

State of Florida



# Public Service Commission

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COMMISSION  
CLERK

**DATE:** September 21, 2010

**TO:** Michael Barrett, Regulatory Analyst IV, Division of Economic Regulation

**FROM:** Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CP*

**RE:** Docket No.: 100001-EI  
 Company Name: Tampa Electric Company  
 Company Code: EI806  
 Audit Purpose: Hedging – August 2009 – July 2010  
 Audit Control No: 10-130-2-2

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 were confidential work papers associated with this audit.

CP/ip

Attachment: Audit Report

cc: (With Attachment)  
 Office of Auditing and Performance Analysis (Mailhot, Prestwood, File Folder)  
 Office of Commission Clerk  
 Office of the General Counsel

(Without Attachment)  
 Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER DATE

07890 SEP 21 09

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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**

**12 Month Period Ended July 31, 2010**

**DOCKET NO. 100001-EI  
AUDIT CONTROL NO. 10-130-2-2**

A handwritten signature in black ink, appearing to read "Daniel Acheampong".

*Daniel Acheampong, Audit Manager*

A handwritten signature in black ink, appearing to read "Simon Ojada".

*Simon Ojada, Staff*

A handwritten signature in black ink, appearing to read "Linda Hill-Slaughter".

*Linda Hill-Slaughter, Tampa District  
Supervisor*

DOCUMENT NUMBER-DATE

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**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
AUDITOR'S REPORT**

**September 14, 2010**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

**Purpose**

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 May 7, 2010. We have applied these procedures to the results of Tampa Electric Company's hedging activities for the 12-month period ended July 31, 2010, in Docket No. 100001-EI.

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

## **OBJECTIVES AND PROCEDURES**

### **GENERAL**

**Objective:** To verify that the Hedging information and results of Tampa Electric Company's (TEC or the Utility) hedging activities are consistent with the Utility's hedging plan filed with the Commission for the 12 month period ended July 31, 2010.

**Procedure:** We reviewed the information presented in the Utility's Hedging Information Reports that were filed on April 1, 2010, and August 16, 2010. Audit Finding 1 addresses this issue.

**Objectives:** To verify if TEC participated in any derivatives and hedging activities with any of its affiliates and how operating and maintenance expenses associated with maintaining financial and/or physical hedging program are separated.

**Procedures:** We questioned TEC representatives whether the Utility participated in any derivatives and hedging activities with any of its affiliates. Additionally, a request was made for TEC's policy regarding separation of transaction costs. The Utility representative stated that TEC does not participate in any financial hedges with any of its affiliates. However, TEC hedged gas for both TEC and Peoples Gas (PGS), a subsidiary of TEC. We reviewed the general ledger for TEC derivatives and hedging activities as well as the Settled Report. We found that TEC and PGS maintain separate portfolios for their hedging activities; hence, the transaction costs are separate.

### **ACCOUNTING TREATMENT**

**Objective:** To verify that the accounting treatment for futures, options, and swap contracts between TEC and counterparties are consistent with Order No. PSC-02-1484-FOF-EI, other Commission Rules, and other applicable Financial Accounting Standards Board (FASB) statements.

**Procedures:** We obtained a scheduled of all financial futures, options and swap contracts that were executed (closed) by the Utility from August 1, 2009, through July 31, 2010. We reviewed the listing and selected samples for further testing. We reviewed fourteen International Swap Dealers Association Inc. (ISDA Master Agreements) contracts, seven Credit Support contracts and thirty-two confirmation contracts. We also reconciled the Settlement Report to the Utility's general ledger numbers and supporting invoices. We tested invoices for proper amount, proper approval procedures and proper periods. We reviewed the internal audit report and workpapers for the year 2009. We confirmed that the accounting treatment is consistent with applicable FASB statements.

### **GAINS AND LOSSES**

**Objective:** To verify that the gains and losses associated with each financial hedging instrument that TEC implemented is consistent with Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued on October 30, 2002.

**Procedures:** We audited one hundred percent of gains and losses. We recalculated the gains and

losses by multiplying the traded volume by the differences between fixed price and settlement price (NYMEX price). We reconciled the calculated monthly gains and losses to the Utility's general ledger. We traced general ledger numbers to the Mark to Market Report and supporting journal entries. We reconciled the general ledger amounts and the Mark to Market Report to the Utility's filing. We verified that the Utility's accounting treatment of hedging gains and losses comply with Commission Orders and Rules except an error in the December 2009 number. Audit Finding 1 addresses this issue.

#### **HEDGED VOLUME AND LIMITS**

**Objective:** To verify that quantities of gas, residual oil, and purchased power hedged are within the limits of the percentage range specified in TEC's Risk Management Plan.

**Procedures:** We reviewed the TEC hedging plan for 2009 and 2010. We obtained the actual consumption from Bayside, Polk, City of Tampa, and the Big Bend plants; we recalculated total volumes and reconciled it to the Utility's filing. We recalculated the hedged consumption from the Utility's Settled Report. We recalculated the hedged percentage. We compared the actual percentage hedged to allowable minimum and maximum limits prescribed by the Risk Management Plan on a monthly basis. Audit Finding 1 addresses this issue.

**Objective:** To verify that the individual limits, group limits and authorizations set forth in the TEC Risk Management Plan have been followed.

**Procedures:** We reviewed the TEC Risk Management Plan regarding transaction limits. We selected samples from the Mark to Market Report and compared it to the established credit limits for counterparties (Credit Exposure Report). We compared selected samples to the individual transactional limit and found the company followed its plan. We also compared selected samples to the Utility's preset limits.

#### **SEPARATION OF OFFICE**

**Objective:** To verify that TEC has followed utility procedures for separating duties related to hedging activities (Front Office, Middle Office, and Back Office) per its Hedging Plan.

**Procedures:** We reviewed the Risk Management Plan and requested key personnel from each Office to answer a series of questions. We followed up with observation and interviews. We determined that there are separations among the Front Office, Middle Office, and Back Office.

## **AUDIT FINDING 1**

### **SUBJECT: DERIVATIVES AND HEDGING RESULTS**

**AUDIT ANALYSIS:** TEC filed their hedging results on April 1, 2010, and August 16, 2010, for the 2009 hedging year and the first half of 2010, respectively. We determined that the gains and losses amount, the hedged volume, as well as the consumption quantity in the filing for December 2009 did not reconcile to the Utility's general ledger amount. However, the general ledger amount and the Utility's Settled Report do reconcile. It was determined that the Utility erroneously entered January 2010 numbers as December 2009 in its filing. This affected TEC's gains/losses, consumption, and hedged volume amounts. The Utility agreed to file a revised Filing for the 2009 hedging year. A proposed revised filing is included in the audit workpapers.

**EFFECT ON GENERAL LEDGER:** None.

**EFFECT ON FILING:** Informational.