

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 110001-EI

DATED: October 5, 2011

COMMISSION CLERK

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Ronald A. Mavrides has been served by U.S. Mail this 5th day of October, 2011, to the following:

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Docket No. 110001-EI: Fuel and Purchased Power Cost Recovery Clause
Progress Energy Florida, Inc.'s Hedging Activities

Witness: **Direct Testimony of Ronald A. Mavrides**, Appearing on Behalf of the
staff of the Florida Public Service Commission

Date Filed: October 5, 2011

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DIRECT TESTIMONY OF RONALD A. MAVRIDES

Q. Please state your name and business address.

A. My name is Ronald A. Mavrides and my business address is 4950 West Kennedy Blvd., Suite 310, Tampa, Florida 33609.

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

A. I am employed by the Florida Public Service Commission as a Professional Accountant in the Office of Auditing and Performance Analysis.

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission since October 2007.

Q. Briefly review your educational and professional background.

A. In 1990, I received a Bachelor of Science degree from the University of Central Florida with a major in accounting. I am also a Certified Government Auditing Professional and a Certified Management Accountant.

Q. Please describe your current responsibilities.

A. I perform conservation, environmental, hedging, and staff-assisted rate case audits. Also, I perform various other financial audits of electric, gas, and water and wastewater utilities.

Q. Have you previously presented testimony before this Commission?

A. Yes. I presented testimony in the Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor in Docket No. 090001-EI and Docket No. 100001-EI.

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

2 A. The purpose of my testimony is to sponsor the staff audit report of Progress Energy
3 Florida, Inc. (PEF, Company, or Utility) which addresses the Utility's August 1, 2010, through
4 July 31, 2011, hedging activities. The audit report is filed with my testimony and is identified
5 as Exhibit RAM-1.

6

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

8 A. Yes, it was prepared by me.

9

10 **Q. Please describe the work performed in this audit.**

11 A.

12 Accounting Treatment

13 We reviewed PEF's Prior Year Hedging Results as filed on April 1, 2011 and the Current Year
14 Hedging Information filed on August 15, 2011. We examined the report for reasonableness and
15 used it as a basis for our sample. We requested a listing of each futures, options, and swap
16 contracts executed by PEF for the 12-month period covered by the Hedging Information Report.
17 We requested the volumes of each fuel PEF actually hedged using a fixed contract or
18 instrument. We tested 20 sample transactions, choosing an array of transaction types throughout
19 the 12-month period for each hedged fuel type, including diesel fuel and transportation fuel
20 surcharges that were included in the hedging programs by Commission Order PSC-02-1484-
21 FOF-EI, issued October 30, 2002 in Docket No. 011605-EI and as clarified by FPSC Order No.
22 PSC 08-0316-PAA-EI, issued May 14, 2008 and FPSC Order No. PSC-08-0667-PAA-EI, issued
23 October 8, 2008 in Docket No.080001-EI. We traced these transactions to the general ledger
24 and trade tickets, and then to the resulting wire transfers. We requested the names and actual
25 signatures of the persons authorized to make wire transfers to the financial institutions

1 handling the hedging transactions, and compared them to the signatures appearing on the wire
2 transfers reviewed in our sampled transactions. The hedging transactions complied with the
3 Risk Management Plan.

4 Gains and Losses

5 We recalculated 20 sample transactions selected from the Hedging Information Report
6 and recalculated the gains/losses by multiplying the volume by the difference between the fixed
7 price and the settlement price as represented on the third-party trading tickets. We then
8 compared them to the recorded gains/losses per the general ledger. We determined they flowed
9 through the fuel and purchased power cost recovery clause as either a charge or a credit as
10 required in Order No. PSC-02-1484-FOF-EI. When there was existing inventory, the inventory
11 account was adjusted, and when there was no existing inventory, the gains/losses flowed
12 through the fuel expense account.

13 Hedged Volume and Limits

14 We obtained and reviewed PEF's Risk Management Plan. We compared the percentage
15 limits of fuel hedged in the Risk Management Plan with the actual volumes of fuel hedged that
16 were actually burned. The volumes of fuel hedged that were actually burned fall within the
17 percentage limits delineated in the Risk Management Plan, with the single exception of heavy
18 oil, which falls below the projected Risk Management Plan goal because of weather conditions
19 in December 2010 and April 2011. A higher quantity of oil burned than planned resulted in a
20 smaller percentage hedged.

21 Tolling Arrangements

22 We reviewed the existing tolling arrangements. We tested all transactions for one
23 vendor for one month by tracing the vendor's invoices to the A-7 schedule, and reviewed the
24 accompanying master contract with this vendor. PEF had three outstanding tolling
25 arrangements, with one more pending. The treatment of the tolling arrangements appears

1 proper.

