

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-**

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**DATE:** May 2, 2006  
**TO:** Peter H. Lester, Economic Analyst, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance  
**RE:** **Docket No:** 060001-EI; **Company Name:** Tampa Electric Company  
**Audit Purpose:** Fuel Clause Audit  
**Audit Control No:** 06-046-2-1

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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 Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

DNV:sbj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of Commission Clerk & 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**

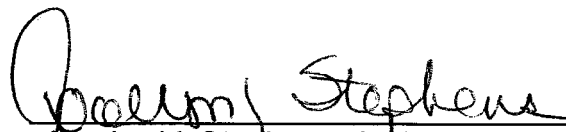
**FUEL ADJUSTMENT CLAUSE AUDIT**

**HISTORICAL YEAR ENDED DECEMBER 31, 2005**

**DOCKET NO. 060001-EI**

**AUDIT CONTROL NO. 06-046-2-1**

Report Issued March 21, 2006

  
Jocelyn Y. Stephens, Audit Manager

  
Joseph W. Rohrbacher, Tampa District Supervisor

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

**March 21, 2006**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Tampa Electric Company in support of its filing for fuel cost recovery, Docket 060001-EI.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

## OBJECTIVES AND PROCEDURES:

Objective: Reconcile lines 5, 12, 19 and 40 of Schedule A1, page 2 of 2, for December, 2005 with the general ledger and source documents. Trace differences to source documents.

Procedures: Using individual line items embedded in the summary lines above, we analyzed selected components from each cost category as described further in the following objectives and procedures.

Objective: List those expenses which Tampa Electric has recovered through the fuel clause that do not meet the criteria set forth in Order No. 14546, in Docket No. 850001-EI-B, issued July 8, 1985.

Procedures: We read an excerpt from PSC Order 14546 to determine those costs considered allowed recoverable expenses for fuel clause purposes. The company stated that all its recoverable fuel expenses met the criteria of PSC Order 14546 with the exception of hedging costs which relate to PSC Order PSC-02-1484-FOF-EI. Using due diligence, we analyzed cost categories and tested invoices to assure that all examined cost met established criteria.

Objective: Verify that Tampa Electric has credited vendor rebates and refunds to its recoverable fuel cost.

Procedures: We analyzed of all quality discounts and refunds provided by company. Traced refunds and quality discounts to Accounts Receivable Miscellaneous schedule, Fuel Expense schedule, Journal Entry 32 and fuel inventory schedules.

Objective: Verify that any adjustments to coal inventory due to differences between the "per books" inventory quantities and the semi-annual coal inventory survey quantities have been performed as set forth in Order No. PSC-97-0359-FOF-EI, in Docket No. 970001-EI, issued March 31, 1997.

Procedures: We reviewed all documentation supporting aerial survey calculations and recorded adjustments to determine compliance with PSC procedures established in Order No. PSC-97-0359-FOF-EI. We received a company letter, that inventory procedures and equipment used to measure and determine quantity of fuel consumed have not changed from the prior audit period.

Objective: Reconcile net generation and fuel burned as shown on the monthly Schedule A4 for GPIF units with annual GPIF filings and source documents. Trace differences to source documents.

Procedures: We traced each month's net generation (MWH) and fuel burned (GBTU) between Schedule A4 and GPIF filing. Could not trace amounts to source documents.

The company provided a statement that the source of this information is the TECO Generation System – an in-house software that automatically extracts system data to prepare the applicable filing amounts. It is not possible to view source documents as it is not a direct input in to the system.

**Objectives:** Verify that Tampa Electric has credited generation-related gains derived from non-separated wholesale energy sales to the fuel clause as set forth in Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI, issued September 26, 2000.

**Procedures:** Using a criteria of monthly totals greater than 150% of annual average fuel cost, we selected three months for analysis. Traced selected amounts to invoices. Determined that both fuels and O&M cost, of Schedule D sales, were credited to operating revenues in accordance with Order No. PSC-00-1744-PAA-EI as well as Order No. PSC-01-2371-FOF-EI. Accordingly, no gains were recorded for Schedule D sales. Determined that only fuel cost for Market Based sales were credited to operating revenues. Auditor was not able to quantify the effect of the omission of O&M cost upon generation related-gains related to Market Based sales.

