

State of Florida



Public Service Commission

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COMMISSION CLERK

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

DATE: June 8, 2011
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*
RE: Docket No.: 110001-EI
Company Name: Gulf Power Company
Company Code: EI804
Audit Purpose: Fuel Cost Recovery Clause
Audit Control No: 11-006-1-2

Attached is the final audit report for the Utility stated above. Volume 3 of the audit working papers is forwarded for confidential treatment pursuant to Rule 25-22.006, Florida Administrative Code. The audit report and volumes 1 and 2 of the work papers are public and held by the Bureau of Auditing. An attached index lists all confidential material.

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.

CJP/ir

Attachments: Confidential Document Index
Confidential Binder Listed Above

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

03958 JUN-8 =

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Gulf Power Company
DKT 110001-EI; ACN 11-006-1-2
Fuel Adjustment Clause

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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 Adjustment Clause

Twelve Months Ended December 31, 2010

Docket No. 110001-EI
Audit Control No. 11-006-1-2
May 27, 2011

Handwritten signature of Donna D. Brown in cursive script.

Donna D. Brown
Audit Manager

Handwritten signature of Andrew Von Euw in cursive script.

Andrew Von Euw
Audit Staff

Handwritten signature of Lynn M. Deamer in cursive script.

Lynn M. Deamer
Reviewer

DOCUMENT NUMBER-DATE

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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 Economic Regulation in its audit service request dated January 6, 2011. We have applied these procedures to the attached summary exhibit prepared by Gulf Power Company and to several of its related schedules in support of its filing for Fuel Cost Recovery Clause (FAC), Docket No. 110001-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

Revenues

Objectives: The objectives were to verify that the revenues and Kilowatt Hours (KWH) sold were completely and properly recorded on the books of the Utility and those revenues on the Fuel Cost Recovery Clause filing agreed with the Utility's general ledger.

Procedures: We compiled the FAC, revenues from Utility source documents and reconciled to the filing as well as the general ledger. We verified that the Utility used the Commission approved factors in the billing of the manual bills. We also selected a judgmental sample of computerized customer bills to test that the applicable factors for FAC were used in billing customers. There are no exceptions.

Expenses

Objective: The objective was to reconcile the fuel costs to the general ledger.

Procedures: We prepared a schedule for FERC Account 501, Steam Generation-Fuel, and FERC Account 547, Other Generation-Fuel, for each month of 2010 from the fuel clause journals. We compiled charges by month by account to obtain total fuel costs, which were reconciled to the general ledger and to the Schedule A-1 filing. We recalculated the A-1 Schedule for each month in 2010. We also prepared a schedule of charges by accounts by generation plant to obtain total fuel costs, including amounts listed as "other generation" for each month for the year ended December 31, 2010. There are no exceptions.

Objective: The objective was to review Purchase Power Agreements and reconcile Utility filings to books and records of the Utility.

Procedures: We reviewed Purchase Power Agreement Contracts provided by the Utility. We also reviewed purchase power charges as per the Utility filing and reconciled them to actual invoices. There are no exceptions.

Objective: The objective was to verify the energy payments to the qualified facilities.

Procedures: We compiled payments to qualified facilities from Schedule A-8 and reconciled the total to Schedule A-1, Line 11. We also traced the KWHs reported on Schedule A-8 to customer bills for January, May, July, September, November and December of 2010. There are no exceptions.

Objective: The objective was to verify that the energy costs of other economic purchases (non-broker) reconcile to the books and records of the Utility.

Procedures: We compiled economy energy purchases (Schedule A-9) by company from the Interchange Analysis Reports for each month of 2010 and reconciled the total to Schedule A-1, Line 12. We also traced purchased amounts to the supporting Intercompany Interchange Contract (IIC) invoices for March, June, September, and December of 2010. There are no exceptions.

Objective: The objective was to verify that generation related gains derived from non-separated wholesale energy sales were credited to the fuel clause thereby reducing fuel clause expenses.

Procedures: We compiled gains on economy sales (Schedule A-6) from the Interchange Analysis Reports for each month of 2010 and reconciled the total of Schedule A-1, Line 15. We verified through FPSC Order PSC-09-0795-FOF-EI, issued December 2, 2009, that gains are to be shared between ratepayer and shareholder (80% and 20% respectively) after reaching an estimated benchmark. The appropriate separation factor was not recalculated in 2010 since the estimated benchmark was not met. We also traced the gains to the supporting IIC invoices for January, May, July, September, November, and December of 2010. There are no exceptions.

Objective: The objective was to verify that firm transportation services (FTS) charges for natural gas transportation agree with the appropriate FTS rate schedules from pipeline Utility tariffs.

Procedures: We reconciled natural gas purchases and applicable firm transportation service charges from the Accounts Payable Analysis for each month of 2010 and reconciled totals to the general ledger. We also traced purchased amounts and total FTS charges to the paid invoices for March and August 2010. There are no exceptions.

Objective: The objective was to verify that amounts of the semi-annual Coal Inventory Adjustments for 2010 made were in accordance with FPSC Order PSC-97-0359-FOF-EI, issued March 31, 1997.

