

RECEIVED-FPSC

10 OCT -4 PM 3:14

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 100001-EI

COMMISSION CLERK

DATED: OCTOBER 4, 2010

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Kathy L. Welch and Exhibits KLW-1/KLW-2 (FPL), Direct Testimony of Kathly L. Welch and Exhibits KLW-3/KLW-4 (FPUC), Direct Testimony of Donna D. Brown and Exhibit DDB-1 (GULF), Direct Testimony of Ronald A. Mavrides and Exhibit RAM-1 (PEF), and Daniel Acheampong and Exhibit DA-1 (TECO) has been served by U.S. Mail, on this 4th day of October, 2010, to the following:

John T. Butler/R. Wade Litchfield  
Florida Power & Light Company  
700 Universe Blvd.  
Juno Beach, FL 33408

Beth Keating  
Akerman Senterfitt  
106 East College Avenue, Suite 1200  
Tallahassee, FL 32301

John McWhirter, Jr.  
McWhirter Reeves Law Firm  
P.O. Box 3350  
Tampa, FL 33601-3350

Susan D. Ritenour  
Secretary and Treasurer  
Gulf Power Company  
One Energy Place  
Pensacola, FL 32520-0780

Office of Public Counsel  
Patricia Christensen/J. R. Kelly/Charles Beck  
c/o The Florida Legislature  
111 West Madison Street, #812  
Tallahassee, FL 32399-1400

R. Scheffel Wright/John LaVia, III  
Young, van Assenderp, PA  
225 South Adams Street, Suite 200  
Tallahassee, FL 32301

COM  Paula K. Brown  
Administrator, Regulatory Coordination  
APA \_\_\_\_\_ Tampa Electric Company  
ECR \_\_\_\_\_ P. O. Box 111  
GCL \_\_\_\_\_ Tampa, FL 33601-0111

Cheryl Martin  
Florida Public Utilities Company  
P. O. Box 3395  
West Palm Beach, FL 33402-3395

RAD \_\_\_\_\_  
SSC \_\_\_\_\_  
ADM \_\_\_\_\_  
OPC \_\_\_\_\_  
CLK  CLERK

DOCUMENT NUMBER-DATE

08317 OCT-4 0

FPSC-COMMISSION CLERK

Progress Energy Service Company, LLC  
John T. Burnett  
P. O. Box 14042  
100 Central Avenue  
St. Petersburg, FL 33733-4042

Paul J. Lewis, Jr.  
Progress Energy Florida, Inc.  
106 East College Avenue, Suite 800  
Tallahassee, FL 32301-7740

James Beasley and J. Jeffrey Wahlen, Esquires  
Ausley & McMullen Law Firm  
P. O. Box 391  
Tallahassee, FL 32302

Randy B. Miller  
White Springs Agricultural Chemicals, Inc.  
P.O. Box 300  
White Springs, FL 32096

Captain Shayla L. McNeill  
Air Force Legal Operations Agency (AFLOA)  
Utility Litigation Field Support Center (ULFSC)  
139 Barnes Drive, Suite 1  
Tyndall AFB, FL 32403-5319

Vicki Gordon Kaufman/Jon C. Moyle, Jr.  
Keefe Anchors Gordon & Moyle, PA  
118 N Gadsden St  
Tallahassee, Florida 32301-1508

James W. Brew/F. Alvin Taylor  
Brickfield, Burchette, Ritts & Stone, P.C.  
1025 Thomas Jefferson St., NW  
Eighth Floor, West Tower  
Washington, DC 20007-5201

Cecilia Bradley  
Office of Attorney General  
The Capitol – PL01  
Tallahassee, FL 32399-1050

Jeffrey A. Stone  
Russell A. Badders, Steven Griffin  
Beggs & Lane Law Firm  
P.O. Box 12950  
Pensacola, FL 32591-2950

Patrick K. Wiggins  
Law Offices of Patrick K. Wiggins, P.A.  
Post Office Drawer 1657  
Tallahassee, FL 32302



---

LISA C. BENNETT  
STAFF COUNSEL

FLORIDA PUBLIC SERVICE COMMISSION  
Gerald L. Gunter Building  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850  
Telephone: (850) 413-6230

Docket No. 100001-EI: Fuel and Purchased Power Cost Recovery Clause with  
Generating Performance Incentive Factor  
**Florida Power & Light Company**

Witness: **Direct Testimony of Kathy L. Welch**, Appearing on Behalf of the staff of  
The Florida Public Service Commission

Date Filed: October 4, 2010

DOCUMENT NUMBER CALL

08317 OCT-4 2

FLORIDA PUBLIC SERVICE COMMISSION CLERK

DIRECT TESTIMONY OF KATHY L. WELCH

1  
2 **Q. Please state your name and business address.**

3 **A.** My name is Kathy L. Welch and my business address is 3625 N.W. 82nd Ave.,  
4 Suite 400, Miami, Florida, 33166.

5  
6 **Q. By whom are you presently employed and in what capacity?**

7 **A.** I am employed by the Florida Public Service Commission as a Public Utilities  
8 Supervisor in the Office of Auditing and Performance Analysis.

9  
10 **Q. How long have you been employed by the Commission?**

11 **A.** I have been employed by the Florida Public Service Commission since June, 1979.

12  
13 **Q. Briefly review your educational and professional background.**

14 **A.** I have a Bachelor of Business Administration degree with a major in accounting  
15 from Florida Atlantic University and a Masters of Adult Education and Human Resource  
16 Development from Florida International University. I have a Certified Public Manager  
17 certificate from Florida State University. I am also a Certified Public Accountant licensed  
18 in the State of Florida, and I am a member of the American and Florida Institutes of  
19 Certified Public Accountants. I was hired as a Public Utilities Analyst I by the Florida  
20 Public Service Commission in June of 1979. I was promoted to Public Utilities  
21 Supervisor on June 1, 2001.

22  
23 **Q. Please describe your current responsibilities.**

24 **A.** Currently, I am a Public Utilities Supervisor with the responsibilities of  
25 administering the District Office and reviewing work load and allocating resources to

1 complete field work and issue audit reports when due. I also supervise, plan, and conduct  
2 utility audits of manual and automated accounting systems for historical and forecasted  
3 data.

4  
5 **Q. Have you presented testimony before this Commission or any other**  
6 **regulatory agency?**

7 **A.** Yes. I have testified in several cases before the Florida Public Service  
8 Commission. Exhibit KLW-1 lists these cases.

9  
10 **Q. What is the purpose of your testimony today?**

11 **A.** The purpose of my testimony is to sponsor the staff audit report of Florida Power  
12 & Light Company (FPL or Utility) which addresses the Utility's August 1, 2009 through  
13 July 31, 2010 hedging activities. This audit report is filed with my testimony and is  
14 identified as Exhibit KLW-2.

15  
16 **Q. Was this audit prepared by you or under your direction?**

17 **A.** Yes, it was prepared under my direction.

