BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

10 OCT -4 PM 3: 14

In re: Fuel and purchased power cost recovery | DOCKET NO. 100001-EI clause with generating performance incentive factor.

COMMISSION CLERK

DATED: OCTOBER 4, 2010

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Kathy L. Welch and Exhibits KLW-1/KLW-2 (FPL), Direct Testimony of Kathly L. Welch and Exhibits KLW-3/KLW-4 (FPUC), Direct Testimony of Donna D. Brown and Exhibit DDB-1 (GULF), Direct Testimony of Ronald A. Mavrides and Exhibit RAM-1 (PEF), and Daniel Acheampong and Exhibit DA-1 (TECO) has been served by U.S. Mail, on this 4th day of October, 2010, to the following:

John T. Butler/R. Wade Litchfield Florida Power & Light Company 700 Universe Blvd. Juno Beach, FL 33408

John McWhirter, Jr. McWhirter Reeves Law Firm P.O. Box 3350 Tampa, FL 33601-3350

Office of Public Counsel Patricia Christensen/J. R. Kelly/Charles Beck c/o The Florida Legislature 111 West Madison Street, #812 Tallahassee, FL 32399-1400

, Ó	Paula K. Brown
COM <u>—</u>	Administrator, Regulatory Coordination
APA	Tampa Electric Company
ECR	P. O. Box 111
GCL	Tampa, FL 33601-0111
RAD	

SSC

ADM

Beth Keating Akerman Senterfitt 106 East College Avenue, Suite 1200 Tallahassee, FL 32301

Susan D. Ritenour Secretary and Treasurer Gulf Power Company One Energy Place Pensacola, FL 32520-0780

R. Scheffel Wright/John LaVia, III Young, van Assenderp, PA 225 South Adams Street, Suite 200 Tallahassee, FL 32301

Cheryl Martin Florida Public Utilities Company P. O. Box 3395 West Palm Beach, FL 33402-3395

DOCUMENT AL MBER-CATE

08317 OCT-4≘

FPSC-COMMISSION CLERK

Progress Energy Service Company, LLC John T. Burnett P. O. Box 14042 100 Central Avenue St. Petersburg, FL 33733-4042

Paul J. Lewis, Jr.
Progress Energy Florida, Inc.
106 East College Avenue, Suite 800
Tallahassee, FL 32301-7740

James Beasley and J. Jeffrey Wahlen, Esquires Ausley & McMullen Law Firm P. O. Box 391 Tallahassee, FL 32302

Randy B. Miller White Springs Agricultural Chemicals, Inc. P.O. Box 300 White Springs, FL 32096

Captain Shayla L. McNeill Air Force Legal Operations Agency (AFLOA) Utility Litigation Field Support Center (ULFSC) 139 Barnes Drive, Suite 1 Tyndall AFB, FL 32403-5319 Vicki Gordon Kaufman/Jon C. Moyle, Jr. Keefe Anchors Gordon & Moyle, PA 118 N Gadsden St Tallahassee, Florida 32301-1508

James W. Brew/F. Alvin Taylor Brickfield, Burchette, Ritts & Stone, P.C. 1025 Thomas Jefferson St., NW Eighth Floor, West Tower Washington, DC 20007-5201

Cecilia Bradley Office of Attorney General The Capitol – PL01 Tallahassee, FL 32399-1050

Jeffrey A. Stone Russell A. Badders, Steven Griffin Beggs & Lane Law Firm P.O. Box 12950 Pensacola, FL 32591-2950

Patrick K. Wiggins Law Offices of Patrick K. Wiggins, P.A. Post Office Drawer 1657 Tallahassee, FL 32302

LISA C. BENNETT STAFF COUNSEL

FLORIDA PUBLIC SERVICE COMMISSION Gerald L. Gunter Building 2540 Shumard Oak Boulevard Tallahassee, Florida 32399-0850 Telephone: (850) 413-6230

Docket No. 100001-EI: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor Florida Power & Light Company

Witness: **Direct Testimony of Kathy L. Welch,** Appearing on Behalf of the staff of The Florida Public Service Commission

Date Filed: October 4, 2010

DOCUMENT NUMBER CALL

1		DIRECT TESTIMONY OF KATHY L. WELCH
2	Q.	Please state your name and business address.
3	A.	My name is Kathy L. Welch and my business address is 3625 N.W. 82nd Ave.,
4	Suite 4	400, Miami, Florida, 33166.
5		
6	Q.	By whom are you presently employed and in what capacity?
7	A.	I am employed by the Florida Public Service Commission as a Public Utilities
8	Super	visor in the Office of Auditing and Performance Analysis.
9		
10	Q.	How long have you been employed by the Commission?
11	A.	I have been employed by the Florida Public Service Commission since June, 1979.
12		
13	Q.	Briefly review your educational and professional background.
14	A.	I have a Bachelor of Business Administration degree with a major in accounting
15	from I	Florida Atlantic University and a Masters of Adult Education and Human Resource
16	Devel	opment from Florida International University. I have a Certified Public Manager
17	certific	cate from Florida State University. I am also a Certified Public Accountant licensed
18	in the	State of Florida, and I am a member of the American and Florida Institutes of
19	Certifi	ed Public Accountants. I was hired as a Public Utilities Analyst I by the Florida
20	Public	Service Commission in June of 1979. I was promoted to Public Utilities
21	Super	visor on June 1, 2001.
22		
23	Q.	Please describe your current responsibilities.
24	A.	Currently, I am a Public Utilities Supervisor with the responsibilities of
25	admin	istering the District Office and reviewing work load and allocating resources to

1 complete field work and issue audit reports when due. I also supervise, plan, and conduct 2 utility audits of manual and automated accounting systems for historical and forecasted 3 data. 4 5 Q. Have you presented testimony before this Commission or any other 6 regulatory agency? 7 I have testified in several cases before the Florida Public Service 8 Commission. Exhibit KLW-1 lists these cases.

9

10

Q. What is the purpose of your testimony today?

11 A. The purpose of my testimony is to sponsor the staff audit report of Florida Power
12 & Light Company (FPL or Utility) which addresses the Utility's August 1, 2009 through
13 July 31, 2010 hedging activities. This audit report is filed with my testimony and is
14 identified as Exhibit KLW-2.

15

16

17

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

A. Yes, it was prepared under my direction.

18

19

20

21

22

23

24

25

Q. Please describe the work you performed in these audits.

A. We obtained a summary schedule of all financial futures, options and swaps that were executed by the Utility for the 12-month period ended July 31, 2010. We reconciled the monthly gain or loss to the Company's filing. We traced these gains and losses to the calculation of the average unit cost of gas and oil and to FPL's books and records. FPL's accounting treatment of hedging gains and losses was verified to be in compliance with Commission Order PSC-02-1484-FOF-EI, issued October 30, 2002.

We reviewed the Company's external auditor's reports and workpapers on derivative activity for the 12-month period ended July 31, 2010. We confirmed that FPL's accounting treatment is consistent with applicable FASB statements.

We obtained the monthly level of hedging gains and losses and verified that they are consistent with the requirements of Commission orders and FPL's Hedging Plans. We traced the monthly hedging gains and losses to the supporting documents that were used to prepare FPL's filing. FPL provided the "Derivative Settlements-All Instruments" report that shows the calculation of all gains and losses by deal options and swaps made by each counter party. This report was traced to the filing. A sample of the September 2009 natural gas and heavy oil transactions were selected for testing. The deals sampled were traced to confirmation letters, bank invoices, deal forms, and purchase statements. In addition, the settle price was traced to Platts and NYMEX market data. In order to trace the September 2009 gains and losses to the general ledger, account 151 Fuel Inventory, we first reconciled the gains and losses to the "Monthly Gas Closing Report" and "Allocation of Oil Financing Instrument" report, which, in turn, were reconciled to the general ledger.

We obtained the 2009 Risk Management and the Planned Position Strategy (PPS) procedures, which show the hedged targets by months. The natural gas and the heavy oil actual percentage hedged were compared to the target hedged and verified to the specified tolerance bands. If the actual percent hedged of a particular month was not within the tolerance band, then a rebalance would be required. The rebalancing was implemented by either purchasing or selling the swaps to meet the established targets. We verified and recalculated the percent of hedge amounts and the rebalancing by month. No exceptions were noted.

We verified that the Value at Risk Activities were within the transaction limits and

1	authorization as stated in the Risk Management Plans.
2	We reviewed all of the invoices related to commission costs. No exceptions were
3	noted.
4	We obtained an organizational chart and identified new employees since August 1,
5	2009. We obtained FPL's procedures related to the separation of duties and determined
6	the change in the procedures from August 1, 2009 to July 31, 2010. We also compared
7	the procedures and the employees to the prior audit to determine if any changes had been
8	made.
9	We obtained a detail report from FPL's general ledger detailing the source of the
10	transactions. A sample of the various charges was reviewed to determine if the charges
1	were incremental in nature compared to prior years. We also reconciled the charges to
12	invoices, expense reports and payroll reports. No exceptions were noted.
13	
14	Q. Does the staff audit report of Florida Power & Light Company which
15	addresses the Utility's annual Hedging Information Report and marked as Exhibit
16	DDB-1 contain any findings noting any errors or exceptions taken by staff?
17	A. No it does not.
18	
19	Q. Does this conclude your testimony?
20	A. Yes it does.
21	
22	
23	
24	

25

History of Testimony Provided by Kathy L. Welch

- In re: Application for approval of rate increase in Lee County by Tamiami Village Utility, Inc., Docket No. 910560-WS
- In re: Application for transfer of territory served by Tamiami Village Utility, Inc. in Lee County to North Fort Myers Utility, Inc., cancellation of Certificate No. 332-S and amendment of Certificate 247-S; and for a limited proceeding to impose current rates, charges, classifications, rules and regulations, and service availability policies, Docket No. 940963-SU
- In re: Application for a rate increase by General Development Utilities, Inc. (Port Malabar Division) in Brevard County, Docket No. 911030-WS
- In re: Dade County Circuit Court referral of certain issues in Case No. 92-11654
 (Transcall America, Inc. d/b/a ATC Long Distance vs. Telecommunications Services,
 Inc., and Telecommunications Services, Inc. vs. Transcall America, Inc. d/b/a ATC Long
 Distance) that are within the Commission's jurisdiction, Docket No. 951232-TI
- In re: Application for transfer of Certificates Nos. 404-W and 341-S in Orange County from Econ Utilities Corporation to Wedgefield Utilities, Inc., Docket No. 960235-WS
- In re: Application for increase in rates and service availability charges in Lee County by Gulf Utility Company, Docket No. 960329-WS
- In re: Fuel and purchased power cost recovery clause and generating performance incentive factor, Docket No. 010001-EI
- In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P., Docket No. 020010-WS
- <u>In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, Docket No. 020071-WS</u>
- <u>In re: Petition for rate increase by Florida Power & Light Company</u>, Docket No. 050045-EI
- <u>In re: Petition for issuance of a storm recovery financing order, by Florida Power & Light</u> Company, Docket No. 060038-EI
- In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp., Docket No. 070293-SU