Procedures: We recalculated the inventory adjustments on the March 2010 and September 2010 aerial survey reports and compared them to the adjusted book balances, and supporting journal vouchers. In addition, we verified Utility compliance with procedures contained in applicable order. There are no exceptions.

Objective: 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: Audit staff reconciled coal and oil purchases reported on Form 423 with the Schedule A-5 filing for January 2010. We cross-referenced coal and oil purchases to Utility journals, stockpile receipts reports, fuel stock reports, in-transit reports, and accounts payable analysis. We also traced receipts to the fuel invoices and verified that the rates as well as the adjustments calculations were in compliance with vendor contracts. There are no exceptions.

Objective: The objective was to reconcile both the hours (service hours, reserve shutdown hours, and unavailable hours) and the heat rate as filed in the monthly Schedule A-4 for GPIF (Generating Performance Incentive Factor) units with the annual GPIF filing and source documentation.

Procedures: We reviewed the source documentation that supports the data reported on Schedule 3 and Schedule 5 of the annual GPIF filing for Crist 4 during January and December 2010. We traced and recalculated both the oil reported on the Oil Consumed Report and gas reported on the Start Up and Generation MMBTU by Unit Report (respectively) to Schedule 3. We recalculated the Average Net Operating Heat Rate reported on Schedule 3 based on calculation procedures stated by the Utility. We prepared a schedule by unit, by fuel burned, to reconcile the Average Net Heat Rate reported on Schedule A-4 with the Average Net Operating Heat Rate reported on Schedule 3 of the GPIF filing for January and December 2010. We reconciled any differences between Average Net Heat Rate reported on Schedule A-4 and Schedule 3 of the GPIF filing to

Utility records. We traced the planned outage hours, service hours, period hours, reserved shutdown outage hours, forced outage hours, and maintenance outage hours from the outage hours report on Schedule 5 of the GPIF filing for the months of January and December 2010. In addition, we also traced both the period hours and service hours to Crist 4 Generation Summary Report from the Outage Hours Report. We also reconciled the Mbtu, Net Generation and Average Net Operating Heat Rate (Btu/KWH) values for January and December 2010 reported on Schedule 5 to Schedule 3. There are no exceptions.

Objective: The objective was to verify that Gulf Power's treatment of wholesale energy sold via the Intercompany Interchange Contract between operating companies complies with FPSC Order No. PSC-00-1744-PAA-EI, issued September 26, 2000.

Procedures: We traced the total for Fuel Adjustment for Southern Company Interchange reported on Schedule A-6 to the IIC invoice and the Utility's Interchange Analysis for March 2010. There are no gains that were credited back through the fuel clause. Wholesale sales via the intercompany exchange are intercompany transfers without markups/gains. There are no exceptions.

Other

Objective: The objective was to review the litigation-related adjustments to fuel costs that the Utility has incurred since 2005.

Procedures: We compiled the litigation expenses by month with a detailed description of each expense above \$100. We also reconciled the expenses to Utility provided invoices. There are no exceptions

True-up

Objective: The objective was to verify that the true-up and interest provision amount at December 31, 2010 was properly calculated.

Procedures: We recalculated the true up and interest provision amount as of December 31, 2010 using the Commission approved beginning balance as of December 31, 2009, the Commercial paper rates, and the 2010 FAC Revenues and Costs. There are no exceptions.

Audit Findings

None

SCHEDULE A-2
PAGE 1 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2010

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
A. Fuel Cost & Net Power Transactions								
1 Fuel Cost of System Net Generation	58,657,088.53	59,031,124	(2,374,055.47)	(4.02)	603,827,384.15	645,374,825	(41,547,240.65)	(6.44)
1a Other Generation	397,713.15	137,448	260,267.15	169.36	2,616,306.23	4,332,869	(1,716,662.77)	(39.62)
2 Fuel Cost of Power Sold	(7,180,873.33)	(11,863,000)	4,772,126.67	39.82	(104,879,690.63)	(92,842,000)	(11,837,690.63)	(12.75)
3 Fuel Cost - Purchased Power	2,380,701.07	1,493,000	887,701.07	59.46	112,787,972.25	31,774,516	80,963,456.25	254.90
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	947,932.84	0	947,932.84	100.00	6,281,413.00	0	6,281,413.00	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	1,010,918.00	741,010	269,908.00	36.42	19,667,161.00	8,397,860	11,269,301.00	134.19
6 Total Fuel & Net Power Transactions	54,113,460.28	49,449,580	4,663,880.28	9.43	640,480,546.00	597,037,970	43,442,576.00	7.28
7 Adjustments To Fuel Cost*	13,544.17	0	13,544.17	100.00	(555,558.69)	0	(555,558.69)	100.00
8 Adj. Total Fuel & Net Power Transactions	54,127,004.43	49,449,580	4,677,424.43	9.46	639,924,987.31	597,037,970	42,887,017.31	7.18
B. KWH Sales								
1 Jurisdictional Sales	988,070,870	829,940,000	138,130,870	16.64	11,359,195,303	11,117,598,000	241,597,303	2.17
2 Non-Jurisdictional Sales	37,096,074	29,294,000	7,802,074	26.63	391,484,366	374,773,000	16,691,366	4.45
3 Total Territorial Sales	1,025,166,944	859,234,000	145,932,944	16.99	11,750,659,669	11,492,371,000	258,288,669	2.25
4 Juris. Sales as % of Total Terr. Sales	96.3095	96.5907	(0.2812)	(0.29)	96.6696	96.7389	(0.0703)	(0.07)

* (Gain) Loss on sales of natural gas and costs of contract dispute litigation.

