

State of Florida



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: September 6, 2019

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, ^{LMD} Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20190001-EI
Company Name: Tampa Electric Company
Company Code: EI806
Audit Purpose: A3a: Hedging Activities
Audit Control No.: 2019-070-2-2

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 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

Tampa Electric Company
Hedging Activities

Twelve Months Ended July 31, 2019.

Docket No. 20190001-EI
Audit Control No. 2019-070-2-2
August 01, 2019

Handwritten signature of Intesar Terkawi in cursive script.

Intesar Terkawi
Audit Manager

Handwritten signature of Linda Hill in cursive script.

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 March 08, 2019. We applied these procedures to the schedules prepared by Tampa Electric Company in support of its filing for hedging activities in Docket No. 20190001-EI for the twelve months ended July 31, 2019.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definition

TECO or Utility refers to the Tampa Electric Company.

Accounting Treatment

Objective: The objective was to determine whether the accounting treatment for futures, options, and swap contracts between TECO 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 TECO's supporting detail of the hedging settlements for the months of August through November 2018. TECO's hedging activities ceased in the month of November 2018 due to the hedging moratorium. Support documentation for the four months was traced to the general ledger transaction detail. We verified that the accounting treatment for hedging transactions and transactions costs are 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 TECO implemented are in compliance with Commission Order Numbers PSC-2002-1484-FOF-EI, PSC-2008-0316-PAA-EI, and PSC-2008-0667-PAA-EI, relating to hedging activities.

Procedures: We traced the monthly balances of hedging transactions from TECO's Hedging Information Report to its Mark to Market Position Report for the period August 1, 2018, to November 30, 2018. We selected all gas hedging transactions for the four months and traced them from the Mark to Market Position Report to the third-party confirmation notices and contracts. We traced a sample of the purchase prices to the Gas daily NYMEX-Henry Hub gas futures contract rates. We traced the related settlements prices to the Gas Daily-NYMEX Henry Hub gas futures contract rate. We recalculated the gains and losses and traced them to the Utility's journal entries for realized gains and losses. We confirmed with the Utility that hedging transactions did not include tolling agreements. 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. We also obtained TECO's analysis of the monthly percent of fuel hedged in relation to fuel burned for August through November 2018 and compared them to the Utility's Risk Management Plan filed in 2016. There has not been a Risk Management Plan filed subsequent as all such filings ceased as a result of the hedging moratorium effective December 5, 2016. No exceptions were noted.

Separation of Duties

Objectives: The objectives were to review TECO's procedures for separating duties related to hedging activities for Front Office, Middle Office, and Back Office and their internal and external auditors' workpapers.

Procedures: We reviewed the Utility's procedures for separating duties related to hedging activities. There were no internal or external audits specifically performed on the separation of duties related to hedging activities. No exceptions were noted.

Audit Findings

None