

State of Florida



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

DATE: May 7, 2008

TO: Peter H. Lester, Economic Analyst, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance

RE: Docket No: 080001-EI; Company Name: Florida Power & Light Company;
Audit Purpose: Fuel Price Hedging Costs for 2007;
Audit Control No: 07-353-4-1:

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 the response to the Division of Commission Clerk. There are confidential work papers associated with this audit.

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF REGULATORY COMPLIANCE AND
CONSUMER ASSISTANCE
BUREAU OF AUDITING***

Miami District Office

**Florida Power and Light Company
Fuel Price Hedging Costs**

Twelve Months Ended December 31, 2007

**DOCKET #080001-EI
AUDIT CONTROL NO. 07-353-4-1
Report Issued May 5, 2008**

A handwritten signature in cursive script, reading "Gabriela Leon", written over a horizontal line.

***Gabriela Leon
Audit Manager***

A handwritten signature in cursive script, reading "Kathy L. Welch", written over a horizontal line.

***Kathy L. Welch
Public Utility Supervisor***

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

MAY 5, 2008

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

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 December 20, 2007. We have applied these procedures to the attached filing schedules prepared by the company that display the results of Florida Power and Light Company's hedging activities for the 12-month period ended December 31, 2007 in Docket 080001-EI.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES

GENERAL

To verify that the accounting treatment and results of the utility's 2007 hedging activities are consistent with the utility's 2007 hedging plan filed with the Commission in Docket No. 080001-EI.

ACCOUNTING TREATMENT

Objective: Verify that the accounting treatment for futures, options and swaps contracts between the utility and its counter parties are in compliance with Commission Orders and Rules and other applicable Financial Accounting Standards Board (FASB) statements.

Procedures: We obtained a summary schedule of all financial futures, options and swaps that were executed by the utility in 2007. We reconciled the monthly gain or loss to the company's filing by tracing these gains/losses to the calculation of the average unit cost of gas and oil and to the company's books and records. The company's accounting treatment of hedging gains/losses was verified to be in compliance with Commission Orders and Rules. We confirmed that the accounting treatment is consistent with applicable FASB statements by reviewing the company's external auditor's reports and work papers on derivative activity for the year 2007.

HEDGING COST

Objective: Reconcile the hedging results reported in the utility's final 2007 filing to the company's books and records.

Procedures: We traced the monthly hedging gains/losses to the supporting documents that were used to prepare the company's filing. The company provided the FPL Derivative Settlements-All Instruments report that show the calculation of all gains/losses by deal options and swaps made by each counter party. This report was traced to the filing. The gains/losses were traced to the general ledger by tracing to the calculation of the unit price cost through account 151 Fuel Inventory. A sample was taken of two months, January and September. The deals sampled were traced to confirmation letters, bank invoices, deal forms, and purchase statements.

Objective: Verify that the transaction cost associated with each financial hedging instrument, which can be identified, are properly accounted for in the company's books and records.

Procedures: The company explained that the only identifiable transaction costs related to the hedging activities are commission costs. All these invoices were reviewed.

Objective: Verify that all hedging costs and credits resulting from joint operations with the company's affiliated operations are properly executed and allocated and are in compliance with Commission Orders and Rules.

Procedures: The list of counterparties related to the hedging activities was traced to the affiliates on FPL's Annual Reports. None were found.

Objective: Verify that the level of hedging gains/losses associated with the company's financial activities for the 12-month period ended December 31, 2007 is consistent with the requirements of Commission Order PSC-02-1484-FOF-EI, issued October 30, 2002, applicable FASB statements, and the company's 2007 Hedging Plan.

Procedures: We determined the monthly level of hedging gains/losses and verified that they are consistent with the requirements of Commission orders, FASB statements, and the company's 2007 Hedging Plan.

CONFIDENTIAL

| | A | B | C | D | E | F | |
|----|---------------|--|------------------|-----------------------------|--------------|------------------------|--------------------|
| | | | | FPL NATURAL GAS PROCUREMENT | | | |
| | <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>VOLUME</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
| 1 | | | | | | | |
| 2 | | | | | | | |
| 3 | | | | | | | |
| 4 | TOTAL YEAR | FIXED PRICE TRANSACTIONS | | | | | |
| 5 | 2007 | PHYSICAL POWER OPTION PREMIUMS | | | | | |
| 6 | | PHYSICAL POWER (EXERCISED OPTIONS) | | | | | |
| 7 | | SWAPS | | | | | |
| 8 | | SWING SWAPS | | | | | |
| 9 | | OVER-THE-COUNTER OPTIONS | | | | | |
| 10 | | BROKER FEES | | | | | |
| 11 | | | | | | | |
| 12 | | | | | | | \$ (799,268,428) |
| 13 | | | | | | | |
| 14 | | AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL | | | | | |

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CONFIDENTIAL

| | A | B | C | D | E | F |
|----|---------------|---|------------------|--------------|----------------|--------------|
| | | | VOLUME | | ELECTRICITY | |
| | <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>SAVINGS</u> | <u>GAINS</u> |
| 1 | | | | | | |
| 2 | | | | | | |
| 3 | | | | | | |
| 4 | TOTAL YEAR | FIXED PRICE TRANSACTIONS | | | | |
| 5 | 2007 | PHYSICAL POWER OPTION PREMIUMS | | | | |
| 6 | | PHYSICAL POWER (EXERCISED OPTIONS) | | | | |
| 7 | | SWAPS | | | | |
| 8 | | SWING SWAPS | | | | |
| 9 | | OVER-THE-COUNTER OPTIONS | | | | |
| 10 | | BROKER FEES | | | | |
| 11 | | | | | \$ | \$ |
| 12 | | | | | - | - |
| 13 | | | | | | |
| 14 | | AVERAGE PERIOD OF HEDGE (Days) - PHYSICAL | | | | |
| 15 | | | | | | |
| 16 | | | | | | |
| 17 | | | | | | |
| 18 | | | | | | |

Note: Physical power option premium volumes represent the total available volume. Physical power option exercised volumes represent the actual volumes called upon.

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