18  
19 **Q. Please describe the work you performed in these audits.**

20 **A.** We obtained a summary schedule of all financial futures, options and swaps that  
21 were executed by the Utility for the 12-month period ended July 31, 2010. We  
22 reconciled the monthly gain or loss to the Company's filing. We traced these gains and  
23 losses to the calculation of the average unit cost of gas and oil and to FPL's books and  
24 records. FPL's accounting treatment of hedging gains and losses was verified to be in  
25 compliance with Commission Order PSC-02-1484-FOF-EI, issued October 30, 2002.

1           We reviewed the Company's external auditor's reports and workpapers on  
2 derivative activity for the 12-month period ended July 31, 2010. We confirmed that  
3 FPL's accounting treatment is consistent with applicable FASB statements.

4           We obtained the monthly level of hedging gains and losses and verified that they  
5 are consistent with the requirements of Commission orders and FPL's Hedging Plans.  
6 We traced the monthly hedging gains and losses to the supporting documents that were  
7 used to prepare FPL's filing. FPL provided the "Derivative Settlements-All Instruments"  
8 report that shows the calculation of all gains and losses by deal options and swaps made  
9 by each counter party. This report was traced to the filing. A sample of the September  
10 2009 natural gas and heavy oil transactions were selected for testing. The deals sampled  
11 were traced to confirmation letters, bank invoices, deal forms, and purchase statements.  
12 In addition, the settle price was traced to Platts and NYMEX market data. In order to  
13 trace the September 2009 gains and losses to the general ledger, account 151 Fuel  
14 Inventory, we first reconciled the gains and losses to the "Monthly Gas Closing Report"  
15 and "Allocation of Oil Financing Instrument" report, which, in turn, were reconciled to  
16 the general ledger.

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

25           We verified that the Value at Risk Activities were within the transaction limits and

1 authorization as stated in the Risk Management Plans.

2 We reviewed all of the invoices related to commission costs. No exceptions were  
3 noted.

4 We obtained an organizational chart and identified new employees since August 1,  
5 2009. We obtained FPL's procedures related to the separation of duties and determined  
6 the change in the procedures from August 1, 2009 to July 31, 2010. We also compared  
7 the procedures and the employees to the prior audit to determine if any changes had been  
8 made.

9 We obtained a detail report from FPL's general ledger detailing the source of the  
10 transactions. A sample of the various charges was reviewed to determine if the charges  
11 were incremental in nature compared to prior years. We also reconciled the charges to  
12 invoices, expense reports and payroll reports. No exceptions were noted.

13

14 **Q. Does the staff audit report of Florida Power & Light Company which**  
15 **addresses the Utility's annual Hedging Information Report and marked as Exhibit**  
16 **DDB-1 contain any findings noting any errors or exceptions taken by staff?**

17 A. No it does not.

18

19 **Q. Does this conclude your testimony?**

20 A. Yes it does.

21

22

23

24

25

**History of Testimony  
Provided by Kathy L. Welch**

- In re: Application for approval of rate increase in Lee County by Tamiami Village Utility, Inc., Docket No. 910560-WS
- In re: Application for transfer of territory served by Tamiami Village Utility, Inc. in Lee County to North Fort Myers Utility, Inc., cancellation of Certificate No. 332-S and amendment of Certificate 247-S; and for a limited proceeding to impose current rates, charges, classifications, rules and regulations, and service availability policies, Docket No. 940963-SU
- In re: Application for a rate increase by General Development Utilities, Inc. (Port Malabar Division) in Brevard County, Docket No. 911030-WS
- In re: Dade County Circuit Court referral of certain issues in Case No. 92-11654 (Transcall America, Inc. d/b/a ATC Long Distance vs. Telecommunications Services, Inc., and Telecommunications Services, Inc. vs. Transcall America, Inc. d/b/a ATC Long Distance) that are within the Commission's jurisdiction, Docket No. 951232-TI
- In re: Application for transfer of Certificates Nos. 404-W and 341-S in Orange County from Econ Utilities Corporation to Wedgefield Utilities, Inc., Docket No. 960235-WS
- In re: Application for increase in rates and service availability charges in Lee County by Gulf Utility Company, Docket No. 960329-WS
- In re: Fuel and purchased power cost recovery clause and generating performance incentive factor, Docket No. 010001-EI
- In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P., Docket No. 020010-WS
- In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, Docket No. 020071-WS
- In re: Petition for rate increase by Florida Power & Light Company, Docket No. 050045-EI
- In re: Petition for issuance of a storm recovery financing order, by Florida Power & Light Company, Docket No. 060038-EI
- In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp., Docket No. 070293-SU



- In re: Petition for rate increase by Florida Public Utilities Company, Docket No. 070304-EI
- In re: Natural gas conservation cost recovery, Docket No. 080004-GU
- In re: Nuclear cost recovery clause, Docket No. 080009-EI
- In re: FPL rate case, Docket No. 080677-EI
- In re: Natural Gas Conservation Cost Recovery Clause for Florida City Gas, Docket No. 090004-GU

State of Florida



Florida Public Service Commission

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

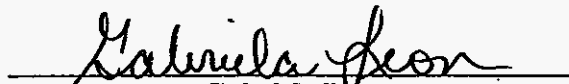
Florida Power & Light Company  
Hedging Activities


Twelve Month's Ended July 31, 2010

Docket No. 100001-EI

Audit Control No. 10-130-4-1

  
\_\_\_\_\_  
Yen Ngo  
Audit Manager

  
\_\_\_\_\_  
Gabriela Leon  
Accounting Specialist

  
\_\_\_\_\_  
Kathy L. Welch,  
District Audit Supervisor

**Table of Contents**

<b>Auditor's Report</b>	<b>Page</b>
Purpose .....	1
Objectives and Procedures.....	2

**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.

Docket No. 100001-EI: Fuel and Purchased Power Cost Recovery Clause with  
Generating Performance Incentive Factor  
**Florida Public Utilities Company**

Witness: **Direct Testimony of Kathy L. Welch**, Appearing on Behalf of the staff of  
The Florida Public Service Commission

Date Filed: October 4, 2010

DOCUMENT NUMBER-DATE  
08317 OCT-4 2010  
COMMISSION CLERK



DIRECT TESTIMONY OF KATHY L. WELCH

1  
2 **Q. Please state your name and business address.**

3 A. My name is Kathy L. Welch and my business address is 3625 N.W. 82nd Ave.,  
4 Suite 400, Miami, Florida, 33166.

5  
6 **Q. By whom are you presently employed and in what capacity?**

7 A. I am employed by the Florida Public Service Commission as a Public Utilities  
8 Supervisor in the Office of Auditing and Performance Analysis.

9  
10 **Q. How long have you been employed by the Commission?**

11 A. I have been employed by the Florida Public Service Commission since June, 1979.

12  
13 **Q. Briefly review your educational and professional background.**

14 A. I have a Bachelor of Business Administration degree with a major in accounting  
15 from Florida Atlantic University and a Masters of Adult Education and Human Resource  
16 Development from Florida International University. I have a Certified Public Manager  
17 certificate from Florida State University. I am also a Certified Public Accountant licensed  
18 in the State of Florida, and I am a member of the American and Florida Institutes of  
19 Certified Public Accountants. I was hired as a Public Utilities Analyst I by the Florida  
20 Public Service Commission in June of 1979. I was promoted to Public Utilities  
21 Supervisor on June 1, 2001.

