

State of Florida



Public Service Commission

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DATE: September 24, 2012
TO: Office of Commission Clerk
FROM: Patti Daniel, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120001-EI
Company Name: FPL
Company Code: EI802
Audit Purpose: A3a Hedging
Audit Control No: 12-130-4-1

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 Commission Clerk. There were confidential work papers associated with this audit.

PD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

06400 SEP 24 12

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Miami District Office

Auditor's Report

Florida Power & Light Company
Hedging Activities

Twelve Months Ended July 31, 2012

Docket No. 120001-EI
Audit Control No. 12-130-4-1
September 20, 2012

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
Audit Staff

A handwritten signature in black ink, appearing to read "Kathy L. Welch", written over a horizontal line.

Kathy L. Welch
Reviewer

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Purpose

To: Florida Public Service Commission

We performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated May 9, 2012. We applied these procedures to the schedules prepared by Florida Power & Light Company (FPL or Utility) in support of its filing for hedging activities in Docket No. 120001-EI for the twelve months ended July 31, 2012.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

Accounting Treatment

Objective: The objective was to verify that the accounting treatment for futures, options, and swap contracts between FPL and its counterparties is consistent with Commission Order No. PSC-02-1484-FOF-EI, issued October 30, 2002 in Docket No. 011605-EI, and, as clarified by Order No. PSC-08-0316-PAA-EI, issued May 14, 2008, and Order No. PSC-08-0667-PAA-EI, issued October 8, 2008, in Docket No. 080001-EI.

Procedures: We obtained FPL's supporting detail of the hedging settlements for the twelve months ended July 31, 2012. The support documentation was traced to the general ledger transaction detail. We verified that the hedging settlements were in compliance with the Risk Management Plan and verified that the accounting treatment for hedging transactions and transactions costs are consistent with Commission orders relating to hedging activities. No exceptions were noted.

Gains and Losses

Objective: The objective was to verify that the gains and losses associated with each financial hedging instrument that FPL implemented are in compliance with Commission Order Numbers PSC-02-1484-FOF-EI, PSC-08-0316-PAA-EI, and PSC-08-0667-PAA-EI, relating to hedging activities.

Procedures: We traced the monthly balances of hedging transactions from FPL's April 2 and August 15, 2012 filings in this docket for the period August 1, 2011, to July 31, 2012 to FPL's Derivative Settlement Report. We selected 46 hedging transactions from two counterparties from May and June 2012 for natural gas, and eight hedging transactions from two counterparties in May 2012 for heavy oil as a sample and traced them from the Derivative Settlement Report to the third-party confirmation notices and contracts. FPL does not have any tolling agreements where natural gas is provided to generators under purchased power agreements. We recalculated the gains and losses, traced the price to the confirmation notice, and compared the price to the gas futures rates published by the NYMEX Henry Hub gas futures contract rates. We compared these recalculated gains and losses with FPL's journal entries for realized gains and losses. No exceptions were noted.

Hedged Volume and Limits

Objective: The objective was to verify that the quantities of natural gas, residual fuel oil, and purchased power are hedged within the limits (percentage range), as listed in the Utility's Risk Management Plan.

Procedures: We reviewed the quantity limits and authorizations. We also obtained FPL's analysis of the monthly percent of fuel hedged in relation to fuel burned for the twelve months ended July 31, 2012, and compared them with the Utility's Risk Management Plan. There were variances for one of the twelve months between the percentages of actual and projected natural

gas burned that were hedged, and for six of the twelve months between the percentages of actual and projected heavy oil. All variances were a result of inaccurate burn forecasting.

Separation of Duties

Objectives: The objectives were to review: 1) FPL's procedures for separating duties related to hedging activities for Front Office, Middle Office, and Back Office and 2) Internal and external auditor's work papers.

Procedures: We reviewed the Utility's procedures for separating duties related to hedging activities. There were no internal or external audits specifically performed on the separation of duties related to hedging activities. However, all external audit workpapers were reviewed in Docket No. 120015-EI. No exceptions were noted.

Audit Findings

None