

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 120001-EI

DATED: September 28, 2012

COMMISSION
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original and six copies of the testimony of JOCELYN Y. STEPHENS, on behalf of the Florida Public Service Commission was filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished to the following, by U.S. Mail, on this 28th day of September, 2012.

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Docket No. 120001-EI: Fuel and Purchased Power Cost Recovery Clause.
Progress Energy Florida, Inc.'s Hedging Activities

Witness: **Direct Testimony of JOCELYN Y. STEPHENS**, Appearing on
Behalf of the Staff of the Florida Public Service Commission

Date Filed: September 28, 2012

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF JOCELYN Y. STEPHENS**

4 **DOCKET NO. 120001-EI**

5 **SEPTEMBER 28, 2012**

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

7 A. My name is Jocelyn Y. Stephens. My business address is 4950 West Kennedy Blvd.,
8 Suite 310, Tampa, Florida 33609.

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

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

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

13 A. I have been employed by the Florida Public Service Commission since January 1977.

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

15 A. In 1972, I received a Bachelor of Science degree from Florida State University with a
16 major in accounting. I am also a Certified Public Accountant licensed in the State of Florida.

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

18 A. My current responsibilities include planning and managing investigative audits. On an
19 ongoing basis I manage conservation, capacity, environmental, hedging and rate cases. I also
20 perform financial audits of electric, gas, and water and wastewater utilities.

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

22 A. Yes. I presented testimony in the Fuel and Purchased Power Cost Recovery Clause
23 with generating performance incentive factor Docket Numbers 090001-EI and 030001-EI;
24 Florida Cities Water Co., (South Fort Myers) transfer of certificate, Docket No. 910447-SU;
25 Petition for approval of storm cost recovery clause for recovery of extraordinary

1 expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy
2 Florida, Inc., Docket No. 041272-EI; and the Petition for rate increase by Peoples Gas System,
3 Docket No. 080318-GU.

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

5 A. The purpose of my testimony is to sponsor the staff's audit report of Progress Energy
6 Florida, Inc. (PEF or Utility) which addresses the Utility's August 1, 2011, through July 31,
7 2012, hedging activities. The audit report is filed with my testimony and is identified as
8 Exhibit JYS-1.

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

10 A. Yes. The audit was prepared by me.

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

12 A. I have separated the audit work into several categories.

13 Accounting Treatment

14 I reviewed PEF's supporting detail of the hedging settlements for the twelve months
15 ended July 31, 2012. I traced the monthly balances of hedging transactions from PEF's
16 Hedging Results Report for the period August 1, 2011, to December 30, 2011, and its Hedging
17 Information Report for the period January 1, 2012 to July 31, 2012 to its Hedging Summary
18 by Commodity Reports for 2011 and 2012. I selected 23 natural gas hedging transactions
19 from August 2011 through July 2012 as a sample and traced them from the Hedging Results
20 and Hedging Information Reports to the third-party confirmation notices, contracts and to the
21 general ledger. I verified that the hedging settlements were in compliance with the Risk
22 Management Plan. No exceptions were noted.

23 Gains and Losses

24 I recalculated the gains and losses by multiplying the volume by the difference
25 between the fixed price and the settlement price from the trade confirmation documents

1 and compared them to the recorded gains and losses per the general ledger. No exceptions
2 were noted.

3 Hedged Volume and Limits

4 I obtained and reviewed PEF's Risk Management Plan. I reviewed the quantity limits
5 and authorizations for all hedged fuel types. No variances were noted for natural gas. The
6 actual monthly volumes of hedged burns for Numbers 6 and 2 Oils and Barge and Rail
7 Transportation varied, but on an annual basis, all fell between the allowable percentages of
8 actual and projected burn volumes. No exceptions were noted.

9 Separation of Duties

10 I reviewed PEF's written procedures for separation of duties related to hedging
11 activities. I reviewed the evaluations performed by PEF's Audit Services Department and the
12 external auditor's report. Both concluded that effective internal controls were in place in
13 separating hedging activities.

14 **Q. Please review the audit findings in this audit report.**

15 A. There were no findings in this audit related to hedging activities.

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

17 A. Yes.

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State of Florida



Public Service Commission

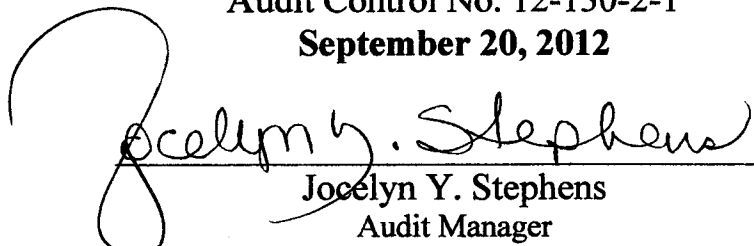
Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report


Progress Energy Florida, Inc.
Hedging Activities

Twelve Months Ended July 31, 2012

Docket No. 120001-EI
Audit Control No. 12-130-2-1
September 20, 2012



Jocelyn Y. Stephens
Audit Manager



Linda Hill-Slaughter
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 Progress Energy Florida, Inc. (PEF 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 PEF 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 PEF'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 transaction costs is 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 PEF 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 PEF's Hedging Results Report for the period August 1, 2011, to December 30, 2011, and its Hedging Information Report for the period January 1, 2012, to July 31, 2012, to its Hedging Summary by Commodity Reports for 2011 and 2012. We reviewed existing tolling agreements whereby the Utility's natural gas is provided to generators under purchased power agreements. We selected 23 natural gas hedging transactions from August 2011 through July 2012 as a sample and traced them from the Hedging Results and Hedging Information Reports to the third-party confirmation notices and contracts. We recalculated the gains and losses, traced to the price in 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 the Utility'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 for all hedged fuel types. We also obtained PEF'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. No variances were noted for natural gas. For No. 6 Oil, there were variances for four of the seven months. No. 6 Oil was not hedged for 5 of the 12 months. For No. 2 Oil, there was one variance for the 12 months. For Transportation – Barge, there were variances for 4 of the 12 months. For Transportation – Rail, there were variances for 5 of the 12 months. All variances were between the percentages of actual and projected burn volumes that were hedged and were the result of inaccurate forecasting.

Separation of Duties

Objectives: The objectives were to review: 1) PEF'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. The Audit Services Department of PEF performed evaluations for the proper segregation of duties for the Regulated Fuels Inventory Management Process and the Regulated Trading Cycle. The test results showed that the internal control procedures in place were "highly effective". In the external auditor's report it was stated that "...in all material respects, effective internal controls over financial reporting as of December 31, 2011,..." are maintained. No exceptions were noted.

Audit Findings

None