

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 30, 2004
TO: Jim Breman, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing *DNV*
Division of Regulatory Compliance and Consumer Assistance
RE: **Docket No.** 040007-EI ; **Company Name:** Tampa Electric Co. ; **Audit Purpose:** Environmental Cost Recovery Clause Audit ;
Audit Control No. 04-044-2-1

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 Regulatory Compliance and Consumer Assistance (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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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE

BUREAU OF AUDITING

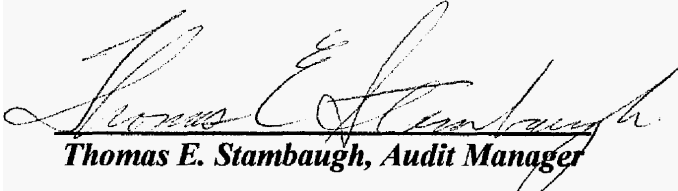
TAMPA DISTRICT OFFICE

TAMPA ELECTRIC COMPANY

ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

**DOCKET NO. 040007-EI
AUDIT CONTROL NO. 04-044-2-1**


Thomas E. Stambaugh, Audit Manager


Joseph W. Rohrbacher, Tampa District Supervisor

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

JUNE 16, 2004

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the Environmental Cost Recovery Clause (ECRC) schedules for the twelve month period ended December 31, 2003 prepared by Tampa Electric Company. These schedules were prepared by the utility in support of Docket No. 040007-El. No confidential information is 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.

ECRC Revenue: Compiled ECRC revenue by general ledger account and agreed to the ECRC Filing. Recomputed ECRC revenues using FPSC approved rate factors and company provided KWH sales. Verified two months of customer bills, from each rate schedule, for compliance to factors approved by FPSC Order No. PSC-02-1761-FOF-EI.

Expenses: Compiled ECRC expense by general ledger account and agreed to the ECRC filing. Tested invoices and supporting documentation for ECRC expenses.

Capital Investment: Scheduled capital investment for ECRC projects. Reconciled depreciation used by the Utility to FPSC-approved rates. Recomputed depreciation expense and accumulated depreciation. Agreed these amounts to the ECRC filing. Recalculated recoverable debt and equity cost on capital investment. Verified the Utility is retiring the installed costs of replaced units of property and is not capitalizing the replacement of minor items of depreciable property. Documented the retirement of the Gannon ECRC assets in the ECRC filing. Determined the amount of capitalized payroll.

True-up: Compiled ECRC True-up. Agreed amounts to be collected for prior period over recovery to the amounts authorized by the FPSC. Verified interest rates used by the utility.

Other: Read notes from the minutes of Board of Directors meetings and read internal audits. Performed analytical review of four years of O&M expense. The purpose of this work was to identify any matter which might change the scope or level of risk of the audit.

Disclosure No. 1**Subject: Disclosures From The Previous Audit**

Statement of Fact: The previous audit included a disclosure about an understatement of ECRC revenue in the amount of \$20,536. In addition, two differences in the depreciable plant balance of the Big Bend Flue Gas Desulphurization Optimization and Utilization Project, \$150,088 and \$390,468, were highlighted in another disclosure. The \$150,088 difference was caused by a formula error in a work paper. The \$390,468 difference was based on costs which were incurred before FPSC approval of the project had been received by the Utility.

Auditor Opinion: The revenue understatement was to be corrected in June, 2003. Audit field work during the present audit verifies this correction was made. Further, the \$150,088 depreciable plant difference has been corrected in the Utility's plant ledgers and in its ECRC filing.

Utility representatives had stated that the \$390,468 was not recoverable because it had been incurred before final approval had been obtained from the FPSC. That statement was also indicated in a reference to FPSC Order 94-1207-FOF-EI, dated October 3, 1994, in which all cost recovery should be prospective. The Utility stated it would remove the \$390,468 amount for ECRC recovery purposes and actually did so in its projected filing for 2003.

