

Docket No. 140001-EI: Fuel and Purchased Power Cost Recovery Clause.
Florida Power & Light Company's Hedging Activities

Witness: **Direct Testimony of ILIANA H. PIEDRA**, Appearing on Behalf of the Staff
of the Florida Public Service Commission

Date Filed: September 12, 2014

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF ILIANA H. PIEDRA**

4 **DOCKET NO. 140001-EI**

5 **SEPTEMBER 12, 2014**

6 **Q. Please state your name and business address.**

7 A. My name is Iliana H. Piedra. My business address is 3625 N.W. 82nd Ave., Suite
8 400, Miami, Florida, 33166.

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

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

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

13 A. I have been employed by the Florida Public Service Commission since January 1985.

14 **Q. Briefly review your educational and professional background.**

15 A. I received a Bachelor of Business Administration degree with a major in accounting
16 from Florida International University in 1983. I am also a Certified Public Accountant
17 licensed in the State of Florida.

18 **Q. Please describe your current responsibilities.**

19 A. My responsibilities consist of planning and conducting utility audits of manual and
20 automated accounting systems for historical and forecasted data.

21 **Q. Have you presented testimony before this Commission or any other regulatory
22 agency?**

23 A. Yes. I filed testimony in the City Gas Company of Florida rate case, Docket No.
24 940276-GU, the General Development Utilities, Inc. rate cases for the Silver Springs Shores
25 Division in Marion County and the Port Labelle Division in Glades and Hendry Counties in

1 Dockets Nos. 920733-WS and 920734-WS, respectively, the Florida Power & Light
2 Company storm cost recovery case in Docket No. 041291-EI, the Embarq storm cost recovery
3 case in Docket No. 060644-TL, the K W Resort Utilities Corp. rate case in Docket No.
4 070293-SU, the Florida Power & Light Company fuel recovery in Docket 120001-EI,
5 Docket No. 130009-EI related to Florida Power & Light Company's Proposed Turkey Point
6 Units 6 and 7, and the Florida Power & Light Company hedging activities in Docket 130001-
7 EI.

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

9 A. The purpose of my testimony is to sponsor the staff audit report of Florida Power &
10 Light Company (FPL or Utility) which addresses the Utility's filing in Docket No. 140001-EI
11 Fuel and purchased power cost recovery clause for costs associated with its hedging activities.
12 We issued an audit report in this docket for the hedging activities on September 8, 2014. This
13 audit report is filed with my testimony and is identified as Exhibit IHP-1.

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

15 A. Yes, it was prepared under my direction.

16 **Q. Please describe the work you performed in this audit.**

17 A. I have separated the audit work into several categories.

18 Accounting Treatment

19 We obtained FPL's supporting detail of the hedging settlements for the twelve months
20 ended July 31, 2014. The support documentation was traced to the general ledger transaction
21 detail. We verified that the hedging settlements were in compliance with the Risk
22 Management Plan and verified that the accounting treatment for hedging transactions and
23 transactions costs are consistent with Commission orders relating to hedging activities. No
24 exceptions were noted.

25

1 Gains and Losses

2 We traced the monthly balances of hedging transactions from FPL's March 28 and
3 August 13, 2014 filings in this docket for the period August 1, 2013 to July 31, 2014 to FPL's
4 Derivative Settlement Report. We selected various hedging transactions from various
5 counterparties from August 2013 and April 2014 for natural gas as a sample and traced them
6 from the Derivative Settlement Report to the invoices, purchase statements, confirmation
7 notices and deal tickets. FPL does not have any tolling agreements where natural gas is
8 provided to generators under purchase power agreements. We recalculated the gains and
9 losses. We compared these recalculated gains and losses with FPL's journal entries for
10 realized gains and losses. We compared a sample of the purchase prices to the futures rates
11 published by the NYMEX Henry Hub gas futures contract rates. We traced a sample of
12 settlement prices to the futures rates published by the NYMEX Henry Hub gas futures
13 contract rates. No exceptions were noted.

14 Hedged Volume and Limits

15 We reviewed the quantity limits and authorizations. We also obtained FPL's analysis
16 of the monthly percent of fuel hedged in relation to fuel burned for the twelve months ended
17 July 31, 2014, and compared them with the Utility's Risk Management Plan. The hedged
18 targets for natural gas were traced to the Planned Position Strategy Schedule. The fuel burn
19 forecast was traced to the Fuel Burn Summary. No exceptions were noted.

