

Docket No. 20170001-EI
Florida Power & Light Company
Fuel and Purchased Power Cost Recovery Clause
Hedging Activities

Witness: Direct Testimony of DONNA D. BROWN
Appearing on Behalf of the Staff of the Florida Public Service Commission

Date Filed: September 18, 2017

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF DONNA D. BROWN**

4 **DOCKET NO. 20170001-EI**

5 **SEPTEMBER 18, 2017**

6

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

8 A. My name is Donna D. Brown and my business address is 2540 Shumard Oak
9 Boulevard, Tallahassee, FL 32399.

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 Public Utility Analyst in the Office of Auditing and Performance Analysis. I have been
13 employed by the Commission since February 2008.

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

15 A. I graduated from Florida A&M University's School of Business & Industry in 2006
16 with a Bachelor of Science Degree in Accounting.

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 presented testimony before this Commission?**

21 A. Yes. I filed testimony in the Fuel and Purchased Power Cost Recovery Clause, Docket
22 Nos. 20110001-EI, 20120001-EI, and 20160001-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.

1 20170001-EI, Fuel and Purchased Power Cost Recovery Clause, for costs associated with its
2 hedging activities. We issued an auditor's report in this docket for the hedging activities on
3 September 15, 2017. This report is filed with my testimony and is identified as Exhibit
4 DDB-1.

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

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

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

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

9 Accounting Treatment

10 We obtained FPL's supporting detail of the hedging settlements for the twelve months
11 ended July 31, 2017. The support documentation was traced to the general ledger transaction
12 detail. We verified that the accounting treatment for hedging transactions and transactions
13 costs are consistent with Commission orders relating to hedging activities. No exceptions
14 were noted.

15 Gains and Losses

16 We traced the monthly balances of hedging transactions from FPL's April 3, 2017 and
17 August 18, 2017 filings in this docket for the period August 1, 2016 to July 31, 2017 to FPL's
18 Derivative Settlement Report. We selected various hedging transactions from various
19 counterparties from August 2016, December 2016, February 2017, and April 2017 for natural
20 gas as a sample and traced them from the Derivative Settlement Report to the invoices,
21 purchase statements, confirmation notices and deal tickets. FPL does not have any tolling
22 agreements where natural gas is provided to generators under purchase power agreements.
23 We recalculated the gains and losses. We compared these recalculated gains and losses with
24 FPL's journal entries for realized gains and losses. We compared a sample of the purchase
25 prices to the futures rates published by the NYMEX Henry Hub gas futures contract rates. We

1 traced a sample of settlement prices to the futures rates published by the NYMEX Henry Hub
2 gas futures contract rates. No exceptions were noted.

3 Hedged Volume and Limits

4 We reviewed the quantity limits and authorizations. We also obtained FPL's analysis
5 of the monthly percent of natural gas hedged in relation to natural gas burned for the twelve
6 months ended July 31, 2017, and compared August 2016 through December 2016 to the
7 Utility's 2016 Risk Management Plan. 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 agreeing
11 the names of various employees from deal tickets and confirmations to FPL's procedures. We
12 requested internal and external audits that related to hedging activities for the period August 1,
13 2016 to July 31, 2017. The Utility stated there were none. No exceptions were noted.

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

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

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

17 A. Yes.

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State of Florida



Public Service Commission

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

Auditor's Report

Florida Power & Light Company
Hedging Activities

Twelve Months Ended July 31, 2017

Docket No. 20170001-EI
Audit Control No. 2017-048-4-1

September 6, 2017

A handwritten signature in black ink, appearing to read "Donna D. Brown", written over a horizontal line.

Donna D. Brown
Audit Manager

A handwritten signature in blue ink, appearing to read "Marisa N. Glover", written over a horizontal line.

Marisa N. Glover
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated February 13, 2017. We have applied these procedures to the attached schedules prepared by Florida Power & Light Company in support of its filing for hedging activities in Docket No. 20170001-EI.

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

Objectives and Procedures

General

Definition

FPL or Utility refers to Florida Power & Light Company.

Accounting Treatment

Objectives: 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-2002-1484-FOF-EI, issued October 30, 2002 in Docket No. 20011605-EI, and as clarified by Order No. PSC-2008-0316-PAA-EI, issued May 14, 2008, and Order No. PSC-2008-0667-PAA-EI, issued October 8, 2008, in Docket No. 20080001-EI.

Procedures: We obtained FPL's supporting detail of the hedging settlements for the twelve months ended July 31, 2017. The support documentation was traced to the general ledger transaction detail. We verified that the accounting treatment for hedging transaction and transaction costs is consistent with Commission orders relating to hedging activities. No exceptions were noted.

Gains and Losses

Objectives: 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-2002-1484-FOF-EI, PSC-2008-0316-PAA-EI, and PSC-2008-0667-PAA-EI, relating to hedging activities.

Procedures: We traced the monthly balances of hedging transactions from FPL's April 3, 2017 and August 18, 2017 filings in this docket for the period August 1, 2016, to July 31 2017 to FPL's Derivative Settlement Report. We selected a sample of hedging transactions from various counterparties from August 2016, December 2016, February 2017, and April 2017 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 – NMEX Henry Hub gas futures contract rates provided by the Utility. We recalculated the gains and losses. We compared the recalculated gains and losses with the FPL's journal entries for realized gains and losses. FPL does not have any tolling agreements where natural gas is provided to generators under purchased power agreements. FPL did not have any physical hedging instruments in its August 1, 2016 to July 31, 2017 hedging activities. No exceptions were noted.

Hedged Volume and Limits

Objectives: 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 natural gas hedged in relation to natural gas burned for the twelve months ended July 31, 2017, and compared August 2016 through December 2016 to the Utility's 2016 Risk Management Plan. 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 requested internal and external audits that related to hedging activities for the period August 1, 2016 to July 31, 2017. The Utility stated there were none. 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. 20170001-EI

DATED: September 18, 2017

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the testimony of Donna D. Brown 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 18th day of September, 2017.

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