

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: July 28, 2005
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.: 050007-EI; **Company Name:** Tampa Electric Company; **Audit Purpose:** Environmental Cost Recovery Clause; **Audit Control No.:** 05-033-2-1

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

07330 JUL 29 08

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING*

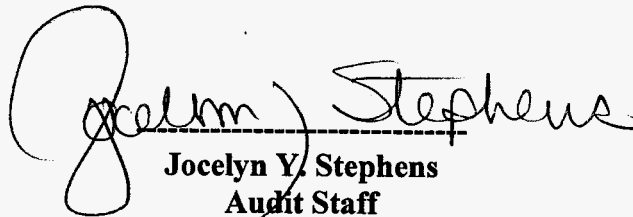
Tampa District Office

TAMPA ELECTRIC COMPANY


ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2004

**Docket Number 050007-EI
Audit Control Number 05-033-2-1**



Jocelyn Y. Stephens
Audit Staff



Joseph W. Rohrbacher
Tampa District Supervisor

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

JULY 14, 2005

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, 2004 for Tampa Electric Company. These schedules were prepared by the utility in support of Docket No. 050007-EI. 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 FINDINGS

An adjustment was made, in the amount of \$936,288, to reflect the over recovery of O&M expenses for water bills at the Big Bend station for the years 2000 – 2003.

The utility did not use the new depreciation rates in accordance with Order No. PSC-04-0815-PAA-EI, effective January 1, 2004.

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.

REVENUES: Compiled Environmental Cost Recovery Clause (ECRC) revenue and agreed to the filing. Recomputed revenues using approved FPSC rate factors and company provided KWH sales. Chose a judgemental sample of customer bills from two billing periods, for each rate schedule, and verified for compliance to factors approved by FPSC Order No. PSC-03-1348-FOF-EI.

EXPENSES: Compiled ECRC expenses and agreed to the filing. Recomputed allocations of expenses for Big Bend 1&2 and Big Bend 3 Fuel Gas Desulfurization (FGD) Integration. Verified SO2 Emission Allowances. Chose a judgemental sample of O&M expenses and examined invoices and other supporting documentation.

CAPITAL INVESTMENT: Scheduled capital investment for the ECRC projects. Performed judgemental testing of capital investment cost for ECRC projects. Verified the calculation of depreciation and return on investment. Verified that the utility is retiring the installed costs of units of property which have been replaced. Verified utility calculated depreciation expense offsets required by Order No. PSC-99-2513 FOF-EI to adjust ECRC costs for retirements and replacements recovered through base rates.

TRUE-UP: Recomputed ECRC true-up and interest calculation using FPSC approved beginning of period true-up amount and interest rates. Reconciled energy and demand separation percentages.

Disclosure No. 1

Subject: ECRC Adjustments

Statement of Fact: The 2003 ECRC audit found that the utility over recovered expenses pertaining to Hillsborough County water bills at Big Bend station. The bills were incorrectly classified and therefore incorrectly allocated to ECRC expenses.

The utility reviewed its water bills for the years 2000 – 2003 and found other water bills incorrectly allocated. An adjustment of \$936,288 was made in January 2004 to reflect the over recovery of O&M charges and applicable interest in the previous years.

Opinion: Accept the utility adjustment relating to the excess recovery of O&M expenses in prior years.

Disclosure No. 2

Subject: Depreciation

Statement of Fact: Rule 25-6.0436, Florida Administrative Code (F.A.C.), requires investor owned utilities to file comprehensive depreciation studies at least once every four years. In 2003 Tampa Electric Company filed its regular depreciation study in accordance with this rule. Order No. PSC-04-0815-PAA-EI approved the new depreciation rates and an implementation date of January 1, 2004.

In reviewing the ECRC filing during the course of the audit, we determined that the new depreciation rates were not implemented in 2004. As a result, depreciation expense was overstated by \$85,147.

Opinion: The utility stated that an adjustment of \$78,494 will be made in the May 2005 filing, representing the \$85,147 over recovery adjusted for return on investment, jurisdictional factors and interest.

