

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: September 15, 2017

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20170001-EI
Company Name: Gulf Power Company
Company Code: EI804
Audit Purpose: A3a: Hedging Activities
Audit Control No.: 2017-048-1-1

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.

LMD/cmm

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, 2017

Docket No. 20170001-EI
Audit Control No. 2017-048-1-1
September 6, 2017

A handwritten signature in black ink, appearing to read "George Simmons", written over a horizontal line.

George Simmons
Audit Manager

A handwritten signature in blue ink, appearing to read "Marisa N. Glover", written over a horizontal line.

Marisa N. Glover
Reviewer

Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
None.....	4

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated February 13, 2017. We have applied these procedures to the attached schedules prepared by Gulf Power Company in support of its filing for hedging activities in Docket No. 20170001-EI.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definition

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-2002-1484-FOF-EI, issued October 30, 2002, in Docket No. 20011605-EI, and as clarified by Order No. PSC-2008-0316-PAA-EI, issued May 14, 2008, and Order No. PSC-2008-0667-PAA-EI, issued October 8, 2008, in Docket No. 20080001-EI.

Procedures: We obtained GPC's supporting detail of the hedging settlements for the twelve months ended July 31, 2017. The support documentation was traced to the general ledger transaction detail. We 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-2002-1484-FOF-EI, PSC-2008-0316-PAA-EI, and PSC-2008-0667-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, 2016 to July 31, 2017. We reviewed existing tolling arrangements 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, 2017, and compared August 2016 through December 2016 to the

Utility's 2016 Risk Management Plan. Audit staff could not compare January 2017 through July 2017 to the 2017 Risk Management Plan as it was withdrawn

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 reports or work papers.

Procedures: We reviewed the Utility's procedures for separating duties related to hedging activities. We requested internal and external audit reports from August 1, 2016 to July 31, 2017 and noted that there were no audits that pertained to the fuel hedging program. No further work was done.

Audit Findings

None