

Docket No. 130001-EI: Fuel and Purchased Power Cost Recovery Clause.  
Florida Power & Light Company's Hedging Activities

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Witness: **Direct Testimony of ILIANA H. PIEDRA** , Appearing on Behalf of the  
Staff of the Florida Public Service Commission

Date Filed: September 27, 2013

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1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2   **COMMISSION STAFF**

3   **DIRECT TESTIMONY OF ILIANA H. PIEDRA**

4   **DOCKET NO. 130001-EI**

5   **SEPTEMBER 27, 2013**

6 **Q.     Please state your name and business address.**

7 A.     My name is Iliana H. Piedra. My business address is 3625 N.W. 82nd Ave., Suite  
8 400, Miami, Florida, 33166.

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

10 A.    I am employed by the Florida Public Service Commission as a Professional  
11 Accountant Specialist in the Office of Auditing and Performance Analysis.

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

13 A.    I have been employed by the Florida Public Service Commission since January 1985.

14 **Q.     Briefly review your educational and professional background.**

15 A.    I received a Bachelor of Business Administration degree with a major in accounting  
16 from Florida International University in 1983. I am also a Certified Public Accountant  
17 licensed in the State of Florida.

18 **Q.     Please describe your current responsibilities.**

19 A.    My responsibilities consist of planning and conducting utility audits of manual and  
20 automated accounting systems for historical and forecasted data.

21 **Q.     Have you presented testimony before this Commission or any other regulatory  
22 agency?**

23 A.    Yes. I filed testimony in the City Gas Company of Florida rate case, Docket No.  
24 940276-GU, the General Development Utilities, Inc. rate cases for the Silver Springs Shores  
25 Division in Marion County and the Port Labelle Division in Glades and Hendry Counties in

1 Dockets Nos. 920733-WS and 920734-WS, respectively, the Florida Power & Light  
2 Company storm cost recovery case in Docket No. 041291-EI, the Embarq storm cost recovery  
3 case in Docket No. 060644-TL, the K W Resort Utilities Corp. rate case in Docket No.  
4 070293-SU, the Florida Power & Light Company fuel recovery in Docket 120001-EI  
5 and in Docket No. 130009-EI related to Florida Power & Light Company's Proposed Turkey  
6 Point Units 6 and 7.

7 **Q. What is the purpose of your testimony today?**

8 A. The purpose of my testimony is to sponsor the staff audit report of Florida Power &  
9 Light Company (FPL or Utility) which addresses the Utility's filing in Docket No. 130001-EI  
10 Fuel and purchased power cost recovery clause for costs associated with its hedging activities.  
11 We issued an audit report in this docket for the hedging activities on September 23, 2013.  
12 This audit report is filed with my testimony and is identified as Exhibit IHP-1.

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

14 A. Yes, it was prepared under my direction.

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

16 A. I have separated the audit work into several categories.

17 Accounting Treatment

18 We obtained FPL's supporting detail of the hedging settlements for the twelve months  
19 ended July 31, 2013. The support documentation was traced to the general ledger transaction  
20 detail. We verified that the hedging settlements were in compliance with the Risk  
21 Management Plan and verified that the accounting treatment for hedging transactions and  
22 transactions costs are consistent with Commission orders relating to hedging activities. No  
23 exceptions were noted.

24 Gains and Losses

25 We traced the monthly balances of hedging transactions from FPL's April 5 and

1 August 16, 2013 filings in this docket for the period August 1, 2012 to July 31, 2013 to FPL's  
2 Derivative Settlement Report. We selected various hedging transactions from two  
3 counterparties from August 2012, June 2013 and July 2013 for natural gas and for heavy oil as  
4 a sample and traced them from the Derivative Settlement Report to the invoices, purchase  
5 statements, confirmation notices, deal tickets and contracts. FPL does not have any tolling  
6 agreements where natural gas is provided to generators under purchase power agreements.  
7 We recalculated the gains and losses. We compared these recalculated gains and losses with  
8 FPL's journal entries for realized gains and losses. We compared a sample of the purchase  
9 prices to the futures rates published by the NYMEX Henry Hub gas futures contract rates. No  
10 exceptions were noted.

11 Hedged Volume and Limits

12 We reviewed the quantity limits and authorizations. We also obtained FPL's analysis  
13 of the monthly percent of fuel hedged in relation to fuel burned for the twelve months ended  
14 July 31, 2013, and compared them with the Utility's Risk Management Plan. The hedged  
15 targets for both natural gas and heavy oil were traced to the Planned Position Strategy  
16 Schedule. The fuel burn forecast was traced to the Fuel Burn Summary. The volumes of the  
17 oil hedged before and after rebalancing were traced to the Oil Hedged Schedule and the Deal  
18 tickets, the percentage hedged was randomly recalculated for accuracy. No exceptions were  
19 noted.

