

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, 2014

Docket No. 140001-EI
Audit Control No. 14-083-2-1
August 25, 2014

A handwritten signature in blue ink, appearing to read "Simon O. Ojada", written over a horizontal line.

Simon O. Ojada
Audit Manager

A handwritten signature in blue ink, appearing to read "Linda Hill", written over a horizontal line.

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 agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated March 20, 2014. We applied these procedures to the schedules prepared by Duke Energy Florida, Inc. in support of its filing for hedging activities in Docket No. 140001-EI for the twelve months ended July 31, 2014.

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

General

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, 2014. The support documentation was reconciled 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 reconciled the monthly balances of hedging transactions from DEF's Hedging Results Report for the period August 1, 2013, to December 30, 2013, and its Hedging Information Report for the period January 1, 2014, to July 31, 2014, to its Hedging Summary by Commodity Reports for 2013 and 2014. We reviewed existing tolling agreements whereby the Utility's natural gas is provided to generators under purchased power agreements. We selected 21 natural gas and two No. 2 Oil hedging transactions from August 2013 through July 2014 as a sample. We reconciled the selected samples from the Hedging Results and Hedging Information Reports to the third-party confirmation notices and contracts. We reconciled the gains and losses to the Utility's journal entries. We compared the price on the confirmation notice to the price published by the NYMEX Henry Hub gas futures contract rates. 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, 2014, and compared them with the Utility's Risk Management Plan. No exceptions were noted.

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 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 twelve months ending December 31, 2013 for the Regulated Fuels Inventory Management Process and the Regulated Trading Cycle. No exceptions were noted.

Audit Findings

None

COMMISSIONERS:
ART GRAHAM, CHAIRMAN
LISA POLAK EDGAR
RONALD A. BRISE,
EDUARDO E. BALBIS
JULIE IMANUEL BROWN

STATE OF FLORIDA



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Public Service Commission

August 29, 2014

Duke Energy Florida
299 1st Avenue North
St Petersburg, FL 33701

Dear Mr. Menendez:

RE: 2014 Hedging Activities, Docket No.140001-EI.

We have completed our field work in the above-referenced audit. Included with this letter is a copy of the audit work papers which the Commission is maintaining in a Temporary Confidential Status and a listing of these work papers. Please sign and date a copy of this letter indicating that you have received these copies. The Utility must file a Request for Confidential Classification according to Rule 25-22.006, F.A.C. in order to maintain this confidentiality. This request must be filed with the Commission within twenty-one days from today or these work papers will become public documents.

Sincerely,


Simon O. Ojada
Audit Manager

Received by:  _____

Enclosure

cc: Audit File