In the Utility's actual ECRC filing for 2003, the \$390,468 had been included for cost recovery purposes. The Utility cited FPSC Order PSC-00-1906-PAA-EI, Section III, Costs Incurred Before the Petition was Filed. Pages 8 and 9 of this section indicate that costs may be included before FPSC approval is obtained if extraordinary circumstances are present. The extraordinary circumstance described in the Order was the need to implement a Consent Decree with the US Environmental Protection Agency.

If the \$390,468 is accepted for ECRC purposes, it will change the conclusion of Audit disclosure No. 3 in the previous audit. Instead of a net over recovery of \$8,356, a net under recovery for 2003 of \$19,073 will exist.

Recommendation: I recommend inclusion of the \$390,468 in ECRC under the "extraordinary circumstances" described in FPSC Order PSC-00-1906-PAA-EI.

&

Disclosure No. 2

Subject: Retirement of ECRC Assets at the Gannon Station

Statement of Fact: Tampa Electric Company retired all ECRC assets at the Gannon Station as of December 31, 2003.

Auditor's Opinion: The assets retired were the following investment items and the corresponding dollar amounts. All assets were depreciated in the ECRC filing for 2003 at rates which yielded a zero net book value at the end of the year, which is correct.

<u>Name of Project</u>	<u>Amount</u>
Gannon Ignition Oil Tank	----- \$589,752
Gannon #5 Classifier Replacement	\$1,357,040
Gannon #6 Classifier Replacement	\$1,418,424
Gannon Coal Crusher	\$5,227,289
Total of Retired Assets	----- \$8,592,505 =====

The Gannon assets recoverable through ECRC were depreciated to zero in Tampa Electric's ECRC filing as of the end of 2003.

Recommendation: Provided for information only.

Disclosure No. 3

Subject: Capitalized Payroll

Statement of Fact: Tampa Electric Company included \$671,564 of capitalized payroll in its ECRC filing for 2003. This amount is an addition to the cumulative total of \$5,793,370 of capitalized payroll dollars recovered through ECRC in previous years.

Auditor's Opinion: In the 1999 audit, the auditor stated the following: "Section 366.8255, Florida Statutes, states, 'An adjustment for the level of costs currently being recovered through base rates or other rate-adjustment clauses must be included in the filing'." Further, the auditor stated "To include these payroll costs in the ECRC as expenses or plant investment would allow the Company to receive double recovery of same". The following shows capitalized payroll stated by ECRC asset.

<u>Name of Project</u>	<u>Asset Addition</u>	<u>Payroll</u>
Big Bend NOx Reduction	\$964,630	\$214,398
Polk NOx Reduction	\$1,322,367	\$167,585
Particulate Matter Minimization	\$341,844	\$135,417
Supplemental Over Fire Air	\$2,250,718	\$154,164
Capitalized Payroll and Asset Additions for 2003	<u>\$4,879,559</u>	<u>\$671,564</u>

Cumulatively, the amount of capitalized payroll totals 4.39% of total ECRC investment dollars (\$6,461,670 divided by \$147,180,824). For 2003, the amount of capitalized payroll is 13.76% of asset additions.

Recommendation: Provided for information only.

Disclosure No. 4

Subject: Dedicated Water Meter – Big Bend Scrubbers

Statement of Fact: Tampa Electric Company charged \$624,091.92 for water service at Big Bend during 2003 as recoverable expense through ECRC. This amount was posted to general ledger account 502.82 and was billed monthly for one water meter.

Auditor's Opinion: I asked the Utility why it posted the entire payment to ECRC. The response was that the meter had been installed to measure and bill water service which was used only by the Big Bend scrubbers and therefore belonged fully in ECRC.

Recommendation: Provided for information only.

