

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 110001-EI

DATED: October 5, 2011

COMMISSION CLERK

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of

Tomer Kopelovich has been served by U.S. Mail this 5th day of October, 2011, to the following:

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**Docket No. 110001-EI: Fuel and Purchased Power Cost Recovery Clause Tampa
Electric Company's Hedging Activities**

**Witness: Direct Testimony of Tomer Kopelovich, Appearing on Behalf of the
staff of the Florida Public Service Commission**

Date Filed: October 5, 2011

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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 Office of Auditing and Performance Analysis.

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 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.

Q. Have you previously presented testimony before this Commission?

A. Yes. I presented testimony in Docket No. 090001 Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive factor on behalf of Commission staff.

DOCUMENT NUMBER: 07262 OCT-5 =

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

3 A. The purpose of my testimony is to sponsor the staff audit report of Tampa Electric
4 Company (TEC, Company, or Utility) which addresses the Utility's August 1, 2010, through
5 July 31, 2011, hedging activities. The audit report is filed with my testimony and is identified
6 as Exhibit TK-1.

7

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

9 A. Yes, it was prepared by me.

10

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

12 A.

13 General

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

16 Swap Transactions

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

19 Accounting Treatment

20 We obtained a schedule of all financial futures, options, and swap contracts that were executed
21 by the Utility from August 1, 2010, through July 31, 2011 and verified that the accounting
22 treatment for the hedging transactions and any transaction costs for consistency with
23 Commission Order PSC-02-1484-FOF-EI, issued October 30, 2002 in Docket No. 011605-EI
24 and as clarified by FPSC Order No. PSC 08-0316-PAA-EI, issued May 14, 2008 and FPSC
25 Order No. PSC-08-0667-PAA-EI, issued October 8, 2008 in Docket No.080001-EI. In

1 addition, we reviewed the volumes of each fuel the Utility actually hedged using a fixed price
2 contract or instrument. We also requested the types of hedging instrument the Utility used and
3 the average period for all hedges, options premiums, futures gains and losses and swap
4 settlements. We reviewed the listing and a sample of contracts.

5 Gains and Losses

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

12 Hedged Volume and Limits

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

16 Tolling Arrangements

17 We reviewed the existing tolling arrangements. We tested all transactions for one vendor for
18 one month by tracing the vendor's invoices to the A-7 schedule, and reviewed the
19 accompanying master contract with this vendor. TEC has three outstanding tolling
20 arrangements. The treatment of the tolling arrangements appears proper.

21 Separation of Offices

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

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Q. Please review the audit findings in this audit report, RAM-1, which addresses the hedging activities of PEF from August 1, 2010 through July 31, 2011.

A. There were no audit findings in the audit report.

Q. Does this conclude your testimony?

A. Yes.

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 cursive script, appearing to read "Tomer Kopelovich".

Tomer Kopelovich
Audit Manager

A handwritten signature in cursive script, appearing to read "Linda Hill Slaughter".

Linda Hill Slaughter
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures..... 2

Audit Findings

 None..... 4

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. The Company's hedging of purchased power is discussed under the Tolling Arrangements section below.

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

Tolling Arrangements

Objectives: The objectives were to: 1) Determine if there are tolling arrangements, and 2) Review each tolling arrangement. A tolling arrangement involves providing natural gas to generators under purchased power agreements, and receiving back the generated power for a fee.

Procedures: We reviewed the existing tolling arrangements. We tested all transactions for one vendor for one month by tracing the vendor's invoices to the A-7 schedule, and reviewed the accompanying master contract with this vendor. TEC has three outstanding tolling arrangements. The treatment of the tolling arrangements appears proper.

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