

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 YEN NGO, 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.  
Florida Power & Light Company's Hedging Activities

Witness: **Direct Testimony of YEN NGO**, 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 YEN NGO**

4   **DOCKET NO. 120001-EI**

5   **SEPTEMBER 28, 2012**

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

7   A.     My name is Yen Ngo, and my business address is 3625 N.W. 82nd Ave., Suite 400,  
8   Miami, Florida, 33166.

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 Regulatory Analyst IV  
11  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 February, 1995.

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

15  A.     I received a Bachelor of Business Administration degree with a major in accounting  
16  from Florida Atlantic University in 1994.

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. 120009-EI related to Florida Power & Light  
23  Company's Proposed Turkey Point Units 6 and 7.

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 Florida Power &

1 Light Company (FPL or Utility) which addresses the Utility's filing in Docket No. 120001-EI  
2 Fuel and purchased power cost recovery clause for costs associated with its hedging activities.  
3 We issued an audit report in this docket for the hedging activities on September 20, 2012.  
4 This audit report is filed with my testimony and is identified as Exhibit YN-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 FPL'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 were in compliance with the Risk  
13 Management Plan and verified that the accounting treatment for hedging transactions and  
14 transactions costs are consistent with Commission orders relating to hedging activities. No  
15 exceptions were noted.

16 Gains and Losses

17 We traced the monthly balances of hedging transactions from FPL's April 2 and  
18 August 15, 2012 filings in this docket for the period August 1, 2011 to July 31, 2012 to FPL's  
19 Derivative Settlement Report. We selected 46 hedging transactions from two counterparties  
20 from May and June 2012 for natural gas, and eight hedging transactions from two  
21 counterparties in May 2012 for heavy oil as a sample and traced them from the Derivative  
22 Settlement Report to the third-party confirmation notices and contracts. FPL does not have  
23 any tolling agreements where natural gas is provided to generators under purchase power  
24 agreements. We recalculated the gains and losses, traced the price to the confirmation notice,  
25 and compared the price to the gas futures rates published by the NYMEX Henry Hub gas

1 futures contract rates. We compared these recalculated gains and losses with FPL's journal  
2 entries for realized gains and losses. No exceptions were noted.

3 Hedged Volume and Limits

4 We reviewed the quantity limits and authorizations. We also obtained FPL's analysis  
5 of the monthly percent of fuel hedged in relation to fuel burned for the twelve months ended  
6 July 31, 2012, and compared them with the Utility's Risk Management Plan. There were  
7 variances for one of the twelve months between the percentages of actual and projected  
8 natural gas burned that were hedged, and for six of the twelve months between the percentages  
9 of actual and projected heavy oil. All variances were a result of inaccurate burn forecasting.

10 Separation of Duties

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

15 **Q. Please review the audit findings in this audit report, Exhibit YN-1.**

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

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

18 A. Yes.

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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