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JUN - 9 2016

**MISS. PUBLIC SERVICE
COMMISSION**

June 8, 2016

DELIVERED VIA FEDERAL EXPRESS

Ms. Laura Dixon
Senior Attorney
Mississippi Public Service Commission
501 N. West Street
Suite 201-A
Jackson, Mississippi 39201

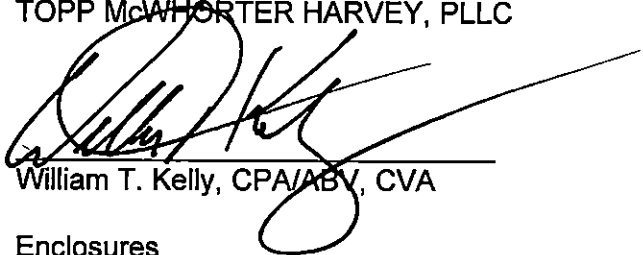
RE: Mississippi Power Company
Phase II – Special-Purpose Audit
Kemper Refund Plan
Docket No. 2013-UN-14

Ms. Dixon:

Please find twelve (12) copies of our report with reference to the above referenced special-purpose audit. Should you have any questions, please do not hesitate to call.

Sincerely,

TOPP McWHORTER HARVEY, PLLC


William T. Kelly, CPA/ABV, CVA

Enclosures

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MISS. PUBLIC SERVICE
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**MISSISSIPPI POWER COMPANY
PHASE II - SPECIAL-PURPOSE AUDIT**

REFUND PLAN

**MANDATED BY:
MISSISSIPPI PUBLIC SERVICE COMMISSION**

AS OF MAY 27, 2016

TOPP McWHORTER HARVEY, PLLC

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**MISS. PUBLIC SERVICE
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INDEPENDENT ACCOUNTANT'S REPORT

Mississippi Public Service Commission
Jackson, Mississippi

We have examined Mississippi Power Company's (hereinafter referred to as the "Company") compliance with Mississippi Public Service Commission Order on Remand Docket No. 2013-UN-14 pursuant to our recommended and Commission approved audit procedures of the Company's Kemper Refund Plan. The scope of the Kemper Refund Plan began with the period which encompassed the first billing cycle of April 2013 (March 19, 2013), which coincides with the date the Company began collecting the "mirror" CWIP rates, also known as the Kemper Rate Factor (KRF), continuing through the first billing cycle of August 2015 (July 20, 2015), which was the date the KRF ceased to be billed, and continuing further through December 4, 2015, the date the Company posted the final batch of refunds under the Kemper Refund Plan to customer accounts and mailed the final batch of refund checks; and ended May 27, 2016, the date through which refund checks cleared and remaining refund checks outstanding are reported. See Exhibit A attached for audit objectives, summary of procedures performed and findings as a result thereof. Management is responsible for the Company's compliance with Mississippi Public Service Commission Order on Remand – Docket No. 2013-UN-14. Our responsibility is to express an opinion on the Company's compliance based on our examination.

Mississippi Public Service Commission
Jackson, Mississippi

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

In our opinion, Mississippi Power Company complied, in all material respects, with the aforementioned order for the period beginning with the first billing cycle in April 2013 and continuing through to December 4, 2015, the date the Company posted the final batch of refunds to customer accounts and mailed the final batch of refund checks; and ended May 27, 2016, the date through which refund checks cleared and remaining refund checks outstanding are reported.

This report is intended solely for the information and use of the Mississippi Public Service Commission and is not intended to be and should not be used by anyone other than this specified party.

Topp McWhorter Harvey, PCC

Hattiesburg, Mississippi
June 8, 2016

EXHIBIT A

**PHASE II - SPECIAL-PURPOSE AUDIT OF MISSISSIPPI POWER COMPANY'S KEMPER
REFUND PLAN MANDATED BY THE MISSISSIPPI PUBLIC SERVICE COMMISSION****OBJECTIVES AND SUMMARY OF PROCEDURES PERFORMED PURSUANT TO PHASE I -
SPECIAL-PURPOSE AUDIT OF MISSISSIPPI POWER COMPANY'S KEMPER REFUND PLAN****BACKGROUND**

