

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: September 16, 2016
TO: Office of Commission Clerk
FROM: Lynn M. Deamen, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 160001-EI
Company Name: Tampa Electric Company
Company Code: EI806
Audit Purpose: A3a - Hedging Activities
Audit Control No: 16-068-2-2

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 are confidential work papers associated with this audit.

LMD/cm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

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, 2016

Docket No. 160001-EI
Audit Control No. 16-068-2-2
September 12, 2016

A handwritten signature in black ink, appearing to read "Intesar Terkawi".

Intesar Terkawi
Audit Manager

A handwritten signature in blue ink, appearing to read "Linda Hill".

Linda Hill
Reviewer

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Purpose

To: Florida Public Service Commission

We performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated February 26, 2016. We applied these procedures to the schedules prepared by Tampa Electric Company in support of its filing for hedging activities in Docket No. 160001-EI for the twelve months ended July 31, 2016.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

Objectives and Procedures

General

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 12 months ended July 31, 2016. 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 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, 2015, to July 31, 2016. We selected all gas hedging transactions from September and October 2015 and traced them from the Mark to Market Position Report to the third-party confirmation notices and contracts. We traced a sample of the purchase prices to the Gas Daily NYMEX-Henry Hub gas futures contract rates. We traced the related settlements prices to the Gas Daily-NYMEX Henry Hub gas futures contract rate. We recalculated the gains and losses and traced them to the Utility's journal entries for realized gains and losses. We confirmed with the Utility that hedging transactions did not include tolling agreements. 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 also obtained TECO's analysis of the monthly percent of fuel hedged in relation to fuel burned for the 12 months ended July 31, 2016, and compared them with the Utility's Risk Management Plan. There were variances for 11 of the 12 months between the percentages of actual and projected natural gas burned that were hedged. The variances in the months of September and October 2015, and January, February, March, April, June, and July 2016 were a result of inaccurate forecasting. The variances in the months of August, November and December 2015 were a result of increased load and reduced coal-fired generation.

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 their internal and external auditors' workpapers.

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

Audit Findings

None