

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 15, 2017

**TO:** Office of Commission Clerk

**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

**RE:** Docket No.: 20170001-EI  
Company Name: Florida Power & Light Company  
Company Code: EI802  
Audit Purpose: A3a: Hedging Activities  
Audit Control No.: 2017-048-4-1

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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.

LMD/cmm

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  
Tallahassee District Office

### Auditor's Report

Florida Power & Light Company  
Hedging Activities

**Twelve Months Ended July 31, 2017**

Docket No. 20170001-EI  
Audit Control No. 2017-048-4-1

**September 6, 2017**

A handwritten signature in black ink, appearing to read "Donna D. Brown", written over a horizontal line.

Donna D. Brown  
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 Florida Power & Light 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

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-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 FPL'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 transaction 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 the gains and losses associated with each financial hedging instrument that FPL 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 hedging transactions from FPL's April 3, 2017 and August 18, 2017 filings in this docket for the period August 1, 2016, to July 31 2017 to FPL's Derivative Settlement Report. We selected a sample of hedging transactions from various counterparties from August 2016, December 2016, February 2017, and April 2017 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 – NMEX Henry Hub gas futures contract rates provided by the Utility. We recalculated the gains and losses. We compared the recalculated gains and losses with the 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. FPL did not have any physical hedging instruments in its August 1, 2016 to July 31, 2017 hedging activities. 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 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. 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 requested internal and external audits that related to hedging activities for the period August 1, 2016 to July 31, 2017. The Utility stated there were none. No exceptions were noted.

Audit Findings

**None**