On June 11, 2015, the Supreme Court of Mississippi reversed the Commission's March 5, 2013 Order granting rate increases and ordered the Commission to enter an order *confestim* directing that the funds be refunded to ratepayers. The Commission's order on March 5, 2013, authorized an increase in rates equal to \$125 million for 2013 and escalating to \$156 million in 2014, known as the Kemper Rate Factor (KRF). The 2013 KRF went into effect with the first billing cycle of April 2013 (March 19, 2013). The 2014 increase in rates was effective with the first billing cycle of January 2014. On July 7, 2015, the Commission ordered the Company to cease collecting the "mirror" CWIP rate, or KRF, effective with the August 2015 billing cycle, which began on, or about July 20, 2015, and for the Company to file a plan for refunding the amounts collected pursuant to the Commission's "mirror" CWIP order. The refund plan aimed to complete the refunds within 90 days of the Commission's approval of the refund plan (which the Commission addressed at its August Open Meeting). In developing its plan for compliance with the Court's mandate, the Company allowed ratepayers the option of receiving a refund check within the 90-day period noted above or taking a refund via bill credits over a longer period of time, with interest accruing at the Company's weighted average cost of capital. On July 21, 2015, the Company submitted the Kemper Refund Plan in compliance with the Commission's Order on Remand issued July 7, 2015, in Docket No. 2013-UN-14 (Order on Remand). On August 6, 2015, the Commission issued an order accepting the Company's refund plan and modifying it to provide an additional 30 days for the Company to educate consumers and receive their individual choice. Allowing the additional 30 day outreach/selection period set refund completion on or about December 4, 2015. Additionally, the refund plan provided for a third-party audit, accountable to the Commission, of the refund program. On November 9, 2015, the Commission issued a public Request for Proposals to perform an audit of the Company's Refund Program related to the Kemper County IGCC Project. On December 9, 2015, the Commission accepted the proposal of Nicholson & Company, PLLC (currently known as Topp McWhorter Harvey, PLLC effective February 1, 2016).

OBJECTIVES

Develop and implement an audit of Mississippi Power Company's Kemper Refund Plan that will provide an overall assessment of the procedures and controls used by the Company in issuing and tracking the progress of the refund after all checks have been issued and all credits have been applied.

FILED
JUN - 9 2016
MISS. PUBLIC SERVICE
COMMISSION

PHASE II - SPECIAL-PURPOSE AUDIT OF MISSISSIPPI POWER COMPANY'S KEMPER REFUND PLAN MANDATED BY THE MISSISSIPPI PUBLIC SERVICE COMMISSION

**OBJECTIVES AND SUMMARY OF PROCEDURES PERFORMED PURSUANT TO PHASE I -
SPECIAL-PURPOSE AUDIT OF MISSISSIPPI POWER COMPANY'S KEMPER REFUND PLAN**

AGGREGATE REFUND DATA

	Number of Accounts				Amount					
	Residential	Commercial	Industrial	Street Lighting	Total	Residential	Commercial	Industrial	Street Lighting	Total
Kemper revenue collected through "Mirror" CWIP rates (KFR)	279,273	44,042	555	107	323,977	\$ 107,304,630	\$ 116,944,030	\$ 117,385,010	\$ 363,356	\$ 341,997,026
Applicable taxes						539,108	5,281,654	838,011	-	6,658,773
Accrued interest						9,363,801	10,059,549	9,746,059	29,775	29,199,184
Total refund posted as credit to applicable accounts	279,273	44,042	555	107	323,977	117,207,539	132,285,233	127,969,080	393,131	377,854,983
* Less: Checks issued for refunds	(215,218)	(23,802)	(375)	(21)	(239,416)	(80,199,636)	(94,534,890)	(90,427,769)	(15,359)	(265,177,654)
Total refund remaining as initial credit on accounts	64,055	20,240	180	86	84,561	37,007,903	37,750,343	37,541,311	377,772	112,677,329
* Total refund checks issued	215,218	23,802	375	21	239,416	80,199,636	94,534,890	90,427,769	15,359	265,177,654
Less: Amount of refund checks cleared as of 05/27/2016	(194,791)	(22,579)	(371)	(21)	(217,762)	(77,774,812)	(93,696,820)	(90,072,530)	(15,359)	(261,559,521)
Total refund checks outstanding as of 05/27/2016	20,427	1,223	4	-	21,654	\$ 2,424,824	\$ 838,070	\$ 355,239	\$ -	\$ 3,618,133

* Refund checks were issued for prior customers whose account was designated as final, designated as a charge off, and for those customers who actively elected to receive a check.

The total amount of Kemper revenue collected including applicable taxes and accrued interest was uploaded as a credit to all appropriate accounts in the CSS billing system in three batches. The first batch for major customers was uploaded on November 6th, 2015. The second batch for active, final and charge off accounts was uploaded on November 7th, 2015. The third and final batch for accounts with tax withholding requirements and other tax issues was uploaded on December 4th, 2015.

