

State of Florida



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: May 19, 2003
TO: Division of Economic Regulation (Bohrmann)
FROM: Division of Auditing and Safety(Vandiver) W
RE: **Response from:** Tampa Electric Company; **Audit Purpose:** Base Year Security and Hedging Cost; **Audit Control No.:** 02-340-2-1

Attached is the response from Tampa Electric Company to the audit disclosures contained in the final Base Year Security and Hedging Cost audit report dated April 25, 2003.

DV/jcp
Attachment

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

DOCUMENT NUMBER DATE

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FPSC-COMMISSION CLERK



TAMPA ELECTRIC

May 14, 2003

Ms. Denise N. Vandiver
Bureau Chief of Auditing
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0872

Re: Tampa Electric Company
Docket No. 030001-EI, Audit Re.: Base Year Security and Hedging Cost
Audit Control No. 02-340-2-1

Dear Ms. Vandiver:

Enclosed is Tampa Electric Company's response to your audit report, dated April 25, 2003, regarding base year security and hedging cost in Docket No. 030001-EI.

Please let me know if you have any questions with respect to this matter.

Sincerely,

Angela L. Llewellyn
Administrator
Regulatory Affairs

Enclosure

cc: Lee L. Willis, Esq.

TAMPA ELECTRIC COMPANY
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TAMPA ELECTRIC COMPANY
DOCKET NO. 030001-EI
AUDIT: BASE YEAR SECURITY AND
HEDGING COST
AUDIT CONTROL NO. 02-340-2-1
AUDIT DISCLOSURE NO. 1
FILED: MAY 14, 2003
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Subject: Security Costs

1. Statement of Fact: The company was requested to provide plant security costs by function (Le. 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.

Audit 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:

	<u>2001</u>	<u>2002</u>	<u>Projected 2003</u>	<u>Average 2001-2002</u>
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

**TAMPA ELECTRIC COMPANY
DOCKET NO. 030001-EI
AUDIT: BASE YEAR SECURITY AND
HEDGING COST
AUDIT CONTROL NO. 02-340-2-1
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- A.** As stated, the FPSC staff auditor suggests that Tampa Electric's future incremental security costs be determined by comparison to a base year calculated by taking the average of 2001 and 2002 non-incremental security costs.

Tampa Electric currently calculates its incremental security costs as described in the stipulated agreement reached by all parties in Docket No. 020001-EI and approved by the Commission in Order No. PSC-02-1761-FOF-EI. Said stipulation provided for incremental costs to be determined by a comparison to the 2001 base year security costs incurred by the company, excluding the extraordinary costs that arose following the terrorist attacks of September 11, 2001.

Although Tampa Electric understands the FPSC staff auditor's alternate calculation, the company believes that using this or any other alternate calculation would be inappropriate for the following reasons:

1. Such a change is contrary to the terms of the stipulation agreed to by all parties in this docket and approved by the Commission; and
2. Using a multi-year average to set the base year costs and to calculate future years' incremental costs would not accurately depict true incremental security costs.

Tampa Electric believes that incremental security costs should continue to be calculated as described by the terms of the stipulation referenced above.