

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 120001-EI

DATED: September 28, 2012

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original and six copies of the testimony of RONALD A. MAVRIDES, on behalf of the Florida Public Service Commission was filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished to the following, by U.S. Mail, on this 28th day of September, 2012.

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Docket No. 120001-EI: Fuel and Purchased Power Cost Recovery Clause.
Tampa Electric Company's Hedging Activities

Witness: **Direct Testimony of RONALD A. MAVRIDES**, Appearing on Behalf of
the Staff of the Florida Public Service Commission

Date Filed: September 28, 2012

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF RONALD A. MAVRIDES**

4 **DOCKET NO. 120001-EI**

5 **SEPTEMBER 28, 2012**

6 **Q. Please state your name and business address.**

7 A. My name is Ronald A. Mavrides. My business address is 4950 West Kennedy Blvd.,
8 Suite 310, Tampa, Florida 33609.

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

10 A. I am employed by the Florida Public Service Commission as a Public Utility Analyst
11 in the Office of Auditing and Performance Analysis.

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

13 A. I have been employed by the Florida Public Service Commission since October, 2007.

14 **Q. Briefly review your educational and professional background.**

15 A. In 1990, I received a Bachelor of Science Degree from the University of Central
16 Florida with a major in accounting. I am also a Certified Government Auditing Professional
17 and a Certified Management Accountant.

18 **Q. Please describe your current responsibilities.**

19 A. My current responsibilities include managing audits for conservation, capacity,
20 environmental, nuclear, hedging, and rate cases. I also perform financial audits of electric,
21 gas, and water and wastewater utilities.

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

23 A. Yes. I presented testimony in the Fuel and Purchased Power Cost Recovery Clause
24 Docket Nos. 090001-EI and 110001-EI.

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

1 A. The purpose of my testimony is to sponsor the staff's audit report of Tampa Electric
2 Company (Company or Utility) which addresses the Utility's August 1, 2011, through July 31,
3 2012, hedging activities. The audit report is filed with my testimony and is identified as
4 Exhibit RAM-1.

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

6 A. Yes. The audit was prepared by me.

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

8 A. I have separated the audit work into several categories.

9 Accounting Treatment

10 I reviewed TECO's Hedging Information Reports filed on April 1, 2011, and August,
11 16, 2012. I examined the report for reasonableness and used it as a basis for our sample tests.
12 I requested a listing of each futures, options, and swap contracts executed by TECO for the
13 12-month period covered by the Hedging Information Report. I requested the volumes for
14 each fuel TECO actually hedged using a fixed price contract or instrument. TECO only
15 hedges natural gas. I tested 33 sample transactions, choosing two months of transactions from
16 the 12-month period for natural gas, the only fuel type hedged. I traced the transactions to the
17 general ledger and trade confirmation documents. No exceptions were noted.

18 Gains and Losses

19 I recalculated the gains and losses by multiplying the volume by the difference
20 between the fixed price and the settlement price from the trade confirmation documents, and
21 compared them to the recorded gains and losses per the general ledger. No exceptions were
22 noted.

23 Hedged Volume and Limits

24 I obtained and reviewed TECO's Risk Management Plan. I compared the percentage
25 limits of purchased power hedged in the Risk Management Plan with the actual volumes of

1 hedged burns. The actual volumes of hedged burns varied from some of the percentage limits
2 delineated in the Risk Management Plan.

3 Separation of Duties

4 I reviewed TECO's written procedures for separation of duties related to hedging
5 activities. There were no internal and external auditor's workpapers specifically addressing
6 the separation of duties. No exceptions were noted.

7 **Q. Please review the audit findings in this audit report.**

8 **A.** There were no findings in this audit related to hedging activities.

9 **Q. Does this conclude your testimony?**

10 **A.** Yes.

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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