2 **Q. Please review the audit findings in this audit report, RAM-1, which addresses the**
3 **hedging activities of PEF from August 1, 2010 through July 31, 2011.**

4 A. There were no audit findings in the audit report.

5

6 **Q. Does this conclude your testimony?**

7 A. Yes.

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State of Florida



Public Service Commission

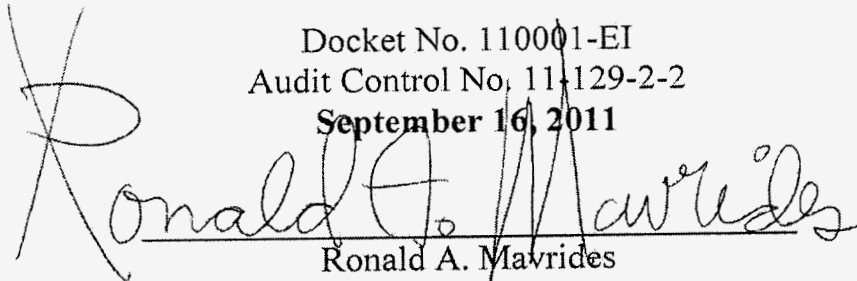
Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Progress Energy Florida, Inc.
Hedging Activities

12-Month Period Ended July 31, 2011

Docket No. 110001-EI
Audit Control No. 11-129-2-2
September 16, 2011



Ronald A. Mavrides

Audit Manager



Linda Hill-Slaughter
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 Economic Regulation in its audit service request dated May 9, 2011. I have applied these procedures to the hedging activities of Progress Energy Florida, Inc. (PEF) in Docket No. 110001-EI for the period ended July 31, 2011.

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

Objectives: The objectives were to: 1) Review and verify the information presented in PEF's Prior Year Hedging Results filed on April 1, and the Current Year Hedging Information filed on August 15, 2011, and 2) Verify that the accounting treatment of PEF and their counterparties are consistent with Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued October 30, 2002, and as clarified by Order No. PSC-08-0316-PAA-EI and Order No. PSC-08-0667-PAA-EI, issued October 8, 2008.

Procedures: We reviewed PEF's Prior Year Hedging Results as filed on April 1, 2011 and the Current Year Hedging Information filed on August 15, 2011. We examined the report for reasonableness and used it as a basis for our sample. We requested a listing of each futures, options, and swap contracts executed by PEF for the 12-month period covered by the Hedging Information Report. We requested the volumes of each fuel PEF actually hedged using a fixed contract or instrument. We tested 20 sample transactions, choosing an array of transaction types throughout the 12-month period for each hedged fuel type, including diesel fuel and transportation fuel surcharges that were included in the hedging programs by Order No. PSC-09-0255-PAA-EI. We traced these transactions to the general ledger and trade tickets, and then to the resulting wire transfers. We requested the names and actual signatures of the persons authorized to make wire transfers to the financial institutions handling the hedging transactions, and compared them to the signatures appearing on the wire transfers reviewed in our sampled transactions. No exceptions were noted.

Gains and Losses

Objective: The objective was to verify that the gains/losses associated with each financial hedging instrument that PEF implemented is consistent with Order No. PSC-02-1484-FOF-EI in Docket No. 011605-EI, issued October 30, 2002.

Procedures: We recalculated 20 sample transactions selected from the Hedging Information Report and recalculated the gains/losses by multiplying the volume by the difference between the fixed price and the settlement price as represented on the third-party trading tickets. We then compared them to the recorded gains/losses per the general ledger. We determined they flowed through the fuel and purchased power cost recovery clause as either a charge or a credit as required in Order No. PSC-02-1484-FOF-EI. When there was existing inventory, the inventory account was adjusted, and when there was no existing inventory, the gains/losses flowed through the fuel expense account.

Hedged Volume and Limits

Objective: The objective was to verify that the quantities of gas, residual oil, and purchased power hedged are within the percentage range, as represented in PEF's Risk Management Plan. The Company's hedging of purchased power is discussed under the Tolling Arrangements section below.

Procedures: We obtained and reviewed PEF's Risk Management Plan. We compared the percentage limits of fuel hedged in the Risk Management Plan with the actual volumes of fuel hedged that were actually burned. The volumes of fuel hedged that were actually burned fall

within the percentage limits delineated in the Risk Management Plan, with the single exception of heavy oil, which falls below the projected Risk Management Plan goal because of weather conditions in December 2010 and April 2011. A higher quantity of oil burned than planned resulted in a smaller percentage hedged.

Tolling Arrangements

Objectives: The objectives were to: 1) Determine if there are tolling arrangements, and 2) Review each tolling arrangement. A tolling arrangement involves providing natural gas to generators under purchased power agreements, and receiving back the generated power for a fee.

Procedures: We reviewed the existing tolling arrangements. We tested all transactions for one vendor for one month by tracing the vendor's invoices to the A-7 schedule, and reviewed the accompanying master contract with this vendor. PEF had three outstanding tolling arrangements, with one more pending. The treatment of the tolling arrangements appears proper.

Separation of Offices

Objective: The objective was to review PEF's procedures for separation of duties related to hedging activities: Front Office, Middle Office, and Back Office.

Procedures: We reviewed PEF's written procedures for separation of duties related to hedging activities. We reviewed the internal and external auditor's workpapers addressing the separation of duties. No exceptions were noted.

Audit Findings

None