22  
23 **Q. Please describe your current responsibilities.**

24 A. Currently, I am a Public Utilities Supervisor with the responsibilities of  
25 administering the District Office and reviewing work load and allocating resources to

1 complete field work and issue audit reports when due. I also supervise, plan, and conduct  
2 utility audits of manual and automated accounting systems for historical and forecasted  
3 data.

4  
5 **Q. Have you presented testimony before this Commission or any other**  
6 **regulatory agency?**

7 **A.** Yes. I have testified in several cases before the Florida Public Service  
8 Commission. Exhibit KLW-3 lists these cases.

9  
10 **Q. What is the purpose of your testimony today?**

11 **A.** The purpose of my testimony is to sponsor the staff audit report of Florida Public  
12 Utilities Company (FPUC or Utility) which addresses the Utility's True-Up for the Fuel  
13 Adjustment Clause for the 12-months ended December 31, 2009. This audit report is  
14 filed with my testimony and is identified as Exhibit KLW-4.

15  
16 **Q. Was this audit prepared by you or under your direction?**

17 **A.** Yes, it was prepared under my direction.

18  
19 **Q. Please describe the work you performed in these audits.**

20 **A.** We compiled a schedule of all increases to the general ledger and reconciled them  
21 to the filing. We obtained the company billing summary reports for the kilowatt hours  
22 (KWHs) sold by rate class for the year. We recalculated the revenue by applying the  
23 Commission authorized fuel adjustment factor to the KWHs sold. We selected customer  
24 bills from each rate class at random and recalculated them.

25 We traced the cost of fuel amounts to invoices. We reviewed the material "other

1 cost” invoices to make sure they were in accordance with prior orders. We read the prior  
2 audit report and prior relevant PSC Orders. We reviewed the general ledger and journal  
3 entries to determine if the adjustments required from the previous audit and Commission  
4 orders were made. We recalculated the true-up using the Wall Street Journal interest rates  
5 and agreed the beginning balance to the prior ending balance.

6

7 **Q. Please review the audit findings in this audit report, KLW-4, which addresses**  
8 **the Fuel Adjustment Clause True-Up for the 12-months ended December 31, 2009.**

9 A. There is one audit finding in the audit report that was provided for informational  
10 purposes only. On January 26, 2009, Jefferson Smurfit (Smurfit-Stone) filed for  
11 bankruptcy protection. Smurfit-Stone is a Schedule GSLD-1 customer. Although  
12 GSLD1 customers get billed a fuel charge, the fuel revenue and fuel expense are the  
13 same, offset each other in the filing, and do not effect the calculation of the over or under-  
14 recovery of the fuel adjustment clause.

15 Due to the bankruptcy the utility had to send two bills, one for the part of the  
16 month for the pre-bankruptcy and one for the part of the month for the post-bankruptcy.  
17 The utility was able to bill more than what it would have if it had sent out one bill for the  
18 month. The difference is due to the peak usage that was used in the last part of the month  
19 which the Utility was able to bill. The total billed to this customer for January 2009 for  
20 both pre-and post-bankruptcy was \$258,778.40. However, if Smurfit-Stone had not had  
21 the bankruptcy and FPUC had sent one bill, the bill would have been \$158,630.32.  
22 Because FPUC recovered \$118,136.38 it only has a loss of \$40,493.94 and not the  
23 \$140,642.02 billed for the pre-bankruptcy. The utility wanted to reduce the revenue  
24 recorded from the actual billed amount to the amount that would have been billed if there  
25 were no bankruptcy and only show an uncollectible of \$40,493.94 instead of the

1 \$140,642.02 billed before the bankruptcy. Since the revenue and expense for the GSLD  
2 offset, this has no effect on the calculation of the true up.

3

4 **Q. Does this conclude your testimony?**

5 A. Yes it does.

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

**History of Testimony  
Provided by Kathy L. Welch**

- In re: Application for approval of rate increase in Lee County by Tamiami Village Utility, Inc., Docket No. 910560-WS
- In re: Application for transfer of territory served by Tamiami Village Utility, Inc. in Lee County to North Fort Myers Utility, Inc., cancellation of Certificate No. 332-S and amendment of Certificate 247-S; and for a limited proceeding to impose current rates, charges, classifications, rules and regulations, and service availability policies, Docket No. 940963-SU
- In re: Application for a rate increase by General Development Utilities, Inc. (Port Malabar Division) in Brevard County, Docket No. 911030-WS
- In re: Dade County Circuit Court referral of certain issues in Case No. 92-11654 (Transcall America, Inc. d/b/a ATC Long Distance vs. Telecommunications Services, Inc., and Telecommunications Services, Inc. vs. Transcall America, Inc. d/b/a ATC Long Distance) that are within the Commission's jurisdiction, Docket No. 951232-TI
- In re: Application for transfer of Certificates Nos. 404-W and 341-S in Orange County from Econ Utilities Corporation to Wedgefield Utilities, Inc., Docket No. 960235-WS
- In re: Application for increase in rates and service availability charges in Lee County by Gulf Utility Company, Docket No. 960329-WS
- In re: Fuel and purchased power cost recovery clause and generating performance incentive factor, Docket No. 010001-EI
- In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P., Docket No. 020010-WS
- In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, Docket No. 020071-WS
- In re: Petition for rate increase by Florida Power & Light Company, Docket No. 050045-EI
- In re: Petition for issuance of a storm recovery financing order, by Florida Power & Light Company, Docket No. 060038-EI
- In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp., Docket No. 070293-SU

- In re: Petition for rate increase by Florida Public Utilities Company, Docket No. 070304-EI
- In re: Natural gas conservation cost recovery, Docket No. 080004-GU
- In re: Nuclear cost recovery clause, Docket No. 080009-EI
- In re: FPL rate case, Docket No. 080677-EI
- In re: Natural Gas Conservation Cost Recovery Clause for Florida City Gas, Docket No. 090004-GU



**FLORIDA PUBLIC SERVICE COMMISSION**

*OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
BUREAU OF AUDITING*

*Miami District Office*

**Florida Public Utilities Company  
Fuel Adjustment**

**Twelve Months Ended December 31, 2009**

**DOCKET No. 090001-EI  
AUDIT CONTROL NO. 10-004-4-2**

  
\_\_\_\_\_  
**Kathy L. Welch**  
*Audit Manager*

  
\_\_\_\_\_  
**Iliana Piedra**  
*Accounting Specialist*  
*Audit Reviewer*

TABLE OF CONTENTS

	PAGE
I. PURPOSE	1
II. OBJECTIVES AND PROCEDURES	2
III. AUDIT FINDING – BANKRUPTCY	3
IV. EXHIBITS	4

Company Filing Calculation of True-up Marianna 2009  
Company Filing Calculation of True-up Fernandina 2009



OFFICE OF AUDITING AND PERFORMANCE ANALYSIS

AUDITOR'S REPORT

May 7, 2010

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

We have performed the procedures enumerated 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 Public Utilities Company in support of its filing for the fuel adjustment clause.

