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DATE: April 5, 2004
TO: Daniel Lee, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing
 Division of Auditing and Safety
RE: **Docket No.** 040001-EI ; **Company Name:** Tampa Electric Co. ; **Audit Purpose:** Capacity Cost Recovery Audit ; **Audit Control No.** 04-022-2-1

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)
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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

CAPACITY COST RECOVERY AUDIT

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

DOCKET NO. 040001-EI

AUDIT CONTROL NO. 04-022-2-1


Tomer Kopelovich, Audit Manager



Joseph W. Rohrbacher, Tampa District Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

March 12, 2004

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Capacity Cost Recovery True-up schedules for the historical twelve month period ended December 31, 2003 for Tampa Electric Company. These schedules were prepared by the utility as part of its petition for a Fuel Cost Factor Adjustment in Docket 040001-EI. There is no confidential information associated with this audit and there are no staff minority opinions.

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 FINDINGS

During the period January 2003 through December 2003, the Company included an amount for Incremental Security Costs totaling \$214,722.

In January, April and September 2003, the Company included an amount for a 2003 Capacity Price Adjustment totaling \$410,051.

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.

REVENUE: Compiled Capacity Cost Recovery (CCR) revenue and agreed to the filing. Recomputed CCR revenues using approved FPSC rate factors and company provided KWH sales.

EXPENSES: Recomputed capacity costs. Agreed capacity costs to Tampa Electric billing statements. Identified costs by vendor. Performed audit test work of capacity cost payments to verify that vendors were paid capacity charges according to contract terms for electric power supplied by the vendors. Verified that incremental security costs were transferred from the fuel clause in accordance with Commission directive.

TRUE-UP: Recomputed CCR true-up and interest using FPSC approved amounts and interest rates.

Disclosure No. 1

Subject: Incremental Security Costs

Statement of Fact: In accordance with Commission Orders PSC-01-2516-FOF-EI and PSC-02-1761-FOF-EI, the company has recorded an amount for incremental security costs in its 2003 Capacity Filing of \$214,722. These incremental costs were incurred by the company during the period January 2003 through December 2003.

In accordance with Commission Order PSC-03-1461-FOF-EI, utilities seeking recovery of incremental security costs through the capacity clause shall provide a breakdown of those costs by project groups and identify any base rate items that were removed. Costs are not identified by project group rather by operating areas.

Tampa Electric has interpreted incremental security costs to be any costs that occurred subsequent to the 9/11 event, that would not have occurred if not for the heightened level of alert. The company's computation of incremental security costs is shown below:

<u>2003 General Ledger</u>	<u>Incremental</u>	<u>Net Security</u>
\$3,281,470	\$214,722	\$3,066,748

Recommendation: Based upon the security costs audit performed by the PSC staff in 2003, a two year average of net security costs was determined to be the most appropriate amount to use in calculating a base amount for incremental security costs. The two-year average was calculated using the general ledger balances less company recorded incremental costs for the years 2001 and 2002. Staff's average base amount equals \$3,166,884. We believe any costs greater than this amount should be considered incremental.

	<u>Gen'l Ledger</u> <u>Balance</u>	<u>Incremental</u>	<u>Net</u> <u>Security</u>
2001	\$3,508,733	\$400,650	\$3,108,083
2002	\$3,619,633	\$393,948	\$3,225,685
			<u>\$6,333,768</u>
Average Base Security			<u>\$3,166,884</u>

Using the average balance per staff computation, incremental costs for 2003 should not exceed \$114,586. This is less than the amount of \$214,722 recorded by the company, therefore the difference of \$100,136 between the staff computation and the company's computed balance should not be allowed.

Staff's Average Base Security	\$3,166,884
General Ledger 2003 Costs	<u>3,281,470</u>
Staff's Incremental Cost	(\$114,586)
Company Amount	<u>\$214,722</u>
Disallowance	<u>\$100,136</u>

Also, in accordance with Commission Order PSC-03-1461-FOF-EI, the utility shall provide a breakdown of incremental security costs by project group.

