

State of Florida



Public Service Commission

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COMMISSION CLERK

DATE: April 30, 2013
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 130001-EI
Company Name: Tampa Electric Company
Company Code: EI806
Audit Purpose: A3a Capacity Cost Recovery Clause
Audit Control No.: 13-016-2-4

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There were confidential work papers associated with this audit.

LD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

02340 APR 30 2013

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State of Florida



Public Service Commission

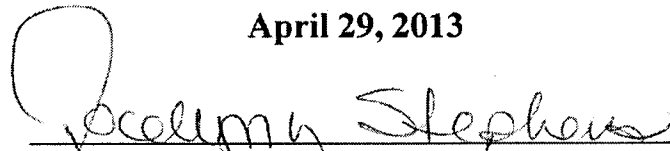
Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

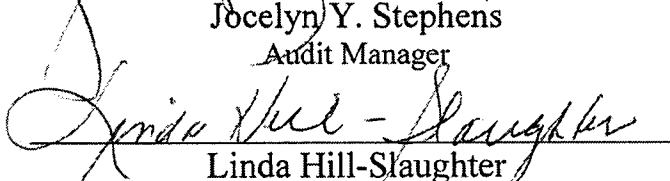
Tampa Electric Company
Capacity Cost Recovery Clause

Twelve Months Ended December 31, 2012

Docket No. 130001-EI
Audit Control No. 13-016-2-4
April 29, 2013



Jocelyn Y. Stephens
Audit Manager



Linda Hill-Slaughter
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated January 16, 2013. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Tampa Electric Company in support of its 2012 filing for the Capacity Cost Recovery Clause in Docket No. 130001-EI.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility refers to the Tampa Electric Company.
CCRC refers to the Capacity Cost Recovery Clause.

Revenues

Operating Revenues

Objectives: The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2012, through December 31, 2012, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the CCRC.

Procedures: We obtained the Utility's revenues schedules by month and customer class. We traced revenues to the general ledger. We calculated general ledger revenues net of RAF and agreed to the Utility's CCRC True-Up Filing. We selectively tested the Utility's revenue calculations using either the Kilowatt Hour (KWH) or the billing demand (kW) times the Commission authorized rates. We documented the application of Commission approved capacity cost recovery factors to customer bills. See Finding 1.

Transmission Revenues

Objective: The objective was to determine whether Transmission Revenues derived from the non-separated, non-Energy Broker Network, wholesale energy sales were credited to the CCRC per Commission Order No. PSC-99-2512-FOF-EI.

Procedures: We obtained and examined the Utility's Capacity Purchases and Capacity Sales Detail Schedules. We examined the vendor invoices applicable to the non-Energy Broker Network and documented the Transmission Revenues recorded in the CCRC Filing. We verified that the Transmission Revenues were a net component of capacity costs recorded in the CCRC Clause. No exceptions were noted.

Expense

Security Expense

Objective: The objective was to verify that security cost items that should be recovered in base rates are not included in CCRC for recovery.

Procedures: We scanned the general ledger account detail for vendors charging security costs to the Utility. We compared these vendors to a list of the vendors who charged costs to CCRC. We found no instance where security vendor costs were charged to the CCRC.

Purchase Power Contracts

Objective: The objective was to determine whether the invoices for the capacity purchase amounts are in accordance with terms and conditions of the contract.

Procedures: We reconciled the purchases detail and sales detail schedules to the fuel filing of Actual Purchases and Sales Schedule A-12. We traced total capacity costs from Schedule A-12 to the Capacity True-Up Schedule. See Finding 2.

We selected February, March, May, November, and December 2012 for analysis. We traced capacity costs from the Capacity Purchases Detail Schedule to the vendor invoices. We traced vendor invoices to the general ledger. We selected those months having the largest dollar value of capacity cost and verified that the capacity unit charge was calculated and applied in compliance with the terms and conditions of the contract. See Finding 3.

True-Up

Objective: The objective was to determine if the True-Up and Interest Provision as filed was properly calculated.

