

State of Florida



# Public Service Commission

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

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**DATE:** August 31, 2018

**TO:** Office of Commission Clerk

**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

**RE:** Docket No.: 20180001-EI  
Company Name: Duke Energy Florida, LLC  
Company Code: EI801  
Audit Purpose: A3a: Hedging Activities  
Audit Control No.: 2018-058-2-1

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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/cmm

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

Duke Energy Florida, LLC  
Hedging Activities

**Twelve Months Ended July 31, 2018**

Docket No. 20180001-EI  
Audit Control No. 2018-058-2-1  
**August 27, 2018**

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

Simon O. Ojada  
Audit Manager

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

Linda Hill  
Reviewer

## Table of Contents

Purpose .....	1
Objectives and Procedures.....	2
Audit Findings	
None.....	4

## 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, 2018. We applied these procedures to the schedules prepared by Duke Energy Florida, LLC in support of its filing for hedging activities in Docket No. 20180001-EI for the twelve months ended July 31, 2018.

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

DEF or Utility refers to Duke Energy Florida, LLC.

### **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-2002-1484-FOF-EI, issued October 30, 2002, in Docket No. 20011605-EI, and as clarified by Order No. PSC-2008-0316-PAA-EI, issued May 14, 2008, and Order No. PSC-2008-0667-PAA-EI, issued October 8, 2008, in Docket No. 20080001-EI.

**Procedures:** We obtained DEF's supporting detail of the hedging settlements for the 12 months ended July 31, 2018. The support documentation was reconciled to the general ledger transaction detail. We verified that the accounting treatment for hedging transactions and transaction costs is consistent with Commission orders relating to hedging activities. The Utility did not enter into any new contracts between August 1, 2017 and July 31, 2018. 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 Nos. PSC-2002-1484-FOF-EI, PSC-2008-0316-PAA-EI, and PSC-2008-0667-PAA-EI, relating to hedging activities.

**Procedures:** We reconciled the monthly balances of hedging transactions from DEF's Hedging Details Report for the period August 1, 2017, through July 31, 2018, to its Hedging Summary by Commodity Reports for 2017 and 2018. We reviewed existing tolling agreements whereby the Utility's natural gas is provided to generators under purchased power agreements. We selected 22 natural gas hedging transactions from August 2017 through July 2018 as a sample. We reconciled the selected samples from the Hedging Details Report 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 in compliance with the 2016 Risk Management Plan. There were no Risk Management Plans filed in 2017 or 2018. 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 and external 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 12 months ended December 31, 2017, for the Regulated Fuels Inventory Management Process and the Regulated Trading Cycle. There was no external audit on hedging activities during the test period. No exceptions were noted.

## Audit Findings

**None**