This audit is 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:

**Objective:** To verify that the filing amounts agree with the general ledger.

**Procedure:** We scheduled all increases to the general ledger and reconciled them to the filing.

**Objective:** To determine if fuel revenue and kilowatt hours (KWH) sold as filed agree with the company books and are accurately recorded.

**Procedure:** We obtained the company provided, billing summary reports, for the KWHs sold by rate class for the year. We recalculated the revenue by applying the Commission authorized fuel adjustment factor to the KWHs sold. We selected customer bills from each rate class at random and recalculated them.

**Objective:** To determine that the amounts recorded as cost of fuel agree with the supplier invoices and that the costs are in accordance with prior Commission orders and contracts.

**Procedure:** We traced the cost of fuel amounts to invoices. We reviewed the material "other cost" invoices to make sure they were in accordance with prior orders.

**Objective:** To determine if the prior year's adjustments were included on the company books and in the fuel filing.

**Procedures:** We read the prior audit report and PSC Orders. We reviewed the general ledger and journal entries to determine if the adjustments were made.

**Objective:** To determine if the true-up calculation and interest provision as filed was properly calculated using the FPSC approved interest rates.

**Procedure:** We recalculated the true-up using the Wall Street Journal interest rates and agreed the beginning balance to the prior ending balance.

**AUDIT FINDING NO. 1**

**SUBJECT: BANKRUPTCY**

**AUDIT ANALYSIS:** January 26, 2009, Jefferson Smurfit (Smurfit-Stone) declared bankruptcy. They are a GSLD-1 customer. Although GSLD1 customers get billed a fuel charge, the revenue and expense are the same and do not go in to the calculation of the over or under-recovery.

Because the utility had to send two bills, one for the part of the month for the pre-bankruptcy and one for the part of the month for the post-bankruptcy, the utility was able to bill more than what it would have if it had sent out one bill for the month. The difference is due to the peak usage being in the last part of the bill which they were able to collect. The total billed to this customer for January 2009 for both pre and post bankruptcy was \$258,778.40. However, if Smurfit-Stone had not had the bankruptcy and FPUC had sent one bill, the bill would have been \$158,630.32. Because FPUC recovered \$118,136.38, they only have a loss of \$40,493.94 and not the \$140,642.02 billed for the pre-bankruptcy. The utility wanted to reduce the revenue recorded from the billed amount to the amount that the actual bill would be and only show an uncollectible of \$40,493.94 instead of \$140,642.02 billed before the bankruptcy. Since the revenue and expense for the GSLD offset, this has no effect on the calculation of the true up.

**EFFECT ON THE GENERAL LEDGER:** This finding is provided for informational purposes only.

**EFFECT ON THE FILING:** This finding is provided for informational purposes only.

**COMPANY EXHIBITS**

**Docket No.: 100001-EI  
Audit Report – Fuel Adjustment  
Exhibit: KLW – 4, Page 6 of 8**



FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF PURCHASED POWER COSTS AND CALCULATION OF TRUE-UP AND INTEREST PROVISION-EXCLUDING GSLD1
ACTUAL/ESTIMATED FOR THE PERIOD: JANUARY 2009 THROUGH DECEMBER 2009
BASED ON TWELVE MONTHS ACTUAL
(EXCLUDES LINE LOSS, EXCLUDES TAXES)

FERNANDINA BEACH

Table with columns for months (Jan 2009, Feb 2009, Mar 2009, Apr 2009, May 2009, Jun 2009, Jul 2009, Aug 2009, Sep 2009, Oct 2009, Nov 2009, Dec 2009) and Total. Rows include categories such as Total System Sales - KWH, Purchased Power Rates (CCA Fuel Costs, Base Fuel Costs, Energy Charge), Demand and Non-Fuel costs, Purchased Power Costs, Net Purchased Power Costs, Total Costs and Charges, Sales Revenues - Fuel Adjustment Revenues, KWH Sales, and True-up Calculation (Excl. GSD1) including Fuel Revenues, Gross Receipts Tax Refund, and Interest Provision.

Docket No.: 100001-EI
Audit Report - Fuel Adjustment
Exhibit: K1W - 4, Page 8 of 8

10% Rule Interest Provision: 3.91%

Docket No. 100001-EI: Fuel and Purchased Power Cost Recovery Clause with  
Generating Performance Incentive Factor  
**Gulf Power Company**

Witness: **Direct Testimony of Donna D. Brown**, Appearing on Behalf of the  
staff of The Florida Public Service Commission

Date Filed: October 4, 2010

DOCUMENT NUMBER CASE  
08317 OCT-4 2  
FPSC-COMMISSION CLERK

DIRECT TESTIMONY OF DONNA D. BROWN

1

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

3 A. My name is Donna D. Brown, and my business address is 2540 Shumard Oak  
4 Boulevard, Tallahassee, Florida, 32399.

5

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

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

9

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

11 A. I have been employed by the Commission since February 2008.

12

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

14 A. I graduated from Florida A&M University's School of Business & Industry in 2006 with  
15 a Bachelor of Arts degree in accounting.

16

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

18 A. Currently, I am a Professional Accountant with the responsibilities of managing  
19 regulated utility financial audits. I am also responsible for creating audit work papers and  
20 programs to meet the specific purpose of each audit.

21

22 **Q. Have you presented testimony before this Commission?**

23 A. No.

24

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



1 A. The purpose of my testimony is to sponsor the staff audit report of Gulf Power Company  
2 (Gulf Power, the Utility, or the Company) addressing the Utility's August 1, 2009 through July  
3 31, 2010 hedging activities. This audit report is filed with my testimony and is identified as  
4 Exhibit DDB-1.

5  
6 **Q. Was this audit prepared by you or under your direction?**

7 A. Yes, it was prepared by me and other audit staff under my direction,  
8

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

10 A. We reviewed the Risk Management Plan for Fuel Procurement filed by Gulf Power with  
11 this Commission on August 4, 2009 in Docket No. 090001-EI. We compared pricing strategy  
12 included in the Risk Management Plan to the Hedging Reports for the 12 months ended July 31,  
13 2010 as filed by the Utility on March 11, 2010 and August 13, 2010.

14 We obtained the Utility's supporting detail of the hedging settlements for the 12 months  
15 ended July 31, 2010. The support documentation was traced to the general ledger transaction  
16 detail for Account No. 547-4. We reviewed the compliance of the hedging settlements to the  
17 risk management plan and verified that the accounting treatment for the hedging transactions as  
18 well as any transaction costs were consistent with the criteria established in Docket No. 011605-  
19 EI.

