

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In re: Petition for increase in rates by Gulf Power Company.

DOCKET NO. 110138-EI

DATED: October 21, 2011

COMMISSION CLERK

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Debra M. Dobiac has been served by U.S. Mail this 21st day of October, 2011, to the following:

Beggs & Lane Law Firm
Jeffrey Stones/Russell Badders/Steven Griffin
P.O. Box 12950
Pensacola, FL 32591-2950

Gulf Power Company
Susan Ritenour
One Energy Place
Pensacola, FL 32520

Office of Public Counsel
J.R. Kelly / Joseph A. McGlothlin / Erik Sayler
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32393-1400

Gunster, Yoakley & Stewart, PA
Charles A. Guyton
215 S. Monroe St., Suite 618
Tallahassee, FL 32301

Richard Melson
705 Piedmont Drive
Tallahassee, FL 32312

Federal Executive Agencies
Christopher Thompson / Karen White
c/o AFLOA/JACL-ULFSC
139 Barnes Drive, Suite 1
Tyndall AFB, FL 32403

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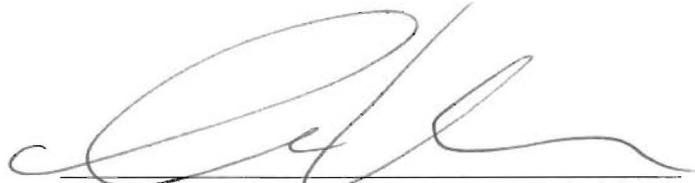
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DOCKET NO. 110138-EI
PAGE 2

Florida Industrial Power Users Group
Vicki G. Kaufman / Jon C. Moyle, Jr.
c/o Keefe Law Firm
118 North Gadsden Street
Tallahassee, FL 32301

Robert Scheffel Wright
John T. LaVia, III
Gardner, Bist, Wiener, Wadsworth, Bowden,
Bush, Dee, LaVia & Wright, P.A.
1300 Thomaswood Drive
Tallahassee, FL 32308

A handwritten signature in black ink, appearing to read 'Caroline Klancke', written over a horizontal line.

CAROLINE KLANCKE
SENIOR ATTORNEY
FLORIDA PUBLIC SERVICE COMMISSION
Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850
Telephone: (850) 413-6199

Docket No. 110138-EI: Petition for increase in rates by Gulf Power Company.

Witness: **Direct Testimony of Debra M. Dobiac**, Appearing on Behalf of the Staff of the Florida Public Service Commission

Date Filed: October 21, 2011

DOCUMENT NUMBER-DATE
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DIRECT TESTIMONY OF DEBRA M. DOBIAC

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Q. Please state your name and business address.

A. My name is Debra M. Dobiac, and my business address is 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission as a Regulatory Analyst II in the Office of Auditing and Performance Analysis.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since January 2008.

Q. Briefly review your educational and professional background.

A. I graduated with honors from Lakeland College in 1993 and have a Bachelor of Arts degree in accounting. Prior to my work at the Commission, I worked for 6 years in internal auditing at the Kohler Company and First American Title Insurance Company. I also have approximately 12 years of experience as an accounting manager and controller.

Q. Please describe your current responsibilities.

A. Currently, I am a Regulatory Analyst II with the responsibilities of managing regulated utility financial audits. I am also responsible for creating audit work programs to meet a specific audit purpose.

Q. Have you presented testimony before this Commission?

A. Yes. I testified in the Aqua Utilities Florida, Inc. Rate Case, Docket No. 080121-WS and the Water Management Services, Inc. Rate Case, Docket No. 100104-WU.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor the staff audit report of Gulf Power Company (Utility or GPC) which addresses the Utility's application for a rate increase. This audit report is filed with my testimony and is identified as Exhibit DMD-1.

1 **Q. Was this audit prepared by you or under your direction?**

2 **A.** Yes, it was prepared under my direction and supervision.

3 **Q. What was the test year you audited?**

4 **A.** The historical year ended December 31, 2010 is the period we audited unless
5 otherwise specified.

6 **Q. Please describe the work you performed in this audit.**

7 **A.** We performed the following procedures:

8 **Utility Books and Records**

9 We developed a 13-month trial balance from the Utility's general ledger and
10 reconciled it to the Minimum Filing Requirements (MFRs) for rate base, net operating
11 income, and capital structure. No variances were noted.

12 We verified that the Utility's adjustments to rate base and net operating income
13 for the audit period were consistent with the Commission's findings in the Utility's last
14 rate case. We reconciled these adjustments to the general ledger or other supporting
15 documentation. We verified that all necessary adjustments were made and that they were
16 correctly calculated based on the Utility's last rate case.

17 **Rate Base:**

18 **Utility Plant in Service and Accumulated Depreciation**

19 We verified the 13-month average plant balances, reserve balances, and
20 depreciation expense for each plant account for the audit period. In addition, we verified
21 the plant additions, retirements, and adjustments from the last rate case date through the
22 most recent actual data.