**Objectives:** Verify that energy payments to qualifying facilities are based on the appropriate standard offer or negotiated contract rate.

**Procedures:** Using a criteria of monthly totals greater than 150% of annual average fuel cost, we selected two months for analysis. Traced fuel cost recorded on Schedule A8 to invoices. Compared rates per contract to rates per invoice. No exceptions were noted.

**Objective:** Reconcile service hours, reserve shutdown hours and unavailable hours for GPIF units as shown on annual GPIF filings with source documents. Trace differences to source documents.

**Procedures:** We requested that the company provide source documents to substantiate selected hours. Determined that auditable source documents do not exist to trace service, reserve shutdown and unavailable hours. This information is compiled by the Generating Availability Data System (GADS) "... an industry recognized plant data reporting system." GADS system data is maintained within the system and a report writer is used to extract the necessary information that becomes part of the GPIF schedules.

**Objective:** Reconcile coal and oil purchases as shown on monthly FPSC Form 423 with monthly Schedule A5, general ledger, contractual obligations, and source documents. Trace differences to source documents.

**Procedures:** We made monthly comparisons between the Forms 423 and Schedule A5. Determined that all differences were due to recording procedures. Forms 423 represent only the current month's purchases, whereas the Schedule A5's include prior month adjustments and do not include adjustments made in subsequent

months. Also, purchases recorded in Schedule A5 were randomly selected for testing and amounts were traced to invoices.

**Objective:** Verify that accounting treatment for futures, options, and swap contracts between Tampa Electric and one or more counterparties are consistent with Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued October 30, 2002, and applicable FASB statements.

**Procedures:** We read the Commission order regarding referenced accounting treatment and read the company's interpretation of what would be compliance to PSC Order. Determined that the company's compliance consisted of the establishment of new accounts to capture all gains and losses, as well as unsettled position balances related to Derivative Instrument Accounting. Requested and received the detail recorded in all new accounts recording unrealized gain and loss. At month-end, all balances were zero. Also, based upon proposed resolutions, we determined that the company recorded and recovered incremental O&M cost for the purpose of maintaining a hedging program designed to mitigate fuel price volatility.

**Objective:** Verify the level of gains (losses) associated with each financial hedging instrument that Tampa Electric implemented consistent with Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued October 30, 2002.

**Procedures:** We analyzed a schedule of hedging activity, determined recoverable amount and traced to the fuel filing. Determined components of internal hedging cost – payroll, and requested additional documentation supporting this cost. The company provided schedules showing percentage of time each employee charged to hedging on a monthly basis and also provided a description of that person's duties. Determined external hedging cost. On a sample basis, traced amounts to vendor invoices.

**Objective:** Verify that Tampa Electric has recovered amounts for services provided by TECO Transport for waterborne coal transportation that are limited to those amounts set forth in Order No. PSC-04-0999-FOF-EI, in Docket No. 03-1033-EI, issued October 12, 2004.

**Procedures:** We read contracts and escalation clauses between Tampa Electric Company and TECO Transport. Analyzed the monthly waterborne transportation disallowance schedules for 2005. Verified tonnage in the disallowance schedule using a Company prepared monthly "Coal Moved" schedule. Recalculated river transportation rate for non-affiliates (January). Traced ocean transportation rates for coal and pet coke to Commission Order PSC-04-0999-FOF-EI. Also made a comparison of tonnage and cost between the "Coal Moved" and the coal inventory schedules for July. Determined that differences were the result of coal in transit for both the prior month and the current month. No exceptions were noted. Also, for the months of September and October, staff noted significant variances in the amount of coal handled through TECO Bulk Terminal and coal transported by ocean barge. Company explained that "due to damage inflicted by Hurricane Katrina on August 29, 2005, TECO Bulk Terminal was unable to

operate at full capacity, therefore, other vendors were brought in to load the river tons onto the TECO ocean vessels, temporarily taking over the duties of the Bulk Terminal. In November, TECO Bulk Terminal began operating at full capacity.”