20 We reviewed the quantity limits, individual and group transaction limits and  
21 authorizations as well as the procedures for separating duties related to the hedging program as  
22 set forth in the Risk Management Plan. We obtained the Utility's analysis of the monthly  
23 percent of fuel hedged in relation to fuel burned. We reviewed the applicable average price of  
24 the financial transactions settled and the average costs of natural gas purchased for the 12  
25 months ending July 31, 2010. We noted compliance of the hedging transactions to the

1 Risk Management Plan.

2 We reviewed the Coal Sales Agreement (CSA) and all court issued orders from the  
3 United States District Court for the Southern District of Illinois and the United States District  
4 Court for the Northern District of Florida – Pensacola Division. We traced the litigation-related  
5 adjustments to fuel costs from the monthly-filed Schedule A-1 to the general ledger and to the  
6 supporting invoices from 2005 through July 2010. We noted that the United States District  
7 Court for the Northern District of Florida – Pensacola Division granted Gulf Power’s Motion for  
8 Partial Summary which stated that Coalsales LLC breached the CSA. The trial was held on  
9 Tuesday, February 9, 2010. No orders awarding damages have been issued as of September 21,  
10 2010. We determined that the litigation costs appeared to be reasonable and prudent.

11  
12 **Q. Does the staff audit report of Gulf Power Company which addresses the Utility’s**  
13 **annual Hedging Information Report and marked as Exhibit DDB-1 contain any findings**  
14 **noting any errors or exceptions taken by staff?**

15 A. No it does not.

16  
17 **Q. Does this conclude your testimony?**

18 A. Yes it does.

19  
20  
21  
22  
23  
24  
25

STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION  
OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

HEDGING ACTIVITIES

AUGUST 01, 2009 – JULY 31, 2010

DOCKET NO. 100001-EI  
AUDIT CONTROL NO. 10-130-1-1

Handwritten signature of Donna Brown in cursive script.

---

Donna Brown, Audit Manager

Handwritten signature of Debra M. Dobiac in cursive script.

---

Debra M. Dobiac, Audit Staff

Handwritten signature of Lynn M. Deamer in cursive script.

---

Lynn M. Deamer, District Audit Supervisor

**TABLE OF CONTENTS**

<b>AUDITOR'S REPORT</b>	<b>PAGE</b>
<b>I. PURPOSE.....</b>	<b>1</b>
<b>II. OBJECTIVES AND PROCEDURES.....</b>	<b>2</b>

**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
AUDITOR'S REPORT**

**September 28, 2010**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated May 7, 2010. We have applied these procedures to the schedules prepared by Gulf Power Company in support of its filing on August 13, 2010 for its Hedging Information Report, Docket No. 100001-EL.

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

### Hedging Transaction and Information Report Verification

**Objective:** To review and verify the information presented in Gulf Power's Natural Gas Hedging Transactions Report filed with this Commission on March 11, 2010 and its Hedging Information Report filed with this Commission on August 13, 2010.

**Procedures:** The audit staff reviewed the 2009 and 2010 Risk Management Plans for Fuel Procurement filed by Gulf Power with this Commission in Docket No. 090001-EI. Audit staff compared pricing strategy included in the plan to the Hedging Reports for the twelve (12) months ended July 31, 2010 as filed by the utility on March 11, 2010 and August 13, 2010.

### Accounting Treatments for Financial Contracts

**Objective:** To verify that the accounting treatments for futures, options, and swap contracts between Gulf Power Company and one or more counterparties are consistent with FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002, and as clarified by FPSC Order No. PSC-08-0316-PAA-EI, issued May 14, 2008 and FPSC Order No. PSC-08-0667-PAA-EI, issued October 8, 2008. To reconcile the data included in the two Hedging Reports with the books and records of the utility including gains (losses), option premiums, swap settlements as well as fees, commissions, and other transaction costs associated with each financial hedging instrument.

**Procedures:** The audit staff obtained the utility's supporting detail of the hedging settlements for the twelve (12) months ended July 31, 2010. The support documentation was traced to the general ledger transaction detail for Hedging, Account No. 547-4. The audit staff reviewed the adherence of the hedging settlements to the risk management plan and verified that the accounting treatment for the hedging transactions as well as any transaction costs were consistent with FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002.

### Risk Management Plan

**Objective:** To verify that the quantities of gas, residual oil, and purchased power hedged are within the limits specified in Gulf Power's 2009 and 2010 Risk Management Plans. Verify that the individual and group transactions limits and authorizations set forth in the Risk Management Plan have been followed as well as the utility's procedures for separating duties related to its hedging activities per the Hedging Plan. To verify that the hedging operating and maintenance expenses associated with maintaining a non-speculative financial and/or physical hedging program are incremental in nature as set forth in FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002.

**Procedures:** The audit staff reviewed the quantity limits, individual and group transaction limits and authorizations as well as the procedures for separating duties related to the hedging program as set forth in the Risk Management Plan. We obtained the utility's analysis of the monthly percent of fuel hedged in relation to fuel burned as well as the applicable average price of the financial transactions settled and the average costs of natural gas purchased for the twelve (12)

months ending July 31, 2010 and reviewed for reasonableness. The audit staff noted adherence of the hedging transactions to the Risk Management Plan.

### Litigation

**Objective:** To verify the litigation-related Adjustments to Fuel Costs that the utility has incurred from 2005 through July 2010. To verify that such expenditures were reasonable and prudent.

**Procedures:** The audit staff reviewed the Coal Sales Agreement (CSA) and all court issued orders from the United States District Court for the Southern District of Illinois and the United States District Court for the Northern District of Florida – Pensacola Division. We traced the litigation-related Adjustments to Fuel Costs from the general ledger to the monthly-filed Schedule A-1 to the supporting invoices from 2005 through July 2010. We noted that the United States District Court for the Northern District of Florida – Pensacola Division granted Gulf Power's Motion for Partial Summary Judgment which stated that Coalsales LLC breached the CSA. The trial was held on Tuesday, February 9, 2010. No orders awarding damages have been issued as of September 21, 2010. The audit staff determined litigation costs appeared reasonable and prudent.

Docket No. 100001-EI: Fuel and Purchased Power Cost Recovery Clause with  
Generating Performance Incentive Factor  
**Progress Energy Florida, Inc.**

Witness: **Direct Testimony of RONALD A. MAVRIDES**, Appearing on Behalf of  
the staff of the Florida Public Service Commission

Date Filed: October 4, 2010

DOCUMENT NUMBER-DATE

08317 OCT-4 2010

FPSC-COMMISSION CLERK



DIRECT TESTIMONY OF RONALD A. MAVRIDES

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

A. My name is Ronald A. Mavrides and my business address is 4950 West Kennedy Blvd., Suite 310, Tampa, Florida 33609.

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

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

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

A. I have been employed by the Florida Public Service Commission since October 2007.

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

A. In 1990, I received a Bachelor of Science degree from the University of Central Florida with a major in accounting. I am also a Certified Government Auditing Professional and a Certified Management Accountant.

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

A. I perform conservation, environmental, hedging, and staff-assisted rate case audits. Also, I perform various other financial audits of electric, gas, and water and wastewater utilities.

**Q. Have you previously presented testimony before this Commission?**

A. Yes. I presented testimony in the Fuel and Purchased Power Cost Recovery Clause with generating performance incentive factor Docket No. 090001-EI.

