

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, 2014

Docket No. 140001-EI
Audit Control No. 14-083-4-1
August 29, 2014

Handwritten signature of Iliana H. Piedra in blue ink.

Iliana H. Piedra
Audit Manager

Handwritten signature of Jeffery A. Small in blue ink.

Jeffery A. Small
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 Accounting and Finance in its audit service request dated March 20, 2014. We have applied these procedures to the schedules prepared by Florida Power & Light Company in support of its filing for hedging activities in Docket No. 140001-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.

Objectives and Procedures

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, 2014. 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 March 28, and August 13, 2014 filings in this docket for the period August 1, 2013, to July 31, 2014 to FPL's Derivative Settlement Report. We selected a sample of hedging transactions from various counterparties from August 2013 and April 2014 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. 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, 2014, 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 our testing of transactions by agreeing the names of various employees from deal tickets and confirmations to FPL's procedures. We also determined the physical location of various personnel. We reviewed an internal audit relating to Sarbanes Oxley Compliance which included procedures to confirm the separation of duties related to FPL's hedging activities. No exceptions were noted.

Audit Findings

None