FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. PA13-18-000
February 11, 2015

Drew Fossum
Vice President and General Counsel
Tenaska, Inc.
14302 FNB Parkway
Omaha, NE 68154

Dear Mr. Fossum:

1. The Division of Audits and Accounting within the Office of Enforcement (OE) has completed an audit of Tenaska Energy, Inc., and Tenaska Energy Holdings, LLC, and their affiliates (collectively, Tenaska). The audit, which covered January 1, 2010 through September 30, 2014, evaluated Tenaska's compliance with the requirements of: (1) its market-based rate (MBR) authorizations, including Commission MBR regulations under 18 C.F.R. § 35 Subpart H (2013) and Electric Quarterly Report (EQR) filing regulations under 18 C.F.R. § 35.10b (2013); and (2) the FERC Form No. 552, Annual Report of Natural Gas Transactions, under 18 C.F.R. § 260.401 (2013). The audit also examined Tenaska's wholesale electric and natural gas market activity, including compliance with applicable tariff provisions and Commission regulations over natural gas transportation and sales under 18 C.F.R. Pt. 284 (2013). The enclosed audit report includes six compliance findings, one other matter, nineteen recommended corrective actions, and three suggested actions.

2. On January 30, 2015, Tenaska notified audit staff that it accepts the findings and recommendations. The appendix to the audit report includes a copy of Tenaska's response. I hereby approve the audit report.

3. Tenaska should submit a plan to comply with the recommendations of the audit report within 30 days of this letter order. Tenaska should make quarterly submissions describing how and when it plans to comply with the recommendations, including the completion date for each recommendation. The submissions should be made no later than 30 days after the end of each calendar quarter, beginning with the first quarter after this audit report is issued, and continuing until all the recommendations are completed.

4. The Commission delegated authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311 (j) (2014). This letter order constitutes final agency action. Tenaska may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2014).

5. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its attention. In addition, any instance of non-compliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

6. I appreciate the courtesies extended to the auditors. If you have any questions, please contact Mr. Bryan K. Craig, Director and Chief Accountant, Division of Audits and Accounting, at (202) 502-8741.

Sincerely,

Larry D. Gasteiger
Acting Director
Office of Enforcement

Enclosure

Federal Energy Regulatory Commission

Audit of Market-Based Rate Authority, Electronic Quarterly Report Requirements, and FERC Form No. 552 for Tenaska Energy, Inc., and Tenaska Energy Holdings, LLC

Docket No. PA13-18-000
February 11, 2015

Office of Enforcement
Division of Audits and Accounting

TABLE OF CONTENTS

I. Executive Summary

A. Overview

The Division of Audits and Accounting (DAA) within the Office of Enforcement (OE) has completed an audit of Tenaska Energy, Inc., and Tenaska Energy Holdings, LLC, and their affiliates (collectively, Tenaska). The audit evaluated Tenaska's compliance with the requirements of: (1) its market-based rate (MBR) authorizations, including Commission MBR regulations under 18 C.F.R. § 35 Subpart H (2013) and Electric Quarterly Report (EQR) filing regulations under 18 C.F.R. § 35.10b (2013); and (2) the FERC Form No. 552, Annual Report of Natural Gas Transactions, under 18 C.F.R. § 260.401 (2013). The audit also examined Tenaska's wholesale electric and natural gas market activity, including compliance with applicable tariff provisions and Commission regulations over natural gas transportation and sales under 18 C.F.R. § 284 (2013). The audit covered January 1, 2010 to September 30, 2014.

B. Tenaska Energy, Inc., and Tenaska Energy Holdings, LLC

Founded in 1987, Tenaska markets natural gas, electric power, biofuel, and commodities; develops, builds, owns, and operates power plants; explores and manages production of natural gas wells; manages private equity investments. In 2013, Tenaska had $9.5 billion in gross operating revenue. In the same year, Tenaska managed 10,899 megawatts (MW) of plant capacity and 20,000 MW of third-party assets. The company also sold or managed 9.5 percent of the total U.S. natural gas consumption that year, with 2.5 trillion cubic feet of natural gas sold or managed.

Co-holding companies, Tenaska Energy, Inc., and Tenaska Energy Holdings, LLC, own or manage jurisdictional and nonjurisdictional subsidiaries and affiliates, including 26 subsidiaries and affiliates with MBR authority and six FERC Form No. 552 filers.

C. Summary of Compliance Findings

Below is a summary of audit staff's compliance findings. Audit staff identified six areas of noncompliance and one other matter of concern. Section IV details these noncompliance findings, and Section V addresses the other matters.

- *Electric Quarterly Reports data quality* – Tenaska's affiliates, to which the Commission granted MBR authority, made EQR filings containing erroneous data. These filings contained inaccurate contract and transaction data, inconsistencies between transaction and contract data, aggregated transactions, and unreported wholesale sales.

- *FERC Form No. 552 filing deadlines* – Tenaska did not ensure that four of its affiliates promptly filed FERC Form No. 552s, totaling eight occurrences during the audit period.

- *Reporting affiliate transactions in FERC Form No. 552s* – Tenaska did not ensure that three of its FERC Form No. 552 filers correctly recorded affiliate transactions on their FERC Form No. 552 filings.

- *Transaction categorization in the FERC Form No. 552s* – Tenaska did not ensure that one of its FERC Form No. 552 filers correctly categorized wholesale natural gas transactions on its FERC Form No. 552s for 2010 and 2012.

- *Accuracy of schedule answers in FERC Form No. 552* – Tenaska did not ensure that one of its FERC Form No. 552 filers correctly reported answers on the Schedule of Reporting Companies and Price Index Reporting section of its FERC Form No. 552s for 2010, 2011, and 2012.

- *Reporting of transactions to price index developers* – Tenaska did not ensure that its affiliate reported all its fixed price for next-day transactions to price index developers as its internal procedures intended. Gaps existed in its procedures to ensure reporting of all the transactions conducted before the daily cut-off and in the controls designed to detect such omissions. The level of such misreporting detected in the audit sample was about 4 percent of reportable transactions.

Other Matter

- *Controls over trading and training* - Tenaska could improve its compliance program by enhancing its controls over two areas: monitoring trading activities during particular market conditions, and coordinating and verifying staff compliance training.

D. Summary of Recommendations and Suggestions

Audit staff's recommendations to remedy the findings and other matter in this report are summarized below. Detailed recommendations are in sections IV and V. Audit staff recommends that Tenaska:

1. For EQR filings made in the old EQR format, from the first quarter of 2012 through the second quarter of 2013, correct errors and inconsistencies this audit report identifies for this timeframe, and make any necessary refilings.

2. Revise processes and procedures to ensure that Tenaska reports contract and transaction data accurately and completely, and is consistent with Commission EQR filing guidance. In this revision, Tenaska should consider including quality controls that encompass review and financial reconciliation of contract and transaction data before filing.

3. Develop a process or procedure that validates data reported in the EQRs to underlying supporting documentation. In developing such processes or procedures, Tenaska should consider including steps addressing: execution of procedures by staff knowledgeable in Commission EQR reporting guidance, correction of identified discrepancies, identification and remediation of root causes of discrepancies, and the frequency and scope of such validations.

4. For EQR filings made in the new system, from the third quarter of 2013 to present, apply the revised processes and procedures developed in audit recommendation 2, and the new process or procedure developed in audit recommendation 3 to these EQR filings. Correct any and all errors and inconsistencies identified as a result of applying these new processes and procedures, in addition to correcting the errors and inconsistencies identified in this audit report identifies for this timeframe, and make any necessary refilings.

5. File the FERC Form No. 552s with the Commission for Tenaska Washington for 2010, and for Tenaska Frontier for 2010, 2011, and 2012.

6. Consider developing and implementing a centralized, company-wide FERC Form No. 552 filing procedure that identifies all affiliates required to file a FERC Form No. 552, to ensure timely, complete, and accurate filings.

7. Provide enhanced training on the instructions of the FERC Form No. 552 to personnel who gather and file the required information.

8. Consider posting on the company intranet(s) the FERC Form No. 552 filing

requirement information and related company procedures governing compliance with it, as well as other relevant compliance information available to staff performing relevant functions.

9. Create an affiliate list that is periodically reviewed and updated in a timely manner, and annually notify all Tenaska subsidiaries of affiliated companies whose transactions should be excluded from FERC Form No. 552 reporting.

10. Implement an annual enterprise-wide review process to ensure Tenaska affiliates comply with guidance in the annual affiliate notification.

11. Refile FERC Form No. 552s identified in the audit as erroneous to remove reported affiliate transactions.

12. Refile Tenaska Frontier’s 2010 and 2012 FERC Form No. 552s to accurately categorize natural gas transactions.

13. Develop and implement a process to ensure that Tenaska Frontier correctly categorizes its wholesale natural gas transactions when reported in FERC Form No. 552s.

14. Refile Tenaska Frontier’s 2010, 2011, and 2012 FERC Form No. 552s to correct the answers in the Schedule of Reporting Companies and Price Index Reporting section.

15. Develop and implement a FERC Form No. 552 filing review process to ensure accuracy of affiliates’ filings before submittal to the Commission.

16. Provide training to personnel on preparing and filing the FERC Form No. 552.

17. Revise its price index reporting policies and procedures to ensure it accurately and completely reports all relevant transactions to price index developers.

18. Develop stricter internal audit testing to examine whether all relevant transactions are included in reports to price index developers.

19. Conduct front and mid-office employee training on price index reporting policies, procedures, and reporting deadlines.

<u>Other Matter</u>

We suggest that Tenaska consider strengthening its compliance program by:

1. Setting specific market share thresholds for specific markets/hubs and then monitoring its market share when reaching or surpassing the established thresholds. Document review of company's market participation to ensure trading activity complies with the compliance program, risk management policy, internal policies, and FERC regulations.

2. Monitoring for changes in trading strategies, whether due to external activity in wholesale energy markets or its own trading activity, seeking explanations for such changes, and reviewing the company's related trading in the market.

3. Uniformly tracking compliance training needs and employee attendance throughout Tenaska, and maintaining and systematically reviewing these records.

E. Compliance and Implementation of Recommendations and Corrective Actions Already Taken

Audit staff further recommends that Tenaska submit for audit staff's review:

- Plans for implementing audit staff's recommendations. Tenaska should provide these plans to audit staff within 30 days of the issuance of this final audit report;

- Quarterly reports to DAA describing Tenaska's progress in completing each corrective action recommended in this final audit report. Tenaska should make quarterly filings no later than 30 days after the end of each quarter, beginning with the first quarter after this final audit report is issued, and continuing until it completes all recommended corrective actions; and,

- Copies of any written policies and procedures developed in response to recommendations in this final audit report. These documents should be submitted for audit staff review in the first quarterly filing after Tenaska completes them.

During the audit, Tenaska completed corrective actions related to the findings and recommendations listed above. These corrective actions either partially or fully satisfied audit team recommendations. Tenaska has:

- Instituted EQR filing policies and procedures that include data quality controls;

- Filed the eight FERC Form No. 552s that were not filed on time;

- Developed and implemented a centralized, company-wide process to review all affiliates with physical natural gas purchases and/or sales in the reporting year, to identify all affiliates that must file FERC Form No. 552s;

- Refiled Tenaska affiliates' 2010, 2011, and 2012 FERC Form No. 552s to exclude identified affiliate transactions;

- Implemented an annual, company-wide process to review all affiliates' FERC Form No. 552s for a given filing year and identify all Tenaska affiliates for exclusion from reported wholesale natural gas purchase and sale volumes;

- Implemented a system of cross checks to address flaws in its price index reporting procedure;

- Changed its annual internal audit process for price index reporting to include new audit criteria and add transactional testing; and

- Changed deal entry procedures for transactions conducted on the electronic energy commodities market.

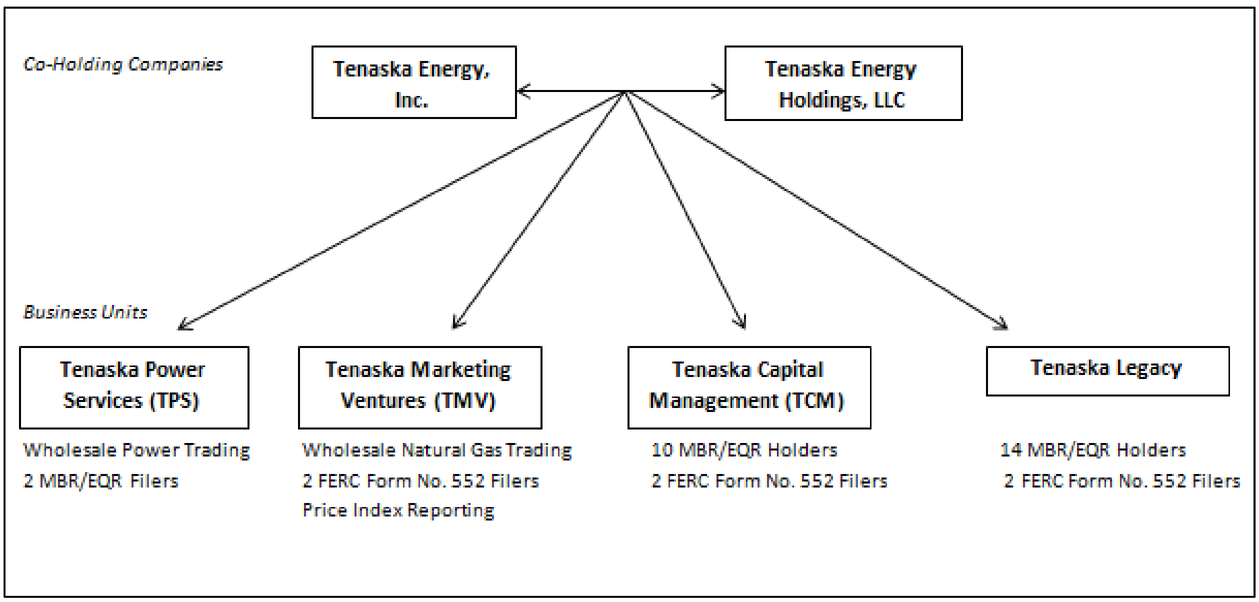
II. Background

A. Company Operations

Tenaska's business activities are conducted by its subsidiaries and affiliates, both jurisdictional and nonjurisdictional, under the Tenaska corporate umbrella. Tenaska's jurisdictional wholesale electric and natural gas business activities fall under four business units, including:

- Tenaska Marketing Ventures (TMV) a natural gas marketer;
- Tenaska Power Services (TPS) an electric power marketer;
- Tenaska Capital Management (TCM), manager of private equity funds; and
- Tenaska Legacy, a group of subsidiaries owning multiple power plants.