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

2 A. The purpose of my testimony is to sponsor the staff audit report of Progress Energy  
3 Florida, Inc. (PEF, Company, or Utility) which addresses the Utility's August 1, 2009 through  
4 July 31, 2010 hedging activities. The audit report is filed with my testimony and is identified as  
5 Exhibit RAM-1.

6  
7 **Q. Was this audit prepared by you or under your direction?**

8 A. Yes, it was prepared by me.  
9

10 **Q. Please describe the work performed in this audit.**

11 A. I reviewed PEF's Hedging Information Reports filed on April 1, 2010 and August 16,  
12 2010. I examined the report for reasonableness and used it as a basis for our sample tests. I  
13 requested a listing of each futures, options, and swap contracts executed by PEF for the 12-  
14 month period covered by the Hedging Information Report. I requested the volumes of each fuel  
15 PEF actually hedged using a fixed price contract or instrument. I tested 35 sample transactions,  
16 choosing an array of transaction types throughout the 12-month period for each hedged fuel  
17 type. I traced the transactions to the general ledger and trade tickets. I did not note any  
18 exceptions.

19 I recalculated the gains and losses by multiplying the volume by the difference between  
20 the fixed price and the settlement price from the trade tickets, and compared them to the  
21 recorded gains and losses per the general ledger. I determined that the gains and losses flowed  
22 through the fuel and purchased power cost recovery clause as either a charge or a credit as  
23 required in Order No. PSC-02-1484-FOF-EI. When there was existing inventory, the inventory  
24 account was adjusted, and when there was no existing inventory, the gains and losses flowed  
25 through the fuel expense account.

1 I obtained and reviewed PEF's Risk Management Plan. I compared the percentage  
2 limits of purchased power hedged in the Risk Management Plan with the actual volumes of  
3 hedged burns. The actual volumes of hedged burns fall within the percentage limits delineated  
4 in the Risk Management Plan.

5 I reviewed PEF's written procedures for separation of duties related to hedging  
6 activities. I reviewed the internal and external auditor's workpapers addressing the separation  
7 of duties and no exceptions were noted.

8 I randomly chose four transactions for the diesel fuel used to transport coal. I traced the  
9 invoices to the inventory adjustment per the general ledger, and recalculated the gain and loss.  
10 There was one error by PEF that was subsequently corrected and is discussed in audit finding 1.

11 I reviewed the existing tolling arrangements and tested all tolling transactions for one  
12 vendor for one month by tracing the invoices to the general ledger.

13  
14 **Q. Please review the audit findings in this audit report, RAM-1, which addresses the**  
15 **hedging activities of PEF from August 1, 2009 through July 31, 2010.**

16 A. There is one audit finding in the audit report. In my analysis of #2 oil used to transport  
17 coal, I sampled a fixed swap from April 2010 and independently recalculated a gain that was  
18 greater than that recorded on the trade invoice by the amount of \$252. PEF informed us this  
19 was an error caused by incorrectly using a waterborne settlement price, rather than the correct  
20 pipeline settlement price. PEF made and provided a copy of an adjusting journal entry to  
21 correct this error.

22  
23 **Q. Does this conclude your testimony?**

24 A. Yes.

25

State of Florida



**PUBLIC SERVICE COMMISSION**

*OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
BUREAU OF AUDITING*

*TAMPA DISTRICT OFFICE*

**AUDITOR'S REPORT**

**PROGRESS ENERGY FLORIDA, INC.**

**HEDGING ACTIVITIES**

**12 Month Period Ended July 31, 2010**

**DOCKET NO. 100001-EI  
AUDIT CONTROL NO. 10-130-2-1**

  
*Ron Mavrides*  
Ron Mavrides, Audit Manager

  
*Linda Hill-Slaughter*  
Linda Hill-Slaughter, Tampa District Supervisor

**TABLE OF CONTENTS**

AUDITOR'S REPORT		PAGE
I.	PURPOSE.....	1
II.	OBJECTIVES AND PROCEDURES.....	2
III. AUDIT FINDING		
	1. DIESEL FUEL AND TRANSPORTATION FUEL SURCHARGES.....	4

**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
AUDITOR'S REPORT**

**September 13, 2010**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

**Purpose**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated May 14, 2010. We have applied these procedures to the hedging activities of Progress Energy Florida, Inc. (PEF) in Docket No. 100001-EI for the 12-month period ended July 31, 2010.

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

## OBJECTIVES AND PROCEDURES:

### ACCOUNTING TREATMENT

**Objectives:** - To review and verify the information presented in Progress Energy Florida's Hedging Information Report filed on April 16, 2010. To verify that accounting treatment from futures, options, and swap contracts between Progress Energy Florida and counterparties are consistent with Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued October 30, 2002, and as clarified by Order No. PSC-08-0316-PAA-EI.

47  
**Procedures:** - We reviewed PEF's Hedging Information Report as filed on August, 16, 2010. We examined the report for reasonableness and used it as a basis for our sample tests. We requested a listing of each futures, options, and swap contracts executed by PEF for the 12-month period covered by the Hedging Information Report. We requested the volumes of each fuel PEF actually hedged using a fixed price contract or instrument. We tested 35 sample transactions, choosing an array of transaction types throughout the 12-month period for each hedged fuel type. We traced the transactions to the general ledger and trade tickets. No exceptions were noted.

### GAINS AND LOSSES

**Objective:** - Verify that the gains/losses associated with each financial hedging instrument that PEF implemented is consistent with Order No. PSC-02-1484-FOF-EI in Docket No. 011605-EI, issued October 30, 2002.

47  
48  
**Procedures:** - Using the trade tickets, we recalculated the gains/losses by multiplying the volume by the difference between the fixed price and the settlement price, and compared them to the recorded gains/ losses per the general ledger. We determined they flowed through the fuel and purchased power cost recovery clause as either a charge or a credit as required in Order No. PSC-02-1484-FOF-EI. When there was existing inventory, the inventory account was adjusted, and when there was no existing inventory, the gains/losses flowed through the fuel expense account.

### HEDGED VOLUME AND LIMITS

**Objective:** - Verify that the quantities of gas, residual oil, and purchased power hedged are within the percentage range, as represented in PEF's Risk Management Plan.

49  
**Procedures:** - We obtained and reviewed PEF's Risk Management Plan. We compared the percentage limits of purchased power hedged in the Risk Management Plan with the actual volumes of hedged burns. The actual volumes of hedged burns fall within the percentage limits delineated in the Risk Management Plan.

**SEPARATION OF OFFICE**

46 **Objective:** - Review the PEF's procedures for separation of duties related to hedging activities: Front Office, Middle Office, and Back Office.

**Procedures:** - We reviewed PEF's written procedures for separation of duties related to hedging activities. We reviewed the internal and external auditor's workpapers addressing the separation of duties. No exceptions were noted.

**DIESEL FUEL AND TRANSPORTATION FUEL SURCHARGES**

47-3 **Objective:** - Review and verify the hedging information for diesel fuel and transportation fuel surcharges that are part of its coal transportation agreements.

