

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: October 2, 2009
TO: Kaley Thompson, Regulatory Analyst II, Division of Economic Regulation
FROM: Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*
RE: Docket No.: 090001-EI
Company Name: Florida Power and Light Company
Company Code: EI802
Audit Purpose: Hedging August 2008 - July 2009
Audit Control No: 09-190-4-1

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

DNM/ch

Attachment: Audit Report

cc: (With Attachment)
Division of Regulatory Compliance (Salak, Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Division of Regulatory Compliance (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER-DATE

10205 OCT-28

FPSC-COMMISSION CLERK

COMMISSIONERS:
MATTHEW M. CARTER II, CHAIRMAN
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NANCY ARGENZIANO
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STATE OF FLORIDA



MIAMI DISTRICT OFFICE
3625 NW 82ND AVENUE
SUITE 400
MIAMI, FL 33166-7602
(305) 470-5600

Public Service Commission

September 30, 2009

Carlos Diaz
Florida Power and Light Company
9250 West Flagler Street
Miami, FL. 33174

Re: Docket No. 090001-EI
Audit Control No. 09-190-4-1
Hedging Transactions

Dear Mr. Carlos Diaz:

We have completed the field work in the above referenced audit. Included with this letter is a copy of the audit work papers which the Commission is maintaining in a Temporary Confidential Status and a listing of these work papers. Please sign and date a copy of this letter indicating that you have received these copies. The utility must file a Request for Confidential Classification according to Rule 25-22.006, F.A.C. in order to maintain this confidentiality. This request must be filed with the Commission within twenty-one days from today or these work papers will become public documents.

Sincerely,

A handwritten signature in black ink, appearing to read "Yen Ngo".

Yen Ngo
Audit Manager

cc: Dale Mailhot
Kathy Welch

A handwritten signature in black ink, likely from a company representative, positioned above a horizontal line.

Received by Company

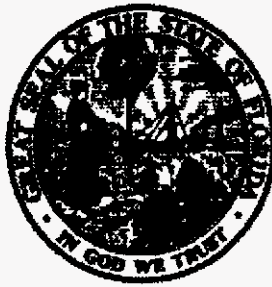
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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE

Bureau of Auditing

Miami District Office

FLORIDA POWER AND LIGHT COMPANY

HEDGING TRANSACTIONS

YEAR ENDED JULY 31, 2009

DOCKET NO. 090001-EI

AUDIT CONTROL NO. 09-190-4-1



Yen Ngo
Audit Manager



Kathy Welch
Public Utilities Supervisor

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FPSC-COMMISSION CLERK

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

SEPTEMBER 29, 2009

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 Economic Regulation in its audit service request dated July 7, 2009. We have applied these procedures to the hedging activities of Florida Power and Light Company (FPL) for the 12-month period ended July 31, 2009 in Docket 090001-EI.

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

OBJECTIVES AND PROCEDURES

ACCOUNTING TREATMENT:

Objective: The objective of the audit was to 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 for the 12-month period ended July 31, 2009. 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 12-month period ended July 31, 2009.

HEDGING COST:

Objective: The objective of the audit was to reconcile the hedging results reported in the utility's final 2009 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 shows 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 – account 151 Fuel Inventory by tracing to the Monthly Gas Closing Report and Allocation of Oil Financing Instrument. A sample was taken of the month of May 2009 for Gas and August 2008 for Oil. The deals sampled were traced to confirmation letters, bank invoices, deal forms, and purchase statements. In addition, the settle price was traced to Platts and NYMEX market data. We recalculated the bankruptcy transaction and settlement offer with Lehman Brothers and traced the original deals and the replacement deals to the Gas Daily reports.

Objective: The objective of the audit was to 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: The objective of the audit was to verify that the level of hedging gains/losses associated with the company's financial activities from August 2008 through July 2009 is consistent with the requirements of Commission Order PSC-02-1484-FOF-EI, issued October 30, 2002, applicable FASB statements and the company's 2008 and 2009 Hedging Plans.

Procedures: We determined the monthly level of hedging gains/losses and verified that they are consistent with the requirements of Commission orders and Hedging Plans. We reviewed the external audit workpapers to determine if FPL's gains and losses complied with the FASB statements.

Objective: The objective of the audit was to 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 August 1, 2008. We obtained the utility's procedures related to the separation of duties. We determined the change in the procedures from August 1, 2008 to July 31, 2009. We compared the procedures and the employees to the prior audit to determine if any changes had been made.

Objective: The objective of the audit was to 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.

Objectives: The objective of the audit was to 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 plans.

Procedures: We obtained the 2008 and 2009 Risk Management Plans to determine if the hedged percents were included. Since this 2008 Plan did not include the hedged percents (the company began to include the hedged percents in 2009), we obtained the Planned Position Strategy (PPS) Procedures which show the hedged targets by months. The company also rebalanced the months that were not within the PPS targeted percents. The rebalancing was implemented by either purchasing or selling the swaps to meet the established targets. We verified and recalculated the percent of hedge amount and the rebalancing by month.

Objectives: The objective of the audit was to verify that the individual and group transaction limits and authorizations set forth in FPL's 2008 and 2009 Risk Management Plan have been followed.

Procedures: The transaction limits and authorization in its Risk Management Plans were verified to the company's supporting documentation.