

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 090001-EI
FILED: October 5, 2009

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Direct Testimony of Tomer
Kopelovich and the Direct Testimony of Ronald A. Mavrides was furnished to the following, by
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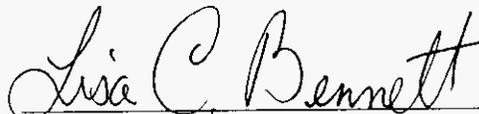
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DOCKET NO. 090001-EI: Fuel and purchased power cost recovery clause with generating performance incentive factor.

WITNESS: Direct Testimony Of Tomer Kopelovich, Appearing On Behalf Of Staff

DATE FILED: October 5, 2009

DOCUMENT NUMBER-DATE

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DIRECT TESTIMONY OF TOMER KOPELOVICH

Q. Please state your name and business address.

A. My name is Tomer Kopelovich and my business address is 4950 West Kennedy Blvd., Suite 310, Tampa, Florida 33609.

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

A. I am employed by the Florida Public Service Commission as a Regulatory Analyst II in the Division of Regulatory Compliance.

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission since October 2002.

Q. Briefly review your educational and professional background.

A. I have a Bachelor of Business Administration Degree with a major in finance and fifth year of accounting from the University of South Florida. I am a Certified Public Accountant licensed in the State of Florida. I was hired as a Professional Accountant by the Florida Public Service Commission in October 2002. I am currently a Regulatory Analyst II.

Q. Please describe your current responsibilities.

A. I plan and conduct utility audits of manual and automated accounting systems for historical and forecasted data.

DOCUMENT NUMBER-DATE
10263 OCT-5 8

1 **Q. Have you previously presented testimony before this Commission?**

2 A. No.

3

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

5 A. The purpose of my testimony is to sponsor the staff audit report of Tampa Electric
6 Company (TECO, company, or utility) which addresses the utility's August 1, 2008,
7 through July 31, 2009, hedging activities. The audit report is filed with my testimony and
8 is identified as Exhibit TK-1.

9

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

11 A. Yes, it was prepared by me.

12

13 **Q. Please describe the work performed in this audit.**

14 A. We reviewed and verified the information presented in the utility's Hedging
15 Information Report that was filed on August 15, 2009. We reviewed a listing of all
16 futures, options, and swap contracts executed by TECO for the period of August 1, 2008,
17 through July 31, 2009. Also, we reviewed the volumes of each fuel the utility actually
18 hedged using fixed price contract or instrument. In addition, we requested the types of
19 hedging instruments the utility used and the average period for all hedges, options
20 premiums, futures gains and losses and swap settlements. We reviewed the listing and a
21 sample of contracts. We traced selected savings and costs on hedges to journal entries
22 and the general ledger. We checked the swap transactions against the market future price
23 as of the date the utility entered the swap and found that the prices were the same.

24 We reviewed the TECO hedging plans for 2008 and 2009. We compared actual
25 percentage hedged on a monthly basis to allowable minimum and maximum limits

1 prescribed by the Risk Authorization Committee.

2 We reviewed the Risk Management Plan and requested the company to answer a
3 series of questions regarding the front, middle, and back office. We determined that there
4 are separation of duties between the front office, middle office, and back office.

5
6 **Q. Please review the audit finding in this audit report, TK-1, which addresses**
7 **the hedging activities of TECO from August 1, 2008, through July 31, 2009.**

8 A. One objective was to verify that quantities of gas and residual oil hedged are
9 within limits of the percentage range specified in TECO's Risk Management Plan. We
10 determined that TECO hedged above the percentage limit in August 2008 by twelve
11 percent and in October 2008 by sixteen percent. The reason given for the deviation was
12 that higher than projected generation from coal lowered actual gas consumption. Also,
13 we determined that TECO hedged below the percentage limit in March 2009 by two
14 percent because a natural gas unit outage was delayed to April. In April, TECO hedged
15 above the percentage limit by eleven percent because the natural gas unit outage reduced
16 gas burn.

17
18 **Q. Does this conclude your testimony?**

19 A. Yes.
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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", written over a horizontal line.

Tomer Kopelovich, Audit Manager

A handwritten signature in black ink, appearing to read "Joseph W. Rohrbacher", written over a horizontal line.

Joseph W. Rohrbacher, District Audit Supervisor

TABLE OF CONTENTS

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

**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.