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COMMISSION**

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**EXHIBIT A
PAGE THREE**

**PHASE II - SPECIAL-PURPOSE AUDIT OF MISSISSIPPI POWER COMPANY'S KEMPER
REFUND PLAN MANDATED BY THE MISSISSIPPI PUBLIC SERVICE COMMISSION**

**OBJECTIVES AND SUMMARY OF PROCEDURES PERFORMED PURSUANT TO PHASE I –
SPECIAL-PURPOSE AUDIT OF MISSISSIPPI POWER COMPANY'S KEMPER REFUND PLAN**

SUMMARY OF PROCEDURES PERFORMED AND FINDINGS OBSERVED

1. Review internal control documents and reports related to the refund process including any pertinent reports considered necessary from the Company's internal audit department, internal control compliance department and/or external auditors. Interview and inquire of Company personnel directly responsible for the design and implementation of refund calculations by customer. Perform a risk assessment on the internal controls over the Refund Plan process, which should be used as a basis for the sampling strategy.

FINDINGS: The Company's internal control procedures related to the refund process appear to be adequate. We found no unresolved issues raised in reports by internal auditors, internal control compliance department personnel or external auditors regarding the Kemper Refund Plan. Accordingly, we assessed the risk of undetected non-compliance with established internal controls over the Refund Plan process to be low.

2. Perform procedures to test the completeness of the list of accounts eligible for refund. Obtain a copy of the Kemper Refund spreadsheet developed by the Company and used to facilitate the calculation of refunds and/or credits on an account-level basis and trace the aggregate totals from the Kemper Refund spreadsheet (output) to the CSS billing system (input). Reconcile the number of records (line items), KWH billed, and dollar amounts billed between the Kemper Refund spreadsheet and the CSS billing system. In addition, trace dollar amount totals on the Kemper Refund spreadsheet to entries in the Company's general ledger, noting proper amount, classification, and billing period.

FINDINGS: No exceptions noted.

3. Inquire and document the steps taken to formulate the interest rate used in calculating the interest portion of the customer refunds, ascertaining that the interest rate used is the proper Weighted Average Cost of Capital (WACC) of the Company for the Kemper Refund Plan as provided in Docket #2013-UN-14.

FINDINGS: The WACC used in calculating the interest portion of the customer refunds was 9.55% - the rate provided in Docket #2013-UN-14.

**EXHIBIT A
PAGE FOUR**

**PHASE II - SPECIAL-PURPOSE AUDIT OF MISSISSIPPI POWER COMPANY'S KEMPER
REFUND PLAN MANDATED BY THE MISSISSIPPI PUBLIC SERVICE COMMISSION**

**OBJECTIVES AND SUMMARY OF PROCEDURES PERFORMED PURSUANT TO PHASE I –
SPECIAL-PURPOSE AUDIT OF MISSISSIPPI POWER COMPANY'S KEMPER REFUND PLAN**

SUMMARY OF PROCEDURES PERFORMED AND FINDINGS OBSERVED (Cont.)

4. Review the overall timeline related to the printing and mailing of refund checks, and how the Company tracked refund checks after issuance.

FINDINGS: The refund checks were split into batches, with the first batch printed and mailed on November 6th, with subsequent printings and mailings on November 9th, 16th, 18th, 23rd, and 30th ending with the last batch of checks printed and mailed on December 4, 2015. Since the initial refunds were mailed, subsequent checks were sent on accounts which customers made late elections for refund. It appears the Company made refunds to customers timely and within the timeline prescribed by the Commission. In addition, the Company appears to have adequate procedures for handling returned checks or otherwise uncashed checks.

5. Design a statistical sampling plan of the entire population of Kemper Refunds from the Kemper Refund spreadsheet described above to test the following:
 - a. Compare customer information contained in the Kemper Refund spreadsheet to the customer's account in the billing system to determine that the account details are properly reflected for testing;
 - b. Compare the total KRF reported in the Kemper Refund spreadsheet to the total amount reported in the billing system, and vouch individual customer KRF amounts from the Kemper Refund spreadsheet to the billing system;
 - c. Recalculate the rate rider reduction, as appropriate;
 - d. Recalculate the Kemper portion of minimum bills and related taxes, as appropriate;
 - e. Vouch the Kemper Rate portion of the amounts billed for non-minimum bills to the CSS billing system.
 - f. Recalculate interest credited to individual customer accounts based on the approved annual rate, which is equal to the Company's weighted average cost of capital as of December 31, 2015.
 - g. For those customers that elected to receive a refund check, review the timeline related to the printing and mailing of checks, and how and if the Company tracked the refund checks after issuance.

