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Public Service Commission

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CLERK

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

**DATE:** May 7, 2008

**TO:** Peter H. Lester, Economic Analyst, Division of Economic Regulation

**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance

**RE:** Docket No: ~~070001-EI~~ <sup>090001-EI</sup>; Company Name: Gulf Power Company;  
Audit Purpose: 2007 Fuel Price Hedging Costs; Company Code: EI804;  
Audit Control No: 07-353-1-1;

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 the response to the Division of Commission Clerk. There are confidential work papers associated with this audit.

DNV:sbj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of Commission Clerk (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

- CMP \_\_\_\_\_ Ms. Susan D. Ritenour
- COM \_\_\_\_\_ Gulf Power Company
- CTR \_\_\_\_\_ One Energy Place
- ECR \_\_\_\_\_ Pensacola, FL 32520-0780
- GCL \_\_\_\_\_ Beggs & Lane Law Firm
- OPC \_\_\_\_\_ J. Stone / R. Badders / S. Griffin
- RCA \_\_\_\_\_ P.O. Box 12950
- SCR \_\_\_\_\_ Pensacola, FL 32591
- SGA \_\_\_\_\_
- SEC \_\_\_\_\_
- OTH Manquente

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE  
BUREAU OF AUDITING

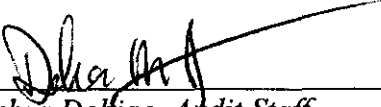
*Tallahassee District Office*

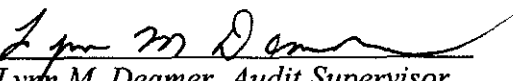
GULF POWER COMPANY

2007 FUEL PRICE HEDGING COST

YEAR ENDED DECEMBER 31, 2007

DOCKET NO. 070001-EI  
AUDIT CONTROL NO. 07-353-1-1

  
\_\_\_\_\_  
*Debra Dobias, Audit Staff*

  
\_\_\_\_\_  
*Lynn M. Deamer, Audit Supervisor*

DOCUMENT NUMBER-DATE

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**March 10, 2008**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We applied these procedures to the schedules prepared by Gulf Power Company in support of its filing for 2007 Fuel Price Hedging Costs, Docket No. 080001-EI.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use. This audit contains confidential information.

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## **OBJECTIVES and PROCEDURES**

**Objective:** To verify that the accounting treatment for futures, options, and swap contracts between Gulf Power and one or more counterparties are consistent with FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002.

To verify the gains (losses) associated with each financial hedging instrument that Gulf Power implemented are consistent with FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002.

To verify that the transaction costs associated with each financial hedging instrument, to the extent that such costs can reasonably be identified, are properly accounted for in the books and records of the Company.

**Procedures:** The audit staff reviewed the Risk Management Plan for Fuel Procurement filed by the Company with this Commission on April 5, 2007 in Docket No. 070001-EI. We compared pricing strategy included in the Plan to actual charges to FERC Account No. 547-4 (Hedging) for the applicable months during the 12 months ended December 31, 2007 as filed by the company on Schedule A-1 of the Fuel Adjustment Clause. We compared the total for Account No. 547-4 to gas purchases for the same months.

The audit staff obtained company support detail of the hedging settlements for the applicable months during the 12 months ended December 31, 2007. The support documentation was traced to the General Ledger Transaction detail for Hedging, Account No. 547-4. The audit staff reviewed the adherence of the hedging settlements to the risk management plan.

The audit staff discussed the associated transaction costs of financial hedging instruments with company staff and obtained company contracts for four financial hedging transactions. The audit staff reviewed the contracts to determine any associated/imbedded transaction costs.

The audit staff noted adherence of the hedging contracts to the risk management plan, and no transaction costs that could reasonably be identified as per the work performed.