

State of Florida



RECEIVED-FPSC

APR 18 PM 1:40

COMMISSION CLERK

# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

**DATE:** April 18, 2008

**TO:** Peter H. Lester, Economic Analyst, Division of Economic Regulation

**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance *D*

**RE:** Docket No: 080001-EI; Company Name: Tampa Electric Company;  
Audit Purpose: 2007 Hedging Activities; Audit Control No: 07-353-2-2:

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 the response to the Division of Commission Clerk. There are confidential work papers associated with this audit.

DNV:bj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of Commission Clerk (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

- CMP \_\_\_\_\_ Ms. Paula K. Brown
- COM \_\_\_\_\_ Tampa Electric Company
- CTR \_\_\_\_\_ P.O. Box 111
- ECR \_\_\_\_\_ Tampa, FL 33601-0111
- ECL \_\_\_\_\_ Lee Willis / James D. Beasley
- GCL \_\_\_\_\_ Ausley Law Firm
- OFC \_\_\_\_\_ P.O. Box 391
- RCA \_\_\_\_\_ Tallahassee, FL 32302
- SCR \_\_\_\_\_
- SGA \_\_\_\_\_
- SEC \_\_\_\_\_
- OTH Marguerite

DOCUMENT NUMBER-DATE

0308 | APR 18 08

FPSC-COMMISSION CLERK

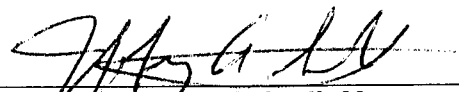



**FLORIDA PUBLIC SERVICE COMMISSION**  
**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE**  
**BUREAU OF AUDITING**

*Tampa District Office*

**TAMPA ELECTRIC COMPANY**  
**FUEL PRICE HEDGING COST**  
**AS OF DECEMBER 31, 2007**

**DOCKET NO. 080001-EI**  
**AUDIT CONTROL NO. 07-353-2-2**

  
\_\_\_\_\_  
**Jeffery A. Small, Audit Manager**

  
\_\_\_\_\_  
**Joseph W. Rohrbacher, District  
Supervisor**

**DOCUMENT NO.    DATE**

03081-08    04/18/08  
**FPSC - COMMISSION CLERK**

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES .....	2
III. FINDINGS	
1. HEDGING PLAN ACTIVITIES .....	4
IV. EXHIBITS	
1. NATURAL GAS COST .....	6
2. NATURAL GAS HEDGE PERCENTAGE.....	7

DOCUMENT NUMBER-DATE

93081 APR 18 8

FPSC-COMMISSION CLERK

**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**APRIL 11, 2008**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated December 20, 2007. We have applied these procedures to the attached schedules prepared by the audit staff that display the results of Tampa Electric Company's hedging activities for the 12-month period ended December 31, 2007 in Docket No. 080001-EI.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

## **OBJECTIVES AND PROCEDURES**

### **GENERAL**

To verify that the accounting treatment and results of the utility's 2007 hedging activities are consistent with the utility's 2007 hedging plan filed with the Commission in Docket No. 060001-EI.

### **ACCOUNTING TREATMENT**

*Objective:* Verify that the accounting treatment for futures, options and swap contracts between the utility and its counter parties are in compliance with Commission Orders and Rules and other applicable Financial Accounting Standards Board (FASB) statements.

*Procedures:* We obtained a schedule of all financial futures, options and swap contracts that were executed (closed) by the utility in 2007. We reconciled the monthly gain or loss to the company's final 2007 Fuel and Purchased Power Cost Recovery Clause (FPPCRC) filing and to the company's books and records. We verified that the company's accounting treatment of hedging gains or losses are in compliance with Commission Orders and Rules. We confirmed that the accounting treatment is consistent with applicable FASB statements by reviewing the company's external auditors' reports and work papers on derivative activity for years 2006 and 2007.

### **HEDGING COST**

*Objective:* Reconcile the hedging results reported in the utility's final 2007 FPPCRC filing to the company's books and records.

*Procedures:* We traced the monthly hedging gain or loss to the supporting documents that were used to prepare the Inventory Analysis Schedule A-5 of the company's final 2007 FPPCRC filing. We verified that the Inventory Analysis Schedule A-5 reconciled to the company's books and records by reviewing the audit work papers associated with the FPPCRC audit.

*Objective:* Verify that the transaction cost associated with each financial hedging instrument, which can be identified, are properly accounted for in the company's books and records.

*Procedures:* We obtained and reviewed the company's 2007 Hedging Plan approved by the Commission and the TECO Energy (parent) Risk Management Plan approved by the Board of Directors. We obtained and reviewed a sample of executed counter-party swap contracts and confirmation statements to determine the existence and amount of transaction cost associated with the company's financial hedging activity. We verified that the company's hedging activities were in compliance with the documented policies and procedures established by the TECO Energy Risk Management Plan and its 2007 Hedging Plan.

*Objective:* Verify that all hedging cost and credits resulting from joint operations with the company's affiliated operations are properly executed and allocated and are in compliance with Commission Orders and Rules.

