

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 12, 2017  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 170001-EI  
Company Name: Gulf Power Company  
Company Code: EI804  
Audit Purpose: A3a: Fuel Cost Recovery Clause  
Audit Control No: 17-023-1-1

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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 are confidential work papers associated with this audit.

LMD/cmm

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, 2016**

Docket No. 170001-EI  
Audit Control No. 17-023-1-1

**April 20, 2017**

A handwritten signature in cursive script, reading "Donna D. Brown", written over a horizontal line.

Donna D. Brown  
Audit Manager

A handwritten signature in cursive script, reading "Marisa N. Glover", written over a horizontal line.

Marisa N. Glover  
Reviewer

## Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
None.....	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, 2017. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Gulf Power Company in support of its 2016 filing for the Fuel and Purchased Power Cost Recovery Clause in Docket No. 170001-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 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, 2016, through December 31, 2016, 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 2016 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-15-0586-FOF-EI, issued December 23, 2015 in Docket No. 150001-EI. No exceptions were noted.

### **Expense**

#### 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 2016. We prepared a schedule of coal, oil, and natural gas consumption for each month of 2016 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, 2016, and reconciled total fuel costs to the consumption schedule prepared by audit staff. The fuel expenses included in the FAC Filing compiled 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 2016 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 March, June, September, and December 2016. In addition, we reconciled the Utility's Interchange Analysis Report to Schedule A-6 and Schedule A-1, Line 18 for March, June, September, and December 2016. We determined that the Utility was in compliance with the order noted above. No exceptions were noted.

**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 schedule total KWHs purchased and energy costs for 2015. We traced amounts on Schedule A-8 to invoices for March, June, September, and November 2016. 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 2016 were calculated correctly and payments were in accordance with the applicable contract.

**Procedures:** We reviewed the gas storage contracts in effect for 2016. 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 2016 and reconciled totals to the general ledger. We traced the purchased amounts and the total FTS charges to the paid invoices for July and November 2016. 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 2016 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 2016 under waterborne and rail coal transportation contracts.

**Procedures:** We scheduled coal, freight, and railcar costs from the Utility's Accounts Payable (AP) analysis for each month of 2016, 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 January, May, September, and December 2016. 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 2016.

**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 February and November 2016. 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 April 2016. 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 2016 and reconciled the total to Schedule A-8, Schedule A-9, and Interchange Contract (IIC) and Purchased Power Agreement (PPA) invoices and contracts for March, June, September, and December 2016. 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, 2015, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2016, using the Commission approved beginning balance as of December 31, 2015, the Financial Commercial Paper rates, and the 2016 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 2016 to 2015 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: True-Up

SCHEDULE A-2  
PAGE 1 OF 3

**CALCULATION OF TRUE-UP AND INTEREST  
PROVISION GULF POWER COMPANY  
FOR THE MONTH OF: DECEMBER  
2016**

	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	20,168,147.33	14,987,697	5,180,450.33	34.56	232,906,885.96	253,010,293	(20,103,407.04)	(7.95)
1a Other Generation	177,777.36	176,634	1,143.36	0.65	2,076,183.59	2,682,058	(605,874.41)	(22.59)
2 Fuel Cost of Power Sold	(9,868,066.88)	(2,915,000)	(6,953,066.88)	(238.53)	(67,647,977.33)	(68,552,000)	904,022.67	1.32
3 Fuel Cost - Purchased Power	17,695,006.50	14,046,000	3,649,006.50	25.98	187,389,167.06	202,884,000	(15,494,832.94)	(7.64)
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	704,975.34	355,000	349,975.34	98.58	6,187,431.77	5,026,000	1,161,431.77	23.11
4 Energy Cost - Economy Purchases	0.00	0	0.00	0.00	0.00	0	0.00	0.00
5 Hedging Settlement Cost	1,750,470.00	2,287,103	(536,633.00)	(23.46)	54,060,780.00	21,046,602	33,014,178.00	156.86
6 Total Fuel & Net Power Transactions	30,628,309.65	28,937,434	1,690,875.65	5.84	414,972,471.05	416,096,953	(1,124,481.95)	(0.27)
7 AdjustmentsTo Fuel Cost*	1,273.28	0	1,273.28	100.00	13,114.48	0	13,114.48	100.00
8 Adj. Total Fuel & Net Power Transactions	30,629,582.93	28,937,434	1,692,148.93	5.85	414,985,585.53	416,096,953	(1,111,367.47)	(0.27)
<b>B. KWH Sales</b>								
1 Jurisdictional Sales	771,019,819	826,023,000	(55,003,181)	(6.66)	11,081,505,276	10,961,737,000	119,768,276	1.09
2 Non-Jurisdictional Sales	24,087,902	28,101,000	(4,013,098)	(14.28)	315,581,966	330,925,000	(15,343,034)	(4.64)
3 Total Territorial Sales	795,107,721	854,124,000	(59,016,279)	(6.91)	11,397,087,242	11,292,662,000	104,425,242	0.92
4 Juris. Sales as % of Total Terr. Sales	96.9705	96.7100	0.2605	0.27	97.2310	97.0696	0.1614	0.17