Each business unit serves a separate business purpose for the Tenaska co-holding companies, Tenaska Energy Inc., and Tenaska Energy Holdings, LLC. Generally, the audit examined each business unit individually. The chart below details Tenaska's corporate umbrella, jurisdictional business units, and their individual, jurisdictional business activities:[1]



[1] University Park Energy, LLC was sold in 2011, reducing the number of MBR/EQR holders under TCM to 9.

As shown above, the four business units audited include 26 MBR authority affiliates and six FERC Form No. 552 filers.

Tenaska Power Services

Since 1997, Tenaska Power Services Co. (TPS) has been Tenaska's wholesale power trading subsidiary; TPS offers power trading, optimization, risk management and settlement services to customers, including independent power producers, industrials, and utilities. TPS manages some 20,000 MWs of generation and load nationwide.

The two affiliated MBR holders are TPS and Tenaska Power Management, LLC.

Tenaska Marketing Ventures

Tenaska Marketing Ventures, LLC (TMV) is Tenaska's wholesale natural gas trading subsidiary. TMV's business activities also include those of Tenaska Gas Storage, LLC (TGS), another Tenaska affiliate, focused on natural gas storage activities. TMV's natural gas marketing products and services focus on the physical movement, storage, and price hedging of natural gas. TMV is one of the top 10 natural gas marketers in the country, handling 9.5 percent of total U.S. natural gas consumption in 2013, with 2.5 trillion cubic feet of natural gas sold or managed.

Both companies report transactions to price index developers and file annual FERC Form No. 552s with the Commission.

Tenaska Capital Management

Founded in 2003, Tenaska Capital Management, LLC (TCM) is a private equity investment manager with approximately $3.8 billion in assets under management. TCM manages several private equity funds focused on the energy industry through investments in power plants, gas gathering facilities, and storage projects – some jurisdictional and others not jurisdictional. Its private equity funds invest in power plants through special purpose vehicles; each generating unit has MBR authority. Two power plants, High Desert Power Project, LLC (High Desert Power) and New Covert Generating Company, LLC (New Covert Generating), are responsible for filing FERC Form No. 552s for their natural gas procurement activities as required at various times during the audit period.

The 10 MBR affiliates under TCM include Big Sandy Peaker Plant, LLC; Crete Energy Venture, LLC; High Desert Power; Lincoln Generating Facility, LLC; New Covert Generating; Rolling Hills Generating, LLC; TPF Generation Holdings, LLC; Wolf Hills Energy, LLC; University Park Energy, LLC;[2] and Astoria Generating Company, LP.

Tenaska Legacy

The company also owns power plants under its Tenaska Legacy group; they operate under long-term power purchase agreements. During the audit period, Tenaska Legacy had 14 affiliated MBR filers, including two generating units, Tenaska Frontier Partners, LTD (Tenaska Frontier) and Tenaska Washington Partners, LP (Tenaska Washington), responsible for filing FERC Form No. 552s for their natural gas procurement activity.

The 14 MBR affiliates under Tenaska Legacy included Alabama Electric Marketing, LLC; California Electric Marketing, LLC; CSOLAR IV South, LLC; Elkhorn Ridge Wind, LLC; Kiowa Power Partners, LLC; New Mexico Electric Marketing, LLC; Tenaska Alabama II Partners, LP; Tenaska Alabama Partners, LP; Tenaska Frontier; Tenaska Gateway Partners, LTD; Tenaska Georgia Partners, LP; Tenaska Virginia Partners, LP; Tenaska Washington; and Texas Electric Marketing, LLC. Four MBR affiliates have MBR authority with no related projects.

B. Business, Financial, and Regulatory Risk Management

Tenaska conducts risk management primarily at the subsidiary level. Subsidiaries have policies and staff that manage business, financial, and regulatory risks applicable to those subsidiaries, including market risk and credit risk, and have risk management committees consisting of stakeholders and management. While the subsidiaries have individual credit risk policies, the credit risk staff within each subsidiary reports at the co-holding company level and manages risks from the overall Tenaska perspective.

Compliance is driven by a top layer of Tenaska-wide policies, and a second layer of subsidiary-level policies tailored to business functions. Compliance responsibilities are distributed in the organization through individuals responsible for the status of compliance projects and practices within business units; these individuals ultimately report to the Board of Stakeholders. Some individuals focus on FERC compliance; other compliance focus areas include the North American Electric Reliability Corporation,

[2] University Park Energy, LLC was sold in 2011.

Environmental Health/Safety, Securities and Exchange Commission, and Commodity Futures Trading Commission requirements. Also, responsibility for compliance with specific requirements is an integral part of the daily duties of specific employees, e.g., staff responsible for compiling and making filings is also responsible for compliance with filing regulations. The top level policies are the Code of Conduct and Ethical Expectations and a Statement of Compliance Principles, which dictate general high-level expectations for compliance. Training on these policies is provided to new employees and to all employees annually.

Tenaska Power Services

The current TPS Risk Management Policy (TPS RMP) was originally generated in 2005 through a significant overhaul of older policies. Since 2005, the TPS RMP had undergone reviews and minor revisions, with eight versions in effect from 2010-2013. The policy covers nine areas: oversight; authorized commodities; authorized instruments; risk exposure; authorized exposure limits; authorized trading limits; policy compliance; authorized positions; and management controls. The policy also details specific parameters limiting trader authority; specific parameters limiting exposure; Value at Risk (VaR) definitions; and Credit Policy and Procedures. The TPS RMP also has separate Operating Control Limits (OCLs) that provide further restrictions on transactions within the different Independent System Operators/Regional Transmission Organizations (ISOs/RTOs). The TPS President and TPS Controller update OCLs as operational factors change. For example, they completed 12 updates in 2011. Finally, TPS has a documented process and procedure detailing the responsibilities and duties of the Market Risk Analyst, and a documented methodology for its VaR market risk measurements.

TPS addresses business, financial, and regulatory risks though the TPS RMP discussed above, TPS Compliance Principles, and training materials. TPS Compliance Principles are a statement under which each employee certifies annually that he or she has read, understood, and complies with the other compliance documents. Training on compliance with these policies and procedures is provided to new employees. Additional training is provided annually. Training is recorded, and the recording is available electronically to any employee absent from this session. Attendance at training sessions is tracked. Employees whose work encompasses compliance have daily duties that include: the stress testing of TPS transactions to ensure compliance with exposure limits; reviewing credit requests to ensure compliance with credit policy; tracking new FERC orders and other new issues; and determining appropriate staff training to ensure continued compliance. Compliance with certain FERC MBR requirements, such as initial filings, market power analyses, and Change-in-Status filings, are conducted with and through outside counsel. Staff tasked with compiling and submitting EQR filings are responsible for complying with EQR requirements.

Tenaska Marketing Ventures

Formalized in 2002, the TMV Risk Management Policy (TMV RMP) is applicable to TMV, TGS, and Tenaska Marketing Canada. TMV management periodically reviews and updates the policy; seven versions were in effect between 2010 and 2013. The policy covers 11 areas: business risks; management oversight; individual authority limits; authorized commodities, interest rates and currencies; authorized instruments; authorized markets; management controls and reporting; margin accounts; authorized exposure limits; affiliate transactions; and policy compliance. The policy also identifies members of the TMV Risk Management Committee (TMV RMC); specific parameters limiting trader authority; specific parameters limiting exposure; specific stress factors used in testing exposure; risk and position definitions; and the Credit Policy and Procedures.

Similar to what was described above for TPS, TMV and TGS address business, financial, and regulatory risks through the TMV RMP discussed above, the Tenaska Gas Trading Code of Conduct, TMV Compliance Principles, and training materials. The Tenaska Gas Trading Code of Conduct discusses ethical conduct in trading and price reporting activities. The TMV Compliance Principles require each employee to execute a Compliance Certificate annually, which state that each employee has read and understood the principles and that their activities comply with all relevant compliance documents. Training on compliance with these policies and procedures is provided to new employees. Various employee groups are also given periodic refresher training as deemed necessary by their supervisors or those responsible for compliance within an employee's business unit. Daily duties of employees who work on compliance measures include: stress testing TMV and TGS transactions to ensure compliance with exposure limits; reviewing credit requests to ensure compliance with the credit policy; and tracking new FERC orders and other new issues, and determining appropriate staff training, to ensure continued compliance. Staff tasked with compiling and submitting FERC Form No. 552 filings is responsible for compliance with FERC requirements.

Tenaska Capital Management

TCM's *Commodity Risk Management Policy* governs how TCM personnel address risks related to changes in prices of energy and energy-related commodities. This policy addresses a variety of risks, including: market; volume; operational flow order; unplanned capacity disruption; counterparty performance; credit; basis; liquidity; operational; regulatory; and process. Governance and oversight of TCM's risk management and control processes are done through senior managing directors, a risk management committee, and designated risk control responsibilities. This policy also identifies assets and traders authorized to trade for those assets, limits of authority for specific assets, and approved trading instruments. The policy identifies management reporting as a risk control tool, and lists reports required from each asset including: monthly financial reviews, quarterly cash flow projections, monthly volumetric risk reports, monthly credit reports for bilateral transactions, and notifications of basis risk and long-term transactions.

TCM compliance covers adherence to Tenaska's overarching policies, as well as to the risk management policy described above. Compliance with certain MBR requirements, such as initial filings, triennial market power analyses, and Change-in-Status filings, are conducted with and through outside counsel. Staff tasked with compiling and submitting EQR filings are responsible for complying with EQR requirements. Audit staff noted that compliance training has been conducted on an ad hoc basis as questions arose or when new FERC rules or policies were promulgated, rather than in a more comprehensive and systematic fashion. However comprehensive training on FERC rules was held in the fourth quarter of 2013.

Tenaska Legacy

The Tenaska Legacy assets are overseen by designated asset managers and plant managers within the Operations Management and Asset Management segment of Tenaska. No risk management policy addresses these power plants. Power plants are overseen by the Tenaska Operations and Asset Management Committee, which provides oversight and guidance to management as to the operation of these units. For plants Tenaska does not wholly own, oversight is provided by Tenaska Legacy Plant Executive Review Committees which include stakeholder representatives.

Compliance for Tenaska Legacy units is conceptually similar to TCM's, which is described above. The key operational difference, which causes compliance practices to deviate, is that Tenaska Legacy units are generally under long-term power purchase agreements (LTPPAs) while the TCM plant output is more actively traded. As a result, the Tenaska Legacy units do not require the same detailed risk management policy compliance requirements that TCM does.

C. Wholesale Electric Marketing and Trading

TPS conducts Tenaska's wholesale electric marketing and trading. It organizes trading activity into front, mid, and back office operations. Transactions originate in the front office; are reviewed and analyzed in the mid office; and are validated, settled, and accounted for in the back office. TPS operations also include functions that report to Tenaska: credit risk, which overlaps front and mid office; and the legal support group, which is part of the Tenaska Legal Department. TPS's legal personnel work closely with front office personnel, but are available to support all groups within TPS. To track its marketing and trading activities, TPS uses the Tenaska Trading System (TTS), an internally developed deal capture system, and PowerTools Platform (PTP), software internally developed to generate ISO/RTO ghost settlements.

The front office has four main arms: Origination, Asset and Energy Management, Traditional Power Commodities Trading, and Operations and Scheduling. Origination works to expand energy management deals in regions nationwide. The Asset and Energy Management arm manages Energy Management Agreements (EMAs). EMAs are contracts under which TPS provides energy-related services such as fuel management, scheduling, and market interface to a counterparty. The Traditional Power Commodities Trading arm is organized into two groups depending on the duration of a transaction: intra-day and day ahead-plus. Trading is conducted both within the organized markets, i.e., ISOs/RTOs, and traditional bilateral markets, with and without structured trading platforms. This arm operates a single book and trades electricity, futures, and swap contracts to hedge physical positions and thereby manage risk. Operations and Scheduling generates scheduling instructions for deals submitted to ISOs/RTOs, and validates that protocols for scheduling and counterparty confirmation were followed. The legal group reviews and interprets contracts. As part of this process, the Associate General Counsel within the Legal group reviews all contracts.