23 For our beginning balances, we used the Utility's December 31, 2000 plant and
24 reserve balances from the last rate case audit in Docket No. 010949-EI as adjusted by
25 Commission Orders. We scheduled the plant and reserve balances from the monthly

1 operating reports through December 31, 2010 and traced the ending balance to the general
2 ledger and the MFRs. We judgmentally selected work orders added since the last rate
3 case and tested additions to supporting documentation. No exceptions were noted.

4 Property Held for Future Use

5 We obtained a list of all property held for future use and the corresponding deeds,
6 closing statements, and property tax bills. We traced the land balances to the monthly
7 operating reports, the general ledger, and the MFRs.

8 Construction Work in Progress

9 We obtained a list of projects included in Construction Work In Progress (CWIP)
10 and determined which projects were eligible for Allowance for Funds Used During
11 Construction (AFUDC) pursuant to Rule 25-6.0141, Florida Administrative Code
12 (F.A.C.). We recalculated AFUDC for the work orders tested. We noted that the Utility
13 is not requesting AFUDC-eligible CWIP in rate base.

14 Working Capital

15 We reviewed the accounts included in working capital for items that may earn
16 interest. We verified that the balance sheet accounts associated with the interest income
17 and interest expense were excluded from working capital.

18 We reviewed transactions in clearing accounts, stores expense, prepayments,
19 deferred debits, deferred credits, and accrued liabilities to determine if they were utility in
20 nature, and that expenses were not overstated. We also reviewed materials and supplies
21 and other accounts receivable for non-utility items. We determined which of these
22 accounts were included in working capital, and then selected accounts with material
23 balances. Audit staff judgmentally sampled these accounts, traced items to source
24 documentation, verified if utility-related, and included appropriately in working capital.

25 No exceptions were noted.

1 We judgmentally sampled accounts 228.1 – Accumulated Provision for Property
2 Insurance, 228.2 – Accumulated Provision for Injuries and Damages, and 228.4 –
3 Accumulated Miscellaneous Operating Provisions to determine whether the Utility
4 complies with the provisions of Rule 25-6.0143, F.A.C. We traced these items selected in
5 our samples to source documentation, verified if utility-related, and determined if they
6 were appropriately included in working capital. No exceptions were noted.

7 **Net Operating Income:**

8 Operating Revenue

9 We recalculated the unbilled revenue for the audit period and traced it to the
10 MFRs and the general ledger. We recalculated a judgmental sample of customer bills and
11 traced the rates to the appropriate clause factors and tariffs. No exceptions were noted.

12 Operation and Maintenance Expense

13 We prepared an analytical review of the Utility's expenses. We compared the
14 expenses from 2006 to 2010 noting any large increases in accounts. We selected a
15 judgmental sample based on the analytical review and tested as per the criteria listed
16 above. No exceptions were noted.

17 We selected a judgmental sample from the advertising account and reviewed the
18 advertisements to determine if they were image enhancing in nature, promotional, related
19 to non-utility operations or one of the recovery clauses. No advertisements sampled met
20 these criteria.

21 We selected a judgmental sample of legal fees, other outside service expenses,
22 sales expenses, customer service expenses, office supplies and expense, and
23 miscellaneous general expenses and tested them to see that they were reasonable,
24 adequately supported, and recorded in compliance with the Uniform System of Accounts
25 (USOA). No exceptions were noted.

1 We reviewed the liability, health, and life insurance expense accounts during and
2 subsequent to the audit period to determine if the Utility received refunds based on loss
3 experience. We also requested information from the Utility concerning refunds it had
4 received based on loss experience.

5 Depreciation Expense

6 We obtained depreciation schedules for the audit period and reconciled them to the
7 general ledger and the MFRs. We compared the rates used with those approved in Order
8 No. PSC-10-0458-PAA-EI issued July 19, 2010 in Docket No. 090319-EI. No exceptions
9 were noted.

10 Taxes Other than Income

11 We traced the property taxes, gross receipts tax and regulatory assessment fees
12 reported in the MFRs to the applicable tax returns and recalculated these taxes as
13 necessary. We obtained the sales tax reports and compared them to the sales tax accounts
14 to verify that sales tax collection discounts are recorded above the line. We recalculated
15 sales tax collection discounts for the year 2010, and traced the discounts from the general
16 ledger to sales and use tax returns and utility payment vouchers. No exceptions were
17 noted.

18 Income Taxes

19 The Utility's 2010 federal and state tax returns were filed on September 15, 2011.
20 We attempted to reconcile the federal and state income taxes to the MFRs and the general
21 ledger, and to verify that deferred income tax expense and deferred tax balances include
22 proper bonus depreciation treatment of property additions.

23 **Capital Structure:**

24 We obtained the rate base/capital structure reconciliation and determined that the
25 non-utility adjustments removed in rate base were removed in the capital structure. We

1 developed a 13-month average trial balance from the Utility's general ledger and
2 reconciled it to the cost of capital MFRs. Audit staff reconciled the cost of capital cost
3 rates for the audit period to the debt documentation. We obtained a reconciliation of the
4 rate base adjustments in the capital structure and traced it to the MFRs and the general
5 ledger. No exceptions were noted.