\*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 2016

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	\$ ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL	\$ ESTIMATED	DIFFERENCE AMOUNT (\$)	%
<b>C. True-up Calculation</b>								
1 Jurisdictional Fuel Revenue	26,088,715.42	30,125,671	(4,036,955.53)	(13.40)	404,136,512.90	399,782,672	4,353,841.22	1.09
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	1,614,174.00	1,614,174	0.00	0.00	19,370,087.00	19,370,087	0.00	0.00
2b Incentive Provision	(220,534.00)	(220,534)	0.00	0.00	(2,646,407.00)	(2,646,407)	0.00	0.00
3 Juris. Fuel Revenue Applicable to Period	27,482,355.42	31,519,311	(4,036,955.58)	(12.81)	420,860,192.90	416,506,352	4,353,840.90	1.05
Adjusted Total Fuel & Net Power								
4 Transactions (Line A8)	30,629,582.93	28,937,434	1,692,148.93	5.85	414,985,584.76	416,096,953	(1,111,368.24)	(0.27)
5 Juris. Sales % of Total KWH Sales (Line B4)	96.9705	96.7100	0.2605	0.27	97.2310	97.0696	0.1614	0.17
Juris. Total Fuel & Net Power Transactions								
6 Adj. for Line Losses (C4*C5*1.0015)	29,746,212.20	28,027,371	1,718,841.20	6.13	404,100,706.82	404,501,081	(400,374.18)	(0.10)
True-Up Provision for the Month								
7 Over/(Under) Collection (C3-C6)	(2,263,856.78)	3,491,940	(5,755,796.78)	164.83	16,759,486.08	12,005,272	4,754,214.08	(39.60)
8 Interest Provision for the Month	8,685.23	5,552	3,133.23	(56.43)	80,520.86	43,379	37,141.86	(85.62)
9 Beginning True-Up & Interest Provision	19,309,482.87	10,165,333	9,144,149.87	(89.95)	18,046,021.07	19,370,087	(1,324,065.93)	6.84
10 True-Up Collected / (Refunded)	(1,614,174.00)	(1,614,174)	0.00	0.00	(19,370,087.00)	(19,370,087)	0.00	0.00
End of Period - Total Net True-Up, Before								
11 Adjustment (C7+C8+C9+C10)	15,440,137.32	12,048,651	3,391,486.32	(28.15)	15,515,941.01	12,048,651	3,467,290.01	(28.78)
12 Adjustment <sup>(1)</sup>	(177,882.72)	(866,563.19)	688,680.47	(79.47)	(253,686.41)	(866,563)	612,876.78	(70.72)
13 End of Period - Total Net True-Up	15,262,254.60	11,182,088	4,080,166.79	(36.49)	15,262,254.60	11,182,088	4,080,166.79	(36.49)
Adjustment for Scherer Unit 3 to retail (177,882.72)								

**CALCULATION OF TRUE-UP AND INTEREST PROVISION  
GULF POWER COMPANY  
FOR THE MONTH OF: DECEMBER 2016**

	CURRENT MONTH			
	\$ ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
<b>D. Interest Provision</b>				
1 Beginning True-Up Amount (C9)	19,309,482.87	10,165,333	9,144,149.87	89.95
Ending True-Up Amount				
2 Before Interest (C7+C9+C10)	15,431,452.09	12,043,099	3,388,353.09	28.14
3 Total of Beginning & Ending True-Up Amts.	34,740,934.96	22,208,432	12,532,502.96	56.43
4 Average True-Up Amount	17,370,467.48	11,104,216	6,266,251.48	56.43
Interest Rate				
5 1st Day of Reporting Business Month	0.48	0.48	0.0000	
Interest Rate				
6 1st Day of Subsequent Business Month	0.72	0.72	0.0000	
7 Total (D5+D6)	1.20	1.20	0.0000	
8 Annual Average Interest Rate	0.60	0.60	0.0000	
9 Monthly Average Interest Rate (D8/12)	0.0500	0.0500	0.0000	
10 Interest Provision (D4*D9)	8,685.23	5,552	3,133.23	56.43
Jurisdictional Loss Multiplier (From Schedule A-1)	1.0015	1.0015		