The mid office includes Deal Capture Control (DCC), Market Risk, and Credit Risk. DCC monitors deals entered in TTS and conducts daily reviews. DCC is responsible for ensuring consistent and complete data entry and consults with traders to resolve any identified anomalies. In addition this group assists Market Risk and Credit Risk with their reviews. The Market Risk group stress tests the TPS portfolio in line with written methodologies and established limits, and provides a series of daily, weekly, and monthly reports to TPS management and senior executives regarding financial risk exposure. The Credit Risk group is part of the mid office, but interacts with both front and back offices, and is functionally independent, reporting to the Tenaska Senior Vice President handing credit risk for all of Tenaska. This group manages counterparty credit risk by establishing and monitoring credit limits for all counterparties, advises traders on credit requirements for specific counterparties, negotiates contract credit, manages collateral, and provides daily reports to the Risk Management Committee.

The back office houses the Market Settlement and Accounting groups, as well as the corporate-level Treasury function. Market Settlement primarily analyzes and predicts market settlement for each day, using PTP to perform shadow ISO settlements to validate ISO-generated settlement data. Accounting handles cash receipts, banks statement reconciliations, financial reporting, and validating purchase-sales with counterparties. Tenaska performs the Treasury function and handles incoming and outgoing payments.

D. Wholesale Natural Gas Marketing and Trading

TMV and TGS conduct Tenaska's wholesale natural gas trading procurement activities in the United States. TMV and TGS's business activities are handled by 130 employees at Tenaska headquarters in Omaha, NE, and four satellite offices in Arlington, TX; Denver, CO; and Calgary, Alberta, and Vancouver, British Columbia. As with electric trading described above, TMV and TGS natural gas trading activities are organized into front, mid, and back office operations. Trades originate in the front office, are reviewed and analyzed by the mid office, and validated, settled, and accounted for in the back office.

The front office includes the Trading and Gas Scheduling groups. TMV and TGS split traders into two groups: physical traders and financial traders, breaking out each group by region. Physical traders are spread out across TMV's locations while the financial traders work in the Omaha office.

The TMV RMP describes authorized transactions types, limits, and markets available to TMV's physical and financial traders. All traders operate on one book and follow the same policies, procedures and compensation methodologies. If a trader exceeds his/her individual authority limits, the Contract Compliance group, a back-office function, notifies the TMV Management Committee. The TMV Management Committee reviews the deal exceeding risk management policy individual authority limits and determines whether to approve it. Approvals are generally requested and obtained in advance, but on occasion may be after the fact. Traders have one business day to bring their positions back to balance if they exceed their limits or do not flatten their position by the end of the business day.

TMV uses its deal capture system, the Gas Management System (GMS), to track its marketing and trading activities. Traders must enter all trades into GMS by the daily deadline of 2 p.m. CST. Traders either enter deals into their Day Trades Worksheet and then manually create GMS deal entries; or directly enter deals into a GMS deal entry screen. The system also automatically downloads transactions conducted on the InterContinental Exchange (ICE), an electronic energy commodities market, to the Day Trades Worksheet. Traders must then transfer the transactional data from their Day Trades Worksheets to GMS through deal entry.

The Scheduling group nominates gas on over 100 different pipelines with 19 of those pipelines set up for Electronic Data Interchange processing of nominations.[3] Gas

[3] Electronic Data Interchange is an electronic communication system that provides standards for exchanging data via any electronic means.

schedulers use information centralized in GMS to nominate natural gas for transportation. Gas schedulers also assist traders and the DCC group.

The mid office includes the DCC and Market Risk groups as well as a contract compliance function. After the daily deadline for deal entry in GMS, the DCC conducts a daily review of the transactions entered into by traders that day, reviewing hedging of deals, and accurate reporting of transactional information. The DCC group also assists the Trading, Scheduling, Market Risk, Legal, Compliance, and Accounting groups with questions regarding trades to ensure all transactions (including cash, purchases, sells, storage and transport) are captured accurately and completely in GMS and ensure compliance with limits set forth in the TMV RMP. DCC also runs multiple, daily GMS reports for purposes that include the reporting of transactions to price index developers.

The Market Risk group stress tests the TMV portfolio in line with written methodologies and established limits, and provides a series of daily, weekly, and monthly reports regarding the financial risk exposure to TMV management and senior executives.

Daily and term trades flow from trader entry into GMS to the Contract Compliance group for review and confirmation. This group reviews and reconciles counterparty trade confirmations the next morning, sends trade counterparties confirmations, scans all verified confirmations into the company’s document management system, and runs daily reports to ensure no incorrect entries at the end of the day.

The Credit Risk and Legal groups interact closely with the front and mid offices, but report to Tenaska. Credit Risk ensures compliance with Tenaska’s credit limits and policies, monitors and mitigates credit risk exposure, and promotes the efficient use of credit resources. Credit limits are established based on thorough due diligence reports and monitored independently of traders. Prior to input into GMS, credit limits are reviewed and approved by the TMV RMC. Also, the Legal group’s Assistant General Counsel reviews all contracts, with the TMV President and Chief Financial Officer having signature authority.

TMV’s back office includes the Accounting group, which conducts trade settlement and accounting functions. Tenaska’s Treasury function handles all cash receipts. To facilitate the billing of complex or unusual transactions, TMV has a Customer Service Representative on the trading floor, acting as a liaison between the front and the back offices. Accounting reconciles all volumes purchased, sold, and stored monthly, as well as account adjustments. Accounting employees also reconcile GMS payable and receivable detail to the general ledger each month.

III. Introduction

A. Objectives

Audit objectives included evaluation of Tenaska's compliance with the requirements of: its market-based rate (MBR) authorizations and Electric Quarterly Report (EQR) filing regulations, and the FERC Form No. 552, Annual Report of Natural Gas Transactions. The audit also examined Tenaska's wholesale electric and natural gas market activity, including compliance with applicable tariff provisions and Commission regulations over natural gas transportation and sales under 18 C.F.R. § 284 (2013). The audit covered January 1, 2010 to September 30, 2014.

B. Scope and Methodology

Audit staff reviewed publicly available and company-supplied information to evaluate compliance risks. Audit staff then conducted substantive testing to determine whether Tenaska complied with its MBR authorizations, EQR requirements, FERC Form No. 552s, and price index reporting requirements.

Audit staff performed these actions to facilitate testing and evaluation of Tenaska's compliance with Commission requirements relevant to the audit objective:

- *Reviewed Public Information* – Conducted an extensive review of public information before commencing the audit on September 16, 2013. This review provided audit staff with a high level of understanding of Tenaska's corporate structure, wholesale natural gas and electric trading activity, reporting activity, and other key regulatory and business activity. Examples of materials reviewed include Tenaska's MBR authorization applications, triennial market power analyses, EQR filings, FERC Form No. 552 filings, company-related web sites, and other relevant regulatory and media sources.

- *Identified Audit Criteria* – Identified audit criteria, including Commission rules, regulations, and other requirements necessary to evaluate Tenaska's compliance within audit objectives.

- *Conducted Overview Presentations* – Conducted four individual overview presentations with Tenaska's four jurisdictional subsidiaries to identify jurisdictional business activity and regulatory requirements over each subsidiary.

- *Issued Data Requests* – Issued data requests to Tenaska to collect information unavailable through public means. This information related to internal policies, procedures and controls; business practices; risk management; wholesale natural gas and electric trading activity; financial accounting and reporting activity; corporate compliance; regulatory filings; and other pertinent information. Audit staff used this data to test and evaluate Tenaska's compliance with Commission requirements relevant to audit objectives.

- *Conducted Teleconference Interviews* – Conducted multiple teleconferences with Tenaska employees to discuss audit objectives, testing, and scope. During the audit, audit staff held regular teleconferences with Tenaska to discuss data request responses, technical and administrative matters, and compliance concerns.

- *Scheduled Site Visits* – Audit staff conducted three site visits to discuss and observe Tenaska's controls and procedures related to audit objectives, including two site visits to Tenaska's headquarters in Omaha, NE, and one site visit to TPS in Arlington, TX. For example, to understand the structure of Tenaska's compliance program, audit staff interviewed Tenaska's traders and front, mid, and back office staff, senior officials, managers, and employees who fulfill daily compliance activities and carry out regulatory oversight responsibilities.

Audit staff performed further actions to evaluate Tenaska's compliance with requirements relating to the audit scope.

Testing wholesale electric trading against internal procedures and controls

To test Tenaska's wholesale electric trading against its internal policies, procedures, and controls, audit staff:

- *Gained Familiarity with Business Operations* – Evaluated information on Tenaska's wholesale electric trading business operations gathered in data requests, conference calls, and interviews. Audit staff gained an understanding of the structure, activities, and goals of this business segment. This gained familiarity was used to identify relevant internal procedures and controls and to plan further testing steps.

- *Reviewed risk management framework and operational controls* – Obtained internal procedures and controls covering wholesale electric trading, including risk management policies, compliance principles, trading activity limits, and others. Audit staff examined Tenaska actions in place to mitigate risks, and identified surveillance tools, performance targets, limits on trading activities, and any behavioral and/or conduct rules placed on traders and other employees.

- *Evaluated daily operations* – Gathered data from, and conducted interviews with, front, mid, and back office staff to understand the responsibilities of each group and how they interact. Audit staff evaluated how daily operations align with internal procedures and controls.

- *Evaluated management oversight* – Identified supervisors with management responsibilities over staff with trading, accounting, and reporting responsibilities. Audit staff reviewed how managers oversee employee activity, what tools are used in that oversight, how management identifies and investigates concerns that arise, and whether internal policies and controls are effectively enforced.

- *Reviewed the deal capture system* – Reviewed and discussed in detail the functionality of the deal capture system, including processes to execute, manage, and account for trades. Audit staff looked at automated and manual controls to identify processes that mitigate risks of trades failing to be correctly classified and recorded in Tenaska's system.

- *Sampled transactions* – Reviewed the effectiveness of internal controls, processes, and procedures by sampling transactions and following how they flowed from trade initiation through the deal capture system to internal reporting. Audit staff reviewed trader instant messages, email, and voice recordings, and verified that the samples fell within trading limits or had appropriate management oversight approval.

- *Assessed recruitment and compensation policies* – Assessed how Tenaska recruits and compensates employees. Audit staff reviewed the method(s) for screening prospective employees, and evaluated how compensation tied to compliance with policies and procedures.

Testing wholesale natural gas trading against internal procedures and controls

To test Tenaska's wholesale natural gas trading against its internal policies, procedures and controls, audit staff:

- *Learned About Business Operations* – Evaluated information on Tenaska's wholesale natural gas trading business operations gathered in data requests, conference calls, and interviews. Audit staff learned about the structure, activities, and goals of this business segment. This intelligence was used to identify relevant internal procedures and controls and to plan further testing steps.

- *Reviewed risk management framework and operational controls* – Obtained internal procedures and controls covering wholesale natural gas trading, including risk management policies, compliance principles, trading activity limits, and others. Audit staff examined Tenaska actions in place to mitigate risks and identified surveillance tools, performance targets, limits on trading activities, and any behavioral and/or conduct rules placed on traders and other employees.

- *Evaluated daily operations* – Gathered data from, and conducted interviews with, front, mid, and back office staff to understand the responsibilities of each group and how they interact. Audit staff evaluated how daily operations fit within Tenaska's internal procedures and controls.

- *Evaluated management oversight* – Identified supervisors with management responsibilities over staff with trading, accounting, and reporting responsibilities. Audit staff reviewed how managers oversee employee activity, what tools are used in that oversight, how management identifies and investigates concerns that arise, and whether internal policies and controls are effectively enforced.

- *Reviewed the deal capture system* – Reviewed and discussed in detail the functionality of the deal capture system, including processes to execute, manage, and account for trades. Audit staff looked at automated and manual controls to identify processes that mitigate the risks of trades failing to be correctly classified and recorded in the system.

- *Sampled transactions* – Selected a sample of all transactions conducted during specific bid weeks and followed how the sampled transactions flowed from trade initiation through deal entry to review the effectiveness of internal controls, processes, and procedures. Audit staff also tested whether sampled transactions were accurately reported for price index reporting and FERC Form No. 552 filing. Audit staff reviewed trader communication and verified that sampled transactions fell below risk management trading limits or had appropriate management oversight approval.

- *Assessed recruitment and compensation policies* – Assessed how Tenaska recruits and compensates employees. Audit staff reviewed how Tenaska screens prospective employees, and evaluated how compensation tied to compliance with policies and procedures.

Testing compliance with MBRs and EQRs

To evaluate Tenaska's compliance with the Commission's MBR regulations, audit staff:

- Reviewed all Tenaska affiliates' MBR applications, triennial market power analyses, Change-in-Status filings, and MBR tariffs.

- Reviewed the controls and procedures to govern trading activities to ensure they were consistent with Tenaska's representations in its MBR filings.

- Identified whether any Tenaska MBR holders had EMAs or LTPPAs for their power plants. Requested and reviewed EMAs and LTPPAs to determine whether the Tenaska MBR holder retains any generating output to sell beyond that under the agreement.

- Requested and reviewed the asset and energy manager responsibilities for the power plants. Determined the MBR holder's control over a generating unit, including control of plant, responsibility for fuel purchases, and responsibility for sale of excess output.

To perform an assessment of the Tenaska MBR holders' processes and procedures for generating and filing their EQRs, audit staff:

- Reviewed MBR affiliates' processes, procedures, and controls over their EQR filings.

- Obtained a sample of transactional data and contracts to evaluate the completeness of MBR affiliates' EQR filings.

- Discussed compliance issues with Commission staff from OE's Division of Energy Market Oversight.

