

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
CLERK

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original and six copies of the testimony of DONNA D. BROWN, 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.

Gulf Power Company
Robert L. McGee, Jr.
One Energy Place
Pensacola, FL 32520-0780

Florida Power & Light Company
John T. Butler, Managing Attorney
700 Universe Boulevard (LAW/JB)
Juno Beach, FL 33408-0420

Gunster, Yoakley & Stewart, P.A.
Beth Keating
215 South Monroe Street, Suite 601
Tallahassee, FL 32301

Progress Energy Service Company, LLC
John T. Burnett/Dianne M. Triplett
Post Office Box 14042
St. Petersburg, FL 33733

Ausley & McMullen
James D. Beasley/J. Jeffrey Wahlen
Post Office Box 391
Tallahassee, FL 32302

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

Florida Public Utilities Company
Cheryl Martin, Director
Regulatory Affairs
Post Office Box 3395
West Palm Beach, FL 33402-3395

Florida Power & Light Company
Kenneth Hoffman, Vice President
Regulatory Relations
215 South Monroe Street, Suite 810
Tallahassee, FL 32301-1858

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Tampa Electric Company
Paula K. Brown, Administrator
Regulatory Coordination
Post Office Box 111
Tampa, FL 33601-0111

Office of Public Counsel
J.R. Kelly/P. Christensen/C. Rehwinkel
J. McGlothlin/E. Saylor
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400

Moyle Law Firm, P.A.
Vicki Gordon Kaufman/Jon C. Moyle, Jr.
The Perkins House
118 North Gadsden Street
Tallahassee, FL 32301

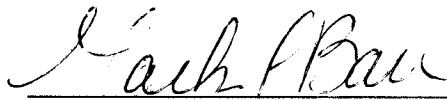
Federal Executive Agencies
Captain Samuel Miller
USAF/AFLOA/JACL/ULFSC
139 Barnes Drive, Suite 1
Tyndall AFB, FL 32403-5319

Gardner Bist Wiener Wadsworth Bowden Bush Dee
LaVia & Wright, P.A.
Robert Scheffel Wright/John T. LaVia, III
1300 Thomaswood Drive
Tallahassee, FL 32308

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

White Springs Agricultural Chemicals, Inc.
Randy B. Miller
Post Office Box 300
White Springs, FL 32096

Beggs & Lane
Jeffrey A. Stone, Russell A. Badders,
and Steven R. Griffin
Post Office Box 12950
Pensacola, Florida 32591-2950



MARTHA F. BARRERA
SENIOR ATTORNEY

FLORIDA PUBLIC SERVICE COMMISSION
Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850
Telephone: (850) 413-6199

Docket No. 120001-EI: Fuel and Purchased Power Cost Recovery Clause.
Gulf Power Company's Hedging Activities

Witness: **Direct Testimony of Donna D. Brown**, 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 DONNA D. BROWN**

4 **DOCKET NO. 120001-EI**

5 **SEPTEMBER 28, 2012**

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

7 A. My name is Donna D. Brown. My business address is 2540 Shumard Oak Boulevard,
8 Tallahassee, Florida, 32399.

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 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 Commission since February 2008.

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

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

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

18 A. My responsibilities consist of planning and conducting utility audits of manual and
19 automated accounting systems for historical and forecasted data.

20 **Q. Have you presented testimony before this Commission or any other regulatory
21 agency?**

22 A. Yes. I filed testimony in Docket No. 110001-EI related to Gulf Power Company's
23 Hedging Activities.

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

25 A. The purpose of my testimony is to sponsor the staff audit report of Gulf Power

1 Company (Gulf or Utility) which addresses the Utility's filing in Docket No. 120001-EI Fuel
2 and purchased power cost recovery clause for costs associated with its hedging activities. We
3 issued an audit report in this docket for the hedging activities on September 24, 2012. This
4 audit report is filed with my testimony and is identified as Exhibit DDB-1.

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

6 A. Yes, it was prepared under my direction.

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

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

9 Accounting Treatment

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

16 Gains and Losses

17 We traced the monthly balances of all hedging transactions from Gulf's Hedging
18 Information Report to its transaction report and its general ledger for the period August 1,
19 2011 to July 31, 2012. We reviewed existing tolling agreements whereby the Utility's natural
20 gas is provided to generators under purchased power agreements. We recalculated the gains
21 and losses, traced the price to the confirmation notice, and compared the price to the gas
22 futures rates published by the New York Mercantile Exchange (NYMEX) Henry Hub Gas
23 futures contract rates. We compared these recalculated gains and losses with Gulf's journal
24 entries for realized gains and losses. No exceptions were noted.

25 Hedged Volume and Limits

1 We reviewed the quantity limits and authorizations. We also obtained Gulf's analysis
2 of the monthly percent of fuel hedged in relation to fuel burned for the twelve months ended
3 July 31, 2012, and compared them with the Utility's Risk Management Plan. There were
4 immaterial variances for all the months between the percentages of actual and projected gas
5 burned that were hedged, however the total variance for the year was within the limits in the
6 Risk Management Plan and were accepted.

7 Separation of Duties

8 We reviewed the Utility's procedures for separating duties related to hedging
9 activities. Audit staff reviewed the only internal audit specifically performed on the
10 separation of duties related to hedging activities. No exceptions were noted.

11 **Q. Please review the audit findings in this audit report, Exhibit DDB-1.**

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

13 **Q. Does that conclude your testimony?**

14 A. Yes.

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State of Florida



Public Service Commission

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

Auditor's Report

Gulf Power Company
Hedging Activities

Twelve Months Ended July 31, 2012

Docket No. 120001-EI
Audit Control No. 12-130-1-1
September 24, 2012

A handwritten signature in cursive script that reads "Donna D. Brown".

Donna D. Brown
Audit Manager

A handwritten signature in cursive script that reads "Lynn M. Deamer".

Lynn M. Deamer
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated May 9, 2012. We have applied these procedures to the schedules prepared by Gulf Power Company (GPC 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 GPC 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 GPC'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 are in compliance with the Risk Management Plan and verified that the accounting treatment for hedging transactions and transactions 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 GPC implemented are in compliance with Commission Order Nos. 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 all hedging transactions from GPC's Hedging Information Report to its transaction report and its general ledger for the period August 1, 2011 to July 31, 2012. We reviewed existing tolling agreements whereby the Utility's 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 GPC'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 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 GPC'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 immaterial variances for all the months between the percentages of actual and projected gas burned that were hedged.

Separation of Duties

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

Procedures: We reviewed the Utility's procedures for separating duties related to hedging activities. Audit staff reviewed the only internal audit specifically performed on the separation of duties related to hedging activities. No exceptions were noted.

Audit Findings

None