*Procedures:* We inquired about hedging activities between the company and its affiliated operations. We obtained the supporting documents that were used to prepare the Inventory Analysis Schedule A-5 of the company's final 2007 FPPCRC filing. We verified that the affiliated hedging activity included in the supporting documents was properly excluded from the company's Inventory Analysis Schedule A-5 in its FPPCRC filing.

#### **HEDGING GAINS OR LOSSES**

*Objective:* Verify that the level of hedging gains or losses associated with the company's financial hedging activities for the 12-month period ended December 31, 2007 is consistent with the requirements of Commission Order No. PSC-02-1484-FOF-EI, issued October 30, 2002 and applicable FASB statements.

*Procedures:* We determined the monthly level of hedging gains or losses and verified that they are consistent with the requirements of Commission orders and FASB statements.

## AUDIT FINDING NO. 1

### SUBJECT: HEDGING PLAN ACTIVITIES

**AUDIT ANALYSIS:** Tampa Electric Company (TEC) implements a financial hedging strategy to mitigate its natural gas requirements. The company uses financial swap<sup>1</sup> agreements to hedge its natural gas purchases.

TEC uses the forward pricing information of the New York Mercantile Exchange (NYMEX) natural gas price curve in developing natural gas hedging strategy. The purpose of TEC'S natural gas hedge plan is to reduce natural gas price volatility by utilizing financial instruments relying on three key variables: price, volume and time.<sup>2</sup>

The objectives of our audit and the audit procedures performed are described on the preceding pages of this report. Our findings are detailed below and displayed on the two exhibits that follow.

#### Accounting Treatment

Our objective was to verify that the accounting treatment for futures, options and swap contracts between the utility and its counter parties are in compliance with Commission Orders and Rules and other applicable Financial Accounting Standards Board (FASB) statements.

We have determined, that during the 12-month period ended December 31, 2007, TEC settled<sup>3</sup> 247 swap contracts that were executed<sup>4</sup> within the prior 24 month period. The settled contracts resulted in a \$59,691,520 realized loss that was included in the cost of natural gas that is reported in the FPPCRC filing for this proceeding. See Exhibit 1 that follows for details.

We have determined, that based on the procedures we performed for this audit and our review of the work performed by TEC'S external auditors, TEC is in substantial compliance with Commission Orders and Rules and other applicable Financial Accounting Standards Board (FASB) statements for the accounting treatment of its derivative transactions for the 12-month period ended December 31, 2007.

#### Hedging Cost

Our objectives were to,

1. Reconcile the hedging results reported in the utility's final 2007 FPPCRC filing to the company's books and records.
2. Verify that the transaction cost associated with each financial hedging instrument, which can be identified, are properly accounted for in the company's books and records.

---

<sup>1</sup> The exchange of a payment tied to the value of a natural gas index for a fixed payment.

<sup>2</sup> Source – 2007 Tampa Electric Hedge Plan filed with the Commission in Docket No. 060001-EI.

<sup>3</sup> Settled - The date that a swap contract was financially settled and the gain or loss was determined and deemed receivable or payable.

<sup>4</sup> Executed - The date that a swap contract was created between TECO and a third-party institution.

3. Verify that all hedging cost and credits resulting from joint operations with the company's affiliated operations are properly executed and allocated and are in compliance with Commission Orders and Rules.

We have verified that TEC'S hedging results are properly posted to the final 2007 FPPCRC filing. Schedule A5 – System Generated Fuel Cost, of that filing, was reconciled to the company's books and records by the Commissions audit in that proceeding. We traced TEC'S hedging results to Schedule A5 of the filing. See Exhibit 1 that follows for details.

We have determined, that based on the procedures we performed for this audit, TEC did not incur any transaction cost or third party cost that can be identified with, or separated from, its hedging results for the 12-month period ended December 31, 2007.

We have also determined that hedging cost and credits resulting from joint operations with the company's affiliated operations, People Gas System, are properly executed and allocated and are in compliance with Commission Orders and Rules for the 12-month period ended December 31, 2007.

#### Hedging Gains or Losses

Our objectives were to,

1. Verify the level of hedging gains/losses associated with the company's financial hedging activities for the 12-month period ended December 31, 2007.
2. Verify that the level of gains/losses reported are consistent with TEC'S Hedge Plan filed with the Commission in Docket No. 060001-EI.
3. Verify that the level of gains/losses reported are consistent with the requirements of Order No. PSC-02-1484-FOF-EI.

We have determined, that based on the procedures we performed for this audit, the level of hedging gains or losses posted to the final 2007 FPPCRC filing are within the guidelines of TEC'S 2007 Hedge Plan and the requirements of the Commission Order cited above. See Exhibit 2 that follows for details.

**EFFECT ON FILING:** Informational

**EFFECT ON GENERAL LEDGER:** None



**EXHIBIT 1**

**CONFIDENTIAL**

**EXHIBIT 2**

**CONFIDENTIAL**