Procedures: We traced the Prior Period True-Up Provision to be collected(refunded) to Commission Order PSC-11-0579-FOF-EI. We traced the prior period ending true-up at December 31, 2011, to the 2012 beginning true-up amount. We verified the proper use of Financial Commercial Paper rates for 2012. We traced the 2012 capacity cost components and the capacity revenues to staff audited schedules. No exceptions were noted.

Analytical Procedures

Objective: The objective was to perform an analytical review of the Utility's CCRC Revenues and Expenses to determine if there were any material changes or inconsistencies from the prior years

Procedures: We compared 2012 to 2011 revenues and expenses. No material variances were noted. Further follow-up was not required.

Audit Findings

Finding 1: Rounding of Billing Factor for Demand Customers

Audit Analysis: We performed a customers' bill test to determine whether the Commission authorized billing factors were correctly applied to each KWH delivered and/or to the applicable billing demand for fuel and electric service. The electric service includes costs for base, conservation, environmental and capacity charges.

We agreed the customers' bills to the Utility's calculated billed amount for fuel charges for all customer classes tested and no exceptions were found. We also agreed the Utility's calculated billed amount for electric service cost for all customer classes and no exceptions were found except for the Interruptible Standby and Supplemental Service (SBI) and the Time of Day Firm Standby and Supplemental Service – Optional (SBFT) customer classes.

We noted that the rate schedules for conservation and capacity state that demand customers' authorized rates are multiplied by 12% and 4.76%, respectively based upon the greater of the kW per month of standby demand or kW per day of actual standby billing demand. When Staff's calculation was compared to the Utility's calculation for SBI and SBFT rate classes, we observed that the Utility rounded the product of the authorized rate times the percentage multiplier to two decimal points prior to the application of the demand charge. See both the Staff and the Utility's calculation in Table 1.

Table 1

(Formula = Demand x (auth rate x %))

(Formula = Demand x (auth rate x %))

SBFT

<u>Conservation</u>				
Demand	Auth Rate	% applied	(d)	(e)
(a)	(b)	(c)	(b x c)	(a x d)
9412 x	\$ 1.04	0.0476 =	0.049504	\$ 465.93 (PSC)
9412 x	\$ 1.04	0.0476 =	0.05	\$ 470.60 (TECO)
Difference				\$ (4.67)

SBFT

<u>Capacity</u>				
Demand	Auth Rate	% applied	(d)	(e)
(a)	(b)	(c)	(b x c)	(a x d)
9412 x	\$ 0.85	0.0476 =	0.04046	\$ 380.81
9412 x	\$ 0.85	0.0476 =	0.04	\$ 376.48
Difference				\$ 4.33

SBI

<u>Conservation</u>				
Demand	Auth Rate	% applied	(d)	(e)
(a)	(b)	(c)	(b x c)	(a x d)
30050 x	\$ 0.90	0.12 =	0.108	\$ 3,245.40 (PSC)
30050 x	\$ 0.90	0.12 =	0.11	\$ 3,305.50 (TECO)
Difference				\$ (60.10)

SBI

<u>Capacity</u>				
Demand	Auth Rate	% applied	(d)	(e)
(a)	(b)	(c)	(b x c)	(a x d)
30050 x	\$ 0.68	0.12 =	0.0816	\$ 2,452.08
30050 x	\$ 0.68	0.12 =	0.08	\$ 2,404.00
Difference				\$ 48.08

NOTE: Monthly Demand > Total Daily Demand

NOTE: Total Daily Demand > Monthly Demand

When the product of the authorized rate times the percentage multiplier is rounded to two decimal places prior to applying that product to the billing demand, the multipliers authorized by the Commission approved tariff is changed. The billing amount is different for the customer when rounding is not performed. An analysis should be prepared to determine the materiality for applicable customer classes for rounding as opposed to not rounding.

Effect on the General Ledger: Cannot be determined.

Effect on the Filing: Cannot be determined.