Disclosure No. 2

Subject: Capacity Price Adjustment

Statement of Fact: The company included an adjustment for (\$451,550) in January, \$2,016 in April and \$39,483 in December decreasing its capacity charges from Hardee Power Partners (HPP) in 2003. The company states that the January and April adjustments, total (\$449,534), adjusted the December 2002 estimated capacity charge.

Je 90006	Adjustments
Dec 02 estimate	\$2,159,568
Jan 03 adjustment	(451,550)
Apr 03 adjustment	<u>2,016</u>
Dec 02 actual	<u>1,710,034</u>

The September 2003 adjustment is a capacity payment income tax adjustment correction for the periods April 2000 through March 2003. Per the original HPP contract, there is a change in monthly capacity for each percentage change in the income tax rate. This change had not been included in the capacity calculation therefore the adjustment was made in September 2003 to correct the oversight for the aforementioned period.

Recommendation: I reviewed the adjustments to the capacity entry crediting the liability and debiting the capacity expense accounts in January and April 2003. Also, I reviewed the adjustment for September 2003 which was made to correct the oversight for the period mentioned above. I found the adjustments to be properly made.

Disclosure No. 3

Subject: Prior Audit Adjustment

Statement of Fact: Commission Order No. PSC-01-0113-PAA-EI issued in Docket No. 950379-EI required the company to make refunds associated with the 1999 earnings settlement totaling \$6.1 million plus interest over the period June through August 2002. During the process the company erroneously calculated and made refunds to its optional provision customers. This error results in differences of approximately \$7,500 between the revenues per CCR Filing and revenues per the general ledger.

The company followed the recommendation of last year's audit to correct the approximate difference of \$7,500 in capacity revenues.

Recommendation: No further action is needed.

TAMPA ELECTRIC COMPANY
CAPACITY COST RECOVERY ADJUSTMENT
For Months January 2003 through December 2003

Description	2002	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	
	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	
Capacity Recovery Revenues	\$3,775,360	\$3,317,287	\$3,049,230	\$2,714,160	\$2,934,940	\$3,492,901	\$3,752,058	\$3,880,012	\$3,940,657	\$3,908,252	\$3,552,701	\$3,136,975	\$3,071,607	\$40,750,780
True-up	<u>(463,341)</u>	<u>(127,338)</u>	<u>(127,338)</u>	<u>(127,338)</u>	<u>(127,338)</u>	<u>(127,338)</u>	<u>(127,338)</u>	<u>(127,338)</u>	<u>(127,338)</u>	<u>(127,338)</u>	<u>(127,338)</u>	<u>(127,338)</u>	<u>(127,338)</u>	<u>(1,528,054)</u>
Capacity Revenue Applicable to Period	3,312,019	3,189,949	2,921,892	2,586,822	2,807,602	3,365,563	3,624,720	3,752,674	3,813,319	3,780,914	3,425,363	3,009,637	2,944,271	39,222,726
Capacity Recovery Expense	<u>5,453,384</u>	<u>3,759,352</u>	<u>4,285,691</u>	<u>4,095,598</u>	<u>3,985,297</u>	<u>3,314,679</u>	<u>3,158,835</u>	<u>3,115,165</u>	<u>3,138,555</u>	<u>3,167,143</u>	<u>3,167,787</u>	<u>3,139,589</u>	<u>3,014,989</u>	<u>41,342,680</u>
True-up This Period	(2,141,365)	(569,403)	(1,363,799)	(1,508,776)	(1,177,695)	50,884	465,885	637,509	674,764	613,771	257,576	(129,952)	(70,718)	(2,119,954)
Interest Provision This Period	(1,061)	(2,187)	(3,030)	(4,239)	(5,363)	(5,859)	(5,041)	(4,084)	(3,542)	(2,867)	(2,374)	(2,132)	(2,136)	(42,854)
True-up & Interest Provision Beginning of Month	(143,684)	(1,822,769)	(2,267,021)	(3,506,512)	(4,892,189)	(5,947,909)	(5,775,546)	(5,187,364)	(4,426,601)	(3,628,041)	(2,889,799)	(2,507,259)	(2,512,005)	(1,822,769)
True-up Collected/(Refunded)	<u>463,341</u>	<u>127,338</u>	<u>127,338</u>	<u>127,338</u>	<u>127,338</u>	<u>127,338</u>	<u>127,338</u>	<u>127,338</u>	<u>127,338</u>	<u>127,338</u>	<u>127,338</u>	<u>127,338</u>	<u>127,338</u>	<u>1,528,054</u>
End of Period Total Net True-up	<u>(1,822,769)</u>	<u>(2,267,021)</u>	<u>(3,506,512)</u>	<u>(4,892,189)</u>	<u>(5,947,909)</u>	<u>(5,775,546)</u>	<u>(5,187,364)</u>	<u>(4,426,601)</u>	<u>(3,628,041)</u>	<u>(2,889,799)</u>	<u>(2,507,259)</u>	<u>(2,512,005)</u>	<u>(2,457,523)</u>	<u>(2,457,523)</u>

