

Docket No. 130001-EI: Fuel and Purchased Power Cost Recovery Clause.
Tampa Electric Company's Hedging Activities

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

Date Filed: September 27, 2013

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

2 A. The purpose of my testimony is to sponsor the staff audit report of Tampa Electric
3 Company (TECO or Utility) which addresses the Utility's filing in Docket No. 130001-EI
4 Fuel and purchased power cost recovery clause for costs associated with its hedging activities.
5 We issued an audit report in this docket for the hedging activities on September 23, 2013. This
6 audit report is filed with my testimony and is identified as Exhibit RAM-1.

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

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

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

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

11 Accounting Treatment

12 I reviewed TECO's Hedging Information Reports filed on April 1, 2012, and August,
13 16, 2013. I examined the report for reasonableness and used it as a basis for our sample tests.
14 I requested a listing of each futures, options, and swap contracts executed by TECO for the
15 12-month period covered by the Hedging Information Report. I requested the volumes for
16 each fuel TECO actually hedged using a fixed price contract or instrument. TECO only
17 hedges natural gas. I tested a sample of 31 transactions, choosing two months of transactions
18 from the 12-month period for natural gas. I traced the transactions to the general ledger and
19 trade confirmation documents. No exceptions were noted.

20 Gains and Losses

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

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1 Hedged Volume and Limits

2 I obtained and reviewed TECO's Risk Management Plan. I compared the percentage
3 limits of purchased power hedged in the Risk Management Plan with the actual volumes of
4 hedged burns. All variances were immaterial and were a result of inaccurate forecasting and
5 unit outages. No further work was done.

6 Separation of Duties

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

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

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

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

13 **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, 2013

Docket No. 130001-EI
Audit Control No. 13-102-2-2
September 17, 2013

Handwritten signature of Ronald A. Mavrides in cursive script.

Ronald A. Mavrides
Audit Manager

Handwritten signature of Linda Hill-Slaughter in cursive script.

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 April 9, 2013. We applied these procedures to the schedules prepared by Tampa Electric Company 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

TECO or Utility refers to the Tampa Electric Company.

Accounting Treatment

Objective: The objective was to determine whether 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, 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 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 determine whether 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, 2012, to July 31, 2013. We reviewed existing tolling agreements whereby the Utility's natural gas is provided to generators under purchased power agreements. We selected 31 hedging transactions from the months of February and March 2013 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 and traced them 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. We obtained TECO'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 variances for 4 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 TECO's procedures for separating duties related to hedging activities for Front Office, Middle Office, and Back Office and the internal and external auditors' workpapers.

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

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 130001-EI

DATED: SEPTEMBER 27, 2013

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 27th day of September, 2013.

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