



Public Service Commission

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COMMISSION
CLERK

DATE: September 30, 2011

TO: Marguerite McLean, Commission Deputy Clerk II, Office of Commission Clerk

FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance *CJP*
Analysis

RE: Docket No.: 110001-EI
Company Name: Tampa Electric Company
Company Code: EI806
Audit Purpose: Hedging Activities – August 2010 to July 2011
Audit Control No: 11-129-2-3

Volume 2 of the audit working papers are forwarded for confidential treatment pursuant to Rule 25-22.006, Florida Administrative Code. The audit report and volume 1 of the work papers are public and held by the Bureau of Auditing. The audit exit conference was held September 26, 2011.

CJP/klh

Attachments: Confidential Binder(s) Listed Above

cc: Bureau of Auditing (File copy)

Diamond Williams

Received By

9/30/2011

Date

DOCUMENT NUMBER - 0A1

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State of Florida



Public Service Commission

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

Auditor's Report

Tampa Electric Company
Hedging Activities

12 Months Ended July 31, 2011

Docket No. 110001-EI
Audit Control No. 11-129-2-3
September 26, 2011

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

Tomer Kopelovich
Audit Manager

A handwritten signature in black ink, appearing to read "Linda Hill Slaughter".

Linda Hill Slaughter
Reviewer

DOCUMENT NUMBER-DATE

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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 Economic Regulation in its audit service request dated May 11, 2011. We have applied these procedures to the hedging activities of Tampa Electric Company (TEC) in Docket No. 110001-EI for the 12-month period ended July 31, 2011.

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

General

Objectives: Our objectives are to verify that the hedging information and results of Tampa Electric Company's (TEC or the Utility) hedging activities are consistent with the Utility's hedging plan filed with the Commission for the 12-month period ended July 31, 2011.

Procedures: We reviewed the information presented in the Utility's Hedging Information Reports that were filed on April 1, 2011, and August 15, 2011.

Swap Transactions

Objective: Our objective was to verify that the swap transaction price was the same as the market futures price as of the date the Utility entered the swap.

Procedure: We checked the swap transaction price against the market future prices as of the date the Utility entered the swap and found that the prices were the same.

Accounting Treatment

Objective: Our objective was 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, in Docket No. 011605-EI, issued October 30, 2002.

Procedures: We obtained a schedule of all financial futures, options, and swap contracts that were executed by the Utility from August 1, 2010, through July 31, 2011 and verified that the accounting treatment for the hedging transactions and any transaction costs for consistency with FPSC Order No. PSC-02-1484-FOF-EI, issued October 30, 2002 and as clarified by FPSC Order No. PSC 08-0316-PAA-EI, issued May 14, 2008 and FPSC Order No. PSC-08-0667-PAA-EI, issued October 8, 2008. In addition, we reviewed the volumes of each fuel the Utility actually hedged using a 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.

Gains and Losses

Objectives: Our objectives were to verify that the gains and losses associated with each financial hedging instrument that TEC implemented were consistent with Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued October 30, 2002.

Procedures: We reviewed a sample of gains and losses. We recalculated the gains and losses by multiplying the traded volume by the difference between fixed price and settlement price (NYMEX price). We reconciled the calculated monthly gains and losses to the Utility's general ledger. We traced general ledger numbers to the Mark to Market Report and supporting journal entries. We reconciled the general ledger amounts and the Mark to Market Report to the Utility's filing.

Hedged Volume and Limits

Objectives: Our objectives were to verify that quantities of gas, residual oil, and purchased power hedged are within the limits and percentage range, specified in TEC's Risk Management Plan.

Procedures: We reviewed the TEC Risk Management Plans for 2010 and 2011. We compared actual percentage hedged on a monthly basis to allowable minimum and maximum limits prescribed by the Risk Management Plan.

Separation of Duties

Objectives: Our objectives were to verify that TEC has followed utility procedures for separating duties related to hedging activities (front office, middle office, and back office) per its Risk Management Plan.

Procedures: We reviewed the Risk Management Plan and work papers for the internal audit related to front, middle, and back offices. We requested the Utility to answer a series of questions regarding the front, middle, and back offices. We determined that there are separation of duties between the front office, middle office, and back office.

Audit Findings

None