**TAMPA ELECTRIC COMPANY
CAPACITY COST RECOVERY ADJUSTMENT**

ths January 2003 through December 2003

<u>Interest Provision</u>	2002 DEC	2003 JAN	2003 FEB	2003 MAR	2003 APR	2003 MAY	2003 JUN	2003 JUL	2003 AUG	2003 SEP	2003 OCT	2003 NOV	2003 DEC	Total
Beginning True-up	(\$143,684)	(\$1,822,769)	(\$2,267,021)	(\$3,506,512)	(\$4,892,189)	(\$5,947,909)	(\$5,775,546)	(\$5,187,364)	(\$4,426,601)	(\$3,628,041)	(\$2,889,799)	(\$2,507,259)	(\$2,512,005)	(\$2,457,523)
Ending True-up Amount Before Interest	(1,821,708)	(2,264,834)	(3,503,482)	(4,887,950)	(5,942,546)	(5,769,687)	(5,182,323)	(4,422,517)	(3,624,499)	(2,886,932)	(2,504,885)	(2,509,873)	(2,455,387)	
Total Beginning & Ending True-up	(\$1,965,392)	(\$4,087,603)	(\$5,770,503)	(\$8,394,462)	(\$10,834,735)	(\$11,717,596)	(\$10,957,869)	(\$9,609,881)	(\$8,051,100)	(\$6,514,973)	(\$5,394,684)	(\$5,017,132)	(\$4,967,392)	
Average True-up Amount	(\$982,696)	(\$2,043,802)	(\$2,865,252)	(\$4,197,231)	(\$5,417,368)	(\$5,858,798)	(\$5,478,935)	(\$4,804,941)	(\$4,025,550)	(\$3,257,487)	(\$2,697,342)	(\$2,508,566)	(\$2,483,696)	
Interest Rate - Last Day of Prior Month	1.300%	1.290%	1.270%	1.250%	1.180%	1.190%	1.210%	1.000%	1.050%	1.060%	1.060%	1.050%	1.000%	
Interest Rate - Last Day of Current Month	1.290%	1.270%	1.250%	1.180%	1.190%	1.210%	1.000%	1.050%	1.060%	1.060%	1.050%	1.000%	1.060%	
Total	2.590%	2.560%	2.520%	2.430%	2.370%	2.400%	2.210%	2.050%	2.110%	2.120%	2.110%	2.050%	2.060%	
Average Interest Rate	1.295%	1.280%	1.260%	1.215%	1.185%	1.200%	1.105%	1.025%	1.055%	1.060%	1.055%	1.025%	1.030%	
Monthly Average Interest Rate	0.108%	0.107%	0.105%	0.101%	0.099%	0.100%	0.092%	0.085%	0.088%	0.088%	0.088%	0.085%	0.086%	
Interest Provision	(\$1,061)	(\$2,187)	(\$3,030)	(\$4,239)	(\$5,363)	(\$5,859)	(\$5,041)	(\$4,084)	(\$3,542)	(\$2,867)	(\$2,374)	(\$2,132)	(\$2,136)	(\$42,854)