Testing compliance with FERC Form No. 552s

To evaluate Tenaska's compliance with the Commission's FERC Form No. 552 regulations, audit staff:

- Obtained and reviewed the company's FERC Form No. 552 filings during the audit period.
- Held discussions with Tenaska to understand the filing processes and procedures of Tenaska's FERC Form No. 552 filings across subsidiaries. Identified whether the Company reported on a stand-alone basis or in aggregation with other affiliates that purchased and sold physical natural gas.
- Tested the FERC Form No. 552 filings against underlying data for any restricted transactions or miscategorization of transactions. Verified the total wholesale natural gas purchase and sale volumes reported on the FERC Form No. 552s.
- Interviewed Tenaska employees to identify all affiliates that purchased and sold physical natural gas subject to reporting requirements of the FERC Form No. 552 during the audit period.

Testing compliance with price index reporting

To evaluate Tenaska's compliance with Commission price index reporting, audit staff:

- Identified the Tenaska subsidiaries reporting transactional information to price index developers and compared the identified affiliates to filings made with the Commission.
- Obtained internal processes and procedures over the affiliates' price index reporting and interviewed employees to verify use of internal policies and procedures.
- Examined deal entry and price index reporting procedures to identify any breaks in the internal process leading to reporting issues.
- Sampled trade dates and compared them to the entire population of transactions conducted on the selected trading dates against the reported transactions to identify transactions not reported to price index developers.

Reviewed the compliance program

Audit staff also reviewed Tenaska's regulatory compliance program. Audit staff assessed it relative to audit objectives and for consistency with Commission orders and policy statements:

- Reviewed Tenaska's regulatory compliance program structure, including its authority and responsibilities for overseeing corporate compliance and the delegation of compliance responsibilities at the department level.

- Interviewed Tenaska executives, managers, and operational employees to evaluate their knowledge and application of compliance program policies and procedures. These interviews also helped audit staff understand company compliance training.

- Examined Tenaska's compliance program for consistency with criteria established in the Commission's Order on Enforcement of Statutes, Orders, Rules, and Regulations.[4]

[4] *Enforcement of Statutes, Orders, Rules, and Regulations*, Revised Policy Statement on Penalty Guidelines, 132 FERC ¶ 61,216 (2010).

IV. Findings and Recommendations

1. Electric Quarterly Report Data Quality

Tenaska's affiliates with MBR authority made EQR filings containing erroneous data. These filings contained inaccurate contract and transaction data, inconsistencies between transaction and contract data, aggregated transactions, and unreported wholesale sales.

Pertinent Guidance

Order No. 2001 requires companies to report EQR data that fall into two main categories: contract data and transaction data.[5] The contract data must include the contractual terms and conditions in their agreements for all jurisdictional services (including market-based power sales, cost-based power sales, and transmission service).[6] Transaction data must include sales of capacity, energy and ancillary services made under such contracts.[7]

Section 35.10b of Commission regulations requires each public utility to file an updated EQR with the Commission covering all services it provides under Part 35, for each of the four calendar quarters of each year. EQRs must be prepared in conformance with the Commission software under guidance posted and available for downloading from the FERC web site (www.ferc.gov).

[5] *Revised Public Utility Filing Requirements*, Order No. 2001, 67 Fed. Reg. 31,043 (May 8, 2002) (codified at 18 C.F.R. pts. 2, 35), FERC Stats. & Regs. ¶ 31,127 at P 21 (2002), *reh'g denied*, Order No. 2001-A, 100 FERC ¶ 61,074 (2002), *reh'g denied*, Order No. 2001-B, 100 FERC ¶ 61,342 (2002), *order directing filings*, Order No. 2001-C, 101 FERC ¶ 61,314 (2002), *order directing filings*, Order No. 2001-D, 102 FERC ¶ 61,334 (2003), *order refining filing requirements*, Order No. 2001-E, 105 FERC ¶ 61,352 (2003), *clarification order*, Order No. 2001-F, 106 FERC ¶ 61,060 (2004), *order revising filing requirements*, Order No. 2001-G, 120 FERC ¶ 61,270, *order on reh'g and clarification*, Order No. 2001-H, 121 FERC ¶ 61,289 (2007), *order revising filing requirements*, Order No. 2001-I, FERC Stats. & Regs. ¶ 31,282 (2008).

[6] *See* Order No. 2001, FERC Stats. & Regs. ¶ 31,127, at P 3.

[7] *Id.* at Attachment C.

Background

Audit staff performed screening tests on 14 quarters of Tenaska's MBR affiliates' EQR filings made for the first quarter of 2010 through the second quarter of 2013. Audit staff also reviewed certain EQR filings Tenaska's MBR affiliates made for the third and fourth quarters of 2013. This review identified anomalies and inconsistencies in those filings. Audit staff discussed these items with Tenaska employees responsible for EQR reporting and compliance, and determined that anomalies and inconsistencies resulted from inadvertent human error, misinterpretation of Commission guidance, or inaccurate data entry, resulting in minor reporting errors. Incomplete and inaccurate EQR data inhibits the ability of the Commission and other interested parties, to monitor energy markets and conduct ex-post MBR reviews.

Audit staff found Tenaska EQR filings to be noncompliant with a number of EQR reporting requirements. The list below identifies findings for TPS, TCM affiliates, and Tenaska Legacy plants.

Tenaska Power Services

1. TPS
    a. Reported a contract for Energy Imbalance as a contract for Capacity in the fourth quarter of 2010, and a contract for Capacity as a contract for Energy Imbalance in the first quarter of 2011.
    b. Reported a transaction under the wrong contract in the second quarter of 2013.
    c. Reported incorrect data in the Increment Name, Class Name, and Increment Peaking Name fields for multiple transactions in sampled data.

Tenaska Capital Management

2. Big Sandy Peaker
    a. Failed to report ancillary services transactions in 2010 and 2011.
    b. Reported incorrect supplemental reserves transactions in the third quarter of 2012.
    c. Reported incorrect capacity transaction volumes in 2010, 2011, and 2012.
    d. Incorrectly reported capacity at flat rate when the underlying transaction specified a price and volume in 2012 and 2013.
    e. Incorrectly reported ancillary services at flat rate, in line with PJM data presentation, when underlying transactions specified prices and volumes in 2012 and 2013.
    f. Failed to report energy transactions with PJM in the third quarter of 2012.

3. High Desert Power
   a. Incorrectly aggregated certain reported energy transactions by hour while the market settled in 10-minute increments before the third quarter of 2013.
   b. Reported incorrect energy transaction quantities several times in the first and second quarters of 2010 and the first quarter of 2011.
   c. Reported a sale as a negative quantity transaction in the second quarter of 2013.
   d. Failed to report contracts with TPF Generation holdings for energy sale contracts.
   e. Failed to report TPF Generation as an affiliate on capacity sale contracts, and reported incorrect termination dates for these contracts.

4. University Park Energy
   a. Failed to report transactions from April 1, 2011 through May 25, 2011.

5. TPF Generation Holdings
   a. Reported capacity at flat rate when the transaction confirmation specified a price and volume during the audit period.

6. Rolling Hills Generation
   a. Reported fourth quarter 2012 transactions as other instead of uplift product type.
   b. Reported incorrect capacity transaction volumes in 2010, 2011, and 2012.
   c. Failed to report a reactive power transaction in the fourth quarter of 2012.
   d. Incorrectly reported 2010, 2011, and 2012 energy transactions with PJM as transactions with TPS.

7. Wolf Hills Energy
   a. Reported third quarter 2012 as other instead of uplift product type.
   b. Failed to report ancillary services transactions in 2010 and 2011.
   c. Reported incorrect supplemental reserves transactions in third quarter 2012.
   d. Reported incorrect capacity transaction volumes in 2010, 2011, and 2012.
   e. Reported incorrect energy transactions in third quarter 2010, first quarter 2011, and second quarter 2011.
   f. Reported ancillary services at flat rate, in line with PJM data presentation, when underlying transactions specified prices and volumes in 2012 and 2013.

8. Crete Energy Ventures
   a. Failed to report any transactions in the first quarter of 2011.
   b. Failed to report ancillary services transactions for 2010 and 2011.
   c. Reported incorrect capacity transaction volumes in 2010, 2011, and 2012.

d. Reported incorrect supplemental reserves transactions during the audit period.
e. Reported an incorrect energy transaction in second quarter 2011.
f. Reported a contract as for product type “other” instead of uplift.

9. Lincoln Generating Facility
    a. Failed to report black start transactions in fourth quarter 2011 and second quarter 2012.
    b. Failed to report reactive supply transactions in second quarter 2012.
    c. Incorrectly reported third quarter 2012 transactions as product type “other” instead of uplift.
    d. Reported incorrect capacity transaction volumes in 2010, 2011, and 2012.
    e. Incorrectly reported energy transactions with PJM in June 2011 as transactions with Exelon.
    f. Incorrectly included financial transactions as energy transactions in third quarter 2012.

10. New Covert Generating Facility
    a. Failed to report capacity transactions in 2011, 2012, and 2013.
    b. Failed to report several energy transactions in first quarter 2010.
    c. Incorrectly reported several energy transactions as other transactions in fourth quarter 2012 and first quarter 2013.
    d. Incorrectly aggregated uplift transactions before fourth quarter 2011.
    e. Reported an incorrect price for an uplift transaction in third quarter 2011.

Tenaska Legacy

11. Tenaska Alabama II Partners
    a. Reported incorrect total charges for energy in second quarter 2013.
    b. Incorrectly labeled product type on multiple transactions as energy instead of tolling energy during the audit period, and incorrectly aggregated these transactions quarterly instead of reporting monthly data.

12. Tenaska Frontier Partners
    a. Reported incorrect capacity transaction quantities in second quarter 2010.
    b. Incorrectly labeled product type on multiple transactions as energy instead of tolling energy during the audit period, and incorrectly aggregated these transactions quarterly instead of reporting monthly data.

13. Tenaska Georgia Partners
    a. Incorrectly reported aggregated energy transactions quarterly instead of

reporting monthly data.

14. Tenaska Alabama Partners
    a. Failed to report energy transactions in first quarter 2012.
    b. Incorrectly labeled product type on multiple transactions as energy instead of tolling energy during the audit period, and incorrectly aggregated these transactions quarterly instead of reporting monthly data.

15. Tenaska Virginia Partners
    a. Incorrectly labeled product type on multiple transactions as energy instead of tolling energy during the audit period, and incorrectly aggregated these transactions quarterly instead of reporting monthly data.

Audit staff's review spanned two EQR reporting systems, the "old" system for the second quarter of 2013 and prior filings, and the "new" system for the third quarter of 2013 and subsequent filings. The above summarized findings span both systems, and the issues fall primarily into two areas. First, data reported in the EQRs is pulled from various databases and spreadsheets; most of the identified issues resulted from inaccurate or incomplete data being pulled and reported. Second, some reported data were not in line with underlying supporting documentation, e.g., transaction confirmations and contracts. This was due to incorrect application of Commission reporting guidance to transaction or contract details, or due to incorrect data entry of transaction details to systems from which EQR data was extracted.

Recommendations

We recommend Tenaska:

1. For EQR filings made in the old EQR format, from the first quarter of 2012 through the second quarter of 2013, correct errors and inconsistencies this audit report identifies for this timeframe, and make any necessary refilings.

2. Revise processes and procedures to ensure that Tenaska reports contract and transaction data accurately and completely, and is consistent with Commission EQR filing guidance. In this revision, Tenaska should consider including quality controls that encompass review and financial reconciliation of contract and transaction data before filing.

3. Develop a process or procedure that validates data reported in the EQRs to underlying supporting documentation. In developing such processes or procedures, Tenaska should consider including steps addressing: execution of procedures by staff knowledgeable in Commission EQR reporting guidance,

correction of identified discrepancies, identification and remediation of root causes of discrepancies, and the frequency and scope of such validations.

4. For EQR filings made in the new system, from the third quarter of 2013 to present, apply the revised processes and procedures developed in audit recommendation 2, and the new process or procedure developed in audit recommendation 3 to these EQR filings. Correct any and all errors and inconsistencies identified as a result of applying these new processes and procedures, in addition to correcting the errors and inconsistencies this audit report identifies for this timeframe, and make any necessary refilings.

Corrective Actions Taken

Tenaska instituted policies and procedures that include quality controls for TCM and Tenaska Legacy EQR contract and transaction data before Tenaska filed these new policies and procedures with the Commission. Audit staff has reviewed these policies and procedures and concluded that they satisfy audit recommendation 2 and partially satisfy audit recommendation 3.

2. FERC Form No. 552 Filing Deadlines

Tenaska did not ensure that four of its affiliates promptly filed FERC Form No. 552s, totaling eight occurrences during the audit period.

Pertinent Guidance

18 C.F.R §260.401, FERC Form No. 552, Annual Report of Natural Gas Transactions, provides in pertinent part:

> (b) Filing requirements—
>
> (1) Who must file. Unless otherwise exempted or granted a waiver by Commission rule or order, each natural gas market participant, i.e., any buyer or seller that engaged in physical natural gas transactions the previous calendar year, must prepare and file with the Commission a FERC Form No. 552 pursuant to the definitions and general instructions set forth in that form. However a de minimis exemption, a natural gas market participant is exempt from this filing requirement if:
>
> (i) It engages in reportable physical natural gas sales that amount to less than 2,200,000 MMBtus for the previous calendar year; and
>
> (ii) It engages in reportable physical natural gas purchases that amount to less than 2,200,000 MMBtus for the previous calendar year.
>
> (2) Form No. 552 must be filed as prescribed in §385.2011 of this chapter as indicated in the General Instructions set out in the annual reporting form, and must be properly completed and verified. Each market participant must file Form No. 552 by May 1, 2009 for calendar year 2008 and by May 1 of each year thereafter for the previous calendar year. Each report must be prepared in conformance with the Commission's software and guidance posted and available for downloading from the FERC Web site (http://www.ferc.gov). One copy of the report must be retained by the respondent in its files.