Finding 2: Capacity Charges – Reliant Energy Services

Audit Analysis: The Utility uses the Capacity Purchases Detail Schedule to record capacity costs to the CCRC Filing. We noted that Reliant correctly invoiced the Utility for monthly capacity costs during 2011 and 2012. However, the Utility incorrectly recorded capacity costs in the Capacity Purchases Detail Schedule for the same period.

The terms of the contract between the Utility and Reliant require an annual adjustment to the total capacity unit rate. The adjustment is due to changes in a security charge (see Finding 3). Beginning in January 2011, the Utility failed to adjust its Capacity Purchases Detail Schedule from the 2010 amount charged by Reliant. This error was carried forward through the end of the Reliant contract in May 2012.

The error in recording the expense on the Capacity Purchases Detail Schedule resulted in an overstatement of capacity charges of \$113,760 and \$ 102,700 for 2011 and 2012, respectively. Table 2 shows staff's calculation and the effect of the error made by the Utility in its 2011 and 2012 Capacity Filings.

Table 2

Per Reliant Contract	<u>Jan-May 2012</u>	<u>Jan-Dec 2011</u>	<u>Jan-Dec 2010</u>	<u>Jan-Dec 2009</u>
MW - Capacity	158	158	158	158
Capacity Rate (per Contract)	\$ 3.91	\$ 3.91	\$ 3.91	\$ 3.91
Security Chg (based upon Contract Terms)	<u>\$ 0.08</u>	<u>\$ 0.15</u>	<u>\$ 0.21</u>	<u>\$ 0.27</u>
Calculated Unit Price - per Contract Terms	\$ 3.99	\$ 4.06	\$ 4.12	\$ 4.18
Sch. Letter of Credit Balance	\$ 1,000,000	\$ 2,000,000	\$ 3,000,000	\$ 4,000,000
Charge Per Invoice	\$ 630,420	\$ 641,480	\$ 650,960	\$ 660,440
Charge per Filing (a)	\$ 650,960	\$ 650,960	\$ 650,960	\$ 660,440
Difference per Month (b)	\$ 20,540	\$ 9,480	-	-
Difference for Year	\$ 102,700	\$ 113,760	-	-
Over Recovery	\$ 102,700	\$ 113,760		

NOTES:

- (a) Charges are provided by the Company on the Capacity Purchases Detail schedule which traces to the Capacity True-Up calculation.
- (b) During 2011 and 2012, the Utility is expensing capacity expense for Reliant Energy Services based upon the 2010 contractual price. The net effect upon the filing is an over-recovery for both years totaling \$216,460.

Effect on the General Ledger: None.

Effect on the Filing: Capacity expense is overstated by \$216,460 plus accrued interest.

Finding 3: Capacity Rate – Security Add-On

Audit Analysis: In the review of the Power Purchase Agreement (PPA) between the Utility and Reliant Energy Services Inc., Audit Staff noted that the stated unit capacity rate is augmented by a security charge. The contract terms state that the security charge is to be based upon the stated balance of a Letter of Credit of which the Utility is the beneficiary. On an annual basis, this security charge is adjusted based upon the annual outstanding balance of the Letter of Credit. The balance of the original Letter of Credit in 2009 was \$4,000,000 and should have been reduced each year by \$1,000,000. The term of the PPA was for the period January 1, 2009, through May 31, 2012.

In a response to an audit document request, the Utility provided a copy of an Irrevocable Standby Letter of Credit that complied with the terms for year one of the contract. For years two and three, the Utility provided us with documentation showing amendments to the original Letter of Credit. These amendments triggered a corresponding adjustment to the security charge, in compliance with the contract terms. For year four, the Utility stated that they were not provided with an amended Letter of Credit. However, we noted that the vendor had adjusted the 2012 security charge.

The adjustment to the security add-on did not comply with the contract terms since the Utility did not receive notification of an adjustment to the balance of the Letter of Credit nor were they informed whether an adjustment had actually been made to the balance of the Letter of Credit. The Utility should require parties to its contract to comply with contract terms. See Finding 2.

