

State of Florida



# Public Service Commission

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**DATE:** September 24, 2012  
**TO:** Office of Commission Clerk  
**FROM:** Patti Daniel, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 120001-EI  
 Company Name: TECO  
 Company Code: EI806  
 Audit Purpose: A3a Hedging  
 Audit Control No: 12-130-2-2

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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 Commission Clerk. There were confidential work papers associated with this audit.

PD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

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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

**Twelve Months Ended July 31, 2012**

Docket No. 120001-EI  
Audit Control No. 12-130-2-2  
**September 20, 2012**

*Ronald A. Mavrides*

Ronald A. Mavrides  
Audit Manager

*Linda Hill-Slaughter*

Linda Hill-Slaughter  
Reviewer

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## Purpose

To: Florida Public Service Commission

We performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated May 9, 2012. We applied these procedures to the schedules prepared by Tampa Electric Company (TECO or Utility) in support of its filing for hedging activities in Docket No. 120001-EI for the twelve months ended July 31, 2012.

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

### **Accounting Treatment**

**Objective:** The objective was to verify that the accounting treatment for futures, options, and swap contracts between TECO and its counterparties is consistent with Commission Order No. PSC-02-1484-FOF-EI, issued October 30, 2002, in Docket No. 011605-EI, and, as clarified by Order No. PSC-08-0316-PAA-EI, issued May 14, 2008, and Order No. PSC-08-0667-PAA-EI, issued October 8, 2008, in Docket No. 080001-EI.

**Procedures:** We obtained TECO's supporting detail of the hedging settlements for the twelve months ended July 31, 2012. The support documentation was traced to the general ledger transaction detail. We verified that the hedging settlements were in compliance with the Risk Management Plan and verified that the accounting treatment for hedging transactions and transactions costs are consistent with Commission orders relating to hedging activities. No exceptions were noted.

### **Gains and Losses**

**Objective:** The objective was to verify that the gains and losses associated with each financial hedging instrument that TECO implemented are in compliance with Commission Order Numbers PSC-02-1484-FOF-EI, PSC-08-0316-PAA-EI, and PSC-08-0667-PAA-EI, relating to hedging activities.

**Procedures:** We traced the monthly balances of hedging transactions from TECO's Hedging Information Report to its Mark to Market Position Report for the period August 1, 2011, to July 31, 2012. We reviewed existing tolling agreements whereby the Utility's natural gas is provided to generators under purchased power agreements. We selected all 33 hedging transactions from September and November 2011 as a sample and traced them from the Mark to Market Position Report to the third-party confirmation notices and contracts. We recalculated the gains and losses, traced to the price in the confirmation notice and compared the price to the gas futures rates published by the NYMEX Henry Hub gas futures contract rates. We compared these recalculated gains and losses with the Utility's journal entries for realized gains and losses. No exceptions were noted.

### **Hedged Volume and Limits**

**Objective:** The objective was to verify that 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 TECO's analysis of the monthly percent of fuel hedged in relation to fuel burned for the twelve months ended July 31, 2012, and compared them with the Utility's Risk Management Plan. There were variances for 8 of the 12 months between the percentages of actual and projected natural gas burned that were hedged. All variances were a result of inaccurate forecasting and unit outages.

## **Separation of Duties**

**Objectives:** The objectives were to review: 1) TECO's procedures for separating duties related to hedging activities for Front Office, Middle Office, and Back Office and 2) Internal and external auditor's work papers.

**Procedures:** We reviewed the Utility's procedures for separating duties related to hedging activities. There were no internal or external audits specifically performed on the separation of duties related to hedging activities. No exceptions were noted.

Audit Findings

**None**