**Procedures:** - We randomly chose four transactions for the diesel fuel used to transport coal. We traced the invoices to the inventory adjustment per the general ledger, and recalculated the gain/loss. There was one error by PEF that was subsequently corrected. See Finding 1.

**TOLLING ARRANGEMENTS**

47 **Objective:** - To determine if there are any tolling arrangements, and if there are, review them. A tolling arrangement involves providing natural gas to generators under purchased power agreements, and receiving back the generated power for a fee.

**Procedures:** - We reviewed the existing tolling arrangements and tested all tolling transactions for one vendor for one month by tracing the invoices to the general ledger.



**Audit Finding 1**

**Subject:** Diesel Fuel and Transportation Fuel Surcharges

**Audit Analysis:** In our analysis of #2 oil used to transport coal, we sampled a fixed swap from April 2010 and independently recalculated a gain that was greater than that recorded on the trade invoice by the amount of \$252. PEF informed us this was an error due to PEF incorrectly using a waterborne settlement price, rather than the correct pipeline settlement price. PEF made and provided a copy of an adjusting journal entry to correct this error.

47-3

**Effect on the General Ledger:** None

**Effect on the Filing:** None

Docket No. 100001-EI: Fuel and Purchased Power Cost Recovery Clause with  
Generating Performance Incentive Factor  
**Tampa Electric Company**

Witness: **Direct Testimony of Daniel Acheampong**, Appearing on Behalf of the  
staff of the Florida Public Service Commission

Date Filed: October 4, 2010

DOCUMENT NUMBER-DATE  
08317 OCT-4 2010  
FPSC-COMMISSION CLERK

1 DIRECT TESTIMONY OF DANIEL ACHEAMPONG

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

3 A. My name is Daniel Acheampong and my business address is 4950 West Kennedy Blvd.,  
4 Suite 310, Tampa, Florida 33609.

5  
6 **Q. By whom are you presently employed and in what capacity?**

7 A. I am employed by the Florida Public Service Commission as a Regulatory Analyst II in  
8 the Office of Auditing and Performance Analysis.

9  
10 **Q. How long have you been employed by the Commission?**

11 A. I have been employed by the Florida Public Service Commission since June 1, 2007.

12  
13 **Q. Briefly review your educational and professional background.**

14 A. I received a Bachelor of Arts in Economics in 1997 from the University of Ghana, a  
15 Bachelor of Science with a major in Accounting in 2003 and a Masters in Accounting in 2006  
16 from the University of South Florida. I am also a Certified Public Accountant and an  
17 Accounting Instructor at Strayer University.

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

20 A. I perform conservation, environmental, hedging, and staff-assisted rate case audits.  
21 Also, I perform various other financial audits of electric, gas, and water and wastewater utilities.

22  
23 **Q. Have you previously presented testimony before this Commission?**

24 A. No.

25

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

2 A. The purpose of my testimony is to sponsor the staff audit report of Tampa Electric  
3 Company (TECO, the Company, or the Utility) which addresses the Utility's August 1, 2009  
4 through July 31, 2010 hedging activities. The audit report is filed with my testimony and is  
5 identified as Exhibit DA-1.

6  
7 **Q. Was this audit prepared by you or under your direction?**

8 A. Yes, it was prepared by me.

9  
10 **Q. Please describe the work performed in this audit.**

11 A. I reviewed the information presented in the Utility's Hedging Information Reports that  
12 were filed on April 1, 2010, and August 16, 2010.

13 I interviewed TECO representatives concerning derivative and hedging activities with its  
14 affiliates. Additionally, I reviewed TECO's policy regarding separation of transaction costs  
15 with its affiliates. The Utility declared that it does not participate in any financial hedges with  
16 any of its affiliates. However, TECO hedged gas for both TECO and Peoples Gas (PGS), a  
17 subsidiary of TECO. I reviewed the general ledger for TECO derivatives and hedging activities  
18 as well as the Settled Report. I found that TECO and PGS maintain separate portfolios for their  
19 hedging activities and the transaction costs are separate.

20 I scheduled all financial futures, options and swap contracts that were closed by the  
21 Utility from August 1, 2009, through July 31, 2010. I reviewed the listing and selected samples  
22 for further testing. I reviewed fourteen contracts with the International Swap Dealers  
23 Association Inc., seven contracts with Credit Support and thirty-two confirmation contracts. I  
24 also reconciled the Settlement Report to the Utility's general ledger and supporting invoices. I  
25 tested invoices for the proper amount, proper approval procedures and proper periods. I

1 reviewed the internal audit report and workpapers for the year 2009. I confirmed that the  
2 accounting treatment is consistent with applicable FASB statements.

3 I audited one hundred percent of hedging gains and losses. I recalculated the gains and  
4 losses by multiplying the traded volume by the differences between fixed price and settlement  
5 price (NYMEX price). I reconciled the calculated monthly gains and losses to the Utility's  
6 general ledger. I traced general ledger numbers to the Mark to Market Report and supporting  
7 journal entries. I reconciled the general ledger amounts and the Mark to Market Report to the  
8 Utility's filing. I verified that the Utility's accounting treatment of hedging gains and losses  
9 complies with Commission Orders and Rules. However, I did discover an error in the  
10 Company's filing relating to the December 2009 numbers. Audit Finding 1 addresses this issue.

11 I reviewed the TECO hedging plan for 2009 and 2010. I obtained the actual  
12 consumption from Bayside, Polk, City of Tampa, and the Big Bend power plants. I recalculated  
13 the total volumes and reconciled them to the Utility's filing. I recalculated the hedged  
14 consumption from the Utility's Settled Report. I recalculated the hedged percentage and  
15 compared it to allowable minimum and maximum limits prescribed by the Risk Management  
16 Plan on a monthly basis.

17 I reviewed the TECO Risk Management Plan regarding transaction limits. I selected a  
18 sample from the Mark to Market Report and compared it to the established credit limits for  
19 counterparties shown in the Credit Exposure Report. I compared the selected sample to the  
20 individual transactional limit and found the company followed its plan. I also compared the  
21 selected sample to the Utility's preset limits.

22 I reviewed the Risk Management Plan and interviewed key personnel concerning their  
23 activities as they related to the Risk Management Plan. I followed up with observations. I  
24 determined that there are adequate separations among the Front Office, Middle Office, and Back  
25 Office.

1 **Q. Please review the audit findings in this audit report, DA-1, which addresses the**  
2 **hedging activities of TECO from August 1, 2009 through July 31, 2010.**

3 A. There is one audit finding in the audit report. TECO filed its hedging results on April 1,  
4 2010, and August 16, 2010, for the 2009 hedging year and the first half of 2010, respectively. I  
5 determined that the gains and losses amount, the hedged volume, as well as the consumption  
6 quantity in the filing for December 2009 did not reconcile to the Utility's general ledger.  
7 However, the general ledger and the Utility's Settled Report did reconcile for December 2009.  
8 It was determined that the Utility erroneously entered January 2010 numbers as December 2009  
9 in its filing. This affected TECO's gains and losses, consumption, and hedged volume amounts.  
10 The Utility agreed to file a revised Filing for the 2009 hedging year. A proposed revised filing  
11 is included in the audit workpapers.

