State of Florida

Public Service Commission

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

DATE: April 25, 2003
TO: Division of Economic Regulation (Bohrman)
FROM: Division of Auditing and Safety (Vandiver) W
RE: **Docket No.** 030001-EI (formerly 020001-EI); **Company Name:** Tampa Electric Company; **Audit Purpose:** Base Year Security and Hedging Cost Audit; **Audit Control No.** 02-340-2-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

TAMPA DISTRICT OFFICE

TAMPA ELECTRIC COMPANY

BASE YEAR SECURITY AND HEDGING COST AUDIT

FOR THE TWELVE MONTH PERIODS ENDED
DECEMBER 31, 2001 AND DECEMBER 31, 2002

DOCKET NO. 030001-EI

AUDIT CONTROL NO. 02-340-2-1

Jocelyn Y. Stephens, Audit Manager

James A. McPherson, Tampa District Supervisor

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DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT

March 17, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the base year security and hedging costs to be used in the fuel and capacity cost recovery clause proceedings for the historical twelve month periods ended December 31, 2001 and 2002 for Tampa Electric Company. There is no confidential information associated with this audit.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

SECURITY: Obtained total security costs for the years 2000 through 2003 (projected). Determined total recorded security costs (including incremental costs), for calendar years 2000, 2001 and 2002 totaled $2,731,227, $3,508,664, and $3,619,633, respectively. Projected 2003 security costs totaled $3,283,370. Tested a randomly selected sample of security charges to supporting documentation.

HEDGING: Obtained total and incremental hedging costs for the years 2001, 2002 and for the projected year 2003. Determined the Company's distinction between financial hedging and physical hedging. Obtained the percentage of time employees devoted to hedging activities and recomputed hedging expense using the employees' annual salaries.

AUDIT DISCLOSURE NO. 1

SUBJECT: SECURITY COSTS

STATEMENT OF FACT:

The company was requested to provide plant security costs by function (i.e. generation, transmission and distribution). In its response to this request, the company spokesperson stated that for the period January 2000 through December 2002 security costs cannot be segregated between functions because these costs were not tracked by function, when incurred. The security costs specific to a location and to generation are distinguishable to a limited extent, as per FERC rules. These would include costs for security personnel who normally sign personnel and visitors in and out of a specified plant. Also, security costs pertaining to transmission and distribution cannot be segregated. These amounts are recorded as Administrative and General (A&G), along with actual A&G security costs. Any segregation of security costs would have to be done on some sort of arbitrary allocation methodology, which would not depict a true reflection of incurred security costs.

However, the Company was able to provide security by function for incremental costs incurred as a result of the 9/11 event.

AUDITOR OPINION:

Base year security costs per the company calculation for 2001 totals \$3,108,013; and, for 2002 totals \$3,225,684.

We prepared schedules for the years 2001, 2002 and projected 2003, by account, by month, for security costs recorded in the general ledger. In order to determine the amount of normal and recurring security costs, we removed those costs identified by the company as incremental. The resulting amount equals actual security costs on a consistent basis. Staff then calculated average security cost based upon 2001 and 2002 security costs. Average costs, per staff calculation, totaled \$3,166,848. Staff believes that the average amount better represents a base amount for security costs when determining incremental security costs to be used in future years.. See table below:

	2001	2002	Projected 2003	Average 2001-2002
Balance PER G/L (Inc Incremental)	3,508,664	3,619,633	3,283,370	3,564,149
Incremental Costs	(400,651)	(393,949)	(228,970)	
BALANCE PER G/L (Exc Incremental)	3,108,013	3,225,684	3,054,400	3,166,848

AUDIT DISCLOSURE NO. 2

SUBJECT: HEDGING

STATEMENT OF FACT:

For the year ended December 31, 2001, Tampa Electric Company determined that it had incurred total hedging expense of $169,153. This total consisted of $159,723 of payroll and related fringe benefits determined by the percentage of time each employee in the Fuels department devoted to physical hedging activities. Additionally, $2,500 was spent for travel costs to the coal mine for contract negotiations and $6,930 for training on hedging. The payroll costs were not recorded in a separate account, rather the percentage of time devoted to hedging was multiplied by the fully loaded labor costs for each employee's position. As a result, these hedging expenses cannot be traced directly to the general ledger.

Effective in May 2002, the Fuels department and the Wholesale Marketing department merged to create the Wholesale Marketing and Fuels Department. We were told that in addition to physical and financial hedging activities this department also performs daily activities, planning, and regulatory activities. A breakdown between physical and financial hedging cannot be determined. This department currently consists of five positions that devote time to hedging (risk management):

1. Director
2. Fuels Strategist
3. Forecast Analysis
4. Contract Administrator
5. Manager of Natural Gas

Prior to May 2002, the procurement of natural gas for Tampa Electric's use was performed by Peoples Gas System (PGS). PGS arranged for the purchase and delivery of the gas and billed Tampa Electric its actual cost plus a small administration fee based on the time spent arranging the purchase. The total amount paid was included as cost of gas and recovered in the fuel clause.

For the calendar year 2002, Tampa Electric determined total hedging costs to be $252,939 with the incremental portion being $83,786. The percentage of time employees spent on hedging activities ranged from 30% to 80%. Any gains or losses on hedging activities are included in fuel costs and are recovered in the fuel clause.