



# Public Service Commission

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

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**DATE:** September 26, 2016

**TO:** Carlotta Stauffer, Commission Clerk

**FROM:** Danijela Janjic, Senior Attorney, Office of General Counsel *DJ*

**RE:** Docket No. 160001-EI - Fuel and purchased power cost recovery clause with generating performance incentive factor.

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On Friday, September 23, 2016, Document No. 07782-16, Direct Testimony of Donna Brown, was filed in the above-referenced docket. Due to scrivener error, the name of the witness was incorrectly titled on Page 1, Line 3 of the direct testimony. Please find attached the direct testimony containing the correction.

Thank you.

DJ/nah

Docket No. 160001-EI  
Gulf Power Company  
Fuel and Purchased Power Cost Recovery Clause  
Hedging Activities

**Witness: Direct Testimony of Donna Brown**  
Appearing on Behalf of the Staff of the Florida Public Service Commission

**Date Filed:** September 23, 2016

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF DONNA D. BROWN**

4 **DOCKET NO. 160001-EI**

5 **SEPTEMBER 23, 2016**

6

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

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

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

11 A. I am employed by the Florida Public Service Commission (FPSC or Commission) as a  
12 Public Utility Analyst II in the Office of Auditing and Performance Analysis. I have been  
13 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 previously presented testimony before this Commission?**

21 A. Yes. I filed testimony in the Fuel and Purchased Power Cost Recovery Clause, Docket  
22 Nos. 110001-EI and 120001-EI.

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

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

1 Company (Gulf or Utility) which addresses the Utility's filing in Docket No. 160001-EI, Fuel  
2 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 15, 2016.  
4 This 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, 2016. 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 Reports to its settlement report and its general ledger for the period August 1,  
19 2015 to July 31, 2016. 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 settlement statement details, and compared the price to the  
22 gas 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.

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Hedged Volume and Limits

We reviewed the quantity limits and authorizations. We also obtained Gulf's analysis of the monthly percent of natural gas hedged in relation to natural gas burned for the twelve months ended July 31, 2016, and compared them with the Utility's Risk Management Plan. No exceptions were noted.

Separation of Duties

We reviewed the Utility's procedures for separating duties related to hedging activities. We also reviewed internal audit reports from August 1, 2015 to July 31, 2016 and noted one pertained to fuel hedging programs, issued July 12, 2016 with no reportable findings. No exceptions were noted.

- Q. Please review the audit findings in this audit report.**
- A. There were no findings in this audit related to hedging activities.
- Q. Does that conclude your testimony?**
- A. Yes.

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, 2016**

Docket No. 160001-EI  
Audit Control No. 16-068-1-1  
**August 31, 2016**

A handwritten signature in black ink that reads "Donna D. Brown".

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Donna D. Brown  
Audit Staff

A handwritten signature in blue ink that reads "Marisa N. Glover".

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Marisa N. Glover  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated March 3, 2016. We have applied these procedures to the attached schedules prepared by Gulf Power Company in support of its filing for hedging activities in Docket No. 160001-EI.

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



## Objectives and Procedures

### **Definitions**

GPC or Utility refers to Gulf Power Company.

### **Accounting Treatment**

**Objectives:** The objective was to determine whether 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, 2016. 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 account treatment for hedging transactions and transactions costs is consistent with Commission orders relating to hedging activities. No exceptions were noted.

### **Gains and Losses**

**Objectives:** The objective was to determine whether 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 Reports to its settlement report and its general ledger for the period August 1, 2015 to July 31, 2016. We reviewed existing tolling arrangements 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 settlement statement details, 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**

**Objectives:** The objective was to determine whether 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 natural gas hedged in relation to natural gas burned for the twelve month ended July 31, 2016, and compared them with the Utility's Risk Management Plan. No exceptions were noted.

## **Separation of Duties**

**Objectives:** The objectives were to review GPC's procedures for separating duties related to hedging activities for Front Office, Middle Office, and Back Office and internal and external audit reports or work papers.

**Procedures:** We reviewed the Utility's procedures for separating duties related to hedging activities. We reviewed internal audit reports from August 1, 2015 to July 31, 2016 and noted that one pertained to the review of the fuel hedging program and was issued July 12, 2016 with no reportable findings. No further work was done.

Audit Findings

**None**

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 160001-EI

DATED: September 23, 2016

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the testimony of Donna Brown on behalf of the staff of the Florida Public Service Commission was electronically filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished to the following, by electronic mail, on this 23rd day of September, 2016.

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*/s/ Danijela Janjic*

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