

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:** September 18, 2015  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 150001-EI  
Company Name: Gulf Power Company  
Company Code: EI804  
Audit Purpose: Hedging Activities  
Audit Control No: 15-051-1-1

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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 is confidential work papers associated with this audit.

LMD/cp

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, 2015**

Docket No. 150001-EI  
Audit Control No. 15-051-1-1  
**September 11, 2015**

  
George Simmons  
Audit Staff

  
Lynn M. Deamer  
Reviewer

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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 Accounting and Finance in its audit service request dated February 18, 2015. We have applied these procedures to the schedules prepared by Gulf Power Company in support of its filing for the hedging activities in Docket No. 150001-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

### **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-02-1484-FOF-EI, issued October 30, 2002, in Docket No. 011605-EI, and as clarified by Order No. PSC-08-0316-PAA-EI, issued May 14, 2008, and Order No. PSC-08-0667-PAA-EI, issued October 8, 2008, in Docket No. 080001-EI.

**Procedures:** We obtained GPC's supporting detail of the hedging settlements for the twelve months ended July 31, 2015. 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 accounting treatment for hedging transactions and transactions costs is consistent with Commission orders relating to hedging activities. 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-02-1484-FOF-EI, PSC-08-0316-PAA-EI, and PSC-08-0667-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, 2014 to July 31, 2015. We reviewed existing tolling agreements 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, 2015, and compared them with the Utility's 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 work papers.

**Procedures:** We reviewed the Utility's procedures for separating duties related to hedging activities. There were no internal or external audits related to hedging activities. No exceptions were noted.

Audit Findings

**None**