6 **Other:**

7 Affiliate Transactions

8 Audit staff reviewed the Utility's policies and procedures relating to the recording
9 of affiliate transactions and the cost/allocation manual for employees to determine if an
10 appropriate amount of costs were allocated pursuant to Rule 25-6.1351, F.A.C. During
11 the review of rate base and net operating income, we examined items that were allocated
12 as per the Utility's policies and procedures. No exceptions were noted.

13 Federal Energy Regulatory Commission Audit

14 We read the Federal Energy Regulatory Commission (FERC) audit, dated May 4,
15 2004, pertaining to the industry-wide audit of Account 154, Plant Materials and Operating
16 Supplies, and Account 163, Stores Expenses Undistributed, and determined that no
17 corrective action was required.

18 Internal and External Audits

19 We reviewed the internal and external audits to determine if any adjustments
20 materially affected the audit period. We noted that the Utility had performed any required
21 corrective action in the applicable follow-up audit.

22 Budget Analysis

23 We requested comparisons of actual to budget capital expenditures and variance
24 explanations for each month from January 2010 to June 2011. Audit staff scheduled the
25 actual to budget capital expenditures noting significant variances and traced them to the

1 Utility's explanations. All variances were explained to audit staff's satisfaction.

2 We requested comparisons of actual to budget O&M expenditures and variance
3 explanations for each month from January 2010 to June 2011. We scheduled the actual to
4 budget O&M expenditures noting significant variances and traced them to the Utility's
5 explanations. All variances were explained to audit staff's satisfaction.

6 Audit staff requested a breakdown of the Production O&M budget for Special
7 Projects for the Historical Year Ended December 31, 2010, the Prior Year Ended
8 December 31, 2011, and the Projected Test Year Ended December 31, 2012. We
9 reviewed the data for any atypical projects and any significant variances from year to
10 year. All variances were explained to audit staff's satisfaction.

11 We requested copies of any internal, external, quality review, or industry peer
12 reviews conducted during the past five years relating to the budget function. The Utility
13 provided one internal audit that reported no significant findings.

14 **Q. Please review the audit findings in this audit report, DMD-1, which address**
15 **the Gulf Power Company's rate case filing.**

16 **A.** There were four findings in this audit.

17 Audit Finding 1

18 Audit Finding 1 concerns land that was classified as Property Held for Future Use
19 (PHFU) but has been occupied by a substation since 2003. In April 2011, the Utility
20 transferred \$85,464 of land for the substation from PHFU to Plant in Service. The PHFU
21 and Plant in Service 13-month averages on MFR Schedule B-1 do not reflect this transfer
22 for 2010, 2011 and 2012. Audit staff did not adjust the MFRs because the amount was
23 immaterial compared to the balance of PHFU or Plant in Service. Since PHFU and Plant
24 in Service are components of rate base, this Finding has no net effect on the total of rate
25 base for 2010, 2011 and 2012.

1 Audit Finding 2

2 Audit Finding 2 involves income generated by PHFU. In 2008, the Utility sold
3 timber located on PHFU in Mossy Head for \$55,320. The accounting for the sale of the
4 Mossy Head timber was based on the internal procedures for land held less than 15 years.
5 The Mossy Head land was acquired in 1998 and 1999, and the weighted age of the land
6 was ten years, based on the purchased acreage. As the land was held less than fifteen
7 years, a .667 revenue multiplier was calculated based on the Utility's internal procedure.
8 This multiplier was then applied to the \$55,020 received for the timber harvested and
9 yielded \$36,680 that was booked to revenue account 456-00700. The remaining proceeds
10 of \$18,340 were booked as a reduction to the Mossy Head PHFU investment, account
11 105.

12 Audit Finding 3

13 Audit Finding 3 relates to insurance premium refunds. We reviewed liability,
14 health, and life insurance expense during and subsequent to the audit period, and
15 requested information from the Utility concerning refunds it had received based on loss
16 experience. The Utility disclosed that no insurance refunds were received during 2010.
17 However, a refund for overpayments of \$4,791 was received from the health insurance in
18 2011. Overpayments of \$853 were incurred originally in 1999 and 2000. Refunds of
19 \$3,938 were received in 2011 for overpayments incurred earlier in 2011. A refund of
20 \$255,500 was received in 2011 from Workman's Compensation Insurance for an incident
21 that occurred prior to the 2010 test year. These amounts received do not affect the 2010
22 test year. Audit staff did not determine the effect on 2011 and 2012, if any.

23 Audit Finding 4

24 Audit Finding 4 addresses income taxes. The Utility informed us that the tax
25 returns were scheduled to be filed on September 15, 2011, and promptly provided access

1 to copies of the tax returns after the filing date. We noted significant variances between
2 the MFRs, the general ledger, and the tax returns with respect to taxable income per
3 books, temporary and permanent differences, state taxable income, and federal taxable
4 income, for which we requested a reconciliation. The reconciliation was not completed as
5 of the date of the audit report, and audit staff was unable to determine what effect the
6 variances would have on deferred taxes.

7 **Q. Does that conclude your testimony?**

8 **A.** Yes.

