547	(7,462,366.01)	(24.58)	416,053,422.19	415,853,200	200,222.19	0.05
True-Up Provision for the Month								
7 Over/(Under) Collection (C3-C6)	2,649,280.32	2,786,059	(136,778.68)	4.91	9,981,969.38	50,636,571	(40,654,601.62)	80.29
8 Interest Provision for the Month	3,370.84	1,662	1,708.84	(102.82)	(13,830.63)	(24,021)	10,190.37	42.42
9 Beginning True-Up & Interest Provision	11,396,994.91	3,864,714	7,532,280.91	(194.90)	(39,871,741.42)	(47,956,495)	8,084,753.58	16.86
10 True-Up Collected / (Refunded)	3,996,375.00	3,996,375	0.00	0.00	47,956,495.00	7,992,755	39,963,740.00	500.00
End of Period - Total Net True-Up, Before								
11 Adjustment (C7+C8+C9+C10)	18,046,021.07	10,648,810	7,397,211.07	(69.47)	18,052,892.33	10,648,810	7,404,082.33	(69.53)
12 Adjustment	0.00	0	0.00	0.00	(6,871.26)	0	(6,871.26)	100.00
13 End of Period - Total Net True-Up	18,046,021.07	10,648,810	7,397,211.07	(69.47)	18,046,021.07	10,648,810	7,397,211.07	(69.47)

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2015

	CURRENT MONTH			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
D. Interest Provision				
1 Beginning True-Up Amount (C9) Ending True-Up Amount	11,396,994.91	3,864,714	7,532,280.91	194.90
2 Before Interest (C7+C9+C10)	18,042,650.23	10,647,148	7,395,502.23	69.46
3 Total of Beginning & Ending True-Up Amts.	29,439,645.14	14,511,862	14,927,783.14	102.87
4 Average True-Up Amount	14,719,822.57	7,255,931	7,463,891.57	102.87
Interest Rate				
5 1st Day of Reporting Business Month Interest Rate	0.15	0.15	0.0000	
6 1st Day of Subsequent Business Month Interest Rate	0.40	0.40	0.0000	
7 Total (D5+D6)	0.55	0.55	0.0000	
8 Annual Average Interest Rate	0.28	0.28	0.0000	
9 Monthly Average Interest Rate (D8/12)	0.0229	0.0229	0.0000	
10 Interest Provision (D4*D9)	3,370.84	1,662	1,708.84	102.82
Jurisdictional Loss Multiplier (From Schedule A-1)	1.0015	1.0015		