Docket No. 100001-EI History of Testimony Exhibit KLW-1 Page 2 of 2

- In re: Petition for rate increase by Florida Public Utilities Company, Docket No. 070304-EI
- In re: Natural gas conservation cost recovery, Docket No. 080004-GU
- In re: Nuclear cost recovery clause, Docket No. 080009-EI
- In re: FPL rate case, Docket No. 080677-EI
- <u>In re: Natural Gas Conservation Cost Recovery Clause for Florida City Gas</u>, Docket No. 090004-GU

Docket No.: 100001-EI Audit Report – Hedging Exhibit: KLW – 2, Page 1 of 6

State of Florida



Florida Public Service Commission

Office Of Auditing And Performance Analysis Bureau Of Auditing Miami District Office

Florida Power & Light Company Hedging Activities

Twelve Month's Ended July 31, 2010

Docket No. 100001-EI

Audit Control No. 10-130-4-1

Yen (Ngo Audit Manager

Gabriela Leon
Accounting Specialist

Kathy L. Welch,

District Audit Supervisor

Docket No.: 100001-EI Audit Report - Hedging Exhibit: KLW - 2, Page 2 of 6

Table of Contents

Auditor's Report	Page
Purpose	1
Objectives and Procedures	າ

Docket No.: 100001-EI Audit Report – Hedging Exhibit: KLW – 2, Page 3 of 6

Office Of Auditing And Performance Analysis Auditor's Report

September 22, 2010

To: Florida Public Service Commission

Purpose

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the Natural Gas and Heavy Oil Procurement report, filed August 24, 2010, prepared by Florida Power & Light Company (FPL) on its Hedging Activities in Docket No. 100001-EI.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures, and the report is intended only for internal Commission use.

Docket No.: 100001-El Audit Report – Hedging Exhibit: KLW – 2, Page 4 of 6

Objectives And Procedures

Accounting Treatment

Objective: To verify that the accounting treatment for future option and swap contracts between the utility and its counter parties are in compliance with the Commission Order and Rules and other applicable Financial Accounting Standards Board (FASB) statements.

Procedures: We obtained a summary schedule of all financial futures, options and swaps that were executed by the utility for the 12-month period ended July 31, 2010. We reconciled the monthly gain or loss to the company's filing. We traced these gains and losses to the calculation of the average unit cost of gas and oil and to FPL's books and records. FPL's accounting treatment of hedging gains and losses was verified to be in compliance with Commission Order PSC-02-1484-FOF-EI, issued October 30, 2002. We reviewed the company's external auditor's reports and workpapers on derivative activity for the 12-month period ended July 31, 2010. We confirmed that FPL's accounting treatment is consistent with applicable FASB statements.

Objective: To verify that the level of hedging gains and losses associated with FPL's financial activities from August 2009 through July 2010 is consistent with the requirements of Commission Order PSC-02-1484-FOF-EI, issued October 30, 2002, applicable FASB statements and FPL's 2009 and 2010 Hedging Plans.

Procedures: We obtained the monthly level of hedging gains/losses and verified that they are consistent with the requirements of Commission orders and FPL's Hedging Plans.

Gains and Losses

Objective: To reconcile the hedging results reported in the utility's final July 31, 2010 filing to FPL's books and records.

Procedures: We traced the monthly hedging gains and losses to the supporting documents that were used to prepare FPL's filing. FPL provided the "Derivative Settlements-All Instruments" report that shows the calculation of all gains and losses by deal options and swaps made by each counter party. This report was traced to the filing. A sample of the September 2009 natural gas and heavy oil transactions were selected for testing. The deals sampled were traced to confirmation letters, bank invoices, deal forms, and purchase statements. In addition, the settle price was traced to Platts and NYMEX market data. In order to trace the September 2009 gains and losses to the general ledger, account 151 Fuel Inventory, we first reconciled the gain and losses to the "Monthly Gas Closing Report" and "Allocation of Oil Financing Instrument" report, which, in turn, were reconciled to the general ledger.

Docket No.: 100001-EI Audit Report – Hedging Exhibit: KLW – 2, Page 5 of 6

Quantity Of Gas, Residual Oil, And Purchased Power

Objective: To verify that the quantities of gas, residual oil, and purchased power hedged are within the limits, i.e. the percentage range, specified in FPL's risk management plans.

Procedures: We obtained the 2009 Risk Management and the Planned Position Strategy (PPS) procedures, which show the hedged targets by months. The natural gas and the heavy oil actual percentage hedged were compared to the target hedged and verified to the specified tolerance bands. If the actual percent hedged of a particular month was not within the tolerance band, then a rebalance would be required. The rebalancing was implemented by either purchasing or selling the swaps to meet the established targets. We verified and recalculated the percent of hedge amounts and the rebalancing by month. No exceptions were noted.

Value At Risk (VAR)

Objective: To verify that the individual and group transaction limits and authorizations set forth in FPL's 2009 and 2010 Risk Management Plans have been followed.

Procedure: We verified that the VAR Activities were within the transaction limits and authorization as stated in the Risk Management Plans.

Transaction Costs

Objective: To verify that the transaction cost associated with each financial hedging instrument, which can be identified, is properly accounted for in the company's books and records.

Procedure: The staff audit reviewed all of the invoices related to commission costs. No exceptions were noted.

Segregation Of Duties

Objective: To verify that FPL has followed the procedures for separating duties related to the front office, middle office and back office.

Procedures: We obtained an organizational chart and identified new employees since August 1, 2009. We obtained FPL's procedures related to the separation of duties and determined the change in the procedures from August 1, 2009 to July 31, 2010. We also compared the procedures and the employees to the prior audit to determine if any changes had been made.

Docket No.: 100001-El Audit Report – Hedging Exhibit: KLW – 2, Page 6 of 6

Operating And Maintenance Expenses

Objective: To verify that the incremental hedging operating and maintenance expenses are incremental in nature as set forth in PSC Order No. PSC 02-1484-FOF-EI.

Procedures: We obtained a detail report from FPL's general ledger detailing the source of the transactions. A sample, of the various charges, was selected and we determined if the charges were considered to be incremental in nature in prior years. We also reconciled charges to invoices, expense reports and payroll reports. No exceptions were noted.

Docket No. 100001-EI: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor Florida Public Utilities Company

Witness: **Direct Testimony of Kathy L. Welch,** Appearing on Behalf of the staff of The Florida Public Service Commission

Date Filed: October 4, 2010

---- COMMISSION CLERK

1		DIRECT TESTIMONY OF KATHY L. WELCH
2	Q.	Please state your name and business address.
3	A.	My name is Kathy L. Welch and my business address is 3625 N.W. 82nd Ave.,
4	Suite 4	100, Miami, Florida, 33166.
5		
6	Q.	By whom are you presently employed and in what capacity?
7	A.	I am employed by the Florida Public Service Commission as a Public Utilities
8	Superv	visor in the Office of Auditing and Performance Analysis.
9		
10	Q.	How long have you been employed by the Commission?
11	A.	I have been employed by the Florida Public Service Commission since June, 1979.
12		
13	Q.	Briefly review your educational and professional background.
14	A.	I have a Bachelor of Business Administration degree with a major in accounting
15	from F	Florida Atlantic University and a Masters of Adult Education and Human Resource
16	Develo	opment from Florida International University. I have a Certified Public Manager
17	certific	cate from Florida State University. I am also a Certified Public Accountant licensed
18	in the	State of Florida, and I am a member of the American and Florida Institutes of
19	Certifi	ed Public Accountants. I was hired as a Public Utilities Analyst I by the Florida
20	Public	Service Commission in June of 1979. I was promoted to Public Utilities
21	Superv	visor on June 1, 2001.
22		
23	Q.	Please describe your current responsibilities.
24	A.	Currently, I am a Public Utilities Supervisor with the responsibilities of
25	admin	istering the District Office and reviewing work load and allocating resources to

1	complete field work and issue audit reports when due. I also supervise, plan, and conduct
2	utility audits of manual and automated accounting systems for historical and forecasted
3	data.
4	
5	Q. Have you presented testimony before this Commission or any other
6	regulatory agency?
7	A. Yes. I have testified in several cases before the Florida Public Service
8	Commission. Exhibit KLW-3 lists these cases.
9	
10	Q. What is the purpose of your testimony today?
11	A. The purpose of my testimony is to sponsor the staff audit report of Florida Public
12	Utilities Company (FPUC or Utility) which addresses the Utility's True-Up for the Fuel
13	Adjustment Clause for the 12-months ended December 31, 2009. This audit report is
14	filed with my testimony and is identified as Exhibit KLW-4.
15	
16	Q. Was this audit prepared by you or under your direction?
17	A. Yes, it was prepared under my direction.
18	
19	Q. Please describe the work you performed in these audits.
20	A. We compiled a schedule of all increases to the general ledger and reconciled them
21	to the filing. We obtained the company billing summary reports for the kilowatt hours
22	(KWHs) sold by rate class for the year. We recalculated the revenue by applying the
23	Commission authorized fuel adjustment factor to the KWHs sold. We selected customer
24	bills from each rate class at random and recalculated them.
25	We traced the cost of fuel amounts to invoices. We reviewed the material "other

cost" invoices to make sure they were in accordance with prior orders. We read the prior audit report and prior relevant PSC Orders. We reviewed the general ledger and journal entries to determine if the adjustments required from the previous audit and Commission orders were made. We recalculated the true-up using the Wall Street Journal interest rates and agreed the beginning balance to the prior ending balance.

Q. Please review the audit findings in this audit report, KLW-4, which addresses the Fuel Adjustment Clause True-Up for the 12-months ended December 31, 2009.

A. There is one audit finding in the audit report that was provided for informational purposes only. On January 26, 2009, Jefferson Smurfit (Smurfit-Stone) filed for bankruptcy protection. Smurfit-Stone is a Schedule GSLD-1 customer. Although GSLD1 customers get billed a fuel charge, the fuel revenue and fuel expense are the same, offset each other in the filing, and do not effect the calculation of the over or underrecovery of the fuel adjustment clause.

