



State of Florida



Florida Public Service Commission

Office Of Auditing And Performance Analysis  
Bureau Of Auditing  
Miami District Office

Florida Power & Light Company  
Hedging Activities

Twelve Month's Ended July 31, 2010

Docket No. 100001-EI

Audit Control No. 10-130-4-1

A handwritten signature in black ink, appearing to read "Yen Ngo", written over a horizontal line.

Yen Ngo  
Audit Manager

A handwritten signature in black ink, appearing to read "Gabriela Leon", written over a horizontal line.

Gabriela Leon  
Accounting Specialist

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Kathy L. Welch,  
District Audit Supervisor

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**Office Of Auditing And Performance Analysis  
Auditor's Report**

**September 22, 2010**

**To: Florida Public Service Commission**

**Purpose**

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. We have applied these procedures to the attached schedules prepared by Florida Power & Light Company (FPL) in support of its filing for Hedging Activities in Docket No. 100001-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.

**Office Of Auditing And Performance Analysis  
Auditor's Report**

**September 22, 2010**

**To: Florida Public Service Commission**

**Purpose**

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. We have applied these procedures to the Natural Gas and Heavy Oil Procurement report, filed August 24, 2010, prepared by Florida Power & Light Company (FPL) on its Hedging Activities in Docket No. 100001-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:* To verify that the accounting treatment for future option and swap contracts between the utility and its counter parties are in compliance with the Commission Order 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, 2010. We reconciled the monthly gain or loss to the company's filing. We traced these gains and losses to the calculation of the average unit cost of gas and oil and to FPL's books and records. FPL's accounting treatment of hedging gains and losses was verified to be in compliance with Commission Order PSC-02-1484-FOF-EI, issued October 30, 2002. We reviewed the company's external auditor's reports and workpapers on derivative activity for the 12-month period ended July 31, 2010. We confirmed that FPL's accounting treatment is consistent with applicable FASB statements.

*Objective:* To verify that the level of hedging gains and losses associated with FPL's financial activities from August 2009 through July 2010 is consistent with the requirements of Commission Order PSC-02-1484-FOF-EI, issued October 30, 2002, applicable FASB statements and FPL's 2009 and 2010 Hedging Plans.

*Procedures:* We obtained the monthly level of hedging gains/losses and verified that they are consistent with the requirements of Commission orders and FPL's Hedging Plans.

### Gains and Losses

*Objective:* To reconcile the hedging results reported in the utility's final July 31, 2010 filing to FPL's books and records.

*Procedures:* We traced the monthly hedging gains and losses to the supporting documents that were used to prepare FPL's filing. FPL provided the "Derivative Settlements-All Instruments" report that shows the calculation of all gains and losses by deal options and swaps made by each counter party. This report was traced to the filing. A sample of the September 2009 natural gas and heavy oil transactions were selected for testing. 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. In order to trace the September 2009 gains and losses to the general ledger, account 151 Fuel Inventory, we first reconciled the gain and losses to the "Monthly Gas Closing Report" and "Allocation of Oil Financing Instrument" report, which, in turn, were reconciled to the general ledger.

### **Quantity Of Gas, Residual Oil, And Purchased Power**

*Objective:* 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 2009 Risk Management and the Planned Position Strategy (PPS) procedures, which show the hedged targets by months. The natural gas and the heavy oil actual percentage hedged were compared to the target hedged and verified to the specified tolerance bands. If the actual percent hedged of a particular month was not within the tolerance band, then a rebalance would be required. The rebalancing was implemented by either purchasing or selling the swaps to meet the established targets. We verified and recalculated the percent of hedge amounts and the rebalancing by month. No exceptions were noted.

### **Value At Risk (VAR)**

*Objective:* To verify that the individual and group transaction limits and authorizations set forth in FPL's 2009 and 2010 Risk Management Plans have been followed.

*Procedure:* We verified that the VAR Activities were within the transaction limits and authorization as stated in the Risk Management Plans.

### **Transaction Costs**

*Objective:* 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.

*Procedure:* The staff audit reviewed all of the invoices related to commission costs. No exceptions were noted.

### **Segregation Of Duties**

*Objective:* To verify that FPL has followed the 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, 2009. We obtained FPL's procedures related to the separation of duties and determined the change in the procedures from August 1, 2009 to July 31, 2010. We also compared the procedures and the employees to the prior audit to determine if any changes had been made.

## **Operating And Maintenance Expenses**

*Objective:* 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 FPL's general ledger detailing the source of the transactions. A sample, of the various charges, was selected and we determined if the charges were considered to be incremental in nature in prior years. We also reconciled charges to invoices, expense reports and payroll reports. No exceptions were noted.