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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
Rate Case Audit

Historical Year Ended December 31, 2010

Docket No. 110138-EI
Audit Control No. 11-200-1-1
October 3, 2011

Handwritten signature of Debra M. Dobiac.

Debra M. Dobiac
Audit Manager

Handwritten signature of Donna D. Brown.

Donna D. Brown
Audit Staff

Handwritten signature of Andrew Von Euw.

Andrew Von Euw
Audit Staff

Handwritten signature of Jerry M. Hallenstein.

Jerry M. Hallenstein
Audit Staff

Handwritten signature of Lynn M. Deamer.

Lynn M. Deamer
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures..... 2

Audit Findings

1: Property Held for Future Use – Substation..... 8

2: Property Held for Future Use – Timber Sale..... 9

3: Refunds Based on Loss Experience..... 11

4: Income Taxes..... 12

Exhibits

1: Rate Base 13

2: Net Operating Income..... 14

3: Capital Structure 15

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 July 19, 2011. We have applied these procedures to the attached schedules prepared by Gulf Power Company in support of its filing for rate relief in Docket No. 110138-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

General

Definitions

The historical year ended December 31, 2010 is the audit period unless otherwise specified.

The Utility or GPC refers to Gulf Power Company, which is a wholly owned subsidiary of Southern Company. The Utility's last rate case order PSC-02-0787-FOF-EI was issued June 10, 2002 in Docket No. 010949-EI.

Utility Books and Records

Objectives: The objective was to verify the amounts shown as the "per book" balances for rate base, net operating income, and capital structure for the audit period.

Procedures: We developed a 13-month trial balance from the Utility's general ledger and reconciled it to the Minimum Filing Requirements (MFRs) for rate base, net operating income, and capital structure. No variances were noted

Objectives: The objective was to verify that the adjustments to rate base and net operating income for the audit period were consistent with the Commission's findings in prior cases.

Procedures: Audit staff reconciled the adjustments to the general ledger or other supporting documentation. We verified that all necessary adjustments were made and that they were correctly calculated based on past orders or rules.

Rate Base

Utility Plant in Service and Accumulated Depreciation

Objectives: The objective was to verify the 13-month average plant balances, reserve balances, and depreciation expense for each plant account for the audit period. In addition, we were to verify the plant additions, retirements, and adjustments from the last rate case date through the most recent actual data.

Procedures: Audit staff obtained the Utility's December 31, 2000 trial balance from the last rate case audit, Docket No. 010949-EI, for the plant and reserve beginning balances. We scheduled the plant and reserve balances from the monthly operating reports through December 31, 2010 and traced the ending balance to the general ledger and the MFRs. We judgmentally selected work orders added since the last rate case and tested additions to supporting documentation. No exceptions were noted.

Property Held for Future Use

Objectives: The objective is to verify land held for future use.

Procedures: We obtained a list of all property held for future use and the corresponding deeds, closing statements, and property tax bills. We traced the land balances to the monthly operating

reports, the general ledger, and the MFRs. Audit findings 1 and 2 discuss land used for a substation and a timber sale.

Construction Work in Progress

Objectives: The objective was to determine if the Utility has included any Construction Work in Progress (CWIP) projects in rate base that are eligible for the allowance for funds used during construction (AFUCD) pursuant to Rule 25-6.0141, Florida Administrative Code (F.A.C.).

Procedures: We obtained a list of projects included in CWIP and determined which projects were eligible for AFUDC according to the rule. We recalculated AFUDC for the work orders tested. We noted that the Utility is not requesting AFUDC-eligible CWIP in rate base.

Working Capital

Objectives: The objective was to determine if any working capital accounts are interest bearing. If so, we were to determine the corresponding interest revenue or interest expense, the supporting calculation, and its location in the filing.

Procedures: We reviewed the accounts included in working capital for items that may earn interest. We reviewed the interest income and interest expense accounts, and verified that the interest accrued on these accounts was also included.

Objectives: The objective was to review transactions in clearing accounts, stores expense, prepayments, deferred debits, deferred credits, and accrued liabilities to determine if they were utility in nature, and that expenses were not overstated. We were also to review materials and supplies and other accounts receivable for non-utility items.

Procedures: We determined which of these accounts were included in working capital, and then selected accounts with material balances. Audit staff judgmentally sampled these accounts, traced items to source documentation, verified if utility-related, and included appropriately in working capital. No exceptions were noted.

Objectives: The objective was to determine whether the Utility complies with the provisions of Rule 25-6.0143, F.A.C. for accounts 228.1 – Accumulated Provision for Property Insurance, 228.2 – Accumulated Provision for Injuries and Damages, and 228.4 – Accumulated Miscellaneous Operating Provisions.

Procedures: We judgmentally sampled these accounts, traced items to source documentation, verified if utility-related, and determined if they were included appropriately in working capital. No exceptions were noted.

Net Operating Income

Operating Revenue

Objectives: The objectives were to verify that unbilled revenues were correctly calculated, to determine that the revenues filed by the Utility for the audit period agreed to the general ledger, and that the appropriate tariffs are used to bill customers.