Due to the bankruptcy the utility had to send two bills, one for the part of the month for the pre-bankruptcy and one for the part of the month for the post-bankruptcy. The utility was able to bill more than what it would have if it had sent out one bill for the month. The difference is due to the peak usage that was used in the last part of the month which the Utility was able to bill. The total billed to this customer for January 2009 for both pre-and post-bankruptcy was \$258,778.40. However, if Smurfit-Stone had not had the bankruptcy and FPUC had sent one bill, the bill would have been \$158,630.32. Because FPUC recovered \$118,136.38 it only has a loss of \$40,493.94 and not the \$140,642.02 billed for the pre-bankruptcy. The utility wanted to reduce the revenue recorded from the actual billed amount to the amount that would have been billed if there were no bankruptcy and only show an uncollectible of \$40,493.94 instead of the

1	\$140,642.02 billed before the	ne bankruptcy.	Since the revenue and expense for the GSLD
2	offset, this has no effect on t	he calculation of	of the true up.
3	3		
4	Q. Does this conclude	your testimony	?
5	A. Yes it does.		
6	5		
7	,		
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20).		
21			
22	2		
23			
24			
25			

History of Testimony Provided by Kathy L. Welch

- In re: Application for approval of rate increase in Lee County by Tamiami Village Utility, Inc., Docket No. 910560-WS
- In re: Application for transfer of territory served by Tamiami Village Utility, Inc. in Lee County to North Fort Myers Utility, Inc., cancellation of Certificate No. 332-S and amendment of Certificate 247-S; and for a limited proceeding to impose current rates, charges, classifications, rules and regulations, and service availability policies, Docket No. 940963-SU
- <u>In re: Application for a rate increase by General Development Utilities, Inc. (Port Malabar Division) in Brevard County, Docket No. 911030-WS</u>
- In re: Dade County Circuit Court referral of certain issues in Case No. 92-11654 (Transcall America, Inc. d/b/a ATC Long Distance vs. Telecommunications Services, Inc., and Telecommunications Services, Inc. vs. Transcall America, Inc. d/b/a ATC Long Distance) that are within the Commission's jurisdiction, Docket No. 951232-TI
- <u>In re: Application for transfer of Certificates Nos. 404-W and 341-S in Orange County from Econ Utilities Corporation to Wedgefield Utilities, Inc.</u>, Docket No. 960235-WS
- <u>In re: Application for increase in rates and service availability charges in Lee County by Gulf Utility Company</u>, Docket No. 960329-WS
- <u>In re: Fuel and purchased power cost recovery clause and generating performance incentive factor</u>, Docket No. 010001-EI
- In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P., Docket No. 020010-WS
- In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, Docket No. 020071-WS
- In re: Petition for rate increase by Florida Power & Light Company, Docket No. 050045-EI
- In re: Petition for issuance of a storm recovery financing order, by Florida Power & Light Company, Docket No. 060038-EI
- <u>In re: Application for increase in wastewater rates in Monroe County by K W Resort</u> Utilities Corp., Docket No. 070293-SU

Docket No. 100001-EI History of Testimony Exhibit KLW-3 Page 2 of 2

- In re: Petition for rate increase by Florida Public Utilities Company, Docket No. 070304-EI
- In re: Natural gas conservation cost recovery, Docket No. 080004-GU
- <u>In re: Nuclear cost recovery clause</u>, Docket No. 080009-EI
- In re: FPL rate case, Docket No. 080677-EI
- In re: Natural Gas Conservation Cost Recovery Clause for Florida City Gas, Docket No. 090004-GU



Docket No.: 100001-EI

Audit Report - Fuel Adjustment Exhibit: KLW - 4, Page 1 of 8

FLORIDA PUBLIC SERVICE COMMISSION

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS BUREAU OF AUDITING

Miami District Office

Florida Public Utilities Company Fuel Adjustment

Twelve Months Ended December 31, 2009

DOCKET No. 090001-EI AUDIT CONTROL NO. 10-004-4-2

> Kathy L. Welch Audit Manager

Accounting Specialist
Audit Reviewer

Docket No.: 100001-EI

Audit Report – Fuel Adjustment Exhibit: KLW – 4, Page 2 of 8

TABLE OF CONTENTS

		PAGE
1.	PURPOSE	1
11.	OBJECTIVES AND PROCEDURES	2
III.	AUDIT FINDING - BANKRUPTCY	3
IV.	EXHIBITS	4
	Company Filing Calculation of True-up Marianna 2009 Company Filing Calculation of True-up Fernandina 2009	

Docket No.: 100001-EI Audit Report – Fuel Adjustment

Exhibit: KLW - 4, Page 3 of 8

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS

AUDITOR'S REPORT

May 7, 2010

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Florida Public Utilities Company in support of its filing for the fuel adjustment clause.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

Docket No.: 100001-EI Audit Report – Fuel Adjustment

Exhibit: KLW - 4, Page 4 of 8

OBJECTIVES AND PROCEDURES:

Objective: To verify that the filing amounts agree with the general ledger.

Procedure: We scheduled all increases to the general ledger and reconciled them to the filing.

Objective: To determine if fuel revenue and kilowatt hours (KWH) sold as filed agree with the company books and are accurately recorded.

Procedure: We obtained the company provided, billing summary reports, for the KWHs sold by rate class for the year. We recalculated the revenue by applying the Commission authorized fuel adjustment factor to the KWHs sold. We selected customer bills from each rate class at random and recalculated them.

Objective: To determine that the amounts recorded as cost of fuel agree with the supplier invoices and that the costs are in accordance with prior Commission orders and contracts.

Procedure: We traced the cost of fuel amounts to invoices. We reviewed the material "other cost" invoices to make sure they were in accordance with prior orders.

Objective: To determine if the prior year's adjustments were included on the company books and in the fuel filing.

Procedures: We read the prior audit report and PSC Orders. We reviewed the general ledger and journal entries to determine if the adjustments were made.

Objective: To determine if the true-up calculation and interest provision as filed was properly calculated using the FPSC approved interest rates.

Procedure: We recalculated the true-up using the Wall Street Journal interest rates and agreed the beginning balance to the prior ending balance.

Docket No.: 100001-EI

Audit Report – Fuel Adjustment Exhibit: KLW – 4, Page 5 of 8

AUDIT FINDING NO. 1

SUBJECT: BANKRUPTCY

AUDIT ANALYSIS: January 26, 2009, Jefferson Smurfit (Smurfit-Stone) declared bankruptcy. They are a GSLD-1 customer. Although GSLD1 customers get billed a fuel charge, the revenue and expense are the same and do not go in to the calculation of the over or under-recovery.

Because the utility had to send two bills, one for the part of the month for the pre-bankruptcy and one for the part of the month for the post-bankruptcy, the utility was able to bill more than what it would have if it had sent out one bill for the month. The difference is due to the peak usage being in the last part of the bill which they were able to collect. The total billed to this customer for January 2009 for both pre and post bankruptcy was \$258,778.40. However, if Smurfit-Stone had not had the bankruptcy and FPUC had sent one bill, the bill would have been \$158,630.32. Because FPUC recovered \$118,136.38, they only have a loss of \$40,493.94 and not the \$140,642.02 billed for the pre-bankruptcy. The utility wanted to reduce the revenue recorded from the billed amount to the amount that the actual bill would be and only show an uncollectible of \$40,493.94 instead of \$140,642.02 billed before the bankruptcy. Since the revenue and expense for the GSLD offset, this has no effect on the calculation of the true up.

EFFECT ON THE GENERAL LEDGER: This finding is provided for informational purposes only.

EFFECT ON THE FILING: This finding is provided for informational purposes only.

COMPANY EXHIBITS

Docket No.: 100001-EI

Audit Report – Fuel Adjustment Exhibit: KLW – 4, Page 6 of 8

Docket No.: 100001-EI Audit Report - Fuel Adjustment Exhibit: KLW - 4, Page 7 of 8

FLORIDA PUBLIC UTILITIES COMPANY CALCULATION OF PURCHASED POWER COSTS AND CALCULATION OF TRUE-UP AND INTEREST PROVISION ESTIMATED FOR THE PERIOD: JANUARY 2009 - DECEMBER 2009 BASED ON TWELVE MONTHS ACTUAL

