

State of Florida



**Public Service Commission**

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

**Auditor's Report**

Duke Energy Florida, Inc.  
Hedging Activities

**Twelve Months Ended July 31, 2013**

Docket No. 130001-EI  
Audit Control No. 13-102-2-1  
**September 18, 2013**

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Simon O. Ojada  
Audit Manager

A blue ink signature of Linda Hill-Slaughter, written in a cursive style, positioned above a horizontal line.

Linda Hill-Slaughter  
Reviewer

## Table of Contents

Purpose .....	1
Objectives and Procedures.....	2
Audit Findings	
None.....	4

## 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 April 10, 2013. We applied these procedures to the schedules prepared by Duke Energy Florida, Inc. in support of its filing for hedging activities in Docket No. 130001-EI for the twelve months ended July 31, 2013.

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

### **Definition**

DEF or Utility refers to Duke Energy Florida, Inc.

### **Accounting Treatment**

**Objective:** The objective was to determine whether the accounting treatment for futures, options, and swap contracts between DEF 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 DEF's supporting detail of the hedging settlements for the twelve months ended July 31, 2013. 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 that the accounting treatment for hedging transactions and transaction costs is consistent with Commission orders relating to hedging activities. No exceptions were noted.

### **Gains and Losses**

**Objective:** The objective was to determine whether the gains and losses associated with each financial hedging instrument that DEF 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 DEF's Hedging Results Report for the period August 1, 2012, to December 30, 2012, and its Hedging Information Report for the period January 1, 2013, to July 31, 2013, to its Hedging Summary by Commodity Reports for 2012 and 2013. We reviewed existing tolling agreements whereby the Utility's natural gas is provided to generators under purchased power agreements. We selected 20 natural gas hedging transactions from August 2012 through July 2013 as a sample and traced them from the Hedging Results and Hedging Information Reports 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 determine whether 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 for all hedged fuel types. We obtained DEF's analysis of the monthly percent of fuel hedged in relation to fuel burned for the twelve months ended July 31, 2013, and compared them with the Utility's Risk Management Plan. There were no significant variances noted on natural gas, No. 6 Oil, No 2 Oil, Transportation - Barge, and Transportation - Rail. There were no hedging activities for No. 6 Oil for the last 9 out of the 12 months.

## **Separation of Duties**

**Objectives:** The objectives were to review DEF's procedures for separating duties related to hedging activities for Front Office, Middle Office, and Back Office, and the Internal and external auditors' work papers.

**Procedures:** We reviewed the Utility's procedures for separating duties related to hedging activities. We reviewed the Utility Audit Services Department's evaluations for the proper segregation of duties for the Regulated Fuels Inventory Management Process and the Regulated Trading Cycle. Test results concluded that the internal control procedures in place were "highly effective". In the external auditor's report it was stated that "...in all material respects, effective internal controls over financial reporting as of December 31, 2012,..." are maintained. No exceptions were noted.

Audit Findings

**None**