Procedures: We recalculated the unbilled revenue for the audit period and traced it to the MFRs and the general ledger. Audit staff recalculated a judgmental sample of customer bills and traced the rates to the appropriate clause factors and tariffs. No exceptions were noted.

Operation and Maintenance Expense

Objectives: The objective was to verify that the audit period operation and maintenance transactions were reasonable, adequately supported, and recorded in compliance with the Uniform System of Accounts (USOA).

Procedures: Audit staff prepared an analytical review of the Utility's expenses. We compared the expenses from 2006 to 2010 noting any large increases in accounts. We selected a judgmental sample based on the analytical review and tested as per the criteria listed above. No exceptions were noted.

Objectives: The objectives were to review the types of advertisements included in operating expense during the audit period, and determine if they are image enhancing in nature, promotional, and related to non-utility operations or one of the recovery clauses.

Procedures: We selected a judgmental sample from the advertising account and reviewed the advertisements noting the criteria listed above. No exceptions were noted.

Objectives: The objective was to review details of legal fees, other outside service expenses, sales expenses, customer service expenses, office supplies and expense, and miscellaneous general expenses.

Procedures: We selected a judgmental sample of these expenses and tested them to see that they were reasonable, adequately supported, and recorded in compliance with the USOA. No exceptions were noted.

Objectives: The objective was to review liability, health, and life insurance expense during and subsequent to the audit period to determine if the Utility received refunds based on loss experience.

Procedures: Audit staff reviewed the applicable expense accounts and requested information from the Utility concerning refunds it had received based on loss experience. Audit finding 3 discusses these refunds.

Depreciation Expense

Objectives: The objective was to verify that the depreciation rates used for the audit period were those approved in Order No. PSC-10-0458-PAA-EI.¹

Procedures: We obtained depreciation schedules, reconciled them to the general ledger and the MFRs. We compared the rates used to the above Order. No exceptions were noted.

¹ See Order No. PSC-10-0458-PAA-EI, issued July 19, 2010, Docket No. 090319-EI, In Re: Depreciation and dismantlement study at December 31, 2009, by Gulf Power Company.

Taxes Other than Income

Objectives: The objective was to verify that sales tax collection discounts are recorded above the line.

Procedures: We obtained the sales tax reports and compared them to the sales tax accounts to determine where the discounts were reported. We recalculated sales tax collection discounts for the year 2010, and traced the discounts from the general ledger to sales and use tax returns and utility payment vouchers. No exceptions were noted.

Objectives: The objective was to reconcile property taxes, gross receipts tax, regulatory assessment fees, and any taxes other than income (TOTI) to the general ledger and the MFRs.

Procedures: We traced the MFR schedule for TOTI to the general ledger and reconciled it to the applicable tax returns. No exceptions were noted.

Income Taxes

Objectives: The objective was to reconcile the federal and state income taxes to the MFRs and the general ledger, and to verify that deferred income tax expense and deferred tax balances include proper bonus depreciation treatment of property additions.

Procedures: The Utility's 2010 federal and state tax returns were filed on September 15, 2011. We attempted to trace MFR amounts for the taxable income per books, the temporary and permanent differences, and the deferred income tax balances to the general ledger and tax returns. Audit finding 4 discusses the variances noted.

Capital Structure

Objectives: The objective was to verify how non-utility assets supported by the Utility's capital structure are removed in the rate base/capital structure reconciliation by obtaining a list of all non-regulated/non-utility services that the Utility is currently providing.

Procedures: We obtained the rate base/capital structure reconciliation and determined that the non-utility adjustments removed in rate base were removed in the capital structure.

Objectives: The objective was to verify that the Utility's book amounts for average balance sheet items included in the capital structure agree with the general ledger.

Procedures: We developed a 13-month average trial balance from the Utility's general ledger and reconciled it to the cost of capital MFRs.

Objectives: The objective was to verify that the cost rates used in the computation of the cost of capital are appropriate.

Procedures: Audit staff reconciled the cost of capital cost rates for the audit period to the debt documentation.

Objectives: The objective was to determine how the rate base adjustments were adjusted in the capital structure and to reconcile them to the MFRs and the general ledger.

Procedures: We obtained a reconciliation of the rate base adjustments in the capital structure and traced it to the MFRs and the general ledger. No exceptions were noted.

Other

Affiliate Transactions

Objectives: The objective was to review intercompany charges to and from divisions, affiliated companies, and non-regulated operations to determine if an appropriate amount of costs were allocated pursuant to Rule 25-6.1351, Florida Administrative Code (F.A.C.). We were also to determine the original amounts allocated, whether the methodology was reasonable, and to check for accuracy and consistent application.

Procedures: Audit staff reviewed the Utility's policies and procedures relating to the recording of affiliate transactions and the cost/allocation manual for employees. During the review of rate base and net operating income, we examined items that were allocated as per the Utility's policies and procedures. No exceptions were noted.

Federal Energy Regulatory Commission Audit

Objectives: The objective was to follow-up on exceptions and disclosures noted in the last Federal Energy Regulatory Commission (FERC) audit to determine if they were applicable to this case.