					DASED ON I	WELVE MONT	HS ACTUAL							
MARIANNA DIVISION		4001141	0.000											
1 34.2 17 37 37 32 57 37 37 37 37 37 37 37 37 37 37 37 37 37		ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL				
		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	ACTUAL	ACTUAL	ACTUAL	
Total System Sales - KWH		2009	2009	2009	2009	2009	2009	2009	2009		OCTOBER	NOVEMBER	DECEMBER	Total
Total System Purchases - KWH		25,565,160			19,853,831	21,681,255				2009	2009	2009	2009	
System Billing Demand - KW		28,474,919		23,545,343	22,679,387	27,126,426							1 24,590,727	310,213,239
		97,944	97,944	97,944	97,944	97,944					26,767,445	5 23,598,371		
Peak Billing Demand-KW		64,674		64,540			71,1711			97,944	97,944			
Purchased Power Rates:			01,701	04,540	64,981	65,510	65,739	65,600	65,980	65,277	64,914			.,,
Energy/Environmental - \$/KWH		0.06738	0.06726	0.00000	4 2 2 2					,	0 1,01-	04,510	65,277	781,741
Demand and Non-Fuel:		0.00730	0.00726	0.06726	0.06726	0.06726	0.06726	0.06726	0.06726	0.06726	0.06726			
Capacity Charge - \$/KWH		0.00000		4444					0.00120	0.00720	0.00726	0.06726	0.06726	
Transmission and Interconnection	******	8.35000		8.350000	8.350000	8.350000	8.350000	8.350000	8.350000	0.00000				
Distribution Charge	on - 3/KVVH	2.27706	2.27706	2.27706	2.27706	2,27706		2.27706		0.00000	8.350000	0.00000	8.350000	
Purchased Power Costs:		38,871	38,871	38,871	38,871	38,871	38,871				2.27706	2.27706	2.27706	
						00,071	30,071	38,871	38,871	38,871	38,871	39,736	39,736	468,182
Base Fuel Costs		1,918,695	1,677,952	1,583,630	1,525,387	1,824,489	0.070.700							100,102
Subtotal Fuel Costs		1,918,695		1,583,630	1,525,387			2,178,937	1100		1,800,344	1,587,196	1,982,389	22 470 270
Demand and Non-Fuel Costs:			Herrioon	1,000,000	1,323,367	1,824,489	2,278,706	2,178,937	2,137,869	1,983,782	1,800,344			22,479,376
Capacity Charge		817,832	817,832	047.000							110001011	1,007,130	1,902,309	22,479,376
Transmission and interconection		147,267		817,832	817,832	817,832	817,832	817,832	817,832	817,832	817,832	047.000		1000 (000) (1.00)
Distribution Facilities Charge (incl. F	EDC II about		147,396	146,961	144,748	149,170	91,846	149,375		148,640				9,813,984
Meter Reading and Processing Char	ERC I/I chrg)	36,819	40,264	40,094	40,022	39,981	40,198	40,528			142,962		148,640	1,714,156
Subtotal Damand & No. 5	rge .	775	775	775	775	775	775	775		40,425	40,298	,		482,018
Subtotal Demand & Non-Fuel C	osts	1,002,693	1,006,267	1,005,662	1,003,377	1,007,758	950,651			775	775	775	775	9,300
Total System Purchased Power Costs		2,921,388	2,684,219	2,589,292	2,528,764			1,008,510		1,007,672	1,001,867	1,007,094		12,019,458
Special Costs		511	491	39,981		2,832,247	3,229,357	3,187,447	3,147,172	2,991,454	2,802,211	2,594,290		
Total Costs and Charges		2,921,899	2,684,710	2,629,273	(16,082)	(529)		1,490	324	2,293	2,916			34,498,834
Sales Revenues - Fuel Adjustment Reven	uae:	2,021,000	2,004,710	2,029,273	2,512,682	2,831,718	3,229,940	3,188,937	3,147,496	2,993,747	2,805,127		6,800	39,043
Residential<			500					the same of the sa	The second second	2,000,747	2,003,127	2,594,555	2,997,793	34,537,877
Residential>	.10086	796,764	803,934	783,367	666,624	683,763	766,136	850,923	819,482	222 484				
	.11085	458,882	524,653	398,099	130,674	179,732	363,525			800,076	775,035	718,938	755,150	9,220,192
Commercial, Small	.10259	217,191	224,581	225,633	181,955	194,982		733,489	519,635	452,410	378,539	207.024	328.244	4,674,906
Commercial, Large	.09818	657,936	627,216	671,699	576,948		239,131	305,564	275,777	256,605	252,755	211,828	198,024	
Industrial	.09409	401,884	369,156			631,511	750,346	877,515	809,499	799,651	810,424	705,458	664.143	2,784,026
Outside Lighting Private	.08112			399,706	374,978	425,048	483,549	539,584	472,419	481,243	476,485			8,582,346
Street Lighting-Public	.08173	27,695	27,321	27,153	26,687	27,230	27,228	27,248	27,164	27,180		457,587	472,353	5,353,992
Total Fuel Revenues	.00173	7,732	7,727	7,726	7,726	7,723	7,729	7,762	7,762		26,168	27,165	27,056	325,295
Non-Fuel Revenues		2,568,084	2,584,588	2,513,383	1,965,592	2,149,989	2,637,644	3,342,085		7,761	7,758	7,762	7,760	92,928
	i i	953,885	972,411	934,358	793,332	833.354	949,746		2,931,738	2,824,926	2,727,164	2,335,762	2,452,730	31,033,685
Total Sales Revenue		3,521,969	3,556,999	3,447,741	2,758,924	2,983,343		1,127,502	1,030,085	998,242	974,597	879,908	916,389	11,363,809
KWH Sales:				The second second	2,700,024	2,303,343	3,587,390	4,469,587	3,961,823	3,823,168	3,701,761	3,215,670	3,369,119	42,397,494
Residential<	RS	7,901,931	7,972,325	7,767,135	6 640 004		42.000.000.000					THE RESERVE OF THE PERSON NAMED IN	al Cookers	12,001,404
Residential>	RS	4,139,732	4,732,993	3,591,318	6,610,334	6,779,508	7,596,230	8,436,883	8,125,148	7,932,743	7,684,461	7,128,253	7,486,339	04 404 000
Commercial, Small	G8	2,114,975	2,189,188		1,178,824	1,621,388	3,279,427	6,616,944	4,687,725	4,081,283	3,414,874	1,867,599		91,421,290
Commercial, Large	GSD			2,199,444	1,773,683	1,900,673	2,331,938	2,978,612	2,688,255	2,501,368	2,463,835		2,960,992	42,173,099
Industrial	GSLO	6,701,385	6,388,466	6,841,557	5,876,469	6,432,234	7,642,602	8,937,878	8,245,109			2,064,879	1,930,298	27,137,148
0.444-11.40		4,271,168	3,923,340	4,248,024	3,985,216	4,517,352	5,139,088	5,734,624		8,144,806	8,254,536	7,185,406	6,764,600	87,415,048
Clearl Habita - B. Lin	OL,OL-2	341,359	337,029	334,680	334,780	335,610	335,889		5,020,808	5,114,560	5,064,020	4,863,180	5,020,104	56,901,484
	SL-1, 2, 3	94,610	94,548	94,527	94,525	94,490		335,841	334,844	334,990	334,857	334,810	333,451	4,028,140
Total KWH Sales		25,565,160					94,571	94,975	94,975	94,975	94,917	94,974	94,943	1,137,030
True-up Calculation:		AND DESCRIPTION OF THE PERSON NAMED IN	The same of the sa	20,010,000	19,000,001	21,681,255	26,419,745	33,135,757	29,196,864	28,204,725	27,311,500	The state of the s	24,590,727	
Fuel Revenues		2,568,084	2 504 500		9 Barana (**)					The second secon	-	20,000,101	24,550,727	310,213,239
True-up Provision for the Period - coll	lactification d		2,584,588	2,513,383	1,965,592	2,149,989	2,637,644	3,342,085	2,931,738	2,824,926	2 727 424			to Date
Gross Receipts Tax Refund	reco(retund)	15,639	15,638	15,638	15,638	15,638	15,638	15,638	15,638		2,727,164	2,335,762	2,452,730	31,033,685
Fuel Revenue		0	0	0	0	0	0,000	110	20.000	15,638	15,638	15,638	15,638	187,657
		2,552,445	2,568,950	2,497,745	1,949,954	2,134,351		0	0	0	0	0	0	0
Total Purchased Power Costs		2,921,899	2,684,710	2,629,273	2,512,682		2,622,006	3,326,447	2,916,100	2,809,288	2,711,526	2,320,124	2,437,092	
True-up Provision for the Period		(369,454)	(115,760)			2,831,718	3,229,940	3,188,937	3,147,496	2,993,747	2,805,127	2,594,555		30,846,028
Interest Provision for the Period		126		(131,528)	(562,728)	(697,367)	(607,934)	137,510	(231,396)	(184,459)	(93,601)		2,997,793	34,537,877
True-up and Interest Provision		120	0	(58)	(174)	(308)	(458)	(518)	(445)			(274,431)	(560,701)	(3,691,849)
Beginning of Period							(/	(0,0)	(445)	(444)	(443)	(425)	(473)	(3,620)
True-up Collected or (Refunded)		404,327	50,638	(49,484)	(165,432)	(712,696)	(1,394,733)	(1,987,487)	// 00 / 000					V 11
	_	15,639	15,638	15,638	15,638	15,638				(2,051,060)	(2,220,325)	(2,298,731)	(2,557,949)	404,327
End of Period, Net True-up		50,638	(49,484)	(165,432)			15,638	15,638	15,638	15,638	15,638	15,638	15,638	187,657
10% Rule - Interest Provision:			THE RESERVE TO STATE AND PARTY.	The state of the s	(112,000)	(1,334,733)	(1,987,487)	(1,834,857)	(2,051,060)	(2,220,325)	(2,298,731)		(3,103,485)	
Beginning True-up Amount		404,327	50,638	140 404	1100	12.00 THE REST					A CONTRACTOR OF THE PARTY OF TH	12011010	(0,103,403)	(3,103,485)
Ending True-up Amount Before Interes	st	50,512		(49,484)	(165,432)	(712,696)	(1,394,733)	(1,987,487)	(1,834,857)	(2,051,060)	2 220 225	(0.000 == :	12 222	-9.00%
Total Beginning and Ending True-up	7.	454,839	(49,484)	(165,374)	(712,522)	(1,394,425)	(1.987.029)				(2,220,325)	(2,298,731)		
Average True-up Amount			1,154	(214,858)	(877,954)	(2,107,121)	(3,381,762)				(2,298,288)	(2,557,524)	(3,103,012)	
Average Annual Interest Rate		227,420	577	(107,429)	(438,977)	(1,053,561)							(5,660,962)	
Monthly Average Interest Rate		0.6650%	0.7700%	0.6500%	0.4750%	0.3500%	0.3250%		(1,942,736)		2,259,307)		(2,830,481)	
Interest Provision		0.0554%	0.0642%	0.0542%	0.0396%	0.0292%		0.3250%	0.2750%	0.2500%	0.2350%	0.2100%	0.2000%	
Weiest LIGAISIOU		126	0	(58)	(174)		0.0271%	0.0271%	0.0229%	0.0208%	0.0196%	0.0175%	0.0167%	
					11/4)	(308)	(458)	(518)	(445)	(444)	(443)	(425)		
											15	(423)	(473)	
														Exhibit No

Exhibit No. DOCKET NO. 100001-EI Florida Public Utilities Company (CDY-1) Page 1 of 4

FLORIDA PUBLIC UTILITIES COMPANY

CALCULATION OF PURCHASED POWER COSTS AND CALCULATION OF TRUE-UP AND INTEREST PROVISION-EXCLUDING GSLD1 ACTUAL/ESTIMATED FOR THE PERIOD: JANUARY 2009 THROUGH DECEMBER 2009