20 Separation of Duties

21 We reviewed the Utility's procedures for separating duties related to hedging
22 activities. We agreed the names from deal tickets and confirmations to FPL's procedures and
23 determined the physical location of various personnel. We reviewed an internal audit related
24 to separation of duties. No exceptions were noted.

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1 **Q. Please review the audit findings in this audit report, Exhibit IHP-1.**

2 A. There were no findings in this audit related to hedging activities.

3 **Q. Does that conclude your testimony?**

4 A. Yes.

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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

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 140001-EI

DATED: September 12, 2014

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the testimony of ILIANA H. PIEDRA on behalf of the Florida Public Service Commission was filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished to the following, by electronic mail, on this 12th day of September, 2014.

Ausley & McMullen
James D. Beasley/J. Jeffrey Wahlen
Post Office Box 391
Tallahassee, FL 32302
jbeasley@ausley.com
jwahlen@ausley.com

Beggs & Lane
Jeffrey A. Stone/Russell A. Badders
Steven R. Griffin
Post Office Box 12950
Pensacola, FL 32591-2950
jas@beggslane.com
rab@beggslane.com;
srg@beggslane.com

Tampa Electric Company
Paula K. Brown, Administrator-
Regulatory Coord
Post Office Box 111
Tampa, FL 33601-0111
regdept@tecoenergy.com

Florida Public Utilities Company
Cheryl Martin, Director
Regulatory Affairs
1641 Worthington Road
Suite 220
West Palm Beach, FL 33409-6703
cheryl_martin@fpuc.com

Florida Power & Light Company
Kenneth Hoffman, V.P., Regulatory
Relations
215 South Monroe Street, Suite 810
Tallahassee, FL 32301-1858
Ken.hoffman@fpl.com

Gunster, Yoakley & Stewart, P.A.
Beth Keating
215 South Monroe Street, Suite 601
Tallahassee, FL 32301
bkeating@gunster.com

Brickfield, Burchette, Ritts & Stone,
P.C.
James W. Brew/F. Alvin Taylor
Eighth Floor, West Tower
1025 Thomas Jefferson Street, NW
Washington, DC 20007
jbrew@bbrslaw.com;
ataylor@bbrslaw.com

Jon C. Moyle, Jr.
Moyle Law Firm, P.A.
118 North Gadsden Street
Tallahassee, Florida 32301
jmoyle@moylelaw.com

Duke Energy
John T. Burnett/Dianne M. Triplett
Post Office Box 14042
St. Petersburg, FL 33733
John.burnett@duke-energy.com;
Dianne.triplett@duke-energy.com

Paul Lewis Jr.
Matthew Bernier
106 East College Avenue Suite 800
Tallahassee, FL 32301
paul.lewisjr@duke-energy.com
matthew.bernier@duke-energy.com

Office of Public Counsel
J.R. Kelly/P. Christensen/C. Rehwinkel
J. McGlothlin/E. Saylor
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400
Kelly.jr@leg.state.fl.us;
Christensen.patty@leg.state.fl.us;
Rehwinkel.charles@leg.state.fl.us;
Mcglotthlin.joseph@leg.state.fl.us;
Saylor.erik@leg.state.fl.us

Gulf Power Company
Robert L. McGee, Jr.
One Energy Place
Pensacola, FL 32520-0780
rlmcgee@southernco.com
lroddy@southernco.com

Robert Scheffel Wright
John T. LaVia, III
Gardner Bist Wiener Wadsworth Bowden
Bush Dee LaVia & Wright, P.A.
1300 Thomaswood Drive
Tallahassee, FL 32308
schef@gbwlegal.com
jlavia@gbwlegal.com

John T. Butler
700 Universe Boulevard
Juno Beach, FL 33408-0420
john.butler@fpl.com

/s/ Martha F. Barrera

MARTHA F. BARRERA
Senior Attorney
Office of the General Counsel
FLORIDA PUBLIC SERVICE COMMISSION
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
(850) 413-6212
mbarrera@psc.state.fl.us