Section IV of the FERC Form No. 552, Instructions for Filing the FERC Form No. 552, also states the deadline by which the form must be submitted to the Commission annually:

> FERC Form No. 552 must be eFiled by May 1st of the year following the reporting year.

Background

Prior to this audit, Tenaska did not have an enterprise-wide, centralized policy covering FERC Form No. 552 filings, but instead took a decentralized approach to filings, placing responsibility on its subsidiaries to track natural gas purchase and sale volumes, triggering annual filings. Audit staff notes that only TMV and TGS had FERC Form No. 552 filing procedures in place at the time of audit commencement, which detailed transactional data compiling, reviewing, and filing procedures.

During audit fieldwork, Tenaska disclosed to audit staff that it missed four FERC Form No. 552 filings with the Commission for two of its power plants within the Tenaska Legacy group. This disclosure resulted from an internal compliance review conducted during the audit that identified missing filings for power plants Tenaska Washington and Tenaska Frontier. Tenaska Washington failed to file a FERC Form No. 552 promptly with the Commission for 2010, and Tenaska Frontier failed to make prompt filings for 2010, 2011, and 2012.

Further, Tenaska disclosed during the audit that two TCM power plants also missed FERC Form No. 552 filing deadlines. Specifically, High Desert Power and New Covert Generating failed to make four additional FERC Form No. 552 filings by the deadline. High Desert Power had failed to file promptly for 2011 and 2012, while New Covert Generating had untimely filings for 2010 and 2011.

During the audit period, Tenaska did not utilize a centralized, company-wide policy for FERC Form No. 552 filings; there was no group within Tenaska responsible for ensuring that all applicable Tenaska affiliates tracked wholesale natural gas purchase and sale volumes to know whether or not a FERC Form No. 552 filing must be made.

Recommendations

We recommend Tenaska:

5. File the FERC Form No. 552s with the Commission for Tenaska Washington for 2010, and for Tenaska Frontier for 2010, 2011, and 2012.

6. Consider developing and implementing a centralized, company-wide FERC Form No. 552 filing procedure that identifies all affiliates required to file a FERC Form No. 552, to ensure timely, complete, and accurate filings.

7. Provide enhanced training on the instructions of the FERC Form No. 552 to personnel who gather and file the required information.

8. Consider posting on the company intranet(s) the FERC Form No. 552 filing requirement information and related company procedures governing compliance with it, as well as other relevant compliance information available to staff performing relevant functions.

Corrective Actions Taken

Tenaska Legacy group filed the four untimely FERC Form No. 552s for Tenaska Frontier and Tenaska Washington in March 2014. TCM also filed the four untimely FERC Form No. 552s for High Desert Power and New Covert Generating, satisfying audit recommendation 5.

To identify all affiliates that must file a FERC No. 552 each year, Tenaska developed and implemented a centralized, company-wide process to review all affiliates with physical natural gas purchases and/or sales in the reporting year to identify all affiliates that must file a FERC Form No. 552, satisfying audit recommendation 6.

3. Reporting Affiliate Transactions in FERC Form No. 552

Tenaska did not ensure that three of its FERC Form No. 552 filers correctly recorded affiliate transactions on their FERC Form No. 552 filings.

Pertinent Guidance

FERC Form No. 552's Instructions for Filing the FERC Form No. 552 states under Definitions I and IV:

> I. Affiliate – An affiliate means a person who controls, is controlled by or is under common control with another person. For purposes of the completion of Form No. 552, a joint public action agency may submit members' collective information as if those members were Affiliates.
>
> IV. Physical Natural Gas Transaction – For purposes of the Form No. 552, natural gas transactions are only those transactions that either use an index, or that contribute to, or may contribute to the formation of a gas index during the calendar year. These transactions are generally included in lines 2 through 7 of page 4 of the form and are referred to as "reportable" transactions.
>
> Not reportable transactions – notwithstanding the above, the following volumes are not reportable and should, in all cases, be excluded in volumetric data submitted in Form No. 552:
>
> f. Volumes associated with transactions among Affiliates.

Frequently Asked Questions posted on the Commission web site[8] state under Posting 2 dated March 6, 2009, question 24:

> *24. What is the meaning of "control" as that word is utilized in the definition of "Affiliate" in Form No. 552?*
>
> "Control" as used in this definition means the direct or indirect authority, whether acting alone or in conjunction with others, to direct or cause to direct the management policies of an entity. A voting interest of 10 percent or more creates a rebuttable presumption of control.

[8] http://www.ferc.gov/help/faqs/form-552.asp

Background

Tenaska did not have adequate enterprise-wide policies and procedures governing annual FERC Form No. 552 filings. As a result, Tenaska subsidiaries individually interpreted the requirements necessary to accurately and completely calculate and report their respective wholesale natural gas purchase and sale volumes in their annual FERC Form No. 552. Consequently, inconsistencies occurred between filings made by individual subsidiaries. In particular, three Tenaska FERC Form No. 552 filers incorrectly recorded affiliate transactions in their filings during the audit period. Tenaska disclosed during audit fieldwork that TMV and TGS incorrectly included affiliate transactions in their 2010, 2011, and 2012 FERC Form No. 552s. Audit staff also identified affiliate transactions in Tenaska Frontier's 2010 FERC Form No. 552. The following analysis details reporting errors that audit staff identified.

TMV

Tenaska disclosed during audit fieldwork that TMV incorrectly included affiliate transactions in its 2010, 2011, and 2012 FERC Form No. 552 filings by failing to identify all of its affiliates. On its 2010 FERC Form No. 552, TMV over reported total volumes of reportable physical natural gas purchases (0.7 TBtu) and sales (1.3 TBtu) on line 1. These total volume errors resulted from inclusion of affiliate transactions in lines 3, 4, and 5, described as follows:

- Over reported line 3 purchase (0.6 TBtu) and sale (0.8 Tbtu) quantities contracted at prices that refer to published daily indices;
- Over reported line 4 sale (0.2 TBtu) quantities contracted at fixed prices for next-month delivery; and
- Over reported line 5 sale (0.3 TBtu) quantities contracted at prices that refer to published monthly indices.

No.	Item	2010 Original Purchases (TBtu)	2010 Original Sales (TBtu)	Over/Under Amounts Purchases (TBtu)	Over/Under Amounts Sales (TBtu)
1	Total Volume of Reportable Physical Natural Gas Transactions	1,495.9	1,401.8	(0.7)	(1.3)
2	Of the amount on Line 1, Quantities contracted at Fixed Prices* for Next-Day Deliveries	287.8	386.8	0.0	0.0
3	Of the amount on Line 1, Quantities contracted at prices that refer to published daily indices	352.3	268.6	(0.6)	(0.8)
4	Of the amount on Line 1, Quantities contracted at Fixed Prices for Next-Month Delivery	71.1	97.2	0.0	(0.2)
5	Of the amount on Line 1, Quantities contracted at prices that refer to published monthly indices	678.2	560.7	0.0	(0.3)
6	Of the amount on Line 1, Quantities contracted under trigger agreements, such as NYMEX Plus contracts	6.9	7.4	0.0	0.0
7	Of the amount on Line 1, Quantities contracted as physical basis transactions	99.7	81.1	0.0	0.0

On its 2011 FERC Form No. 552, TMV over reported total volumes of reportable physical natural gas purchases (9.9 TBtu) and sales (1.7 TBtu) on line 1. These total volume errors resulted from inclusion of affiliate transactions in lines 2, 3, 5, and 7, as described below:

- Over reported line 2 purchase (0.8 TBtu) quantities contracted at fixed prices for next-day delivery;
- Over reported line 3 purchase (2.2 TBtu) and sale (0.2 TBtu) quantities contracted at prices that refer to published daily indices;
- Over reported line 5 purchase (7.0 TBtu) and sale (1.4 TBtu) quantities contracted at prices that refer to published monthly indices; and
- Over reported line 7 purchase (0.1 TBtu) quantities contracted as physical basis transactions.

No.	Item	2011 Original Purchases (TBtu)	2011 Original Sales (TBtu)	Over/Under Amounts Purchases (TBtu)	Over/Under Amounts Sales (TBtu)
1	Total Volume of Reportable Physical Natural Gas Transactions	1,495.4	1,402.3	(9.9)	(1.7)
2	Of the amount on Line 1, Quantities contracted at Fixed Prices* for Next-Day Deliveries	276.7	352.2	(0.8)	0.0
3	Of the amount on Line 1, Quantities contracted at prices that refer to published daily indices	358.3	302.8	(2.2)	(0.2)
4	Of the amount on Line 1, Quantities contracted at Fixed Prices for Next-Month Delivery	53.4	81.5	0.0	0.0
5	Of the amount on Line 1, Quantities contracted at prices that refer to published monthly indices	724.2	579.6	(7.0)	(1.4)
6	Of the amount on Line 1, Quantities contracted under trigger agreements, such as NYMEX Plus contracts	1.8	4.9	0.0	0.0
7	Of the amount on Line 1, Quantities contracted as physical basis transactions	81.0	81.3	(0.1)	0.0

On its 2012 FERC Form No. 552, TMV over reported total volumes of reportable physical natural gas purchases (10.0 TBtu) and sales (1.2 TBtu) on line 1. These total volume errors resulted from inclusion of affiliate transactions in lines 2, 3, 5, and 7, as described below:

- Over reported line 2 purchase (2.6 TBtu) and sale (0.2 TBtu) quantities contracted at fixed price for next-day delivery;
- Over reported line 3 purchase (3.0 TBtu) and sale (0.5 TBtu) quantities contracted at prices that refer to published daily indices;
- Over reported line 5 purchase (4.2 TBtu) and sale (0.6 TBtu) quantities contracted at prices that refer to published monthly indices; and
- Over reported line 7 purchase (0.3 TBtu) quantities contracted as physical basis transactions.

No.	Item	2012 Original		Over/Under Amounts	
		Purchases (TBtu)	Sales (TBtu)	Purchases (TBtu)	Sales (TBtu)
1	Total Volume of Reportable Physical Natural Gas Transactions	1,495.1	1,338.2	(10.0)	(1.2)
2	Of the amount on Line 1, Quantities contracted at Fixed Prices* for Next-Day Deliveries	281.8	319.8	(2.6)	(0.2)
3	Of the amount on Line 1, Quantities contracted at prices that refer to published daily indices	401.1	299.1	(3.0)	(0.5)
4	Of the amount on Line 1, Quantities contracted at Fixed Prices for Next-Month Delivery	47.9	65.3	0.0	0.0
5	Of the amount on Line 1, Quantities contracted at prices that refer to published monthly indices	629.4	512.0	(4.2)	(0.6)
6	Of the amount on Line 1, Quantities contracted under trigger agreements, such as NYMEX Plus contracts	0.0	5.3	0.0	0.0
7	Of the amount on Line 1, Quantities contracted as physical basis transactions	135.1	136.7	(0.3)	0.0

TGS

Tenaska also disclosed during audit fieldwork that TGS incorrectly included affiliate transactions in its 2010, 2011, and 2012 FERC Form No. 552 filings. On its 2010 FERC Form No. 552, TGS over reported total volumes of reportable physical natural gas purchases (0.1 TBtu) and sales (16.4 TBtu) on line 1. These total volume errors resulted from inclusion of affiliate transactions in lines 2, 3, and 4:

- Over reported line 2 purchase (0.1 TBtu) and sale (9.4 TBtu) quantities contracted at fixed price for next-day deliveries;
- Over reported line 3 sale (6.7 TBtu) quantities contracted at prices that refer to published daily indices; and
- Over reported line 4 sale (0.3 TBtu) quantities contracted at fixed prices for next-month delivery.

No.	Item	2010 Original		Over/Under Amounts	
		Purchases (TBtu)	Sales (TBtu)	Purchases (TBtu)	Sales (TBtu)
1	Total Volume of Reportable Physical Natural Gas Transactions	3.3	198.5	(0.1)	(16.4)
2	Of the amount on Line 1, Quantities contracted at Fixed Prices* for Next-Day Deliveries	3.1	29.9	(0.1)	(9.4)
3	Of the amount on Line 1, Quantities contracted at prices that refer to published daily indices	0.1	64.6	0.0	(6.7)
4	Of the amount on Line 1, Quantities contracted at Fixed Prices for Next-Month Delivery	0.0	23.6	0.0	(0.3)
5	Of the amount on Line 1, Quantities contracted at prices that refer to published monthly indices	0.1	70.9	0.0	0.0
6	Of the amount on Line 1, Quantities contracted under trigger agreements, such as NYMEX Plus contracts	0.0	0.0	0.0	0.0
7	Of the amount on Line 1, Quantities contracted as physical basis transactions	0.0	9.6	0.0	0.0

On its 2011 FERC Form No. 552, TGS over reported total volumes of reportable physical natural gas sales (20.7 TBtu) on line 1. These total volume errors resulted from inclusion of affiliate sales in lines 2, 3, and 4, as described as follows:

- Over reported line 2 sale quantities contracted at fixed prices for next-day delivery by 8.8 TBtu;
- Over reported line 3 sale quantities contract at prices that refer to published daily indices by 11.2 TBtu; and
- Over reported line 4 sale quantities contracted at fixed prices for next-month delivery by 0.7 TBtu.