Procedures: We read the FERC audit, dated May 4, 2004, pertaining to the industry-wide audit of Account 154, Plant Materials and Operating Supplies, and Account 163, Stores Expenses Undistributed, and determined that no corrective action was required.

Internal and External Audits

Objectives: The objective was to follow-up on exceptions and disclosures noted in any internal or external audits to determine if they were applicable to this case.

Procedures: We reviewed the internal and external audits to determine if any adjustments materially affected the audit period. We noted that the Utility had performed any required corrective action in the applicable follow-up audit.

Budget Analysis

Objectives: The objective was to perform a variance analysis of the Utility's actual to budget capital expenditures.

Procedures: We requested comparisons of actual to budget capital expenditures and variance explanations for each month from January 2010 to June 2011. Audit staff scheduled the actual to budget capital expenditures noting significant variances and traced them to the Utility's explanations. All variances were explained to audit staff's satisfaction.

Objectives: The objective was to perform a variance analysis of the Utility's actual to budget operation and maintenance (O&M) expenditures.

Procedures: We requested comparisons of actual to budget O&M expenditures and variance explanations for each month from January 2010 to June 2011. We scheduled the actual to budget O&M expenditures noting significant variances and traced them to the Utility's explanations. All variances were explained to audit staff's satisfaction.

Objectives: The objective was to perform a variance analysis of the Utility's actual to budget O&M budget for Special Projects, such as the Gemguard System and the Fuel Handling Structures.

Procedures: Audit staff requested a breakdown of the Production O&M budget for Special Projects for the Historical Year Ended December 31, 2010, the Prior Year Ended December 31, 2011, and the Projected Test Year Ended December 31, 2012. We reviewed the data for any atypical projects and any significant variances from year to year. All variances were explained to audit staff's satisfaction.

Objectives: The objective was to review all internal and external audits performed on the Utility's budget function.

Procedures: We requested copies of any internal, external, quality review, or industry peer reviews conducted during the past five years relating to the budget function. The Utility provided one internal audit that reported no significant findings.

Audit Findings

Finding 1: Property Held for Future Use – Substation

Audit Analysis: A parcel of land, which had been recorded in Plant Held for Future Use (PHFU), was actually in use by a substation. In April 2011, the Utility transferred the \$85,464 land basis from PHFU to Plant in Service. The PHFU 13-month average on MFR Schedule B-15 does not reflect this adjustment due to timing.

Effect on the General Ledger: None.

Effect on the Filing: The finding is for informational purposes only.

Finding 2: Property Held for Future Use – Timber Sale

Audit Analysis: In 2008, the Utility made a reduction of \$18,340 to the Mossy Head property included in PHFU for the value of a timber harvest. According to the FERC 18 CFR Ch. 1 (4/1/10 Edition), Pt. 101, Account 105, part B, electric plant held for future use includes the original cost of land and land rights owned and held for future use in electric service. It also states under general instructions, Item 7, Section C:

The net profit from the sale of timber, cord, wood, sand, gravel, other resources or other property acquired with the right-of-way or other lands shall be credited to the appropriate plant account to which related. Where land is held for a considerable period of time and timber and other natural resources on the land at the time of purchase increases in value, the net profit (after giving effect to the cost of the natural resources) from the sales of the timber or its products or other natural resources shall be credited to the appropriate utility operating income account when such land has been recorded in account 105, Electric Plant Held for Future Use or classified as plant in service, otherwise to account 421, Miscellaneous Non-operating Income.

The Utility informed us that timber will have an effect on the per acre value of property depending on its merchantability and volume, however, it does not place separate values on timber and land during the acquisition period. The Utility also stated that it relies on 18 CFR Ch. 1, Pt. 101, Electric Plant Instructions, Item 7, Section C, for its handling of the PHFU timber sales transaction for the Mossy Head property. FERC Instruction 7 states that if the land is held for a “considerable period of time”, the “net profit” is credited to operating income. There is no specific guidance from FERC on what a “considerable period of time” should be. The Utility follows the internal procedure below:

- If the land has been held for 40 years or more, 100 percent of the proceeds are credited to revenue account 456-00700.
- If the land has been held for 15-39 years, 90 percent of the proceeds are credited to revenue account 456-00700 and 10 percent of the proceeds are credited to the property account.
- If the land has been held for less than 15 years, the percentage applied to revenue account 456-00700 is determined by dividing the number of months from the date the land was acquired to the sale date by 180. The remaining amount is credited to the property account.

The accounting for the sale of the Mossy Head timber was based on the internal procedures for land held less than 15 years as described above. The Mossy Head land was acquired in 1998 and 1999, and the weighted age of the land was ten years, based on the purchased acreage. As the land was held less than fifteen years, a .667 revenue multiplier was calculated. This multiplier was the ratio of 10 years owned to the 15 years outlined in the Utility’s internal procedure. This multiplier was then applied to the \$55,020 received for the timber harvested and yielded \$36,680 that was booked to revenue account 456-00700. The remaining proceeds of \$18,340 were removed from the Mossy Head PHFU investment, account 105.