BASED ON TWELVE MONTHS ACTUAL

CCOMANDINA OCAOU	(EXCLUDES LINE LOSS, EXCLUDES TAXES)														
FERNANDINA BEACH			ACTUAL	ACTUAL	4071111						222000				
			Jan 2009	Feb 2009	Mar 2009	ACTUAL Apr 2009	ACTUAL May 2009	ACTUAL Jun 2009	ACTUAL Jul 2009	ACTUAL Aug 2009	ACTUAL Sep 2009	ACTUAL Oct 2009	Nov 2009	ACTUAL Dec 2009	Total
Total System Sales - KWH			31,620,704	31,870,058	32,502,785	28,043,137	28,284,961	33,047,289	40,848,116	38,034,806	35,287,075	32,878,631	27,900,794	27.137.057	387,455,413
CCA Purchases - KWH			522,190	491,667	1,202,500	200,167	356,471	295,862	877,742	1,118,064	222,527	898,334	2,348,494	90,000	8,624,018
JEA Purchases - KWH			35,503,962	31,334,435	27,373,300	29,661,430	34,018,808	38,822,731	40,449,326	39,033,937	35,738,550	29,109,124	24,215,475	31,399,054	396,660,132
System Billing Demand - KW			97,171	99,187	77,190	67,648	69,709	82,387	89,286	98,336	75,085	68,230	54,566	75.667	954,462
DEMAND-KW-(network load)			118,955	126,320	89,192	80,598	87,031	106,095	111,869	103,811	97,671	98,504	73,169	98,547	1,191,762
Purchased Power Rates:				7											
CCA Fuel Costs - \$/KWH			0.05598	0.05598	0.05598	0.05598	0.05598	0.05598	0.05598	0.05598	0.05598	0.04483	0.04483	0.04483	
Base Fuel Costs - \$/KWH	ł		0.05514	0.05514	0.05514	0.05514	0.05514	0.05514	0.05514	0.05514	0.05514	0.04416	0.04416	0.04416	
Energy Charge - \$/KWH			0.00300	0.00300	0.00300	0.00300	0.01441	0.01441	0.01441	0.01441	0.01441	0.01523	0.01523	0.01523	
Demand and Non-Fuel:	2														
Demand Charge - \$/			7.00	7.00	7.00	7.00	8.91	8.91	8.91	8.91	8.91	10.67	10.67	10.67	
Distribution Facilities			38,871.00	38,871.00	38,871.00	38,871.00	38,871.00	38,871.00	38,871.00	38,871.00	38,871.00	38,871.00	39,736.00	39,736.00	
Purchased Power Costs:			1.51000	1.51000	1.51000	1.51000	1.51000	1,51000	1,51000	1.51000	1.51000	1,51000	1,51000	1.51000	
Fulcillased Fower Costs.	CCA Fuel C		29,232 1,957,688	27,523	67,316	11,205	19,955	16,563	49,136	62,589	12,457	40,179	105,283	4,035	445,473
	JEA Fuel Ad		106,512	1,727,780 94,003	1,509,364	1,635,532	1,875,797	2,140,685	2,230,376	2,152,331	1,970,624	1,285,459	1,069,355	1,386,582	20,941,573
	Subtotal Fu		2,093,432	1,849,306	82,120 1,658,800	1,735,721	501,491	559,436	582,875	562,479	514,993	443,332	368,802	478,208	4,383,235
Demand and Non-Fuel Costs:	Demand Ch		680,197	694,310	540,329	473,536	2,397,243 621,107	2,716,684	2,862,387	2,777,399	2,498,074	1,768,970	1,543,440	1,868,825	25,770,281
		Facilities Charg		38,871	38,871	38.871		734,068 38,871	795,538 38,871	876,174	669,007	728,014	582,219	807,367	8,201,866
	Transmissio		179,822	190,743	134,680	121,703	38,871 131,417	160,203	168,921	38,870 156,755	38,871	38,871	39,736	39,736	468,181
Subtotal Demand & f			898,690	923,924	713,880	634,110	791,395	933,142	1,003,330	1,071,799	147,482 855,360	148,741 915,626	732,441	148,806	1,799,559
Total System Furchased Powe			2,992,122	2,773,230	2,372,680	2,369,831	3,188,638	3,649,826	3,865,717	3,849,198	3,353,434	2,684,596	2,275,881	995,909 2,864,734	10,469,606 36,239,887
Less Direct Billing To GSLD1 C	class;	Demand	238,022	103,721	149,430	200,789	182,617	97,882	345,903	306,724	317,016	85,213	65,650	204,802	2,297,769
		Commodity	449,513	360,876	404,826	357,405	392,472	348,344	353,889	414,667	314,769	208,360	241,224	346,414	4,192,759
Net Purchased Power Costs	ı		2,304,587	2,308,633	1,818,424	1,811,637	2,613,549	3,203,600	3.165,925	3,127,807	2,721,649	2,391,023	1,969,007	2,313,518	29,749,359
	Special Cos	ts	3,461	579	38,350	23,851	17,441	1,467	519	3,942	2,925	482	(60)	348	93,305
Total Costs and Charges			2,308,048	2,309,212	1,856,774	1,835,488	2,630,990	3,205,067	3,166,444	3,131,749	2,724,574	2,391,505	1,968,947	2,313,866	29,842,864
	Sales Revenues - Fuel Adjustment Revenues:											-			
Rs<	.08691	.09431	831,759	900,859	872,318	811,757	856,229	980,801	1,103,491	1,064,498	1,033,975	995,814	873,451	826,798	11,151,750
R\$>	.09691	.10430	430,735	574,565	445,289	242,724	320,200	578,003	1,039,178	785,876	718,456	611,830	327,097	294,580	6,368,533
GS	.08795	.09482	183,873	183,363	190,873	179,487	193,239	228,869	278,103	261,837	252,408	245,767	210,389	182,447	2,590,655
GSD	.08441	.09049	499,941	458,155	570,259	621,416	575,937	675,002	797,666	743,996	724,581	734,837	625,392	533,854	7,561,036
GSLD	.08496	.09115	158,677	154,661	181,867	167,876	185,120	196,043	206,242	200,353	196,253	191,402	193,770	168,676	2,200,940
OL OF	.06834	.07075	8,156	8,057	8,174	8,334	8,374	8,383	7,948	8,257	8,444	8,332	8,350	7,609	98,418
SL,CSL	.06838	.07078	6,419	6,419	6,677	6,455	6,681	6,681	8,681	6,678	6,695	6,689	6,696	6,719	79,490
	Total Fuel Revenues (Excl. GSLD1) GSLD1 Fuel Revenues .00000		2,119,560 687,535	2,286,079	2,275,457	2,038,049	2,145,780	2,673,782	3,439,309	3,071,495	2,940,812	2,794,671	2,245,145	2,020,683	30,050,822
Non-Fuel Revenues	es .00000		917,642	464,597 953,699	554,256 940,957	558,194	575,089	446,226	699,792	721,391	631,785	293,573	306,874	551,216	6,490,528
Total Sales Rever	NI.		3,724,737	3,704,375	3,770,670	837,816	868,217	971,191	1,192,195	1,112,740	1,054,452	1,002,335	878,601	830,062	11,559,907
KWH Sales:	RS<		9,570,951	10,365,670	9,937,036	3,434,059 8,698,936	3,589,086	4,091,199	5,331,296	4,905,626	4,627,049	4,090,579	3,430,620	3,401,961	48,101,257
	RS>		4,445,142	5,929,453	4,564,129	2,356,076	9,079,205	10,399,576	11,702,370	11,286,958	10,963,333	10,558,710	9,265,073	8,766,548	120,594,366
	GS		2,090,826	2,084,931	2,156,643	1,907,129	2,038,006	5,541,470	9,962,885	7,534,413	6,888,034	5,865,786	3,135,972	2,824,205	62,117,408
	GSD		5,922,832	5,427,783	6,802,963	6,980,274	6,364,310	2,413,667 7,459,017	8,814,485	2,761,358 8,221,412	2,661,914 8,006,872	2,591,886	2,220,584	1,924,105	27,783,959
	GSLD		1,867,680	1,820,420	2,058,820	1,917,940	2,030,840	2,150,680	2.262,560	2,197,960	2,152,980	8,120,211 2,099,760	6,910,809	5,899,280 1,850,440	84,930,248
	GSLD1		7,510,000	6,030,000	6,770,000	5,970,000	5,490,000	4,870,000	4,960,000	5,820,000	4,400,000	3,430,000	2,125,740 4,030,000	5,670,000	24,535,820
	OL		119,376	117,904	118,809	118,397	118,372	118,494	118,521	118,361	119,355	117,773	118,011	107,557	64,950,000 1,410,930
	SL,CSL		93,897	93,897	94,385	94,385	94,385	94,385	94,385	94.344	94,587	94,505	94.605	94,922	1,132,682
	Total KW	/H Sales	31,620,704	31,870,058	32,502,785	28,043,137	28,284,961	33,047,289	40,848,116	38,034,806	35,287,075	32,878,631	27,900,794	27,137,057	387,455,413
True-up Calculation (Excl. GSLD1):									1010		33,133,1373	02,079,007	27,000,704	27,107,007	357,400,410
Fuel Revenues			2,119,560	2,286,079	2,275,457	2,038,049	2,145,780	2,673,782	3,439,309	3,071,495	2,940,812	2,794,671	2,245,145	2,020,683	30,050,822
True-up Provision - collec			37,986	37,989	37,989	237,604	237,604	237,604	237,604	237,604	237,604	237,604	237,604	237,604	2,252,400
A CONTRACTOR OF THE PROPERTY O	Gross Receipts Tax Refund		0	0	0	0	0	0	0		0	.777 *0.4 A			0
Fuel Revenue		2,081,574	2,248,090	2,237,468	1,800,445	1,908,176	2,436,178	3,201,705	2,833,891	2,703,208	2,557,067	2,007,541	1,783,079	27,798,422	
Net Purchased Power and Other Fuel Costs		2,308,048	2,309,212	1,856,774	1,835,488	2,630,990	3,205,067	3,166,444	3,131,749	2,724,574	2,391,505	1,968,947	2,313,866	29,842,664	
True-up Provision for the Period		(226,474)	(61,122)	380,694	(35,043)	(722,814)	(768,889)	35,261	(297,858)	(21,366)	165,562	38,594	(530,787)	(2,044,242)	
Interest Provision for the Period		615	645	652	600	401	235	200	193	192	241	275	261	4,510	
Beginning of Period True-up and Interest Provision		1,203,944	1,016,071	993,583	1,412,918	1,616,079	1,131,270	600,220	873,285	813,224	1,029,654	1,433,061	1,709,534	1,203,944	
True-up Collected of (Refunded) End of Period, Net True-up and Int. Prov.		37,986	37,989	37,989	237,604	237,804	237,604	237,604	237,604	237,604	237,604	237,604	237,604	2,252,400	
Beginning True-up Amou			1,016,071	993,583	1,412,918	1,616,079	1,131,270	600,220	873,285	813,224	1,029,654	1,433,061	1,709,534	1,416,612	1,416,612
Ending True-up Amount E			1,203,944	1,016,071	993,583	1,412,918	1,616,079	1,131,270	600,220	873,285	813,224	1,029,654	1,433,061	1,709,534	
Total Beginning and Endi			2,219,400	2,009,009	1,412,266 2,405,849	1,615,479	1,130,869	599,985	873,085	813,031	1,029,462	1,432,820	1,709,259	1,416,351	10% Rule Interest
Average True-up Amount	-g . reu-up		1,109,700	1,004,505	1,202,925	3,028,397	2,746,948	1,731,255	1,473,305	1,686,316	1,842,686	2,462,474	3,142,320	3,125,885	Provision:
Average Annual Interest F	Rate		0.6650%	0.7700%	0.6500%	1,514,199	1,373,474	865,627	736,652	843,158	921,343	1,231,237	1,571,160	1,562,942	3.91%
Interest Provision			615	645	652	0.4750%	0.3500%	0.3250%	0.3250%	0.2750%	0.2500%	0.2350%	0.2100%	0.2000%	
			010	040	032	000	401	235	200	193	192	241	275	261	

Docket No.: 100001-EI
Audit Report - Fuel Adjustment
Exhibit: KLW - 4, Page 8 of 8

Docket No. 100001-EI: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor Gulf Power Company

Witness: **Direct Testimony of Donna D. Brown,** Appearing on Behalf of the staff of The Florida Public Service Commission

Date Filed: October 4, 2010

1		DIRECT TESTIMONY OF DONNA D. BROWN
2	Q.	Please state your name and business address.
3	A.	My name is Donna D. Brown, and my business address is 2540 Shumard Oak
4	Boule	vard, Tallahassee, Florida, 32399.
5		
6	Q.	By whom are you presently employed and in what capacity?
7	A.	I am employed by the Florida Public Service Commission as a Professional Accountant
8	in the	Office of Auditing and Performance Analysis.
9		
10	Q.	How long have you been employed by the Commission?
11	A.	I have been employed by the Commission since February 2008.
12		
13	Q.	Briefly review your educational and professional background.
14	A.	I graduated from Florida A&M University's School of Business & Industry in 2006 with
15	a Bach	nelor of Arts degree in accounting.
16		
17	Q.	Please describe your current responsibilities.
18	Α.	Currently, I am a Professional Accountant with the responsibilities of managing
19	regula	ted utility financial audits. I am also responsible for creating audit work papers and
20	progra	ims to meet the specific purpose of each audit.
21		
22	Q.	Have you presented testimony before this Commission?
23	A.	No.
24		
25	Q.	What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor the staff audit report of Gulf Power Company (Gulf Power, the Utility, or the Company) addressing the Utility's August 1, 2009 through July 31, 2010 hedging activities. This audit report is filed with my testimony and is identified as Exhibit DDB-1.

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

A. Yes, it was prepared by me and other audit staff under my direction,

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

A. We reviewed the Risk Management Plan for Fuel Procurement filed by Gulf Power with this Commission on August 4, 2009 in Docket No. 090001-EI. We compared pricing strategy included in the Risk Management Plan to the Hedging Reports for the 12 months ended July 31, 2010 as filed by the Utility on March 11, 2010 and August 13, 2010.

We obtained the Utility's supporting detail of the hedging settlements for the 12 months ended July 31, 2010. The support documentation was traced to the general ledger transaction detail for Account No. 547-4. We reviewed the compliance of the hedging settlements to the risk management plan and verified that the accounting treatment for the hedging transactions as well as any transaction costs were consistent with the criteria established in Docket No. 011605-EI.

We reviewed the quantity limits, individual and group transaction limits and authorizations as well as the procedures for separating duties related to the hedging program as set forth in the Risk Management Plan. We obtained the Utility's analysis of the monthly percent of fuel hedged in relation to fuel burned. We reviewed the applicable average price of the financial transactions settled and the average costs of natural gas purchased for the 12 months ending July 31, 2010. We noted compliance of the hedging transactions to the

1	Risk Management Plan.
2	We reviewed the Coal Sales Agreement (CSA) and all court issued orders from the
3	United States District Court for the Southern District of Illinois and the United States Distric
4	Court for the Northern District of Florida – Pensacola Division. We traced the litigation-related
5	adjustments to fuel costs from the monthly-filed Schedule A-1 to the general ledger and to the
6	supporting invoices from 2005 through July 2010. We noted that the United States Distric
7	Court for the Northern District of Florida – Pensacola Division granted Gulf Power's Motion for
8	Partial Summary which stated that Coalsales LLC breached the CSA. The trial was held or
9	Tuesday, February 9, 2010. No orders awarding damages have been issued as of September 21
0	2010. We determined that the litigation costs appeared to be reasonable and prudent.
1	
2	Q. Does the staff audit report of Gulf Power Company which addresses the Utility's
13	annual Hedging Information Report and marked as Exhibit DDB-1 contain any finding
4	noting any errors or exceptions taken by staff?
15	A. No it does not.
16	
17	Q. Does this conclude your testimony?
8	A. Yes it does.
19	
20	
21	
22	
23	
24	

Docket No.: 100001-EI Audit Report – Hedging Exhibit: DDB – 1, Page 1 of 5

STATE OF FLORIDA



FLORIDA PUBLIC SERVICE COMMISSION

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS BUREAU OF AUDITING

Tallahassee District Office

GULF POWER COMPANY

HEDGING ACTIVITIES

AUGUST 01, 2009 - JULY 31, 2010

DOCKET NO. 100001-EI AUDIT CONTROL NO. 10-130-1-1

Donna Brown, Audit Manager

Debra M. Dobiac, Audit Staff

Lynn M. Deamer, District Audit Supervisor

Docket No.: 100001-E1 Audit Report – Hedging Exhibit: DDB – 1, Page 2 of 5

TABLE OF CONTENTS

AUD	OITOR'S REPORT	PAGE
L.	PURPOSE	1
II.	OBJECTIVES AND PROCEDURES	

Audit Report - Hedging Exhibit: DDB-1, Page 3 of 5

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS AUDITOR'S REPORT

September 28, 2010

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated May 7, 2010. We have applied these procedures to the schedules prepared by Gulf Power Company in support of its filing on August 13, 2010 for its Hedging Information Report, Docket No. 100001-EL.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

Docket No.: 100001-EI Audit Report – Hedging Exhibit: DDB – 1, Page 4 of 5

OBJECTIVES AND PROCEDURES

Hedging Transaction and Information Report Verification

Objective: To review and verify the information presented in Gulf Power's Natural Gas Hedging Transactions Report filed with this Commission on March 11, 2010 and its Hedging Information Report filed with this Commission on August 13, 2010.

Procedures: The audit staff reviewed the 2009 and 2010 Risk Management Plans for Fuel Procurement filed by Gulf Power with this Commission in Docket No. 090001-El. Audit staff compared pricing strategy included in the plan to the Hedging Reports for the twelve (12) months ended July 31, 2010 as filed by the utility on March 11, 2010 and August 13, 2010.

Accounting Treatments for Financial Contracts

Objective: To verify that the accounting treatments for futures, options, and swap contracts between Gulf Power Company and one or more counterparties are consistent with FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002, and as clarified by FPSC Order No. PSC-08-0316-PAA-EI, issued May 14, 2008 and FPSC Order No. PSC-08-0667-PAA-EI, issued October 8, 2008. To reconcile the data included in the two Hedging Reports with the books and records of the utility including gains (losses), option premiums, swap settlements as well as fees, commissions, and other transaction costs associated with each financial hedging instrument.

Procedures: The audit staff obtained the utility's supporting detail of the hedging settlements for the twelve (12) months ended July 31, 2010. The support documentation was traced to the general ledger transaction detail for Hedging, Account No. 547-4. The audit staff reviewed the adherence of the hedging settlements to the risk management plan and verified that the accounting treatment for the hedging transactions as well as any transaction costs were consistent with FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002.

Risk Management Plan

Objective: To verify that the quantities of gas, residual oil, and purchased power hedged are within the limits specified in Gulf Power's 2009 and 2010 Risk Management Plans. Verify that the individual and group transactions limits and authorizations set forth in the Risk Management Plan have been followed as well as the utility's procedures for separating duties related to its hedging activities per the Hedging Plan. To verify that the hedging operating and maintenance expenses associated with maintaining a non-speculative financial and/or physical hedging program are incremental in nature as set forth in FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002.

Procedures: The audit staff reviewed the quantity limits, individual and group transaction limits and authorizations as well as the procedures for separating duties related to the hedging program as set forth in the Risk Management Plan. We obtained the utility's analysis of the monthly percent of fuel hedged in relation to fuel burned as well as the applicable average price of the financial transactions settled and the average costs of natural gas purchased for the twelve (12)

Docket No.: 100001-EI
Audit Report - He !ging
Exhibit: DDB - 1, Page 5 of 5

months ending July 31, 2010 and reviewed for reasonableness. The audit staff noted adherence of the hedging transactions to the Risk Management Plan.

Litigation

Objective: To verify the litigation-related Adjustments to Fuel Costs that the utility has incurred from 2005 through July 2010. To verify that such expenditures were reasonable and prudent.

Procedures: The audit staff reviewed the Coal Sales Agreement (CSA) and all court issued orders from the United States District Court for the Southern District of Illinois and the United States District Court for the Northern District of Florida – Pensacola Division. We traced the litigation-related Adjustments to Fuel Costs from the general ledger to the monthly-filed Schedule A-1 to the supporting invoices from 2005 through July 2010. We noted that the United States District Court for the Northern District of Florida – Pensacola Division granted Gulf Power's Motion for Partial Summary Judgment which stated that Coalsales LLC breached the CSA. The trial was held on Tuesday, February 9, 2010. No orders awarding damages have been issued as of September 21, 2010. The audit staff determined litigation costs appeared reasonable and prudent.

Docket No. 100001-EI: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor Progress Energy Florida, Inc.

Witness: **Direct Testimony of RONALD A. MAVRIDES**, Appearing on Behalf of the staff of the Florida Public Service Commission

Date Filed: October 4, 2010

1	DIRECT TESTIMONY OF RONALD A. MAVRIDES			
2	Q.	Please state your name and business address.		
3	A.	My name is Ronald A. Mavrides and my business address is 4950 West Kennedy Blvd.,		
4	Suite 3	Suite 310, Tampa, Florida 33609.		
5				
6	Q.	By whom are you presently employed and in what capacity?		
7	A.	I am employed by the Florida Public Service Commission as a Professional Accountant		
8	in the Office of Auditing and Performance Analysis.			
9				
10	Q.	How long have you been employed by the Commission?		
11	A.	I have been employed by the Florida Public Service Commission since October 2007.		
12				
13	Q.	Briefly review your educational and professional background.		
14	A.	In 1990, I received a Bachelor of Science degree from the University of Central Florida		
15	with a	major in accounting. I am also a Certified Government Auditing Professional and a		
16	Certified Management Accountant.			
17				
18	Q.	Please describe your current responsibilities.		
19	A.	I perform conservation, environmental, hedging, and staff-assisted rate case audits.		
20	Also, I	perform various other financial audits of electric, gas, and water and wastewater utilities.		
21				
22	Q.	Have you previously presented testimony before this Commission?		
23	A.	Yes. I presented testimony in the Fuel and Purchased Power Cost Recovery Clause with		
24	genera	ting performance incentive factor Docket No. 090001-EI.		
25				

Q. What is the purpose of your testimony today?

- 2 The purpose of my testimony is to sponsor the staff audit report of Progress Energy A. Florida, Inc. (PEF, Company, or Utility) which addresses the Utility's August 1, 2009 through 4 July 31, 2010 hedging activities. The audit report is filed with my testimony and is identified as
- 5 Exhibit RAM-1.

6

7

1

3

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

Yes, it was prepared by me. Α.

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

8

Please describe the work performed in this audit. Q.

I reviewed PEF's Hedging Information Reports filed on April 1, 2010 and August, 16, A. 2010. I examined the report for reasonableness and used it as a basis for our sample tests. I requested a listing of each futures, options, and swap contracts executed by PEF for the 12month period covered by the Hedging Information Report. I requested the volumes of each fuel PEF actually hedged using a fixed price contract or instrument. I tested 35 sample transactions, choosing an array of transaction types throughout the 12-month period for each hedged fuel type. I traced the transactions to the general ledger and trade tickets. I did not note any exceptions.

I recalculated the gains and losses by multiplying the volume by the difference between the fixed price and the settlement price from the trade tickets, and compared them to the recorded gains and losses per the general ledger. I determined that the gains and losses flowed through the fuel and purchased power cost recovery clause as either a charge or a credit as required in Order No. PSC-02-1484-FOF-EI. When there was existing inventory, the inventory account was adjusted, and when there was no existing inventory, the gains and losses flowed through the fuel expense account.

I obtained and reviewed PEF's Risk Management Plan. I compared the percentage limits of purchased power hedged in the Risk Management Plan with the actual volumes of hedged burns. The actual volumes of hedged burns fall within the percentage limits delineated in the Risk Management Plan.

I reviewed PEF's written procedures for separation of duties related to hedging activities. I reviewed the internal and external auditor's workpapers addressing the separation of duties and no exceptions were noted.

I randomly chose four transactions for the diesel fuel used to transport coal. I traced the invoices to the inventory adjustment per the general ledger, and recalculated the gain and loss. There was one error by PEF that was subsequently corrected and is discussed in audit finding 1.

I reviewed the existing tolling arrangements and tested all tolling transactions for one vendor for one month by tracing the invoices to the general ledger.

Q. Please review the audit findings in this audit report, RAM-1, which addresses the hedging activities of PEF from August 1, 2009 through July 31, 2010.

A. There is one audit finding in the audit report. In my analysis of #2 oil used to transport coal, I sampled a fixed swap from April 2010 and independently recalculated a gain that was greater than that recorded on the trade invoice by the amount of \$252. PEF informed us this was an error caused by incorrectly using a waterborne settlement price, rather than the correct pipeline settlement price. PEF made and provided a copy of an adjusting journal entry to correct this error.

Q. Does this conclude your testimony?

A. Yes.

Docket No.: 100001-EI Audit Report – Hedging Exhibit: RAM – 1, Page 1 of 6

State of Florida



PUBLIC SERVICE COMMISSION

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
BUREAU OF AUDITING

TAMPA DISTRICT OFFICE

AUDITOR'S REPORT

PROGRESS ENERGY FLORIDA, INC.

HEDGING ACTIVITIES

12 Month Period Ended July 31, 2010

DOCKET NO. 100001-EI AUDIT CONTROL NO. 10-130-2-1

Ron Mavrides, Audit Manager

Linda Hill-Slaughter, Tampa District Supervisor

Docket No.: 100001-EI
Audit Report - Hedging
Exhibit: RAM-1, Page 2 of 6

TABLE OF CONTENTS

	AUDITOR'S REPORT	PAGE
Ī.	PURPOSE	1
II.	OBJECTIVES AND PROCEDURES	2
Ш.	AUDIT FINDING	
	1. DIESEL FUEL AND TRANSPORTATION FUEL SURCHARGES	4

Docket No.: 100001-EI Audit Report – Hedging Exhibit: RAM – 1, Page 3 of 6

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS AUDITOR'S REPORT

September 13, 2010

TO: FLORIDA PUBLIC SERVICE COMMISSION

Purpose

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated May 14, 2010. We have applied these procedures to the hedging activities of Progress Energy Florida, Inc. (PEF) in Docket No. 100001-EI for the 12-month period ended July 31, 2010.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards of Attestation Engagements. This report is based on agreed upon procedures and the report is intended only for internal Commission use.

Docket No.: 100001-EI Audit Report – Hedging Exhibit: RAM – 1, Page 4 of 6

OBJECTIVES AND PROCEDURES:

ACCOUNTING TREATMENT

Objectives: - To review and verify the information presented in Progress Energy Florida's Hedging Information Report filed on April 16, 2010. To verify that accounting treatment from futures, options, and swap contracts between Progress Energy Florida and counterparties are consistent with Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued October 30, 2002, and as clarified by Order No. PSC-08-0316-PAA-EI.

Procedures: - We reviewed PEF's Hedging Information Report as filed on August, 16, 2010. We examined the report for reasonableness and used it as a basis for our sample tests. We requested a listing of each futures, options, and swap contracts executed by PEF for the 12-month period covered by the Hedging Information Report. We requested the volumes of each fuel PEF actually hedged using a fixed price contract or instrument. We tested 35 sample transactions, choosing an array of transaction types throughout the 12-month period for each hedged fuel type. We traced the transactions to the general ledger and trade tickets. No exceptions were noted.

GAINS AND LOSSES

47

49

Objective: - Verify that the gains/losses associated with each financial hedging instrument that PEF implemented is consistent with Order No. PSC-02-1484-FOF-EI in Docket No. 011605-EI, issued October 30, 2002.

Procedures: - Using the trade tickets, we recalculated the gains/losses by multiplying the volume by the difference between the fixed price and the settlement price, and compared them to the recorded gains/ losses per the general ledger. We determined they flowed through the fuel and purchased power cost recovery clause as either a charge or a credit as required in Order No. PSC-02-1484-FOF-EI. When there was existing inventory, the inventory account was adjusted, and when there was no existing inventory, the gains/losses flowed through the fuel expense account.

HEDGED VOLUME AND LIMITS

Objective: - Verify that the quantities of gas, residual oil, and purchased power hedged are within the percentage range, as represented in PEF's Risk Management Plan.

Procedures: - We obtained and reviewed PEF's Risk Management Plan. We compared the percentage limits of purchased power hedged in the Risk Management Plan with the actual volumes of hedged burns. The actual volumes of hedged burns fall within the percentage limits delineated in the Risk Management Plan.

Docket No.: 100001-EI Audit Report - Hedging Exhibit: RAM - 1, Page 5 of 6

SEPARATION OF OFFICE

Objective: - Review the PEF's procedures for separation of duties related to hedging activities: Front Office, Middle Office, and Back Office.

Procedures: - We reviewed PEF's written procedures for separation of duties related to hedging activities. We reviewed the internal and external auditor's workpapers addressing the separation of duties. No exceptions were noted.

DIESEL FUEL AND TRANSPORATOIN FUEL SURCHARGES

Objective: - Review and verify the hedging information for diesel fuel and transportation fuel surcharges that are part of its coal transportation agreements.

Procedures: - We randomly chose four transactions for the diesel fuel used to transport coal. We traced the invoices to the inventory adjustment per the general ledger, and recalculated the gain/loss. There was one error by PEF that was subsequently corrected. See Finding 1.

TOLLING ARRANGEMENTS

Objective: - To determine if there are any tolling arrangements, and if there are, review them. A tolling arrangement involves providing natural gas to generators under purchased power agreements, and receiving back the generated power for a fee.

Procedures: - We reviewed the existing tolling arrangements and tested all tolling transactions for one vendor for one month by tracing the invoices to the general ledger.

Docket No.: 100001-EI
Audit Report – Hedging
Exhibit: RAM – 1, Page 6 of 6

Audit Finding 1

Subject: Diesel Fuel and Transportation Fuel Surcharges

47-3

Audit Analysis: In our analysis of #2 oil used to transport coal, we sampled a fixed swap from April 2010 and independently recalculated a gain that was greater than that recorded on the trade invoice by the amount of \$252. PEF informed us this was an error due to PEF incorrectly using a waterborne settlement price, rather than the correct pipeline settlement price. PEF made and provided a copy of an adjusting journal entry to correct this error.

Effect on the General Ledger: None

Effect on the Filing: None

Docket No. 100001-EI: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor Tampa Electric Company

Witness: **Direct Testimony of Daniel Acheampong**, Appearing on Behalf of the staff of the Florida Public Service Commission

Date Filed: October 4, 2010

1	DIRECT TESTIMONY OF DANIEL ACHEAMPONG		
2	Q. Please state your name and business address.		
3	A. My name is Daniel Acheampong and my business address is 4950 West Kennedy Blvd.,		
4	Suite 310, Tampa, Florida 33609.		
5			
6	Q. By whom are you presently employed and in what capacity?		
7	A. I am employed by the Florida Public Service Commission as a Regulatory Analyst II in		
8	the Office of Auditing and Performance Analysis.		
9			
10	Q. How long have you been employed by the Commission?		
ا 1	A. I have been employed by the Florida Public Service Commission since June 1, 2007.		
12			
13	Q. Briefly review your educational and professional background.		
14	A. I received a Bachelor of Arts in Economics in 1997 from the University of Ghana, a		
15	Bachelor of Science with a major in Accounting in 2003 and a Masters in Accounting in 2006		
16	from the University of South Florida. I am also a Certified Public Accountant and an		
17	Accounting Instructor at Strayer University.		
18			
19	Q. Please describe your current responsibilities.		
20	A. I perform conservation, environmental, hedging, and staff-assisted rate case audits.		
21	Also, I perform various other financial audits of electric, gas, and water and wastewater utilities.		
22			
23	Q. Have you previously presented testimony before this Commission?		
24	A. No.		
25			

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor the staff audit report of Tampa Electric Company (TECO, the Company, or the Utility) which addresses the Utility's August 1, 2009 through July 31, 2010 hedging activities. The audit report is filed with my testimony and is identified as Exhibit DA-1.