Tampa Electric Company
Environmental Cost Recovery Clause (ECRC)
 Calculation of the Final True-Up Amount for the Period
 January 2003 to December 2003

Current Period True-Up Amount
 (in Dollars)

Line	Actual Jan-03	Actual Feb-03	Actual Mar-03	Actual Apr-03	Actual May-03	Actual Jun-03	Actual Jul-03	Actual Aug-03	Actual Sep-03	Actual Oct-03	Actual Nov-03	Actual Dec-03	End of Period Total
1. ECRC Revenues (net of Revenue Taxes)	\$2,111,452	\$1,955,605	\$1,786,339	\$1,913,053	\$2,245,103	\$2,377,138	\$2,423,943	\$2,460,555	\$2,413,393	\$2,250,287	\$2,040,360	\$1,997,390	\$25,974,618
2. True-Up Provision	204,677	204,677	204,677	204,677	204,677	204,677	204,677	204,677	204,677	204,677	204,677	204,678	2,456,125
3. ECRC Revenues Applicable to Period (Lines 1 + 2)	2,316,129	2,160,282	1,991,016	2,117,730	2,449,780	2,581,815	2,628,620	2,665,232	2,618,070	2,454,964	2,245,037	2,202,068	28,430,743
4. Jurisdictional ECRC Costs													
a. O & M Activities (Form 42-5A, Line 9)	420,847	388,081	481,446	431,221	950,385	640,375	630,963	796,936	542,989	597,247	747,614	1,025,164	7,653,268
b. Capital Investment Projects (Form 42-7A, Line 9)	1,781,135	1,784,311	1,753,835	1,768,058	1,765,907	1,769,537	1,767,339	1,765,651	1,760,839	1,761,696	1,760,257	1,760,561	21,199,126
c. Total Jurisdictional ECRC Costs	2,201,982	2,172,392	2,235,281	2,199,279	2,716,292	2,409,912	2,398,302	2,562,587	2,303,828	2,358,943	2,507,871	2,785,725	28,852,394
5. Over/Under Recovery (Line 3 - Line 4c)	114,147	(12,110)	(244,265)	(81,549)	(266,512)	171,903	230,318	102,645	314,242	96,021	(262,834)	(583,657)	(421,651)
6. Interest Provision (Form 42-3A, Line 10)	2,079	1,881	1,475	1,083	717	428	393	373	377	378	120	(418)	8,886
7. Beginning Balance True-Up & Interest Provision	2,456,125	2,356,285	2,141,379	1,893,912	1,408,769	938,297	905,951	931,985	830,326	940,268	831,990	364,599	2,456,125
a. Deferred True-Up from January to December 2002 (Order No. PSC-03-1348-FOF-EI)	(456,568)	(456,568)	(456,568)	(456,568)	(456,568)	(456,568)	(456,568)	(456,568)	(456,568)	(456,568)	(456,568)	(456,568)	(456,568)
8. True-Up Collected/(Refunded) (see Line 2)	(204,677)	(204,677)	(204,677)	(204,677)	(204,677)	(204,677)	(204,677)	(204,677)	(204,677)	(204,677)	(204,677)	(204,678)	(2,456,125)
9. End of Period Total True-Up (Lines 5 + 6 + 7 +7a + 8)	1,911,106	1,684,811	1,237,344	952,201	481,729	449,383	475,417	373,758	483,700	375,422	(91,969)	(880,722)	(869,333)
10. Adjustment to Period True-Up Including Interest	(11,389)	0	0	0	0	0	0	0	0	0	0	0	(11,389)
11. End of Period Total Net True-Up (Lines 9 + 10)	\$1,899,717	\$1,684,811	\$1,237,344	\$952,201	\$481,729	\$449,383	\$475,417	\$373,758	\$483,700	\$375,422	(\$91,969)	(\$880,722)	(\$880,722)

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EXHIBIT NO. _____
 DOCKET NO. 14007-EI
 TAMPA ELECTRIC COMPANY
 (HTB-1)
 DOCUMENT NO. 2
 PAGE 1 OF 1
 FORM 42-2A
 FILED: APRIL 1, 2004