

State of Florida



## Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** September 21, 2015  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 150001-EI  
Company Name: Florida Power & Light  
Company Code: EI802  
Audit Purpose: Hedging Activities  
Audit Control No: 15-051-4-1

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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 is confidential work papers associated with this audit.

LMD/cp

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

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, 2015**

Docket No. 150001-EI

Audit Control No. 15-051-4-1

**September 15, 2015**

A handwritten signature in blue ink, reading "Gabriela M. Leon".

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Gabriela M. Leon  
Audit Manager

A handwritten signature in blue ink, reading "Jeffery A. Small".

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Jeffery A. Small  
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 February 18, 2015. We have applied these procedures to the schedules prepared by Florida Power & Light Company in support of its filing for hedging activities in Docket No. 150001-EI.

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

### **Definitions**

FPL or Utility refers to Florida Power & Light Company.

### **Accounting Treatment**

**Objective:** The objective was to determine whether 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, 2015. 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 determined 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 determine whether the gains and losses associated with each financial hedging instrument that FPL 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 hedging transactions from FPL's April 7, 2015, and August 14, 2015 filings in this docket for the period August 1, 2014, to July 31, 2015 to FPL's Derivative Settlement Report. We selected a sample of hedging transactions from various counterparties from December 2014 and May 2015 for natural gas and traced them from the Derivative Settlement Report to the invoices, purchase statements, confirmation notices and deal tickets. We compared a sample of the purchase prices to the Gas Daily - NYMEX Henry Hub gas futures contract rates. We traced the floating price to the Settlement Price worksheet and to the Gas Daily- NYMEX Henry Hub gas futures contract rates provided by the Utility. We recalculated the gains and losses. We compared the recalculated gains and losses with FPL's journal entries for realized gains and losses. FPL does not have any tolling agreements where natural gas is provided to generators under purchased power agreement. Physical hedging transactions were reviewed for the months of March and July 2015. The loss was recalculated. The purchase price was compared to the Platts Gas Daily. No exceptions were noted.

### **Hedged Volume and Limits**

**Objective:** The objective was to determine whether 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, 2015, and compared them with the Utility's Risk Management Plan. The hedged targets for natural gas were traced to the Planned Position Strategy Schedule. The fuel burn forecast was traced to the Fuel Burn Summary. No exceptions were noted.

## **Separation of Duties**

**Objectives:** The objective was to review FPL's procedures for separating duties related to hedging activities for front office, middle office, and back office and to review internal and external auditor's work papers.

**Procedures:** We reviewed the Utility's procedures for separating duties related to hedging activities. We verified the separation of duties during our testing of transactions by agreeing the names of various employees from deal tickets and confirmations to FPL's procedures. We reviewed. Staff reviewed two internal audits related to Sarbanes Oxley Compliance on back office and mid office control activities as part of the 2015 Fuel Cost Recovery Clause. No exceptions were noted. We also reviewed the external workpapers in the Fuel Cost Recovery Clause for Hedging Activities. No exceptions were noted.

Audit Findings

**None**