

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 15, 2017

TO: Office of Commission Clerk

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

RE: Docket No.: 20170001-EI
Company Name: Duke Energy Florida, LLC
Company Code: EI801
Audit Purpose: A3a: Hedging Activities
Audit Control No.: 2017-048-2-1

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.

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, 2017

Docket No. 20170001-EI
Audit Control No. 2017-048-2-1
September 6, 2017

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

Simon O. Ojada
Audit Manager

A handwritten signature in black ink, appearing to read "Intesar Terkawi", written over a horizontal line.

Intesar Terkawi
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 13, 2017. We applied these procedures to the schedules prepared by Duke Energy Florida, LLC in support of its filing for hedging activities in Docket No. 20170001-EI for the twelve months ended July 31, 2017.

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, 2017. 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. 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, 2016, through July 31, 2017, to its Hedging Summary by Commodity Reports for 2016 and 2017. 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 2016 through July 2017 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. Compliance with the 2016 Risk Management Plan was tested in Docket 20160001-EI. The 2017 Risk Management Plan was withdrawn by the Utility. 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 ending December 31, 2016, 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