

Docket No. 20170001-EI
Gulf Power Company
Fuel and Purchased Power Cost Recovery Clause
Hedging Activities

Witness: Direct Testimony of GEORGE SIMMONS
Appearing on Behalf of the Staff of the Florida Public Service Commission

Date Filed: September 18, 2017

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF GEORGE SIMMONS**

4 **DOCKET NO. 20170001-EI**

5 **SEPTEMBER 18, 2017**

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

8 A. My name is George Simmons. 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 in the Office of Auditing and Performance Analysis. I have been
13 employed by the Commission since November 2013.

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

15 A. I graduated from Florida A&M University's School of Business & Industry in 2013
16 with a Bachelor of Science 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 No. 20150001-EI.

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

24 A. The purpose of my testimony is to sponsor the staff auditor's report of Gulf Power
25 Company (Gulf or Utility) which addresses the Utility's filing in Docket No. 20170001-EI,

1 Fuel and Purchased Power Cost Recovery Clause, for costs associated with its hedging
2 activities. We issued an auditor's report in this docket for the hedging activities on September
3 15, 2017. This report is filed with my testimony and is identified as Exhibit GS-1.

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

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

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

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

8 Accounting Treatment

9 We obtained Gulf's supporting detail of the hedging settlements for the twelve months
10 ended July 31, 2017. The support documentation was traced to the general ledger transaction
11 detail. We verified that the hedging settlements are in compliance with the Risk Management
12 Plan and verified that the accounting treatment for hedging transactions and transactions costs
13 is consistent with Commission orders relating to hedging activities. No exceptions were
14 noted.

15 Gains and Losses

16 We traced the monthly balances of all hedging transactions from Gulf's Hedging
17 Information Reports to its settlement report and its general ledger for the period August 1,
18 2016 to July 31, 2017. We reviewed existing tolling agreements whereby the Utility's natural
19 gas is provided to generators under purchased power agreements. We recalculated the gains
20 and losses, traced the price to the settlement statement details, and compared the price to the
21 gas futures rates published by the New York Mercantile Exchange (NYMEX) Henry Hub Gas
22 futures contract rates. We compared these recalculated gains and losses with Gulf's journal
23 entries for realized gains and losses. No exceptions were noted.

24 Hedged Volume and Limits

25 We reviewed the quantity limits and authorizations. We also obtained GPC's analysis

1 of the monthly percent of natural gas hedged in relation to natural gas burned for the twelve
2 months ended July 31, 2017, and compared August 2016 through December 2016 to the
3 Utility's 2016 Risk Management Plan. Audit staff could not compare January 2017 through
4 July 2017 to the 2017 Risk Management Plan as it was withdrawn. No exceptions were noted.

5 Separation of Duties

6 We reviewed the Utility's procedures for separating duties related to hedging
7 activities. We requested internal and external audit reports from August 1, 2016 to July 31,
8 2017 and noted that none pertained to fuel hedging program. No exceptions were noted.

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

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

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

12 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, 2017

Docket No. 20170001-EI
Audit Control No. 2017-048-1-1
September 6, 2017

A handwritten signature in black ink, appearing to read "George Simmons", written over a horizontal line.

George Simmons
Audit Manager

A handwritten signature in blue ink, appearing to read "Marisa N. Glover", written over a horizontal line.

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 February 13, 2017. 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. 20170001-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

General

Definition

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-2002-1484-FOF-EI, issued October 30, 2002, in Docket No. 20011605-EI, and as clarified by Order No. PSC-2008-0316-PAA-EI, issued May 14, 2008, and Order No. PSC-2008-0667-PAA-EI, issued October 8, 2008, in Docket No. 20080001-EI.

Procedures: We obtained GPC's supporting detail of the hedging settlements for the twelve months ended July 31, 2017. The support documentation was traced to the general ledger transaction detail. We 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

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-2002-1484-FOF-EI, PSC-2008-0316-PAA-EI, and PSC-2008-0667-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, 2016 to July 31, 2017. 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 months ended July 31, 2017, and compared August 2016 through December 2016 to the

Utility's 2016 Risk Management Plan. Audit staff could not compare January 2017 through July 2017 to the 2017 Risk Management Plan as it was withdrawn

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 requested internal and external audit reports from August 1, 2016 to July 31, 2017 and noted that there were no audits that pertained to the fuel hedging program. 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. 20170001-EI

DATED: September 18, 2017

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the testimony of George Simmons 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 18th day of September, 2017.

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