

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: September 26, 2012
TO: Office of Commission Clerk
FROM: Patti Daniel, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120001-EI
Company Name: PEF
Company Code: EI801
Audit Purpose: A3a Hedging
Audit Control No: 12-130-2-1

RECEIVED - FPSC
12 SEP 26 AM 8:17
COMMISSION CLERK

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There were confidential work papers associated with this audit.

PD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER - DATE

06448 SEP 26 2012

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

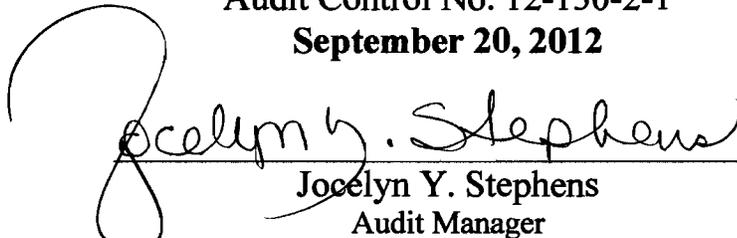
Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Progress Energy Florida, Inc.
Hedging Activities

Twelve Months Ended July 31, 2012

Docket No. 120001-EI
Audit Control No. 12-130-2-1
September 20, 2012



Jocelyn Y. Stephens
Audit Manager



Linda Hill-Slaughter
Reviewer

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Purpose

To: Florida Public Service Commission

We performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated May 9, 2012. We applied these procedures to the schedules prepared by Progress Energy Florida, Inc. (PEF or Utility) in support of its filing for hedging activities in Docket No. 120001-EI for the twelve months ended July 31, 2012.

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

Objective: The objective was to verify that the accounting treatment for futures, options, and swap contracts between PEF and its counterparties is consistent with Commission Order No. PSC-02-1484-FOF-EI, issued October 30, 2002, in Docket No. 011605-EI, and, as clarified by Order No. PSC-08-0316-PAA-EI, issued May 14, 2008, and Order No. PSC-08-0667-PAA-EI, issued October 8, 2008, in Docket No. 080001-EI.

Procedures: We obtained PEF's supporting detail of the hedging settlements for the twelve months ended July 31, 2012. The support documentation was traced to the general ledger transaction detail. We verified that the hedging settlements were in compliance with the Risk Management Plan and verified that the accounting treatment for hedging transactions and transaction costs is consistent with Commission orders relating to hedging activities. No exceptions were noted.

Gains and Losses

Objective: The objective was to verify that the gains and losses associated with each financial hedging instrument that PEF implemented are in compliance with Commission Order Numbers PSC-02-1484-FOF-EI, PSC-08-0316-PAA-EI, and PSC-08-0667-PAA-EI, relating to hedging activities.

Procedures: We traced the monthly balances of hedging transactions from PEF's Hedging Results Report for the period August 1, 2011, to December 30, 2011, and its Hedging Information Report for the period January 1, 2012, to July 31, 2012, to its Hedging Summary by Commodity Reports for 2011 and 2012. We reviewed existing tolling agreements whereby the Utility's natural gas is provided to generators under purchased power agreements. We selected 23 natural gas hedging transactions from August 2011 through July 2012 as a sample and traced them from the Hedging Results and Hedging Information Reports to the third-party confirmation notices and contracts. We recalculated the gains and losses, traced to the price in the confirmation notice and compared the price to the gas futures rates published by the NYMEX Henry Hub gas futures contract rates. We compared these recalculated gains and losses with the Utility's journal entries for realized gains and losses. No exceptions were noted.

Hedged Volume and Limits

Objective: The objective was to verify that the quantities of natural gas, residual fuel oil, and purchased power are hedged within the limits (percentage range), as listed in the Utility's Risk Management Plan.

Procedures: We reviewed the quantity limits and authorizations for all hedged fuel types. We also obtained PEF's analysis of the monthly percent of fuel hedged in relation to fuel burned for the twelve months ended July 31, 2012, and compared them with the Utility's Risk Management Plan. No variances were noted for natural gas. For No. 6 Oil, there were variances for four of the seven months. No. 6 Oil was not hedged for 5 of the 12 months. For No. 2 Oil, there was one variance for the 12 months. For Transportation – Barge, there were variances for 4 of the 12 months. For Transportation – Rail, there were variances for 5 of the 12 months. All variances were between the percentages of actual and projected burn volumes that were hedged and were the result of inaccurate forecasting.

Separation of Duties

Objectives: The objectives were to review: 1) PEF's procedures for separating duties related to hedging activities for Front Office, Middle Office, and Back Office, and 2) Internal and external auditor's work papers.

Procedures: We reviewed the Utility's procedures for separating duties related to hedging activities. The Audit Services Department of PEF performed evaluations for the proper segregation of duties for the Regulated Fuels Inventory Management Process and the Regulated Trading Cycle. The test results showed that the internal control procedures in place were "highly effective". In the external auditor's report it was stated that "...in all material respects, effective internal controls over financial reporting as of December 31, 2011,..." are maintained. No exceptions were noted.

Audit Findings

None