No.	Item	2011 Original		Over/Under Amounts	
		Purchases (TBtu)	Sales (TBtu)	Purchases (TBtu)	Sales (TBtu)
1	Total Volume of Reportable Physical Natural Gas Transactions	6.9	166.3	0.0	(20.7)
2	Of the amount on Line 1, Quantities contracted at Fixed Prices* for Next-Day Deliveries	4.7	25.5	0.0	(8.8)
3	Of the amount on Line 1, Quantities contracted at prices that refer to published daily indices	0.2	62.9	0.0	(11.2)
4	Of the amount on Line 1, Quantities contracted at Fixed Prices for Next-Month Delivery	0.0	18.1	0.0	(0.7)
5	Of the amount on Line 1, Quantities contracted at prices that refer to published monthly indices	2.1	55.1	0.0	0.0
6	Of the amount on Line 1, Quantities contracted under trigger agreements, such as NYMEX Plus contracts	0.0	0.3	0.0	0.0
7	Of the amount on Line 1, Quantities contracted as physical basis transactions	0.0	4.5	0.0	0.0

On its 2012 FERC Form No. 552, TGS over reported total volumes of reportable physical natural gas sales (25.8 TBtu) on line 1. These total volume errors resulted from inclusion of affiliate transactions in lines 2, 3, and 4, as described as follows:

- Over reported line 2 sale quantities contracted at fixed prices for next-day deliveries by 24.8 TBtu;
- Over reported line 3 sale quantities contracted at prices that refer to published daily indices by 0.4 TBtu; and
- Over reported line 4 sale quantities contracted at fixed prices for next-month delivery by 0.4 TBtu.

		2012 Original		Over/Under Amounts	
No.	**Item**	**Purchases (TBtu)**	**Sales (TBtu)**	**Purchases (TBtu)**	**Sales (TBtu)**
1	Total Volume of Reportable Physical Natural Gas Transactions	4.4	251.5	0.0	(25.8)
2	Of the amount on Line 1, Quantities contracted at Fixed Prices* for Next-Day Deliveries	4.1	45.0	0.0	(24.8)
3	Of the amount on Line 1, Quantities contracted at prices that refer to published daily indices	0.3	45.6	0.0	(0.4)
4	Of the amount on Line 1, Quantities contracted at Fixed Prices for Next-Month Delivery	0.0	22.5	0.0	(0.4)
5	Of the amount on Line 1, Quantities contracted at prices that refer to published monthly indices	0.0	132.1	0.0	0.0
6	Of the amount on Line 1, Quantities contracted under trigger agreements, such as NYMEX Plus contracts	0.0	0.8	0.0	0.0
7	Of the amount on Line 1, Quantities contracted as physical basis transactions	0.0	5.4	0.0	0.0

Tenaska Frontier

Audit staff determined that Tenaska Frontier over reported total volumes of reportable physical natural gas purchases (1.16 TBtu) on line 1. These total volume errors resulted from inclusion of affiliate transactions in line 2.

No.	Item	2010 Original		Over/Under Amounts	
		Purchases (TBtu)	Sales (TBtu)	Purchases (TBtu)	Sales (TBtu)
1	Total Volume of Reportable Physical Natural Gas Transactions	26.0	0.0	(1.16)	0.0
2	Of the amount on Line 1, Quantities contracted at Fixed Prices* for Next-Day Deliveries	2.2	0.0	(1.16)	0.0
3	Of the amount on Line 1, Quantities contracted at prices that refer to published daily indices	23.8	0.0	0.0	0.0
4	Of the amount on Line 1, Quantities contracted at Fixed Prices for Next-Month Delivery	0.0	0.0	0.0	0.0
5	Of the amount on Line 1, Quantities contracted at prices that refer to published monthly indices	0.0	0.0	0.0	0.0
6	Of the amount on Line 1, Quantities contracted under trigger agreements, such as NYMEX Plus contracts	0.0	0.0	0.0	0.0
7	Of the amount on Line 1, Quantities contracted as physical basis transactions	0.0	0.0	0.0	0.0

Recommendations

We recommend Tenaska:

9. Create an affiliate list that is periodically reviewed and updated in a timely manner, and annually notify all Tenaska subsidiaries of affiliated companies whose transactions should be excluded from FERC Form No. 552 reporting.

10. Implement an annual enterprise-wide review process to ensure Tenaska affiliates comply with guidance in the annual affiliate notification.

11. Refile FERC Form No. 552s identified in the audit as erroneous to remove reported affiliate transactions.

Corrective Actions Taken

TMV and TGS have refiled their 2010, 2011, and 2012 FERC Form No. 552s to exclude the identified affiliate transactions. Audit staff analyzed the refilings and verified removal of affiliate transactions, partially satisfying audit recommendation 11.

Tenaska also implemented an annual, company-wide process to review all subsidiaries' FERC Form No. 552s for a given filing year and identify all affiliated Tenaska entities for exclusion in wholesale natural gas purchase and sale volumes, satisfying audit recommendations 9 and 10.

4. Transaction Categorization in the FERC Form No. 552

Tenaska did not ensure that one of its FERC Form No. 552 filers correctly categorized wholesale natural gas transactions on its FERC Form No. 552s for 2010 and 2012.

Pertinent Guidance

Commission's instructions for filing the Form 552 require the respondent to include the volumes of physical natural gas transactions that use indices in its FERC Form No. 552 as follows:

> Reportable physical natural gas transactions that use an Index are as follows:
>
> 1. Transactions that Use Daily Indices (line 3 of page 4) – delivery of natural gas pursuant to a transaction that refers to a published daily index, which is used to price natural gas. The index is usually a gas index, but other indices such as coal, petroleum, LNG, inflation, etc. or a basket of indices may be used.
>
> Reportable transactions that can or may contribute to gas index formation are as follows:
>
> a. Fixed Price Next-Day Delivery (line 2 of page 4) – delivery of natural gas pursuant to a transaction executed prior to NAESB nomination deadline (11:30 am Central Prevailing Time) on one day for uniform physical delivery over the next pipeline day. Transactions executed on Friday are usually for flow on Saturday, Sunday, and Monday inclusive. Trading patterns may vary in the case of holidays or the end of the month that occurs on a weekend.

Background

Tenaska did not have adequate enterprise-wide policies and procedures for filing annual FERC Form No. 552s. As a result, Tenaska subsidiaries each interpreted the filing requirements to accurately and completely calculate and report their wholesale natural gas purchase and sale volumes in their annual FERC Form No. 552s. Consequently, there were inconsistencies among filings made by individual subsidiaries. In particular, Tenaska Frontier incorrectly categorized wholesale natural gas transactions on its 2010 and 2012 FERC Form No. 552s, neither following FERC Form No. 552 instructions nor conforming with reporting practices of the other Tenaska subsidiaries. The following analysis details audit staff's findings.

In its 2010 FERC Form No. 552, the Tenaska subsidiary incorrectly categorized natural gas purchases in line 2, quantities contracted at fixed price for next-day delivery, instead of line 3, quantities contracted at prices that refer to published daily indices. The incorrect categorization caused over reporting in line 2 and under reporting in line 3 by 0.8 TBtus.

No.	Item	2010 Original		Over/Under Amounts	
		Purchases (TBtu)	Sales (TBtu)	Purchases (TBtu)	Sales (TBtu)
1	Total Volume of Reportable Physical Natural Gas Transactions	26.0	0.0	0.0	0.0
2	Of the amount on Line 1, Quantities contracted at Fixed Prices* for Next-Day Deliveries	2.2	0.0	(0.8)	0.0
3	Of the amount on Line 1, Quantities contracted at prices that refer to published daily indices	23.8	0.0	0.8	0.0
4	Of the amount on Line 1, Quantities contracted at Fixed Prices for Next-Month Delivery	0.0	0.0	0.0	0.0
5	Of the amount on Line 1, Quantities contracted at prices that refer to published monthly indices	0.0	0.0	0.0	0.0
6	Of the amount on Line 1, Quantities contracted under trigger agreements, such as NYMEX Plus contracts	0.0	0.0	0.0	0.0
7	Of the amount on Line 1, Quantities contracted as physical basis transactions	0.0	0.0	0.0	0.0

Tenaska Frontier also incorrectly categorized natural gas spot purchases in line 2, quantities contracted at fixed price for next-day delivery, instead of line 3, quantities contracted at prices that refer to published daily indices, on its 2012 FERC Form No. 552. The subsidiary over reported line 2 purchases by 0.2 TBtus and under reported line 3 purchases by 0.1 TBtus due to rounding.

No.	Item	2012 Original		Over/Under Amounts	
		Purchases (TBtu)	Sales (TBtu)	Purchases (TBtu)	Sales (TBtu)
1	Total Volume of Reportable Physical Natural Gas Transactions	36.1	0.0	0.0	0.0
2	Of the amount on Line 1, Quantities contracted at Fixed Prices* for Next-Day Deliveries	1.9	0.0	(0.2)	0.0
3	Of the amount on Line 1, Quantities contracted at prices that refer to published daily indices	34.2	0.0	0.1	0.0
4	Of the amount on Line 1, Quantities contracted at Fixed Prices for Next-Month Delivery	0.0	0.0	0.0	0.0
5	Of the amount on Line 1, Quantities contracted at prices that refer to published monthly indices	0.0	0.0	0.0	0.0
6	Of the amount on Line 1, Quantities contracted under trigger agreements, such as NYMEX Plus contracts	0.0	0.0	0.0	0.0
7	Of the amount on Line 1, Quantities contracted as physical basis transactions	0.0	0.0	0.0	0.0

Recommendations

We recommend Tenaska:

12. Refile Tenaska Frontier's 2010 and 2012 FERC Form No. 552s to accurately categorize natural gas transactions.

13. Develop and implement a process to ensure that Tenaska Frontier correctly categorizes its wholesale natural gas transactions when reported in FERC Form No. 552s.

5. Accuracy of Schedule Answers in FERC Form No. 552s

Tenaska did not ensure that one of its FERC Form No. 552 filers correctly reported its answers on the Schedule of Reporting Companies and Price Index Reporting section of its FERC Form No. 552s for 2010, 2011, and 2012.

Pertinent Guidance

The Commission's FERC Form No. 552, Schedule of Reporting Companies and Price Index Reporting Instruction, requires a reporting company to answer questions [in columns] (b) – (e) for each company listed; instruction state in part:

1) Did the Respondent, Reporting Company or any Affiliates listed in column (a) report any transaction information to Price Index Developers* during the Report Year?

2) If you answered yes on column (b), did the Respondent, Reporting Company or any affiliates comply with the regulations governing reporting to Price Index Developers pursuant to 18 C.F.R. § 284.403. If you answered no on column (b), the software will automatically answer Not applicable or NA in column (c).

3) Were the Respondent, Reporting Company or the Affiliate's reportable natural gas purchases equal to or greater than 2.2 million MMBtu for the Report Year?

4) Were the Respondent, Reporting Company or the Affiliate's reportable natural gas sales equal to or greater than 2.2 million MMBtu for the Report Year?

Background

FERC Form No. 552 includes the Schedule of Reporting Companies and Price Index Reporting section on page 3. This schedule requires reporting companies to answer "yes" or "no" to four questions:

- Column (b) - whether the filer reports transaction information to Price Index Publishers during the report year;
- Column (c) - whether the filer complies with regulations governing reporting to Price Index Publishers;
- Column (d) - whether the filer has reportable purchases greater than or equal to 2.2 million MMBtu; and
- Column (e) - whether the filer has reportable sales greater than or equal to 2.2 million MMBtu.

The filing software automatically populates column (c) based on the answer in column (b).

Audit staff reviewed all of Tenaska's subsidiaries' FERC Form No. 552 filings to determine whether each Tenaska filer correctly followed Commission instructions for this schedule. Audit staff identified incorrectly reported answers in columns (b) and (e) on the Tenaska Frontier 2010, 2011, and 2012 FERC Form No. 552 filings.

Column (b) of the schedule instruction states, "Did the Respondent, Reporting Company or any Affiliates listed in column (a) report any transaction information to Price Index Publishers during the Report Year?" Tenaska Frontier answered "Yes" on its 2010, 2011, and 2012 filings, but it did not report to price index publishers during those years. The Form No. 552 submittal system then automatically populated column (c) with a reply of "Yes" to match the incorrect answers in column (b). Therefore, the answers in column (c) were also incorrect.

Tenaska Frontier also incorrectly responded to the question in column (e), which asks, "Were the Respondent, Reporting Company or the Affiliate's reportable natural gas sales equal to or greater than 2.2 million MMBtu for the Report Year?" Tenaska Frontier answered "Yes" on its 2010, 2011, and 2012 filings. However, it did not in fact have reportable natural gas sales equal to or greater than 2.2 million MMBtu for the three reporting years.

Recommendations

We recommend Tenaska:

14. Refile Tenaska Frontier's 2010, 2011, and 2012 FERC Form No. 552s to correct the answers in the Schedule of Reporting Companies and Price Index Reporting section.

15. Develop and implement a FERC Form No. 552 filing review process to ensure accuracy of affiliates' filings before submittal to the Commission.

16. Provide training to personnel on preparing and filing the FERC Form No. 552.

6. Reporting of Transactions to Price Index Developers

Tenaska did not ensure that its affiliate reported all its fixed price for next-day transactions to price index developers as its internal procedures intended. Gaps existed in its procedures to ensure reporting of all the transactions conducted before the daily cut-off and in the controls designed to detect such omissions. The level of such misreporting detected in the audit sample was about 4 percent of reportable transactions.

Pertinent Guidance

18 C.F.R. § 284.403(a) states,

"To the extent Seller engages in reporting of transactions to publishers of electricity or natural gas indices, Seller must provide accurate and factual information, and not knowingly submit false or misleading information or omit material information to any such publisher, by reporting its transactions in a manner consistent with the procedures set forth in the *Policy Statement on Natural Gas and Electric Price Indices*, issued by the Commission in Docket No. PL03-3-000 and any clarification thereto."

