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, 2013

Docket No. 130001-EI

Audit Control No. 13-102-4-1
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Table of Contents

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 Accounting and Finance in its audit service request dated April 10, 2013. We have applied these procedures to the schedules prepared by Florida Power & Light Company in support of its 2013 filing for Hedging in Docket No. 130001-EI.

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.

<u>Objectives and Procedures</u>

Definitions

FPL or Utility refers to Florida Power & Light Company.

Accounting Treatment

Objective: 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, 2013. The support documentation was traced to the general ledger transaction detail. We verified that the hedging settlements were in compliance with the Risk Management Plan and determined 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

Objective: 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 Numbers 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 5 and August 16, 2013 filings in this docket for the period August 1, 2012, to July 31, 2013 to FPL's Derivative Settlement Report. We selected various hedging transactions from two counterparties from August 2012, June 2013, and July 2013 for natural gas and for heavy oil as a sample and traced them from the Derivative Settlement Report to the invoices, purchase statements, confirmation notices, deal tickets, and contracts. We recalculated the gains and losses. For heavy oil we traced the floating price to the confirmation notice, to the calculation of the average pricing from the New York Harbor and agreed the pricing from the average calculation to the Platts publication provided from the Utility. For gas we traced the floating price to the Settlement Price worksheet and to the Gas Daily- Platts Publication provided by the Utility. We compared these recalculated gains and losses with FPL's journal entries for realized gains and losses. We compared a sample of the purchase prices to the futures rates published by the NYMEX Henry Hub gas futures contract rates. FPL does not have any tolling agreements where natural gas is provided to generators under purchased power agreements. No exceptions were noted.

Hedged Volume and Limits

Objective: 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, 2013, and compared them with the Utility's Risk Management Plan. The hedged targets for both natural gas and heavy oil were traced to the Planned Position Strategy Schedule. The fuel burn forecast was traced to the Fuel Burn Summary. The volumes of the oil hedged before and after rebalancing were traced to the Oil Hedged Schedule and the Deal tickets, the percentage hedged was randomly recalculated for accuracy. No exceptions were noted.

Separation of Duties

Objectives: The objectives were to review: FPL's procedures for separating duties related to hedging activities for front office, middle office, and back office and internal and external auditor's work papers.

Procedures: We reviewed the Utility's procedures for separating duties related to hedging activities. We reviewed an internal audit related to the separation of duties. Also, external audit workpapers were reviewed in Docket No. 130001-EI, ACN 13-106-4-1. No exceptions were noted.

<u>Audit Findings</u>

None