12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

**Q. Does this conclude your testimony?**

A. Yes.



**PUBLIC SERVICE COMMISSION**

**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
BUREAU OF AUDITING**

*Tampa District Office*

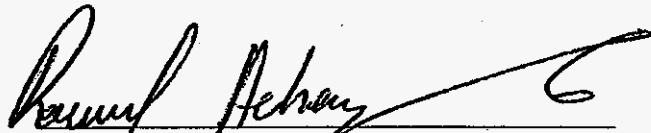
**AUDITOR'S REPORT**

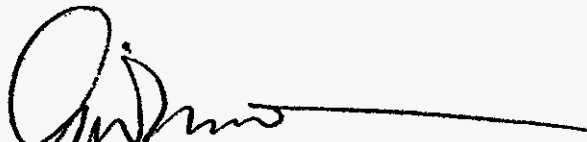
**TAMPA ELECTRIC COMPANY**

**HEDGING ACTIVITIES**

**12 Month Period Ended July 31, 2010**

**DOCKET NO. 100001-EI  
AUDIT CONTROL NO. 10-130-2-2**

  
\_\_\_\_\_  
*Daniel Acheampong, Audit Manager*

  
\_\_\_\_\_  
*Simon Ojada, Staff*

  
\_\_\_\_\_  
*Linda Hill-Slaughter, Tampa District  
Supervisor*

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES.....	2
III. FINDING	
1. DERIVATIVES AND HEDGING RESULTS.....	4



**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
AUDITOR'S REPORT**

**September 14, 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 dated May 7, 2010. We have applied these procedures to the results of Tampa Electric Company's hedging activities for the 12-month period ended July 31, 2010, in Docket No. 100001-EI.

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

## OBJECTIVES AND PROCEDURES

### GENERAL

**Objective:** To verify that the Hedging information and results of Tampa Electric Company's (TEC or the Utility) hedging activities are consistent with the Utility's hedging plan filed with the Commission for the 12 month period ended July 31, 2010.

**Procedure:** We reviewed the information presented in the Utility's Hedging Information Reports that were filed on April 1, 2010, and August 16, 2010. Audit Finding 1 addresses this issue.

**Objectives:** To verify if TEC participated in any derivatives and hedging activities with any of its affiliates and how operating and maintenance expenses associated with maintaining financial and/or physical hedging program are separated.

**Procedures:** We questioned TEC representatives whether the Utility participated in any derivatives and hedging activities with any of its affiliates. Additionally, a request was made for TEC's policy regarding separation of transaction costs. The Utility representative stated that TEC does not participate in any financial hedges with any of its affiliates. However, TEC hedged gas for both TEC and Peoples Gas (PGS), a subsidiary of TEC. We reviewed the general ledger for TEC derivatives and hedging activities as well as the Settled Report. We found that TEC and PGS maintain separate portfolios for their hedging activities; hence, the transaction costs are separate.

### ACCOUNTING TREATMENT

**Objective:** To verify that the accounting treatment for futures, options, and swap contracts between TEC and counterparties are consistent with Order No. PSC-02-1484-FOF-EI, other Commission Rules, and other applicable Financial Accounting Standards Board (FASB) statements.

**Procedures:** We obtained a scheduled of all financial futures, options and swap contracts that were executed (closed) by the Utility from August 1, 2009, through July 31, 2010. We reviewed the listing and selected samples for further testing. We reviewed fourteen International Swap Dealers Association Inc. (ISDA Master Agreements) contracts, seven Credit Support contracts and thirty-two confirmation contracts. We also reconciled the Settlement Report to the Utility's general ledger numbers and supporting invoices. We tested invoices for proper amount, proper approval procedures and proper periods. We reviewed the internal audit report and workpapers for the year 2009. We confirmed that the accounting treatment is consistent with applicable FASB statements.

### GAINS AND LOSSES

**Objective:** To verify that the gains and losses associated with each financial hedging instrument that TEC implemented is consistent with Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued on October 30, 2002.

**Procedures:** We audited one hundred percent of gains and losses. We recalculated the gains and

losses by multiplying the traded volume by the differences between fixed price and settlement price (NYMEX price). We reconciled the calculated monthly gains and losses to the Utility's general ledger. We traced general ledger numbers to the Mark to Market Report and supporting journal entries. We reconciled the general ledger amounts and the Mark to Market Report to the Utility's filing. We verified that the Utility's accounting treatment of hedging gains and losses comply with Commission Orders and Rules except an error in the December 2009 number. Audit Finding 1 addresses this issue.

#### **HEDGED VOLUME AND LIMITS**

**Objective:** To verify that quantities of gas, residual oil, and purchased power hedged are within the limits of the percentage range specified in TEC's Risk Management Plan.

**Procedures:** We reviewed the TEC hedging plan for 2009 and 2010. We obtained the actual consumption from Bayside, Polk, City of Tampa, and the Big Bend plants; we recalculated total volumes and reconciled it to the Utility's filing. We recalculated the hedged consumption from the Utility's Settled Report. We recalculated the hedged percentage. We compared the actual percentage hedged to allowable minimum and maximum limits prescribed by the Risk Management Plan on a monthly basis. Audit Finding 1 addresses this issue.

**Objective:** To verify that the individual limits, group limits and authorizations set forth in the TEC Risk Management Plan have been followed.

**Procedures:** We reviewed the TEC Risk Management Plan regarding transaction limits. We selected samples from the Mark to Market Report and compared it to the established credit limits for counterparties (Credit Exposure Report). We compared selected samples to the individual transactional limit and found the company followed its plan. We also compared selected samples to the Utility's preset limits.

#### **SEPARATION OF OFFICE**

**Objective:** To verify that TEC has followed utility procedures for separating duties related to hedging activities (Front Office, Middle Office, and Back Office) per its Hedging Plan.

**Procedures:** We reviewed the Risk Management Plan and requested key personnel from each Office to answer a series of questions. We followed up with observation and interviews. We determined that there are separations among the Front Office, Middle Office, and Back Office.

**AUDIT FINDING 1**

**SUBJECT: DERIVATIVES AND HEDGING RESULTS**

**AUDIT ANALYSIS:** TEC filed their hedging results on April 1, 2010, and August 16, 2010, for the 2009 hedging year and the first half of 2010, respectively. We determined that the gains and losses amount, the hedged volume, as well as the consumption quantity in the filing for December 2009 did not reconcile to the Utility's general ledger amount. However, the general ledger amount and the Utility's Settled Report do reconcile. It was determined that the Utility erroneously entered January 2010 numbers as December 2009 in its filing. This affected TEC's gains/losses, consumption, and hedged volume amounts. The Utility agreed to file a revised Filing for the 2009 hedging year. A proposed revised filing is included in the audit workpapers.

**EFFECT ON GENERAL LEDGER:** None.

**EFFECT ON FILING:** Informational.