

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: August 25, 2016
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 160001-EI
Company Name: Florida Power & Light Company
Company Code: EI802
Audit Purpose: A3a - Hedging Activities
Audit Control No: 16-068-4-1

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 are confidential work papers associated with this audit.

LMD/cm

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, 2016

Docket No. 160001-EI
Audit Control No. 16-068-4-1
August 19, 2016

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

Marisa N. Glover
Audit Manager

A handwritten signature in blue ink, appearing to read "Lynn M. Deamer", written over a horizontal line.

Lynn M. Deamer
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report set forth by the Division of Accounting and Finance in its audit service request dated February 26, 2016. We have applied these procedures to the attached schedules prepared by Florida Power & Light 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

FPL or Utility refers to Florida Power & Light Company.

Accounting Treatment

Objectives: 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, 2016. We verified that the hedging settlements were in compliance with the Risk Management Plan and determined that the accounting treatment for hedging transactions and transaction costs is consistent with Commission orders relating to hedging activities. No exceptions were noted.

Gains and Losses

Objectives: The objective was to determine whether 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 6, 2016 and August 18, 2016 filings in this docket for the period August 1, 2015 to July 31, 2016 to FPL's Derivative Settlement Report. We selected a sample of hedging transactions from various counterparties from November 2015 and March 2016 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 agreements. Physical hedging transactions were reviewed for the months of November 2015 and March 2016. The losses were recalculated. No exceptions were noted.

Hedged Volume and Limits

Objectives: 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, 2016, 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 out testing of transactions by agreeing the names of various employees from deal tickets and confirmations to FPL's procedures. According to the Utility there has not been any internal or external audits related to the hedging activities. No exceptions were noted.

Audit Findings

None