

State of Florida



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

DATE: October 13, 2008
TO: Peter H. Lester, Economic Analyst, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *DNV*
RE: Docket No: 080001-EI; Company Name: Florida Power and Light Company;
Audit Purpose: Hedging Transactions for January - July 2008;
Company Code: EI802; Audit Control No: 08-221-4-2;

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 the Commission Clerk. There are confidential work papers associated with this audit.

DNV/tbm

Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey,
District Offices, File Folder)
Office of Commission Clerk (2)
General Counsel
Office of Public Counsel

Mr. Wade Litchfield
Florida Power & Light Company
215 South Monroe Street, Suite 810
Tallahassee, FL 32301-1859

Mr. John T. Butler
Florida Power & Light Company
700 Universe Boulevard
Juno Beach, FL 33408

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE

Miami District Office

FLORIDA POWER AND LIGHT

HEDGING AUDIT

JANUARY THROUGH JULY 2008

DOCKET NO. 080001-EI
AUDIT CONTROL NO. 08-221-4-2

A handwritten signature in cursive script, reading "Iliana Piedra", written over a horizontal line.

Iliana Piedra
Audit Manager

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

Gabriela Leon
Professional Accountant Specialist

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

Kathy Welch
Public Utilities Supervisor

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**DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT**

SEPTEMBER 30, 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 August 5, 2008. 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 7-month period ended July 31, 2008 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.

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OBJECTIVES AND PROCEDURES

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 other applicable Financial Accounting Standards Board (FASB) statements, especially Statements 133 and 138.

Procedures: We obtained a summary schedule of all financial futures, options and swaps that were executed by the utility in 2008. 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 2008.

HEDGING COST

Objective: Reconcile the hedging results reported in the utility's final 2008 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 the month of July for Gas and Oil. The deals sampled were traced to confirmation letters, bank invoices, deal forms, and purchase statements, in addition the settle price was traced to Platt's and NYMEX futures contract.

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

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

Objective: Verify that the level of hedging gains/losses associated with the company's financial activities from January through July 2008 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 compliance as described in the Objective.

Objective: Verify that the company has followed utility procedures for separating duties related to the front office, middle office and back office.

Procedures: We obtained an organizational chart and identified new employees since December 31, 2007. We obtained the utility's procedures related to this separation of duties. We determined the change in the procedures from December 31, 2007. We read the report issued by the Florida Public Service Commission's Bureau of Performance Analysis on Hedging practices issued June 2008.

Objective: Verify that the incremental hedging operating and maintenance expenses are incremental in nature as set forth in PSC Order No. PSC 02-1484-FOF-EI.

Procedures: We obtained a detail report from the utility's general ledger detailing the source of the transactions. We selected a sample of the various charges and determined if the charges have been considered to be incremental in nature in prior years. We reconciled charges to invoices, expense reports and payroll reports. Audit finding number 1 discusses a retention bonus, audit finding number 2 discusses letter of credit fees and audit finding number 3 discusses relocation and moving expenses.

Objectives: Verify that the quantities of gas, residual oil, and purchased power hedged are within the limits, i.e. the percentage range, specified in FPL's Risk Management Plan.

Procedures: We obtained the 2007 Risk Management Plan to determine if the hedged percents were included. Since, this Plan did not include the hedged percents; we obtained the Planned Position Strategy Procedures which show the hedged targets by months. We calculated the percent of hedge amount by month. All the months for Gas and Oil were within the company's targeted percents except for Oil for July. The company provided an explanation as to the reason. The explanation was reviewed with the Tallahassee Analyst and he agreed with the explanation.

Objectives: Verify that the individual and group transaction limits and authorizations set forth in FPL's 2007 Risk Management Plan have been followed.

Procedures: The company did not include the individual and group transaction limits and authorization in its Risk Management Plan, therefore, it could not be audited.

II. AUDIT FINDINGS

AUDIT FINDING NO. 1

SUBJECT: RETENTION BONUS

AUDIT ANALYSIS:

[REDACTED]

EFFECT ON GENERAL LEDGER:

[REDACTED]

EFFECT ON FILING:

[REDACTED]

AUDIT FINDING NO. 2

SUBJECT: LETTER OF CREDIT FEES

AUDIT ANALYSIS

[REDACTED]

[REDACTED]

EFFECT ON GENERAL LEDGER: This is included for informational purposes only.

EFFECT ON FILING: This is included for informational purposes only.

AUDIT FINDING NO. 3

SUBJECT: RELOCATION AND MOVING EXPENSES

AUDIT ANALYSIS: [REDACTED]

EFFECT ON GENERAL LEDGER: [REDACTED]

EFFECT ON FILING: [REDACTED]

III. COMPANY FILING

CONFIDENTIAL

1	A	B	C	D		E	F
				FPL NATURAL GAS PROCUREMENT			
2	PERIOD	INSTRUMENT	VOLUME (MMBTU)		OPTION PREMIUMS	GAIN/(LOSS)	
3			PURCHASES	SALES			
4	YEAR-TO-DATE	FIXED PRICE TRANSACTIONS	[REDACTED]		[REDACTED]	\$ 241,517,615	
5	(JAN - JULY)	SWAPS					
6	2008	SWING SWAPS					
7		OVER-THE-COUNTER OPTIONS					
8		BROKER FEES					
9							
10							
11							
12		AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL	[REDACTED]				

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	A	B	C	D	E	F
	FPL HEAVY FUEL OIL PROCUREMENT					
			VOLUME (BARRELS)			
	PERIOD	INSTRUMENT	PURCHASES	SALES	OPTION PREMIUMS	GAIN/(LOSS)
1						
2						
3						
4	YEAR-TO-DATE	FIXED PRICE TRANSACTIONS				
5	(JAN - JULY)	SWAPS				
6	2008	SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
9						\$ 164,375,645
10						
11						
12		AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL				