

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: September 19, 2011
TO: Marguerite McLean, Commission Deputy Clerk II, Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance *CJP*
Analysis
RE: Docket No.: 110001-EI
Company Name: Florida Power & Light Company
Company Code: EI802
Audit Purpose: Hedging Activities – August 2010 to July 2011
Audit Control No: 11-129-4-2

Volumes 2, 3 and 4 of the audit working papers are forwarded for confidential treatment pursuant to Rule 25-22.006, Florida Administrative Code. The audit report and volume 1 of the work papers are public and held by the Bureau of Auditing. The audit exit conference was held September 15, 2011. An attached index lists all confidential material.

CJP/kby

Attachments: Confidential Document Index
Confidential Binder(s) Listed Above

cc: Office of General Counsel
Bureau of Auditing (File copy)

Diamond Williams
Received By

9/19/2011
Date

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06726 SEP 19 =
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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, 2011

Docket No. 110001-EI
Audit Control No. 11-129-4-2
September 15, 2011

A handwritten signature in black ink, appearing to read "Yen N. Ngo", written over a horizontal line.

Yen N. Ngo
Audit Manager

A handwritten signature in black ink, appearing to read "Kathy Welch", written over a horizontal line.

Kathy Welch
Reviewer

DOCUMENT NUMBER-DATE

06726 SEP 19 =

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Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
None.....	4

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 Economic Regulation in its audit service request dated May 9, 2011. We have applied these procedures to the schedules prepared by Florida Power & Light Company (FPL or Utility) in support of its filing for its Hedging Activities in Docket No. 110001-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

Accounting Treatment

Objectives: The objective was 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 PSC-02-1484-FOF-EI, issued October 30, 2002 in Docket No. 011605-EI.

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, 2011. 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 in Docket No. 011605-EI.

Objectives: The objectives were to verify that the level of hedging gains and losses associated with FPL's financial activities from August 2010 through July 2011 are consistent with the requirements of Commission Order in Docket No. 011605-EI and FPL's 2010 and 2011 Hedging Plans.

Procedures: We obtained the monthly level of hedging gains/losses and verified that they are consistent with the requirements of Commission Order in Docket No. 011605-EI and FPL's Hedging Plans. We also reviewed the company's external auditor's reports and workpapers on derivative activity for the 12-month period ended July 31, 2011.

Contracts

Objectives: The objective was to verify that the hedging contracts are in compliance with the Utility's stated objectives in its Hedging Plans.

Procedures: We sampled two contracts, one for natural gas and one for heavy oil, and reviewed the contracts to ensure that they were in compliance with the company's hedging plan.

Gains and Losses

Objectives: The objective was to reconcile the hedging results reported in the Utility's final July 31, 2011 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 October 2010 natural gas and September 2010 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 Platt's and NYMEX market data. In order to trace the September

and October 2010 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.

Quantity of Gas and Residual Oil

Objectives: The objective was 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 2010 Risk Management Plan 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)

Objectives: The objective was to verify that the individual and group transaction limits and authorizations set forth in FPL’s 2010 and 2011 Risk Management Plans have been followed.

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

Segregation of Duties

Objectives: The objective was to verify that FPL has followed the procedures for separating duties related to the front office, middle office and back office.

Procedures: We reviewed the procedures for separating duties and had no exceptions.

Audit Findings

None

COMMISSIONERS:
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RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

STATE OF FLORIDA



MIAMI DISTRICT OFFICE
3625 NW 82ND AVENUE
SUITE 400
MIAMI, FL 33166-7602
(305) 513-7816

Public Service Commission

September 15, 2011

Carlos Diaz
Florida Power & Light
9250 West Flagler Street
Miami, FL 33174

**Re: Docket No. 110001-EI
Audit Control No. 11-129-4-2
Hedging, Period August 1, 2010 through 7/31/2011**

Dear Mr. Carlos Diaz:

We have completed the fieldwork in the above referenced audit. Included with this letter are a copy of the audit work papers that the Commission is maintaining in a Temporary Confidential Status and a listing of these workpapers. Please sign and date a copy of this letter indicating that you have received these copies. The utility must file a Request for Confidential Classification according to Rule 25-22.006, F.A.C. in order to maintain this confidentiality. This request must be filed with the Commission within twenty-one days from today or these work papers will become public documents.

In future requests and correspondence with the Commission, please use the assigned working paper numbers and titles as found on the attached listing to describe the data so it can be effectively identified. Should you find that either the listing or the workpapers I have provided to you today contain incomplete page numbers, please let me know.

Sincerely,


Yen Ngo
Audit Manager

cc: Clarence Prestwood
Kathy Welch



Received by Company

9/15/11

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06726 SEP 19 =

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CONFIDENTIAL INDEX

WORKPAPER	DESCRIPTION	NO. OF PAGES
2	Filing	24
9	List of Internal Audits	4
9-1	Internal Audit Workpaper	10
9-2	External Audit Workpaper	2
12	LFARS Fuel Transaction Register	20
12-1	FINS Financial Report	2
12-2	LFARS Fuel Transaction Register	21
12-3	Accounts 501.115 & 926.226	3
25-1	Incremental Hedging Costs	1
42-1	Trading & Risk Management	78
42-2	Trading & Risk Management	25
42-3	Trading & Risk Management	9
43-1	Derivative Settlements	1
43-1/1	Financial Hedging Instrument	2
43-1/2	Physical Hedging Transaction	1
43-2	Natural Gas Sample Testing	1
43-2/1	Derivative Settlements	10
43-2/2	Invoice	2
43-2/3	Purchase Statement	2
43-2/3-1	Swap Deal Entry	22
43-2/3-2	Settlement Price	1
43-2/3-3	Platts	3
43-3	Heavy Oil Sample Testing	1
43-3/1	Derivative Settlements	2
43-3/2	Derivative Settlements True-Up	2
43-3/2-1	Invoice	3
43-3/3	Swap Deal Entry	9
43-3/4	Settlement Price	4
43-3/5	Platts	22
43-3/6	M&S Corrections & Adjustments	3
43-5	Monthly Gas Closing Report	1
43-5/1	Natural Gas Price Computation	2
43-5/2	Monthly Gas Closing Report	3
45-1	Rebalancing	1
45-2	Rebalancing	1
45-2/1	Rebalancing	1
45-2/1-1	Rebalancing	1
45-2/1-2	PPS	3
45-2/1-3	PPS	3
45-2/1-4	PPS	4
45-2/1-5	PPS	4
45-2/1-6	PPS	3
45-2/1-7	PPS	3
45-2/1-8	PPS	3
45-2/1-9	PPS	3
45-2/1-10	PPS	3
45-2/1-11	PPS	4
45-2/1-12	PPS	4
45-2/1-13	PPS	3

CONFIDENTIAL INDEX

WORKPAPER	DESCRIPTION	NO. OF PAGES
45-2/1-14	PPS	3
45-2/1-15	PPS	3
45-3	PPS	2
45-4	Rebalancing	2
45-4/1	Rebalancing	3
45-4/2	Rebalancing	9
46	VaR	1
46-1	VaR	21
47	Representation Letter	1
48	Policies & Guideline Procedures	7
48-1	Policies & Guideline Procedures	40
49	Hedging Contracts	2
49-1	Contract	67
49-2	Contract	70
50	Lehman Settlement	2
50-1	Lehman Settlement	2