Effect on the General Ledger: None.

Effect on the Filing: The finding is for information purposes only.

Finding 3: Refunds Based on Loss Experience

Audit Analysis: Audit staff reviewed liability, health, and life insurance expense during and subsequent to the audit period, and requested information from the Utility concerning refunds it had received based on loss experience. The Utility disclosed that no refunds were received during the audit period. However, the following refunds/payments were received in 2011.

	FERC	
	<u>Account</u>	<u>YTD August 2011</u>
Liability	N/A	\$ -
Health	242-00999	\$ 4,791 (A)
Worker's Compensation	228-20101	\$ 89,287
	228-22104	\$166,213
Life	N/A	\$ -

(A) Included in the \$4,791 health refund is \$853 that will be recorded in September 2011.

Effect on the General Ledger: None

Effect on the Filing: The finding is for informational purposes only.

Finding 4: Income Taxes

Audit Analysis: Audit staff had requested copies of the Utility's Federal and State Tax Returns on August 5, 2011. The Utility informed us that the tax returns were scheduled to be filed on September 15, 2011, and promptly provided access to copies of the tax returns after the filing date. We noted significant variances between the MFR, the general ledger, and the tax returns with respect to taxable income per books, temporary and permanent differences, state taxable income, and federal taxable income, for which we requested a reconciliation. During the normal course of business, the Utility performs a detailed actualization process in which income taxes per the return are reconciled to income tax expense recorded on the books. The actualization was not completed as of the date of this audit report, and audit staff was unable to determine what effect the variances would have on deferred taxes.

Actualization is a term the Utility uses internally to describe reconciling its tax returns to its books and records.

Effect on the General Ledger: None.

Effect on the Filing: The finding is for informational purposes only.

Schedule B-1

ADJUSTED RATE BASE

Page 3 of 3

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide a schedule of the 13-month average adjusted ratebase for the test year, the prior year and the most recent historical year. Provide the details of all adjustments on Schedule B-2.

Type of Data Shown:

Projected Test Year Ended 12/31/12

Prior Year Ended 12/31/11

Historical Year Ended 12/31/10

Witness: R. J. McMillan

COMPANY: GULF POWER COMPANY

DOCKET NO.: 110138-EI

Adjusted 13-Month Average Rate Base
(\$000's)

(1) Line No.	(2) Rate Base Components	(3) Total Company per Books	(4) Non-Electric Utility	(5) Electric Utility (3) + (4)	(6) Commission Adjustments Made in Last Case as Applicable (Sch. B-2)	(7) Adjusted per Commission (5)+(6)	(8) Company Adjustments (Sch. B-2)	(9) Total Utility with Commission & Company Adjustments (7) + (8)	(10) Unit Power Sales Rate Base	(11) Total Utility Adjusted for UPS (9) - (10)	(12) Jurisdictional Rate Base Factor	(13) Jurisdictional Utility Adjusted Per Company & Commission (11) x (12)
1	Plant-in-Service	3,518,325	0	3,518,325	(857,805)	2,660,520	(4,823)	2,655,697	(250,855)	2,404,842	0.9788452	2,353,968
2	Accumulated Depreciation & Amortization	(1,230,243)	0	(1,230,243)	37,329	(1,192,914)	(9,983)	(1,202,897)	104,116	(1,098,781)	0.9770886	(1,073,584)
3	Net Plant-in-Service (1) - (2)	2,288,082	0	2,288,082	(820,476)	1,467,606	(14,806)	1,452,800	(148,739)	1,306,061	0.9803401	1,280,384
4	Plant Held for Future Use	5,440	0	5,440	0	5,440	0	5,440	0	5,440	0.9664488	5,257
5	Construction Work-in-Progress	193,523	0	193,523	(57,006)	136,517	0	136,517	(86,790)	49,727	0.9727710	48,373
6	Plant Acquisition Adjustment	2,925	0	2,925	0	2,925	0	2,925	(2,925)	0		0
7	Net Utility Plant (3)+(4)+(5)+(6)	2,489,970	0	2,489,970	(877,482)	1,612,488	(14,806)	1,597,682	(236,454)	1,361,228	0.9800078	1,334,014
8	Working Capital Allowance	231,611	(13,520)	218,091	(28,914)	189,177	7,907	197,084	(8,599)	188,485	0.9682680	182,504
9	Total Rate Base (7) + (8)	2,721,581	(13,520)	2,708,061	(906,396)	1,801,665	(6,899)	1,794,766	(245,053)	1,549,713		1,516,518

Exhibits

Schedule C-1	ADJUSTED JURISDICTIONAL NET OPERATING INCOME	Page 3 of 3
FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: Provide the calculation of the jurisdictional net operating income for the test year, the prior year and the most recent historical year.	Type of Data Shown: <input type="checkbox"/> Projected Test Year Ended 12/31/12 <input type="checkbox"/> Prior Year Ended 12/31/11 <input checked="" type="checkbox"/> Historical Year Ended 12/31/10
COMPANY: GULF POWER COMPANY		Witness: R. J. McMillan
DOCKET NO.: 110138-EI	(\$000's)	