Exhibits

Exhibit 1: Schedule A-2 - Calculation of True-up and Interest Provision

CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2010

	CURRENT MONTH				PERIOD - TO - DATE			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT (\$)	%
C. True-up Calculation								
1 Jurisdictional Fuel Revenue	50,494,840.86	44,314,648	6,180,194.36	13.95	604,273,297.78	583,621,748	10,651,549.44	1.79
2 Fuel Adj. Revs. Not Applicable to Period:								
2a True-Up Provision	(1,028,588.12)	(1,028,588)	0.00	0.00	(12,343,089.00)	(12,343,089)	0.00	0.00
2b Incentive Provision	(8,424.64)	(8,425)	0.00	0.00	(113,095.57)	(113,096)	0.00	0.00
3 Juris. Fuel Revenue Applicable to Period	49,456,826.90	43,276,633	6,180,193.90	14.28	591,817,133.21	581,165,584	10,651,549.21	1.83
4 Adjusted Total Fuel & Net Power Transactions (Line A8)	54,127,004.43	49,449,580	4,677,424.43	8.48	639,924,987.31	597,037,971	42,887,016.31	7.18
5 Juris. Sales % of Total KWH Sales (Line B4)	96.3095	96.5907	(0.2812)	(0.29)	96.6886	96.7369	(0.0703)	(0.07)
6 Juris. Total Fuel & Net Power Transactions Adj. for Line Losses (C4 * C5 * 1.0007)	52,165,937.94	47,797,130	4,368,807.94	9.14	618,023,295.66	577,982,091	41,041,204.66	7.10
7 True-Up Provision for the Month Over/(Under) Collection (C3-C6)	(2,709,111.04)	(4,520,497)	1,811,385.96	40.07	(27,206,162.65)	3,183,492	(30,389,654.65)	854.60
8 Interest Provision for the Month	(3,451.31)	1,027	(4,478.31)	438.08	(30,895.26)	7,636	(38,531.26)	504.60
9 Beginning True-Up & Interest Provision	(15,752,575.37)	6,882,009	(22,434,584.37)	335.75	(2,383,082.50)	(12,343,089)	9,959,386.50	80.69
10 True-Up Collected / (Refunded)	1,028,588.12	1,028,588	0.00	0.00	12,343,089.00	12,343,089	0.00	0.00
End of Period - Total Net True-Up, Before								
11 Adjustment (C7+C8+C9+C10)	(17,436,548.60)	3,191,128	(20,627,676.60)	646.41	(17,277,671.41)	3,191,128	(20,468,799.41)	641.43
12 Adjustment ⁽¹⁾	0.00	0	0.00	0.00	(158,877.19)	0	(158,877.19)	100.00
13 End of Period - Total Net True-Up	(17,436,548.60)	3,191,128	(20,627,676.60)	646.41	(17,436,548.60)	3,191,128	(20,627,676.60)	646.41

(1) Adjustment for January 2010 fuel clause revenue

**CALCULATION OF TRUE-UP AND INTEREST PROVISION
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 2010**

	CURRENT MONTH		DIFFERENCE	
	ACTUAL	ESTIMATED	AMOUNT (\$)	%
D. Interest Provision				
1 Beginning True-Up Amount (C9)	(15,752,575.37)	6,682,009	(22,434,584.37)	(335.75)
2 Ending True-Up Amount				
Before Interest (C7+C9+C10+C12+C12)	(17,433,087.29)	3,190,101	(20,623,188.29)	(648.47)
3 Total of Beginning & Ending True-Up Amts.	(33,185,672.66)	9,872,110	(43,057,782.66)	(438.16)
4 Average True-Up Amount	(16,592,836.33)	4,936,055	(21,528,891.33)	(438.16)
5 Interest Rate				
1st Day of Reporting Business Month	0.25	0.25	0.0000	
6 Interest Rate				
1st Day of Subsequent Business Month	0.25	0.25	0.0000	
7 Total (D5+D6)	0.50	0.50	0.0000	
8 Annual Average Interest Rate	0.25	0.25	0.0000	
9 Monthly Average Interest Rate (D8/12)	0.0208	0.0208	0.0000	
10 Interest Provision (D4*D9)	(3,451.31)	1,027	(4,478.31)	(438.08)
Jurisdictional Loss Multiplier (From Schedule A-1)	1.0007	1.0007		