Tampa Electric Company
 Environmental Cost Recovery Clause (ECRC)
 Calculation of the Final True-Up Amount for the Period
 January 2004 to December 2004

Current Period True-Up Amount
 (In Dollars)

Line	Actual Jan 04	Actual Feb 04	Actual Mar 04	Actual Apr 04	Actual May 04	Actual Jun 04	Actual Jul 04	Actual Aug 04	Actual Sep 04	Actual Oct 04	Actual Nov 04	Actual Dec 04	End of Period Total
1. ECRC Revenues (net of Revenue Taxes)	\$2,120,241	\$1,894,996	\$1,913,250	\$1,858,683	\$2,097,564	\$2,504,121	\$2,585,072	\$2,452,909	\$2,457,641	\$2,292,334	\$2,060,397	\$2,071,824	\$26,309,032
2. True-Up Provision	(51,698)	(51,698)	(51,698)	(51,698)	(51,698)	(51,698)	(51,698)	(51,698)	(51,698)	(51,698)	(51,698)	(51,698)	(620,371)
3. ECRC Revenues Applicable to Period (Lines 1 + 2)	2,068,543	1,843,298	1,861,552	1,806,985	2,045,866	2,452,423	2,533,374	2,401,211	2,405,943	2,240,636	2,008,699	2,020,126	25,688,661
4. Jurisdictional ECRC Costs													
a. O & M Activities (Form 42-5A, Line 9)	679,094	619,098	780,776	596,692	647,001	483,702	607,269	(5,071,295)	(734,669)	976,439	801,866	1,137,609	1,523,582
b. Capital Investment Projects (Form 42-7A, Line 9)	1,503,117	1,506,259	1,486,408	1,475,526	1,478,948	1,483,914	1,478,953	1,479,413	1,473,633	1,466,284	1,479,008	1,476,401	17,787,864
c. Total Jurisdictional ECRC Costs	2,182,211	2,125,357	2,267,184	2,072,218	2,125,949	1,967,616	2,086,222	(3,591,882)	738,964	2,442,723	2,280,874	2,614,010	19,311,446
5. Over/Under Recovery (Line 3 - Line 4c)	(113,668)	(282,059)	(405,632)	(265,233)	(80,083)	484,807	447,152	5,993,093	1,666,979	(202,087)	(272,175)	(593,884)	6,377,215
6. Interest Provision (Form 42-3A, Line 10)	21	(102)	(339)	(586)	(705)	(560)	(57)	4,125	9,952	12,249	13,372	13,987	51,357
7. Beginning Balance True-Up & Interest Provision	(620,371)	253,968	23,505	(330,768)	(544,889)	(573,979)	(38,034)	460,759	6,509,675	8,238,304	8,100,164	7,893,059	(620,371)
a. Deferred True-Up from January to December 2003 (Order No. PSC-04-1187-FOF-EI)	(260,351)	(260,351)	(260,351)	(260,351)	(260,351)	(260,351)	(260,351)	(260,351)	(260,351)	(260,351)	(260,351)	(260,351)	(260,351)
8. True-Up Collected/(Refunded) (see Line 2)	51,698	51,698	51,698	51,698	51,698	51,698	51,698	51,698	51,698	51,698	51,698	51,698	620,371
9. End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 8)	(942,671)	(236,846)	(591,119)	(805,240)	(834,330)	(298,385)	200,408	6,249,324	7,977,953	7,839,813	7,632,708	7,104,509	6,168,221
10. Adjustment to Period True-Up Including Interest	936,288	0	0	0	0	0	0	0	0	0	0	0	936,288
11. End of Period Total Net True-Up (Lines 9 + 10)	(\$6,383)	(\$236,846)	(\$591,119)	(\$805,240)	(\$834,330)	(\$298,385)	\$200,408	\$6,249,324	\$7,977,953	\$7,839,813	\$7,632,708	\$7,104,509	\$7,104,509