

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: August 30, 2018

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, *LMD* Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20180001-EI
Company Name: Gulf Power Company
Company Code: EI804
Audit Purpose: A3a: Hedging Activities
Audit Control No.: 2018-058-1-1

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 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
Hedging Activities

Twelve Months Ended July 31, 2018

Docket No. 20180001-EI
Audit Control No. 2018-058-1-1
August 28, 2018

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

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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 & Finance in its audit service request dated February 27, 2018. We have applied these procedures to the attached schedules prepared by Gulf Power Company in support of its filing for hedging activities in Docket No. 20180001-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

Definitions

GPC or Utility refers to Gulf Power Company

Accounting Treatment

Objectives: The objective was to determine whether the accounting treatment for futures, options, and swap contracts between GPC and its counterparties is consistent with Commission Order No. PSC-2002-1484-FOF-EI, issued October 30, 2002, in Docket No. 20011605-EI, and as clarified by Order No. PSC-2008-0316-PAA-EI, issued May 14, 2008, and Order No. PSC-2008-0667-PAA-EI, issued October 8, 2008, in Docket No. 20080001-EI.

Procedures: We obtained GPC's supporting detail of the hedging settlements for the twelve months ended July 31, 2018. The support documentation was traced to the general ledger transaction detail. We verified that the hedging settlements are in compliance with the Risk Management Plan and verified that the account treatment for hedging transactions and transactions costs is consistent with Commission orders relating to hedging activities. The Utility did not enter into any new contracts between August 1, 2017 and July 31, 2018. No exceptions were noted.

Gains and Losses

Objectives: The objective was to determine whether the gains and losses associated with each financial hedging instrument that GPC implemented are in compliance with Commission Order Nos. PSC-2002-1484-FOF-EI, PSC-2008-0316-PAA-EI, and PSC-2008-0667-PAA-EI relating to hedging activities.

Procedures: We traced the monthly balances of all hedging transactions from GPC's Hedging Information Reports to its settlement report and its general ledger for the period August 1, 2017 to July 31, 2018. We reviewed existing tolling arrangements whereby the Utility's natural gas is provided to generators under purchased power agreements. We recalculated the gains and losses, traced the price to the settlement statement details, and compared the price to the gas futures rates published by the NYMEX Henry Hub gas futures contract rates. We compared these recalculated gains and losses with GPC's journal entries for realized gains and losses. No exceptions were noted.

Hedged Volume and Limits

Objectives: The objective was to determine whether the quantities of natural gas, residual oil, and purchased power are hedged within the limits (percentage range), as listed in the Utility's Risk Management Plan.

Procedures: We reviewed the quantity limits and authorizations. We also obtained GPC's analysis of the monthly percent of natural gas hedged in relation to natural gas burned for the twelve months ended July 31, 2018 and compared them with the Utility's 2016 Risk Management Plan. No exceptions were noted.

Separation of Duties

Objectives: The objectives were to review GPC's procedures for separating duties related to hedging activities for Front Office, Middle Office, and Back Office and internal and external audit reports or work papers.

Procedures: We reviewed the Utility's procedures for separating duties related to hedging activities. We reviewed internal audit reports from August 1, 2017 to July 31, 2018 and noted that there were none. No further work was done.

Audit Findings

None