Further, as noted in paragraph 34.3 of the Policy Statement,

"Subject to an appropriate confidentiality agreement with the price index developer, a data provider should report each bilateral, arm's-length transaction between non-affiliated companies in the physical (cash) markets at all trading locations. Physical (cash) market reporting shall not include financial hedges, financial transactions, or swaps or exchanges of gas or electricity. Data should be provided for each transaction separately. For each transaction, the following information should be provided: (a) price; (b) volume; (c) buy/sell indicator; (d) delivery/receipt location; (e) transaction date and time; and (f) term (next day or month).

Any errors identified in undertaking such reporting should be corrected as soon as practicable. While the Commission understands that, due to deadlines, index developers will not always be able to incorporate such corrections in their indices, we believe it is appropriate to require errors to be reported to help provide assurance that appropriate internal vigilance is being conducted and repetitive errors are not occurring."

Background

TMV voluntarily reports bilateral, arm's-length transactions with unaffiliated companies to price index developers. Its voluntary participation contributes to the transparency of the market and, if properly implemented, should encourage greater liquidity in those markets by increasing confidence in the market function. TMV's DCC Group, a mid-office function, is responsible for querying the trading day's relevant transactions and reporting them to price index developers under a set schedule.

The internal TMV policy required traders to enter transactions into GMS, its deal capture system. Traders manually entered bilateral transactions into their Day Trades Worksheet, a function of GMS, and TMV's system automatically downloaded transactions conducted on ICE to the same worksheet. Traders were then required to review transaction information before officially entering the transaction from the worksheet to GMS. TMV required traders to enter reportable transactions conducted before 11:30 a.m. into GMS by 12:30 p.m. TMV also mandated a final deal entry deadline of 2:00 p.m. for all transactions conducted that trading day.

After the 12:30 p.m. deadline, DCC employees ran a daily process to report relevant deals to price index developers. However, the daily process did not include a method for DCC employees to ensure all relevant transactions were included in the report provided to price index developers.

The audit team tested the accuracy and completeness of TMV's transactional reporting to price index developers by sampling trading during the audit period; audit staff then compared the reported transactions to the entire population of transactions TMV conducted on the selected trading days. Of the samples tested, audit staff identified that TMV did not report 59 fixed price for next-day transactions, or 4.04 percent of the sample population, to price index developers. TMV also did not include these transactions in a modified or supplemental report to price index developers. The unreported transactions were a minimal percentage of TMV's total trading over the sampled periods.

Audit staff identified several breaks in the internal price index reporting procedure that caused the reporting errors. In interviews, TMV traders stated that management emphasized the 2:00 p.m. transaction entry deadline. Consequently, traders placed priority on deal entry by this later deadline, missing the 12:30 p.m. cutoff for reporting transactions to price index developers. Further, traders did not have copies of the internal policy on price index reporting and stated that DCC told them of the 12:30 p.m. deadline only once. Traders said they would refer to DCC if they had questions regarding the policy.

Additionally, audit staff noted that traders conducted the majority of the 59 missing transactions on ICE. The deal entry process for ICE deals led to a review backlog, delaying transaction entry into GMS. In reviewing the missing transactions, audit staff confirmed that traders reviewed and entered the transactions into GMS chronologically and did not prioritize deal entry of specific transactions over earlier transactions.

Further, TMV's annual internal audits, conducted by Tenaska, did not test whether all required deals were included in reporting to price index developers. Audit testing focused on verifying accuracy of transactions reported to price index developers and did not address completeness.

Recommendations

We recommend Tenaska:

17. Revise its price index reporting policies and procedures to ensure it accurately and completely reports all relevant transactions to price index developers.

18. Develop stricter internal audit testing to examine whether all relevant transactions are included in reports to price index developers.

19. Conduct front and mid-office employee training on price index reporting policies, procedures, and reporting deadlines.

Corrective Actions Taken

TMV implemented a system of cross checks designed to address the policy and procedure flaws that led to the misreporting of some transactions. First, TMV's DCC group has implemented a process that notifies traders at 11:45 a.m. of all outstanding transactions on traders' Day Trades Worksheet not entered into GMS by that time, and asks whether such transactions are reportable deals conducted before 11:30 a.m. Additionally, at 4 p.m. each day, DCC audits all next-day fixed price transactions and compares them against the day's transactions reported to price index developers. If any inconsistencies surface, DCC speaks with traders to identify whether all reportable transactions conducted before 11:30 a.m. were reported to price index developers. If not, such noncompliance is noted and appropriate action taken. This process appears to satisfy audit recommendation 17.

TMV also changed its annual internal audit process, including new audit criteria and adding more transactions for testing the reporting of all reportable transactions.

Tenaska will also switch to quarterly transaction testing and expand its reporting of findings back to TMV, satisfying audit recommendation 18.

TMV also changed deal entry procedures for transactions conducted on ICE. Before, such transactions were automatically downloaded to a trader's Day Trades Worksheet and a trader would review and manually enter the transaction into the GMS. This was the policy first implemented when TMV had no experience with the accuracy of data transfer process from ICE to its deal entry system. Manual entry ensured that the trader reviewed the accuracy of the ICE data before the deal was entered in GMS. However, TMV believes this step is now unnecessary and that the manual entry of data actually contributed to the reporting errors, creating a backlog in its deal entry process. To address this newly identified risk, TMV has now begun automatic downloads of ICE transactions into GMS, creating automatic deal entries for each ICE transaction and cutting out the worksheet backlog in its deal entry process. This automated process was implemented in October 2014 and is now fully operational.

V. Other Matters

7. Controls Over Trading and Training

Tenaska could improve its compliance program by enhancing its controls over two areas relating to TPS, TMV, and their direct affiliates: monitoring trading activities during particular market conditions, and coordinating and verifying staff compliance training.

Background

Monitoring Trading Activities:

As part of the audit, audit staff reviewed Tenaska's compliance function, mid-office operations, and risk management functions to evaluate Tenaska's internal processes to ensure compliance with Commission regulations. Audit staff collected information on Tenaska's operations through data requests, on-site observations, and employee interviews. The strength of this program, related to TPS, TMV, and their direct affiliates, is discussed in detail in the Background section of this audit report under section C - Wholesale Electric Marketing and Trading and section D - Wholesale Natural Gas Marketing and Trading. Based upon this review, audit staff determined that Tenaska could build upon its current internal review processes and procedures related to TPS, TMV, and their direct affiliates by adding to existing oversight in two areas. Tenaska could better inform its compliance oversight over TPS, TMV, and their direct affiliates by: monitoring market conditions in which its traders operate, monitoring for changes in trading strategies in wholesale energy markets, and querying traders when such changes are detected. Increased attention in these areas would better enable Tenaska to ensure that its staff remains compliant with all internal and FERC-mandated practices.

Tenaska could enhance its oversight process over TPS, TMV, and their direct affiliates by increasing awareness of the market conditions in which its traders transact. If wholesale energy traders participate in markets, which, due to low volume or other market factors make trader activities a significant share of those markets, an awareness of this situation can inform the rigor with which these activities are reviewed and documented. This additional layer of oversight to ensure compliance with Commission rules and regulations during high-risk periods would further strengthen Tenaska's compliance program. The specific market share thresholds calling for enhanced monitoring efforts would be at the discretion of Tenaska management. If market share hits or exceeds a set threshold for a specific market, compliance staff could review and document the company's market participation, employing whatever additional rigor management deemed appropriate to ensure trading activity complies with Tenaska's compliance program, risk management policy, and internal policies and procedures, as well as Commission regulations.

Also, Tenaska could add an additional layer of surveillance to its compliance program over TPS, TMV, and their direct affiliates by identifying, analyzing, and documenting changes in trading strategies. During interviews with Tenaska traders, audit staff learned that some traders can and do enter into both fixed price for next-day transactions, reportable to price index developers, and transactions based upon index prices, typically at different points in morning trading. Tenaska traders further stated that unexpected patterns emerge in their trades when they are responding to customer demands in volatile market conditions. Tenaska explained that such activity reflects market factors, and customer needs, beyond Tenaska's control or influence. However, traders said compliance or mid-office staff never engaged them in discussions of such changes in trading patterns during or after the close of the daily trading activities. Audit staff believes, increased oversight and monitoring of such market transactions could increase the likelihood of any inappropriate trading being detected.

In interviews with compliance and mid-office staff, Tenaska staff did not mention any procedure to identify such trading patterns. Additionally, Tenaska stated that it has not developed a way to systematically monitor trading for such activity. Audit staff believes Tenaska compliance staff should detect, analyze, and document such trading changes to determine their cause and act upon them accordingly. Audit staff understands that following such a procedure when it occurs should not be burdensome. Moreover, by so doing, Tenaska could ensure that documentation exists of its internal review of changes in trading strategies to demonstrate that traders complied with applicable internal policies and Commission regulations related to prohibited market practices.

Coordinating and Verifying Compliance Training

Tenaska has many compliance policies, both at an enterprise and subsidiary level. Top-level policies include a general Code of Conduct and Ethical Expectations and a Statement of Compliance Principles. Subsidiary-level policies are tailored to the business needs of each segment. Throughout Tenaska, training for these policies and procedures is implemented in different ways, including the way attendance is tracked at mandatory training sessions. These different approaches make it difficult to ensure all employees are assigned and attend appropriate mandatory training.

Training on top-level policies and procedures is provided to new employees and all employees annually. TMV and TGS train their staff on business-unit specific procedures when newly hired, and provide periodic refresher training for employees as duties require, e.g., when an employee changes roles within the organization or when regulators impose new requirements. TPS also has standard training for its new hires as well as additional training when new requirements emerge. TPS also provides annual mandatory compliance training for all employees. This training session is recorded and available electronically to absent personnel. For most of the audit period TCM and Tenaska Legacy conducted compliance training for their staff ad hoc, through discussions as questions arose, or when new FERC rules or policies were published. However, TCM developed and implemented a comprehensive training program on FERC rules in the fourth quarter of 2013.

Audit staff learned that Tenaska subsidiaries also took different approaches to tracking employee attendance at compliance policy and procedure training. For example, tracking training attendance at some sessions was at the discretion of employee supervisors or trainers, and at some of the ad hoc and "as-needed" sessions trainers were responsible for identifying required attendees and verifying their attendance. In particular, audit staff noted that across the organization, the only mandatory compliance training for which attendance was systematically tracked were the TPS annual compliance training sessions. Such an approach to tracking the need for, and provision of, compliance training makes it difficult to ensure that gaps in training do not occur across the Tenaska enterprise.

Audit staff believes a system for tracking the need for and attendance at training sessions would improve Tenaska's corporate compliance by helping ensure all appropriate staff receives their requisite training, in particular any mandatory training. Tracking attendance also provides measureable training metrics and helps highlight the importance of the subject matter presented.

Recommendations

We therefore suggest that Tenaska consider strengthening its compliance program by:

1. Setting specific market share thresholds for specific markets/hubs and then monitoring its market share when reaching or surpassing the established thresholds. Document review of company's market participation to ensure trading activity complies with the compliance program, risk management policy, internal policies, and FERC regulations.

2. Monitoring for changes in trading strategies, whether due to external activity in wholesale energy markets or its own trading activity, seeking explanations for such changes, and reviewing the company's related trading in the market.

3. Uniformly tracking compliance training needs and employee attendance throughout Tenaska, and maintaining and systematically reviewing these records.

VI. Company Response

TENASKA

14302 FNB Parkway
Omaha, Nebraska 68154
402-691-9500
www.tenaska.com

January 30, 2015

VIA ELECTRONIC MAIL
AND OVERNIGHT DELIVERY

Bryan K. Craig
Director and Chief Accountant
Division of Audits and Accounting
Office of Enforcement
Federal Energy Regulatory Commission
888 1st Street, N.E., Room 5K-13
Washington, D.C. 20426

Re: Tenaska Energy, Inc. and Tenaska Energy Holdings, LLC
Docket No. PA13-18-000
Response to Draft Audit Report

Dear Mr. Craig:

By letter dated January 15, 2015, Tenaska Energy, Inc., and Tenaska Energy Holdings, LLC, and its affiliates (collectively "Tenaska") received notice that the Division of Audits and Accounting ("DAA") within the Office of Enforcement ("OE") of the Federal Energy Regulatory Commission ("Commission") had completed its audit evaluating Tenaska's compliance with the requirements of: (1) its market-based rate ("MBR") authorization, including Commission MBR regulations under 18 C.F.R. § 35 Subpart H (2013) and Electric Quarterly Report ("EQR") filing regulations under 18 C.F.R. § 35.10b (2013); and (2) the FERC Form No. 552, Annual Report of Natural Gas Transactions, under 18 C.F.R. § 260.401 (2013). The audit also examined Tenaska's wholesale electric and natural gas market activity, including compliance with applicable tariff provisions and Commission regulations over natural gas transportation and sales under 18 C.F.R. § 284 (2013), and covered the period from January 1, 2010 through September 30, 2014.

Tenaska has received and reviewed the draft audit report prepared by DAA. Tenaska worked with Audit Staff to verify the factual representations contained in the draft audit report and appreciates the opportunity to provide further response to each of the findings and recommendations as set forth below.

TMV-390603-1

Bryan K. Craig
January 30, 2015
Page 2

A. ELECTRIC QUARTERLY REPORT DATA QUALITY.

Finding: Tenaska's affiliates with MBR authority made EQR filings containing erroneous data. These filings contained inaccurate contract and transaction data, inconsistencies between transaction and contract data, aggregated transactions, and unreported wholesale sales.