20 Separation of Duties

21 We reviewed the Utility's procedures for separating duties related to hedging  
22 activities. We reviewed an internal audit related to separation of duties. Also, external audit  
23 work papers were reviewed in the Fuel Audit in Docket No. 130001-EI. No exceptions were  
24 noted.

25 **Q. Please review the audit findings in this audit report, Exhibit IHP-1.**

1 A. There were no findings in this audit related to hedging activities.

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

3 A. Yes.

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State of Florida



**Public Service Commission**

Office of Auditing and Performance Analysis  
Bureau of Auditing  
Miami District Office

**Auditor's Report**

Florida Power & Light Company  
Hedging Activities

**Twelve Months Ended July 31, 2013**

**Docket No. 130001-EI**

Audit Control No. 13-102-4-1  
**September 16, 2013**

Handwritten signature of Iliana H. Piedra in cursive script.

Iliana H. Piedra  
Audit Manager

Handwritten signature of Yen N. Ngo in cursive script.

Yen N. Ngo  
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Bety Maitre  
Audit Staff

Handwritten signature of Kathy Welch in cursive script.

Kathy Welch  
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 April 10, 2013. We have applied these procedures to the schedules prepared by Florida Power & Light Company in support of its 2013 filing for Hedging in Docket No. 130001-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**

FPL or Utility refers to Florida Power & Light Company.

### **Accounting Treatment**

**Objective:** The objective was to determine whether the accounting treatment for futures, options, and swap contracts between FPL 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 FPL's supporting detail of the hedging settlements for the twelve months ended July 31, 2013. The support documentation was traced to the general ledger transaction detail. We verified that the hedging settlements were in compliance with the Risk Management Plan and determined 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**

**Objective:** The objective was to determine whether the gains and losses associated with each financial hedging instrument that FPL implemented are in compliance with Commission Order Numbers 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 hedging transactions from FPL's April 5 and August 16, 2013 filings in this docket for the period August 1, 2012, to July 31, 2013 to FPL's Derivative Settlement Report. We selected various hedging transactions from two counterparties from August 2012, June 2013, and July 2013 for natural gas and for heavy oil as a sample and traced them from the Derivative Settlement Report to the invoices, purchase statements, confirmation notices, deal tickets, and contracts. We recalculated the gains and losses. For heavy oil we traced the floating price to the confirmation notice, to the calculation of the average pricing from the New York Harbor and agreed the pricing from the average calculation to the Platts publication provided from the Utility. For gas we traced the floating price to the Settlement Price worksheet and to the Gas Daily- Platts Publication provided by the Utility. We compared these recalculated gains and losses with FPL's journal entries for realized gains and losses. We compared a sample of the purchase prices to the futures rates published by the NYMEX Henry Hub gas futures contract rates. FPL does not have any tolling agreements where natural gas is provided to generators under purchased power agreements. No exceptions were noted.

## **Hedged Volume and Limits**

**Objective:** The objective was to determine whether the quantities of natural gas, residual fuel 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 FPL's analysis of the monthly percent of fuel hedged in relation to fuel burned for the twelve months ended July 31, 2013, and compared them with the Utility's Risk Management Plan. The hedged targets for both natural gas and heavy oil were traced to the Planned Position Strategy Schedule. The fuel burn forecast was traced to the Fuel Burn Summary. The volumes of the oil hedged before and after rebalancing were traced to the Oil Hedged Schedule and the Deal tickets, the percentage hedged was randomly recalculated for accuracy. No exceptions were noted.

## **Separation of Duties**

**Objectives:** The objectives were to review: FPL's procedures for separating duties related to hedging activities for front office, middle office, and back office and internal and external auditor's work papers.

**Procedures:** We reviewed the Utility's procedures for separating duties related to hedging activities. We reviewed an internal audit related to the separation of duties. Also, external audit workpapers were reviewed in Docket No. 130001-EI, ACN 13-106-4-1. No exceptions were noted.

Audit Findings

**None**

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery  
clause with generating performance incentive  
factor.

DOCKET NO. 130001-EI

DATED: SEPTEMBER 27, 2013

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original and six copies of the testimony of Iliana H. Piedra on behalf of the Florida Public Service Commission was filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished to the following, by U.S. Mail, on this 27<sup>th</sup> day of September, 2013.

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