

Docket No. 150001-EI
Florida Power & Light Company
Fuel and Purchased Power Cost Recovery Clause
Hedging Activities

Witness: Direct Testimony of GABRIELA LEON
Appearing on Behalf of the Staff of the Florida Public Service Commission

Date Filed: September 29, 2015

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF GABRIELA LEON**

4 **DOCKET NO. 150001-EI**

5 **SEPTEMBER 29, 2015**

6

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

8 **A.** My name is Gabriela Leon and my business address is 3625 N.W. 82nd Ave., Suite
9 400, Miami, Florida, 33166.

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

11 **A.** I am employed by the Florida Public Service Commission (FPSC or Commission) as a
12 Professional Accountant Specialist in the Office of Auditing and Performance Analysis. I have
13 been employed by the Commission since December 1987.

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

15 **A.** In 1987, I received a Bachelor of Science degree with a major in Accounting from
16 Florida International University.

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

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

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

22 **A.** Yes. I filed testimony in the Nuclear Cost Recovery Clause, Docket No. 140009-EI.

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

24 **A.** The purpose of my testimony is to sponsor the staff auditor's report of Florida Power
25 & Light Company (FPL or Utility) which addresses the Utility's filing in Docket No. 150001-

1 EI, Fuel and purchased power cost recovery clause, for costs associated with its hedging
2 activities. We issued an audit report in this docket for the hedging activities on September 21,
3 2015. This audit report is filed with my testimony and is identified as Exhibit (GL-1).

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

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

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

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

8 Accounting Treatment

9 We obtained FPL's supporting detail of the hedging settlements for the twelve months
10 ended July 31, 2015. The support documentation was traced to the general ledger transaction
11 detail. We verified that the hedging settlements were in compliance with the Risk
12 Management Plan and verified that the accounting treatment for hedging transactions and
13 transactions costs are consistent with Commission orders relating to hedging activities. No
14 exceptions were noted.

15 Gains and Losses

16 We traced the monthly balances of hedging transactions from the filings in this docket
17 for the period August 1, 2014 to July 31, 2015 to FPL's Derivative Settlement Report. We
18 selected various hedging transactions from various counterparties from December 2014 and
19 May 2015 for natural gas as a sample and traced them from the Derivative Settlement Report
20 to the invoices, purchase statements, confirmation notices and deal tickets. FPL does not have
21 any tolling agreements where natural gas is provided to generators under purchase power
22 agreements. We recalculated the gains and losses. We compared these recalculated gains and
23 losses with FPL's journal entries for realized gains and losses. We compared a sample of the
24 purchase prices to the futures rates published by the NYMEX Henry Hub gas futures contract
25 rates. We traced a sample of settlement prices to the futures rates published by the NYMEX

1 Henry Hub gas futures contract rates. No exceptions were noted.

2 Hedged Volume and Limits

3 We reviewed the quantity limits and authorizations. We also obtained FPL's analysis
4 of the monthly percent of fuel hedged in relation to fuel burned for the twelve months ended
5 July 31, 2015, and compared them with the Utility's Risk Management Plan. The hedged
6 targets for natural gas were traced to the Planned Position Strategy Schedule. The fuel burn
7 forecast was traced to the Fuel Burn Summary. No exceptions were noted.

8 Separation of Duties

9 We reviewed the Utility's procedures for separating duties related to hedging
10 activities. We verified the separation of duties during our testing of transactions by matching
11 the names of various employees from deal tickets and confirmations with FPL's procedures.
12 We reviewed two internal audits related to Sarbanes Oxley Compliance on back-office and
13 mid-office control activities as part of the 2015 Fuel Cost Recovery Clause. No exceptions
14 were noted. We also reviewed the external work papers in the Fuel Cost Recovery Clause for
15 Hedging Activities. No exceptions were noted.

16 **Q. Please review the audit findings in this audit report.**

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

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

19 A. Yes.

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State of Florida



Public Service Commission

Office of Auditing and Performance Analysis

Bureau of Auditing

Miami District Office

Auditor's Report

Florida Power & Light Company

Hedging Activities

Twelve Months Ended July 31, 2015

Docket No. 150001-EI

Audit Control No. 15-051-4-1

September 15, 2015

A handwritten signature in blue ink, reading "Gabriela M. Leon".

Gabriela M. Leon
Audit Manager

A handwritten signature in blue ink, reading "Jeffery A. Small".

Jeffery A. Small
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated February 18, 2015. We have applied these procedures to the schedules prepared by Florida Power & Light Company in support of its filing for hedging activities in Docket No. 150001-EI.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

Definitions

FPL or Utility refers to Florida Power & Light Company.

Accounting Treatment

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

Procedures: We obtained FPL's supporting detail of the hedging settlements for the twelve months ended July 31, 2015. The support documentation was traced to the general ledger transaction detail. We verified that the hedging settlements were in compliance with the Risk Management Plan and determined that the accounting treatment for hedging transactions and transactions costs is consistent with Commission orders relating to hedging activities. No exceptions were noted.

Gains and Losses

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

Procedures: We traced the monthly balances of hedging transactions from FPL's April 7, 2015, and August 14, 2015 filings in this docket for the period August 1, 2014, to July 31, 2015 to FPL's Derivative Settlement Report. We selected a sample of hedging transactions from various counterparties from December 2014 and May 2015 for natural gas and traced them from the Derivative Settlement Report to the invoices, purchase statements, confirmation notices and deal tickets. We compared a sample of the purchase prices to the Gas Daily - NYMEX Henry Hub gas futures contract rates. We traced the floating price to the Settlement Price worksheet and to the Gas Daily- NYMEX Henry Hub gas futures contract rates provided by the Utility. We recalculated the gains and losses. We compared the recalculated gains and losses with FPL's journal entries for realized gains and losses. FPL does not have any tolling agreements where natural gas is provided to generators under purchased power agreement. Physical hedging transactions were reviewed for the months of March and July 2015. The loss was recalculated. The purchase price was compared to the Platts Gas Daily. No exceptions were noted.

Hedged Volume and Limits

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

Procedures: We reviewed the quantity limits and authorizations. We also obtained FPL's analysis of the monthly percent of fuel hedged in relation to fuel burned for the twelve months ended July 31, 2015, and compared them with the Utility's Risk Management Plan. The hedged targets for natural gas were traced to the Planned Position Strategy Schedule. The fuel burn forecast was traced to the Fuel Burn Summary. No exceptions were noted.

Separation of Duties

Objectives: The objective was to review FPL's procedures for separating duties related to hedging activities for front office, middle office, and back office and to review internal and external auditor's work papers.

Procedures: We reviewed the Utility's procedures for separating duties related to hedging activities. We verified the separation of duties during our testing of transactions by agreeing the names of various employees from deal tickets and confirmations to FPL's procedures. We reviewed. Staff reviewed two internal audits related to Sarbanes Oxley Compliance on back office and mid office control activities as part of the 2015 Fuel Cost Recovery Clause. No exceptions were noted. We also reviewed the external workpapers in the Fuel Cost Recovery Clause for Hedging Activities. No exceptions were noted.

Audit Findings

None

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 150001-EI

DATED: September 29, 2015

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the testimony of Gabriela Leon on behalf of the staff of the Florida Public Service Commission was electronically filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished to the following, by electronic mail, on this 29th day of September, 2015.

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