

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 23, 2009
TO: Pete Lester, Economic Analyst, Division of Economic Regulation
FROM: Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*
RE: Docket No.: 090001-EI
Company Name: Tampa Electric Company
Company Code: EI806
Audit Purpose: Hedging 2008 - 2009
Audit Control No: 09-189-2-1

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COMMISSION
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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 the Commission Clerk. There are confidential work papers associated with this audit.

DNM/ch

Attachment: Audit Report

cc: (With Attachment)
Division of Regulatory Compliance (Salak, Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Division of Regulatory Compliance (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

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FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING***

Tampa District Office

TAMPA ELECTRIC COMPANY

2009 HEDGING ACTIVITIES

PERIOD AUGUST 1, 2008 THROUGH JULY 31, 2009

**DOCKET NO. 090001-EI
AUDIT CONTROL NO. 09-189-2-1**

A handwritten signature in black ink, appearing to read "Tomer".

Tomer Kopelovich, Audit Manager

A handwritten signature in black ink, appearing to read "Joseph W. Rohrbacher".

Joseph W. Rohrbacher, District Audit Supervisor

DOCUMENT NUMBER-DATE

09810 SEP 23 8

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TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES.....	2
III. AUDIT FINDINGS	
1. PROJECTED GAS HEDGE Vs. ACTUAL CONSUMPTION.....	3

DOCUMENT NUMBER-DATE

09810 SEP 23 88

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**DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT**

SEPTEMBER 8, 2009

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 June 23, 2009. We have applied these procedures to the Hedging Activities of Tampa Electric Company (TEC) in Docket No. 090001-EI.

This audit is performed following general standards and field work 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.

OBJECTIVES AND PROCEDURES

Objectives: Review and verify the information presented in Tampa Electric Company's (TEC) Hedging Information Report filed on August 15, 2009.

Procedures: We reviewed and verified, as described below, the information presented in the utility's Hedging Information Report that was filed on August 15, 2009.

Objectives: 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.

Procedures: We reviewed a listing of all futures, options, and swap contracts executed by TEC for the period of August 1, 2008 through July 31, 2009. Also, we reviewed the volumes of each fuel the utility actually hedged using fixed price contract or instrument. In addition, we requested the types of hedging instrument the utility used and the average period for all hedges, options premiums, futures gains and losses and swap settlements. We reviewed the listing and a sample of contracts. The contracts were given to us and marked confidential.

Objectives: To reconcile the data included in the Hedging Information Report of August 15, 2009, with the books and records of the utility.

Procedures: We traced selected savings and costs on hedges to journal entries and the general ledger.

Objectives: To verify that quantities of gas, residual oil, and purchased power hedged are within the limits, the percentage range, specified by the 2008 and 2009 TEC Risk Authorization Committee.

Procedures: We reviewed the TEC hedging plans for 2008 and 2009. We compared actual percentage hedged on a monthly basis to allowable minimum and maximum limits prescribed by the Risk Authorization Committee.

Objectives: 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 the company to answer a series of questions regarding the front, middle, and back office. We determined that there are separation of duties between the front office, middle office, and back office.

Objectives: To verify that swap transaction price can be checked against the market futures price as of the date the utility entered the swap.

Procedures: We checked the swap transactions against the market future price as of the date the utility entered the swap and found that the prices were the same.

AUDIT FINDING NO. 1

SUBJECT: NATURAL GAS HEDGE VOLUMES vs. ACTUAL CONSUMPTION

AUDIT ANALYSIS: Tampa Electric Company (TEC) implements a financial hedging strategy to mitigate its natural gas price volatility. The company uses financial swap agreements to hedge its natural gas purchases. Tampa Electric Company uses the forward pricing information of the New York Mercantile Exchange (NYMEX) natural gas price curve in developing natural gas hedging strategy. The purpose of TEC's natural gas plan is to reduce natural gas price volatility by utilizing financial instruments relying on three key variables: price, volume and time.

Hedge Limits: Our objective was to verify that quantities of gas and residual oil hedged are within limits of the percentage range specified in TEC's Risk Management Plan. We determined that TEC hedged above the percentage limit in August 2008 by twelve percent and in October 2008 by sixteen percent. The reason given for the above deviation was that higher than projected generation from coal lowered actual gas consumption. Also, we determined that TEC hedged below the percentage limit in March 2009 by two percent because natural gas unit outage was delayed to April. In April, TEC hedged above the percentage limit by eleven percent because the natural gas unit outage reduced gas burn.

EFFECT ON GENERAL LEDGER: None.

EFFECT ON FILING: None, provided for informational purposes only.