Recommendation 1: For EQR Filings made in the old EQR format, from the first quarter of 2012 through the second quarter of 2013, correct errors and inconsistencies this audit report identifies for this timeframe and make any necessary refilings.

RESPONSE: Tenaska accepts this recommendation and will correct the errors and inconsistencies for the timeframe identified and will make the necessary refilings with one exception. Tenaska disagrees with the finding made on page 26 of the Audit Report under item #12: Tenaska Frontier Partners, subparagraph b), that "Tenaska Frontier Partners incorrectly labeled product type on multiple transactions as energy instead of tolling energy during the audit period." Tenaska Frontier is the only Legacy Plant that is not a tolled energy plant, and therefore correctly labeled the product type as "energy". However, Tenaska does not contest the draft audit report.

Recommendation 2: Revise processes and procedures to ensure that Tenaska reports contract and transaction data accurately and completely, and is consistent with Commission EQR filing guidance. In this revision, Tenaska should consider including quality controls that encompass review and financial reconciliation of contract and transaction data before filing.

RESPONSE: Tenaska accepts this recommendation and has submitted to Staff revised policies and procedures that include quality controls for TCM and Tenaska Legacy EQR contract and transaction data. Audit Staff has reviewed these policies and procedures and concluded that Tenaska has satisfied audit recommendation 2.

Recommendation 3: Develop a process or procedure that validates data reported in the EQRs to underlying supporting documentation. In developing such processes or procedures, Tenaska should consider including steps addressing: execution or procedures by staff knowledgeable in Commission EQR reporting guidance, correction of identified discrepancies, identification and remediation of root causes of discrepancies, and the frequency and scope of such validations.

TMV-390603-1

Bryan K. Craig
January 30, 2015
Page 3

RESPONSE: Tenaska accepts this recommendation and has submitted to Audit Staff revised processes that validate data reported in the EQRs to underlying supporting documentation. Audit Staff has reviewed these processes and concluded that they partially satisfy audit recommendation 3. Tenaska will develop enhanced procedures for Audit Staff review as more fully described in the action plan due within 30 days of the issuance of the Final Audit Report.

Recommendation 4: For EQR filings made in the new system, from the third quarter of 2013 to present, apply the revised processes and procedures developed in audit recommendation 2, and the new process or procedure developed in audit recommendation 3 to these EQR filings. Correct any and all errors and inconsistencies identified as a result of applying these new processes and procedures, in addition to correcting the errors and inconsistencies this audit report identifies for this timeframe, and make any necessary refilings.

RESPONSE: Tenaska accepts this recommendation and will correct the errors and inconsistencies for the timeframe identified. Tenaska will submit the necessary refilings as more fully described in the action plan due within 30 days of the issuance of the Final Audit Report.

B. FERC FORM NO. 552 FILING DEADLINES:

Finding: Tenaska did not ensure that four of its affiliates promptly filed FERC Form No. 552s, totaling eight occurrences during the audit period.

Recommendation 5: File the FERC Form No. 552s with the Commission for Tenaska Washington for 2010, and for Tenaska Frontier for 2010, 2011, and 2012.

RESPONSE: Tenaska accepts this recommendation. In March 2014, Tenaska filed the Tenaska Washington and Tenaska Frontier Form No. 552s for the time periods identified. Tenaska has satisfied audit recommendation 5.

Recommendation 6: Consider developing and implementing a centralized, company-wide FERC Form No. 552 filing procedure that identifies all affiliates required to file a FERC Form No. 552, to ensure timely, complete and accurate filings.

RESPONSE: Tenaska accepts this recommendation and has already developed and implemented a centralized, company-wide process to review all affiliates with physical natural gas purchases and/or sales in the reporting year to identify all affiliates that must file a FERC Form No. 552. Audit Staff has reviewed this company-wide process and has concluded that Tenaska has satisfied audit recommendation 6.

TMV-390603-1

Bryan K. Craig
January 30, 2015
Page 4

Recommendation 7: Provide enhanced training on the instructions of the FERC Form No. 552 to personnel who gather and file the required information.

RESPONSE: Tenaska accepts this recommendation and will provide advanced training and guidance to personnel who gather and file the FERC Form 552 data. This process will be more fully described in the action plan due within 30 days of the issuance of the Final Audit Report.

Recommendation 8: Consider posting on the company intranet(s) the FERC Form No. 552 filing requirement information and related company procedures governing compliance with it, as well as other relevant compliance information available to staff performing relevant functions.

RESPONSE: Tenaska accepts this recommendation and will address its implementation in the action plan which is due within 30 days of the issuance of the Final Audit Report.

C. REPORTING AFFILIATE TRANSACTIONS IN FERC FORM NO. 552:

Finding: Tenaska did not ensure that three of its FERC Form No. 552 filers correctly recorded affiliate transactions on their FERC Form No. 552 filings.

Recommendation 9: Create an affiliate list that is periodically reviewed and updated in a timely manner and annually notify all Tenaska subsidiaries of affiliated companies whose transactions should be excluded from FERC Form No. 552 reporting.

RESPONSE: Tenaska accepts this recommendation and has already implemented a company-wide process to review all subsidiaries' FERC Form No. 552s for a given filing year and to identify all affiliated Tenaska entities for exclusion in wholesale natural gas purchase and sale volumes. Audit Staff has reviewed this process and has concluded that Tenaska has satisfied audit recommendation 9.

Recommendation 10: Implement an annual enterprise-wide review process to ensure Tenaska affiliates comply with guidance in the annual affiliate notification.

RESPONSE: Tenaska accepts this recommendation and has already implemented an enterprise-wide review process to ensure Tenaska affiliates comply with guidance in the annual affiliate notification. Audit Staff has reviewed this process and has concluded that Tenaska has satisfied audit recommendation 10.

TMV-390603-1

Bryan K. Craig
January 30, 2015
Page 5

Recommendation 11: Refile FERC Form No. 552s identified in the audit as erroneous to remove reported affiliate transactions.

RESPONSE: Tenaska accepts this recommendation. TMV and TGS have refiled their 2010, 2011, and 2012 FERC Form No. 552s to exclude the identified affiliate transactions. Audit Staff has reviewed the TMV and TGS re-filings and have concluded that this partially satisfies audit recommendation 11. Tenaska will complete audit recommendation 11 as more fully described in the action plan due within 30 days of the issuance of the Final Audit Report.

D. TRANSACTION CATEGORIZATION IN THE FERC FORM NO. 552:

Finding: Tenaska did not ensure that one of its FERC Form No. 552 filers correctly categorized wholesale natural gas transactions on its FERC Form No. 552s for 2010 and 2012.

Recommendation 12: Refile Tenaska Frontier's 2010 and 2012 FERC Form No. 552s to accurately categorize natural gas transactions.

RESPONSE: Tenaska accepts this recommendation and will refile Tenaska Frontier's 2010 and 2012 FERC Form No. 552s to accurately categorize natural gas transactions, as more fully described in the action plan due within 30 days of the issuance of the Final Audit Report.

Recommendation 13: Develop and implement a process to ensure that Tenaska Frontier correctly categorizes its wholesale natural gas transactions when reported in FERC Form No. 552s.

RESPONSE: Tenaska accepts this recommendation and will develop a process to ensure that Tenaska Frontier correctly categorizes its wholesale natural gas transactions when reported in FERC Form No. 552, as more fully described in the action plan due within 30 days of the issuance of the Final Audit Report.

E. ACCURACY OF SCHEDULE ANSWERS IN FERC FORM NO. 552:

Finding: Tenaska did not ensure that one of its FERC Form No. 552 filers correctly reported its answers on the Schedule of Reporting Companies and Price Index Reporting section of its FERC Form No. 552s for 2010, 2011, and 2012.

TMV-390603-1

Recommendation 14: Refile Tenaska Frontier's 2010, 2011 and 2012 FERC Form No. 552s to correct the answers in the Schedule of Reporting Companies and Price Index Reporting section.

RESPONSE: Tenaska accepts this recommendation and will refile Tenaska Frontier's 2010, 2011 and 2012 FERC Form No. 552s to correct the answers in the Schedule of Reporting Companies and Price Index Reporting section, as more fully described in the action plan due within 30 days of the issuance of the Final Audit Report.

Recommendation 15: Develop and implement a FERC Form No. 552 filing review process to ensure accuracy of affiliates' filing before submittal to the Commission.

RESPONSE: Tenaska accepts this recommendation and will develop and implement a FERC Form No. 552 filing review process to ensure accuracy of affiliates' filing before submittal to the Commission, as more fully described in the action plan due within 30 days of the issuance of the Final Audit Report.

Recommendation 16: Provide training to personnel on preparing and filing the FERC Form No. 552.

RESPONSE: Tenaska accepts this recommendation and will discuss its implementation in the action plan due within 30 days of the issuance of the Final Audit Report.

F. REPORTING OF TRANSACTIONS TO PRICE INDEX DEVELOPERS:

Finding: Tenaska did not ensure that its affiliates reported all its fixed price for next-day transaction to price index developers as its internal procedures intended. Gaps existed in its procedures to ensure reporting of all the transactions conducted before the daily cut-off and in the controls designed to detect such omissions. The level of such misreporting detected in the audit sample was about 4 percent of reportable transactions.

Recommendation 17: Revise its price index reporting policies and procedures to ensure it accurately and completely reports all relevant transactions to price index developers.

RESPONSE: Tenaska accepts this recommendation and has already implemented a system of cross checks designed to address the policy and procedure flaws that led to the misreporting of some transactions. Audit Staff has reviewed these policies and have concluded that Tenaska has satisfied audit recommendation 17.

Recommendation 18: Develop stricter internal audit testing to examine whether all relevant transactions are included in reports to price index developers.

RESPONSE: Tenaska accepts this recommendation and has already developed stricter internal audit testing, including new audit criteria and adding more transactions for testing the reporting of all reportable transactions. Audit Staff has reviewed these internal audit procedures and have concluded that Tenaska has satisfied audit recommendation 18.

Recommendation 19: Conduct front and mid-office employee training on price index reporting policies, procedures, and reporting deadlines.

RESPONSE: Tenaska accepts this recommendation and has incorporated a section in its compliance training manual on price index reporting policies, procedures, and reporting deadlines and has conducted training for all front and mid-office personnel on this subject matter.

G. OTHER MATTERS: CONTROLS OVER TRADING AND TRAINING:

Staff Assessment: Tenaska could improve its compliance program by enhancing its controls over two areas: monitoring trading activities during particular market conditions, and coordinating and verifying staff compliance training.

Staff Suggestion 1: Set specific market share thresholds for specific markets/hubs and then monitor its market share when reaching or surpassing the established thresholds. Document review of company's market participation to ensure trading activity complies with the compliance program, risk management policy, internal policies and FERC regulations.

Staff Suggestion 2: Monitor for changes in trading strategies, whether due to external activity in wholesale energy markets or on its own trading activity, seeking explanations for such changes, and review the company's related trading in the market.

RESPONSE: Tenaska greatly appreciates the thorough review Audit Staff did of Tenaska's compliance program. Staff provided helpful insights regarding the potential usefulness of trade floor monitoring procedures and enhanced oversight of trading during periods of market stress.

Tenaska compliance personnel have followed up on Audit Staff's suggestions and researched publicly available information on trade floor monitoring processes utilized by other gas and power trading companies. Tenaska has also analyzed alternatives for identifying changes in trading patterns or strategies. As Tenaska staff explained to Audit Staff, Tenaska does not have access to the same market information that FERC does and cannot accurately calculate in real time or near real time Tenaska's (or anyone else's) market share in either gas or power markets. For example, Tenaska has no meaningful data on bilateral trades in gas or power and no means of comparing the aggregate amount of bilateral activity at a point to the volume of trades reported by Intercontinental Exchange.

Tenaska is continuing to evaluate two categories of enhancements to its controls and processes to ensure a robust and sustainable method of monitoring market behavior and ensuring compliance. First, Tenaska is analyzing the utility of external metrics like price or volatility as a trigger for enhanced scrutiny of Tenaska's trading activity. Tenaska is continuing to evaluate establishing appropriate internal triggers that would prompt stricter scrutiny of trading activity, such as significant changes in trading or behavior patterns, or elevations of the Company's known market share if meaningful data becomes available. Such triggers, if hit, would result in enhanced oversight of trading activity and enhanced assistance to traders to assure compliance with applicable internal policies and Commission rules.

Tenaska will provide to Audit Staff any new processes or controls that are put in place as a result of those efforts. Tenaska will focus its market behavior oversight efforts on its two trading business units, Tenaska Power Services and Tenaska Marketing Ventures. Because Tenaska's generating plants are not actively trading their power generation or fuel supply needs but are essentially managing a natural long position in power and a short position in gas, the more intensive monitoring of conduct that might result from an enhanced oversight plan would not be appropriate or warranted for the power plants.

Staff Suggestion 3: Uniformly track compliance training needs and employee attendance throughout Tenaska, and maintain and systematically review these records.

RESPONSE: Tenaska agrees with this suggestion and has begun to implement it. TMV has adopted TPS' approach to regularly scheduled compliance training on FERC, CFTC and related matters. TMV now requires attendance at such training for a defined set of front and mid office personnel and new employees. TMV maintains documentation consistent with TPS' approach.

Tenaska is adopting an analogous approach to training and documentation in the Legacy and TCM business units and will advise Audit Staff when these changes are fully implemented.

As recommended in the draft audit report, Tenaska will submit an action plan for implementing Audit Staff's recommendations within 30 days of issuance of the final audit report.

Sincerely,

Drew J. Fossum
Vice President and General Counsel

DJF

TMV-390603-1