Adjusted Jurisdictional Net Operating Income Calculation for the Twelve Months Ended

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Line No.	Description	Total Company per Books	Non-Electric Utility	Electric Utility (1) - (2)	Commission Adjustments (Sch. C-3)	Adjusted per Utility Commission (3) + (4)	Company Adjustments (Sch. C-3)	Adjusted Utility (5) + (6)	Total Unit Power Sales Net Operating Income	Total Adjusted Utility net of UPS (7) - (8)	Jurisdictional Separation Factor	Jurisdictional Amount (9) x (10)	
1 Operating Revenues:													
2	Sales of Electricity	1,515,178	-	1,515,178	(1,014,480)	500,698	-	500,698	(36,876)	463,822	0.9725477	451,089	
3	Other Operating Revenues	75,190	-	75,190	(53,218)	21,972	-	21,972	-	21,972	0.8580011	18,852	
4	Total Operating Revenues	1,590,368	-	1,590,368	(1,067,698)	522,670	-	522,670	(36,876)	485,794	0.9673668	469,941	
5 Operating Expenses:													
6	Recoverable Fuel	775,253	-	775,253	(775,253)	-	-	-	-	-	-	-	
7	Recoverable Capacity	47,984	-	47,984	(47,984)	-	-	-	-	-	-	-	
8	Recoverable Conservation	8,562	-	8,562	(8,562)	-	-	-	-	-	-	-	
9	Recoverable Environmental	34,215	-	34,215	(34,215)	-	-	-	-	-	-	-	
10	Other Operation & Maintenance	254,280	-	254,280	(743)	253,537	-	253,537	(10,036)	243,501	0.9800918	238,653	
11	Depreciation & Amortization	123,036	-	123,036	(34,073)	88,963	-	88,963	(5,171)	83,792	0.9798128	82,100	
12	Amortization of Investment Credit	(1,544)	-	(1,544)	-	(1,544)	-	(1,544)	333	(1,211)	0.9794661	(1,186)	
13	Taxes Other Than Income Taxes	101,778	-	101,778	(74,526)	27,252	-	27,252	(1,245)	26,007	0.9761218	25,386	
14	Income Taxes												
15	Federal	(17,250)	-	(17,250)	(25,313)	(42,563)	-	(42,563)	4,411	(38,152)	0.9166180	(34,971)	
16	State	4,997	-	4,997	(4,208)	789	-	789	(114)	675	0.9166180	619	
17	Deferred Income Taxes - Net												
18	Federal	81,047	-	81,047	-	81,047	-	81,047	(8,579)	72,468	0.9166180	66,425	
19	State	4,005	-	4,005	-	4,005	-	4,005	(580)	3,425	0.9166180	3,139	
20	Total Operating Expenses	1,416,363	-	1,416,363	(1,004,877)	411,486	-	411,486	(20,981)	390,505	0.9735235	380,166	
21	Net Operating Income	174,005	-	174,005	(62,821)	111,184	-	111,184	(15,895)	95,289	0.9421360	89,775	

FLORIDA PUBLIC SERVICE COMMISSION	EXPLANATION: Provide the company's 13-month average cost of capital for the test year, the prior year, and historical base year.	Type of Data Shown: <input type="checkbox"/> Projected Test Year Ended 12/31/12 <input type="checkbox"/> Prior Year Ended 12/31/11 <input checked="" type="checkbox"/> Historical Year Ended 12/31/10
COMPANY: GULF POWER COMPANY		Witness: R. J. McMillan
DOCKET NO.: 110138-EI		

(1) Line No.	(2) Class of Capital	(3) Company Total Per Books (\$000's)	(4) Specific Adjustments (\$000's)	(5) Pro Rata Adjustments (\$000's)	(6) System Adjusted (\$000's)	(7) Jurisdictional Factor %	(8) Jurisdictional Capital Structure (\$000's)	(9) Ratio %	(10) Cost Rate %	(11) Weighted Cost Rate %
1	Long-Term Debt	1,166,271	(117,293)	(385,844)	663,134	0.9782752	648,728	42.78	4.36	1.87
2	Short-Term Debt	47,884	(14,295)	(12,355)	21,234	0.9782752	20,773	1.37	0.32	0.00
3	Preferred Stock	97,998	(13,222)	(31,183)	53,593	0.9782752	52,429	3.46	6.47	0.22
4	Common Equity	1,056,136	(90,038)	(355,359)	610,739	0.9782752	597,470	39.40	11.70	4.61
5	Customer Deposits	34,388	-	(12,649)	21,739	1.0000000	21,739	1.43	6.24	0.09
6	Deferred Taxes	293,978	(17,577)	(101,668)	174,733	0.9782752	170,937	11.27	0.00	0.00
7	Investment Credit - Zero Cost	8,880	(1,697)	(2,642)	4,541	0.9782752	4,442	0.29	7.82	0.02
8	Total	2,705,535	(254,122)	(901,700)	1,549,713		1,516,518	100.00		6.81