

State of Florida



# Public Service Commission

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COMMISSION  
CLERK

**DATE:** October 3, 2011

**TO:** Marguerite McLean, Commission Deputy Clerk II, 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: Hedging Activities – August 2010 to July 2011  
 Audit Control No: 11-129-1-1

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.

Volume 2 of the audit working papers are forwarded for confidential treatment pursuant to Rule 25-22.006, Florida Administrative Code. The audit report and Volume 1 of the work papers are public and held by the Bureau of Auditing. The audit exit conference was held October 3, 2011. An attached index lists all confidential material.

CJP/klh

Attachments: Auditing Report  
Confidential Document Index  
Confidential Volume(s) Listed Above

cc: Bureau of Auditing

*Diamond A. Williams*  
Received By

10/3/2011  
Date

DOCUMENT NUMBER-DATE

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<b>INDEX OF CONFIDENTIAL WORKPAPERS</b>
<b>Gulf Power Company</b>
<b>DKT 110001-EI; ACN 11-129-1-1</b>
<b>Review of Hedging Information Report</b>

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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  
Hedging Activities

**12 Months Ended July 31, 2011**

Docket No. 110001-EI  
Audit Control No. 11-129-1-1

**September 30, 2011**

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 "Lynn M. Deamer", written over a horizontal line.

Lynn M. Deamer  
Reviewer

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## Purpose

To: Florida Public Service Commission

We performed the procedures enumerated in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated May 9, 2011. Audit staff applied these procedures to the schedules prepared by Gulf Power Company in support of its filing for its Hedging Activities in 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

### Hedging Transaction and Information Report Verification

**Objectives:** The objectives were to review and verify the information presented in Gulf Power Company's Natural Gas Hedging Transactions Report filed with this Commission on April 1, 2011 and its Hedging Information Report filed with this Commission on August 15, 2011.

**Procedures:** We reviewed Gulf Power Company's 2010 and 2011 Risk Management Plans for Fuel Procurement filed in Docket No. 100001-EI. We compared pricing strategy included in the plan to the Hedging Reports for the 12 months ended July 31, 2011 as filed by Gulf Power Company on April 1, 2011 and August 15, 2011.

### Accounting Treatments for Financial Contracts

**Objectives:** The objectives were to verify that the accounting treatments for futures, options, and swap contracts between Gulf Power Company and one or more counterparties are consistent with FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002, and as clarified by FPSC Order No. PSC 08-0316-PAA-EI, issued May 14, 2008 and FPSC Order No. PSC-08-0667-PAA-EI, issued October 8, 2008. An additional objective was to reconcile the data included in the two Hedging Reports with the books and records of Gulf Power Company including gains (losses), option premiums, swap settlements as well as fees, commissions, and other transaction costs associated with each financial hedging instrument.

**Procedures:** We obtained Gulf Power Company's supporting detail of the hedging settlements for the 12 months ended July 31, 2011. The support documentation was traced to the general ledger transaction detail. We reviewed the compliance of the hedging settlements to the Risk Management Plan and verified that the accounting treatment for the hedging transactions, and any transaction costs, were consistent with FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002.

### Risk Management Plan

**Objectives:** The objectives were to verify that the quantities of gas, residual oil, and purchased power hedged are within the limits specified in Gulf Power Company's 2010 and 2011 Risk Management Plans. The Utility does not hedge purchased power and residual oil. We were also required to verify that the individual and group transactions limits and authorizations set forth in the Risk Management Plan have been followed as well as Gulf Power Company's procedures for separating duties related to its hedging activities. An additional objective was to verify that the hedging operating and maintenance expenses associated with maintaining a non-speculative financial and/or physical hedging program are incremental in nature as set forth in FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002.

**Procedures:** We reviewed the quantity limits, individual and group transaction limits and authorizations, as well as the procedures for separating duties related to the hedging program as set forth in the Risk Management Plan. We also obtained Gulf Power Company's analysis of the monthly percent of fuel hedged in relation to fuel burned, the applicable average price of the financial transactions settled, and the average costs of natural gas purchased for the 12 months

ended July 31, 2011 and reviewed for reasonableness. The hedging transactions complied with the Risk Management Plan.

Audit Findings

**None**