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

A. Yes, it was prepared by me.

Q. Please describe the work performed in this audit.

A. I reviewed the information presented in the Utility's Hedging Information Reports that were filed on April 1, 2010, and August 16, 2010.

I interviewed TECO representatives concerning derivative and hedging activities with its affiliates. Additionally, I reviewed TECO's policy regarding separation of transaction costs with its affiliates. The Utility declared that it does not participate in any financial hedges with any of its affiliates. However, TECO hedged gas for both TECO and Peoples Gas (PGS), a subsidiary of TECO. I reviewed the general ledger for TECO derivatives and hedging activities as well as the Settled Report. I found that TECO and PGS maintain separate portfolios for their hedging activities and the transaction costs are separate.

I scheduled all financial futures, options and swap contracts that were closed by the Utility from August 1, 2009, through July 31, 2010. I reviewed the listing and selected samples for further testing. I reviewed fourteen contracts with the International Swap Dealers Association Inc., seven contracts with Credit Support and thirty-two confirmation contracts. I also reconciled the Settlement Report to the Utility's general ledger and supporting invoices. I tested invoices for the proper amount, proper approval procedures and proper periods. I

reviewed the internal audit report and workpapers for the year 2009. I confirmed that the accounting treatment is consistent with applicable FASB statements.

I audited one hundred percent of hedging gains and losses. I recalculated the gains and losses by multiplying the traded volume by the differences between fixed price and settlement price (NYMEX price). I reconciled the calculated monthly gains and losses to the Utility's general ledger. I traced general ledger numbers to the Mark to Market Report and supporting journal entries. I reconciled the general ledger amounts and the Mark to Market Report to the Utility's filing. I verified that the Utility's accounting treatment of hedging gains and losses complies with Commission Orders and Rules. However, I did discover an error in the Company's filing relating to the December 2009 numbers. Audit Finding 1 addresses this issue.

I reviewed the TECO hedging plan for 2009 and 2010. I obtained the actual consumption from Bayside, Polk, City of Tampa, and the Big Bend power plants. I recalculated the total volumes and reconciled them to the Utility's filing. I recalculated the hedged consumption from the Utility's Settled Report. I recalculated the hedged percentage and compared it to allowable minimum and maximum limits prescribed by the Risk Management Plan on a monthly basis.

I reviewed the TECO Risk Management Plan regarding transaction limits. I selected a sample from the Mark to Market Report and compared it to the established credit limits for counterparties shown in the Credit Exposure Report. I compared the selected sample to the individual transactional limit and found the company followed its plan. I also compared the selected sample to the Utility's preset limits.

I reviewed the Risk Management Plan and interviewed key personnel concerning their activities as they related to the Risk Management Plan. I followed up with observations. I determined that there are adequate separations among the Front Office, Middle Office, and Back Office.

1	Q. Please review the audit findings in this audit report, DA-1, which addresses the		
2	hedging activities of TECO from August 1, 2009 through July 31, 2010.		
3	A. There is one audit finding in the audit report. TECO filed its hedging results on April 1,		
4	2010, and August 16, 2010, for the 2009 hedging year and the first half of 2010, respectively. I		
5	determined that the gains and losses amount, the hedged volume, as well as the consumption		
6	quantity in the filing for December 2009 did not reconcile to the Utility's general ledger.		
7	However, the general ledger and the Utility's Settled Report did reconcile for December 2009.		
8	It was determined that the Utility erroneously entered January 2010 numbers as December 2009		
9	in its filing. This affected TECO's gains and losses, consumption, and hedged volume amounts.		
10	The Utility agreed to file a revised Filing for the 2009 hedging year. A proposed revised filing		
11	is included in the audit workpapers.		
12			
13	Q. Does this conclude your testimony?		
14	A. Yes.		
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			

Docket No.: 100001-EI Audit Report – Hedging Exhibit: DA – 1, Page 1 of 6

State of Florida



PUBLIC SERVICE COMMISSION

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS BUREAU OF AUDITING

Tampa District Office

AUDITOR'S REPORT

TAMPA ELECTRIC COMPANY

HEDGING ACTIVITIES

12 Month Period Ended July 31, 2010

DOCKET NO. 100001-EI AUDIT CONTROL NO. 10-130-2-2

Daniel Acheampong, Audit Manager

Simon Ojada, Staff

Linda Hill-Slaughter, Tampa District

Supervisor

Docket No.: 100001-EI Audit Report – Hedging Exhibit: DA – 1, Page 2 of 6

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE	1
II. OBJECTIVES AND PROCEDURES	2
III. FINDING	
1 DERIVATIVES AND HEDGING RESULTS	4

Docket No.: 100001-EI Audit Report – Hedging Exhibit: DA – 1, Page 3 of 6

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS AUDITOR'S REPORT

September 14, 2010

TO: FLORIDA PUBLIC SERVICE COMMISSION

Purpose

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated May 7, 2010. We have applied these procedures to the results of Tampa Electric Company's hedging activities for the 12-month period ended July 31, 2010, in Docket No. 100001-EI.

This audit was performed following general standards and fieldwork standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures and the report is intended only for internal Commission use.

Docket No.: 100001-EI Audit Report -- Hedging Exhibit: DA - 1, Page 4 of 6

OBJECTIVES AND PROCEDURES

GENERAL

Objective: To verify that the Hedging information and results of Tampa Electric Company's (TEC or the Utility) hedging activities are consistent with the Utility's hedging plan filed with the Commission for the 12 month period ended July 31, 2010.

Procedure: We reviewed the information presented in the Utility's Hedging Information Reports that were filed on April 1, 2010, and August 16, 2010. Audit Finding 1 addresses this issue.

Objectives: To verify if TEC participated in any derivatives and hedging activities with any of its affiliates and how operating and maintenance expenses associated with maintaining financial and/or physical hedging program are separated.

Procedures: We questioned TEC representatives whether the Utility participated in any derivatives and hedging activities with any of its affiliates. Additionally, a request was made for TEC's policy regarding separation of transaction costs. The Utility representative stated that TEC does not participate in any financial hedges with any of its affiliates. However, TEC hedged gas for both TEC and Peoples Gas (PGS), a subsidiary of TEC. We reviewed the general ledger for TEC derivatives and hedging activities as well as the Settled Report. We found that TEC and PGS maintain separate portfolios for their hedging activities; hence, the transaction costs are separate.

ACCOUNTING TREATMENT

Objective: To verify that the accounting treatment for futures, options, and swap contracts between TEC and counterparties are consistent with Order No. PSC-02-1484-FOF-EI, other Commission Rules, and other applicable Financial Accounting Standards Board (FASB) statements.

Procedures: We obtained a scheduled of all financial futures, options and swap contracts that were executed (closed) by the Utility from August 1, 2009, through July 31, 2010. We reviewed the listing and selected samples for further testing. We reviewed fourteen International Swap Dealers Association Inc. (ISDA Master Agreements) contracts, seven Credit Support contracts and thirty-two confirmation contracts. We also reconciled the Settlement Report to the Utility's general ledger numbers and supporting invoices. We tested invoices for proper amount, proper approval procedures and proper periods. We reviewed the internal audit report and workpapers for the year 2009. We confirmed that the accounting treatment is consistent with applicable FASB statements.

GAINS AND LOSSES

Objective: To verify that the gains and losses associated with each financial hedging instrument that TEC implemented is consistent with Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued on October 30, 2002.

Procedures: We audited one hundred percent of gains and losses. We recalculated the gains and

Docket No.: 100001-E1 Audit Report - Hedging Exhibit: DA - 1, Page 5 of 6

losses by multiplying the traded volume by the differences between fixed price and settlement price (NYMEX price). We reconciled the calculated monthly gains and losses to the Utility's general ledger. We traced general ledger numbers to the Mark to Market Report and supporting journal entries. We reconciled the general ledger amounts and the Mark to Market Report to the Utility's filing. We verified that the Utility's accounting treatment of hedging gains and losses comply with Commission Orders and Rules except an error in the December 2009 number. Audit Finding 1 addresses this issue.

HEDGED VOLUME AND LIMITS

Objective: To verify that quantities of gas, residual oil, and purchased power hedged are within the limits of the percentage range specified in TEC's Risk Management Plan.

Procedures: We reviewed the TEC hedging plan for 2009 and 2010. We obtained the actual consumption from Bayside, Polk, City of Tampa, and the Big Bend plants; we recalculated total volumes and reconciled it to the Utility's filing. We recalculated the hedged consumption from the Utility's Settled Report. We recalculated the hedged percentage. We compared the actual percentage hedged to allowable minimum and maximum limits prescribed by the Risk Management Plan on a monthly basis. Audit Finding 1 addresses this issue.

Objective: To verify that the individual limits, group limits and authorizations set forth in the TEC Risk Management Plan have been followed.

Procedures: We reviewed the TEC Risk Management Plan regarding transaction limits. We selected samples from the Mark to Market Report and compared it to the established credit limits for counterparties (Credit Exposure Report). We compared selected samples to the individual transactional limit and found the company followed its plan. We also compared selected samples to the Utility's preset limits.

SEPARATION OF OFFICE

Objective: To verify that TEC has followed utility procedures for separating duties related to hedging activities (Front Office, Middle Office, and Back Office) per its Hedging Plan.

Procedures: We reviewed the Risk Management Plan and requested key personnel from each Office to answer a series of questions. We followed up with observation and interviews. We determined that there are separations among the Front Office, Middle Office, and Back Office.

Docket No.: 100001-EI Audit Report – Hedging Exhibit: DA – 1, Page 6 of 6

AUDIT FINDING 1

SUBJECT: DERIVATIVES AND HEDGING RESULTS

AUDIT ANALYSIS: TEC filed their hedging results on April 1, 2010, and August 16, 2010, for the 2009 hedging year and the first half of 2010, respectively. We determined that the gains and losses amount, the hedged volume, as well as the consumption quantity in the filing for December 2009 did not reconcile to the Utility's general ledger amount. However, the general ledger amount and the Utility's Settled Report do reconcile. It was determined that the Utility erroneously entered January 2010 numbers as December 2009 in its filing. This affected TEC's gains/losses, consumption, and hedged volume amounts. The Utility agreed to file a revised Filing for the 2009 hedging year. A proposed revised filing is included in the audit workpapers.

EFFECT ON GENERAL LEDGER: None.

EFFECT ON FILING: Informational.