**EXHIBIT A
PAGE FIVE**

**PHASE II - SPECIAL-PURPOSE AUDIT OF MISSISSIPPI POWER COMPANY'S KEMPER
REFUND PLAN MANDATED BY THE MISSISSIPPI PUBLIC SERVICE COMMISSION**

**OBJECTIVES AND SUMMARY OF PROCEDURES PERFORMED PURSUANT TO PHASE I –
SPECIAL-PURPOSE AUDIT OF MISSISSIPPI POWER COMPANY'S KEMPER REFUND PLAN**

SUMMARY OF PROCEDURES PERFORMED AND FINDINGS OBSERVED (Cont.)

- h. Trace refund checks issued to cleared checks per bank records.
- i. For refund checks issued and still un-cleared from the bank, examine documentation for proper follow-up with active or former customer and note proper procedure for handling unclaimed checks.
- j. Evaluate the results of the refund calculation tests and project dollar variance (if any) to the population

SUMMARY OF STATISTICAL SAMPLING PLAN: Our sampling plan assumed 90% level of confidence, with a tolerable error amount of \$1,800,000. The monetary unit sampling model yielded a \$782,308 interval, resulting in 39 line items (records) in the population database in excess of the dollar value interval (high-value sample), plus an additional 344 line items (records) in the balance of the population for sample selection (low-value sample). Both samples resulted in a combined sample of 383 line items representing aggregate Kemper Refund Plan credits or refund checks totaling \$125,690,149. The sample was used for substantive test purposes to determine the dollar amount (if any) of error in the sample and to project such error rate (if any) to the entire population of Kemper Refund Plan credits or refund checks. In addition, the sample was designed to test the error rate of certain compliance attributes with the Company's internal control procedures, using the results as proxy for the same error rate (if any) in the population.

FINDING: The samples selected were considered representative of the population. Our sample testing resulted in no dollar value errors to the calculated refunds or credits to individual accounts, and no errors of compliance with the Company's internal control procedures specific to the Kemper Refund Plan.

**EXHIBIT A
PAGE SIX**

**PHASE II - SPECIAL-PURPOSE AUDIT OF MISSISSIPPI POWER COMPANY'S KEMPER
REFUND PLAN MANDATED BY THE MISSISSIPPI PUBLIC SERVICE COMMISSION**

**OBJECTIVES AND SUMMARY OF PROCEDURES PERFORMED PURSUANT TO PHASE I –
SPECIAL-PURPOSE AUDIT OF MISSISSIPPI POWER COMPANY'S KEMPER REFUND PLAN**

SUMMARY OF PROCEDURES PERFORMED AND FINDINGS OBSERVED (Cont.)

6. Inquire and document the Company's communication plan with customers to ensure that sufficient information was made to customers, former customers and the public throughout the different stages of the refund process.

FINDINGS: Beginning in September 2015, the Company sent letters via U.S. Mail to all active and former customers who were eligible for a refund or credit under the Kemper Refund Plan, giving them a choice of credit against their outstanding account balance, credit against future charges or refund via check. Unless customers made a positive election for refund, the default election was credit against the customer's outstanding account balance (if any) first, and the residual applied against future charges until the credit was exhausted. In addition to direct written correspondence, the Company used various forms of media public service announcements – TV, radio and social media internet outlets as well as information on the Company's website concerning generic information about the refunds. Customers and former customers were given the opportunity to make their election for refund in the form of a check request via telephone, on-line election, or written communication via U.S. Mail or personal visit to a local Company office. Customers and former customers who did not make an initial election for refund and who carried the credit forward were offered the opportunity to always request refund of any remaining outstanding credit until such credits were either used or refunded.

7. Inquire and document the Company's cost of processing refunds throughout the process.

FINDINGS: Costs were calculated by tracking internal direct and indirect labor costs of Company personnel, direct use of supplies, plus out-of-pocket third party costs. Total processing costs incurred from August 2015 through May 27, 2016 amounted to \$1,336,783.

8. Review required filings with the Mississippi Public Service Commission and SEC related to the Kemper refund transaction, noting any information which was unusual or may have required disclosure not already covered in this list of approved procedures for the purpose of this special-purpose audit of Mississippi Power Company's Kemper Refund Plan.

FINDINGS: None