**Objective:** Summarize and verify accuracy of amounts recorded for Purchased Power Firm (Schedule A7).

**Procedures:** Using a criteria of monthly totals greater than 150% of annual average fuel cost, we selected two months for analysis. For selected line items, traced MWH purchased and Total \$ for Fuel Adjustment to company prepared schedule of purchases. Upon comparison of invoice to company schedule, determined that the company erroneously included separately identified and billed transmission cost to the Fuel Clause instead of the Capacity Clause. Because of the different separation factors used in the Fuel filing and the Capacity filing, could not calculate the overall company effect of this error.



AUDIT FINDING NO. 1

SUMMARY: The company recorded separately billed and identifiable transmission costs to the Fuel Clause Filing instead of the Capacity Clause Filing.

STATEMENT OF FACT: During the analysis of the Company's Power Purchased – Firm (Schedule A-7), it was noted that Transmission Cost, from Progress Energy, though shown separately, was included in the Fuel Filing. Total Transmission cost billed by Progress Energy Florida to Tampa Electric Company totaled \$2,147,400.

Company stated that the transmission cost from Progress Energy Florida should have been included in the Capacity Clause filing and not the Fuel Clause filing.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED:

None

EFFECT ON FILING IF FINDING IS ACCEPTED:

The effect upon the Fuel Filing is to decrease Fuel Cost of Purchased Power – Firm and Total Fuel Cost and Net Power Transactions by \$2,147,400. However, this adjustment would also increase total Capacity cost by \$2,147,400. The overall company-wide effect would be based upon the different separation factors used in Fuel and Capacity. Staff could not determine this effect.

## AUDIT FINDING NO. 2

**SUMMARY:** Requested items, recorded in the annual GPIF filing, could not be traced to source documents for net generation, fuel burned, and service, reserve shutdown and unavailable hours.

**STATEMENT OF FACT:** When attempting to trace generation (MWH) and fuel burned (GBTU), per the GPIF filing, to source documents, company personnel explained that the source of this information is the TECO Generation System - an in-house software that automatically extracts system data to prepare the applicable filing amounts. It is not possible to view the source documents as it is not a direct input into the system.

When attempting to trace Service, Reserve and Unavailable Hours to source documents, the company personnel explained that this information is compiled by the Generating Availability Data System (GADS). GADS system data is maintained within the system and a report writer is used to extract the necessary information that becomes part of the GPIF schedules.

### EFFECT UPON GENERAL LEDGER IF FINDING IS ACCEPTED:

Because the requested items are non-financial in nature, there is no effect upon the general ledger.

### EFFECT ON FILING IF FINDING IS ACCEPTED:

Because the requested items are non-financial in nature, there is no effect upon the Fuel filing.

AUDIT FINDING NO. 3

SUMMARY: The Company did not include O&M expenses, related to market based sales, when calculating its generation-related gains derived from non-separated wholesale energy sales to the fuel clause.

STATEMENT OF FACT: We prepared a schedule of monthly Power sales, using line items as shown in the Fuel Filing – Schedule A6 for 2005. Using a criteria of items greater than 150% of the annual average fuel cost, selected May, June and November for further analysis.

Using the Schedule A6, for selected months, we traced MWH Sold and Total \$ for Fuel Adjustment (fuel cost) for all Actual entries to company prepared schedule. We traced MWH Sold and Total Revenues from company prepared schedule to invoice. We determined that the fuel cost for Schedule-D sales included both fuel and O&M cost in accordance with Orders No. PSC-01-2371-FOF-EI and PSC-00-1744-PAA-EI. We ascertained that no gains resulted in Schedule D sales and determined that the fuel cost for Market Based (MA) sales included fuel cost only, contrary to PSC Orders No. PSC-01-2371-FOF-EI and PSC-00-1744-PAA-EI. Also determined that for Market Based sales, Total Revenues less SO2 plus Transmission dollars equaled Sales Price and Sales Price less Fuel Cost equaled Gain.

EFFECT UPON GENERAL LEDGER IF FINDING IS ACCEPTED:

None

EFFECT UPON FILING IF FINDING IS ACCEPTED:

The amount of incremental O&M cost cannot be quantified by staff