Effect on the General Ledger: None

Effect on the Filing: Provided for informational purposes only

Exhibit

Exhibit 1: Calculation of Final True-Up Amount

TAMPA ELECTRIC COMPANY
CAPACITY COST RECOVERY CLAUSE
CALCULATION OF FINAL TRUE-UP AMOUNT
FOR THE PERIOD JANUARY 2012 THROUGH DECEMBER 2012

	Actual Jan-12	Actual Feb-12	Actual Mar-12	Actual Apr-12	Actual May-12	Actual Jun-12	Actual Jul-12	Actual Aug-12	Actual Sep-12	Actual Oct-12	Actual Nov-12	Actual Dec-12	Total
1 UNIT POWER CAPACITY CHARGES	1,707,079	1,708,383	1,708,383	1,708,383	1,708,383	1,708,383	1,708,383	1,708,383	1,708,383	1,708,383	1,708,383	1,708,383	20,477,402
2 CAPACITY PAYMENTS TO COGENERATORS	988,810	1,111,590	1,048,800	1,048,800	1,048,800	1,048,800	1,051,449	1,048,800	1,048,800	1,048,800	1,048,800	1,048,800	12,588,248
3 SCHEDULE J & D CAPACITY CHARGES	1,931,543	1,929,124	1,929,166	1,949,485	2,040,828	1,018,785	983,142	980,187	981,463	982,241	982,734	981,898	17,310,185
4 INCREMENTAL SECURITY O&M COSTS	0	0	0	0	0	0	0	0	0	0	0	0	0
5 (CAPACITY REVENUES)	(197,699)	(83,697)	(175,980)	(197,090)	(53,882)	(131,087)	(112,710)	(482,284)	(328,382)	(288,955)	(88,255)	(86,733)	(2,184,434)
6 TOTAL CAPACITY DOLLARS	4,427,533	4,653,500	4,508,478	4,507,586	5,342,138	3,642,882	3,636,274	3,283,116	3,408,274	3,447,779	3,681,672	3,670,158	48,191,412
7 JURISDICTIONAL PERCENTAGE	0.9858152	0.9858152	0.9858152	0.9858152	0.9858152	0.9858152	0.9858152	0.9858152	0.9858152	0.9858152	0.9858152	0.9858152	0.9858152
8 JURISDICTIONAL CAPACITY DOLLARS	4,408,005	4,634,026	4,489,812	4,488,735	5,319,783	3,627,847	3,623,046	3,288,377	3,384,012	3,433,350	3,648,348	3,654,797	47,068,741
9 CAPACITY COST RECOVERY REVENUES (Net of Revenue Taxes)	3,280,531	3,077,047	3,066,026	3,400,481	3,582,502	4,028,216	4,088,817	4,217,832	4,235,262	3,802,480	3,172,211	2,948,008	42,808,323
10 PRIOR PERIOD TRUE-UP PROVISION	(35,799)	(35,799)	(35,799)	(35,799)	(35,799)	(35,799)	(35,799)	(35,799)	(35,799)	(35,799)	(35,799)	(35,799)	(428,583)
11 CAPACITY COST RECOVERY REVENUES APPLICABLE TO CURRENT PERIOD (Net of Revenue Taxes)	3,244,732	3,041,248	3,030,227	3,364,682	3,546,703	3,992,417	4,052,818	4,182,133	4,199,463	3,766,681	3,136,412	2,912,214	42,479,740
12 TRUE-UP PROVISION FOR PERIOD OVER(Under) RECOVERY (Line 11 - Line 8)	(1,184,273)	(1,582,778)	(1,459,285)	(1,124,053)	(1,773,080)	384,770	438,770	912,758	805,451	333,341	(508,937)	(742,583)	(5,510,001)
13 INTEREST PROVISION FOR PERIOD	(138)	(365)	(411)	(576)	(781)	(848)	(804)	(880)	(579)	(525)	(765)	(583)	(7,256)
14 OTHER ADJUSTMENT	0	0	0	0	0	0	0	0	0	0	0	0	0
15 TRUE-UP AND INT. PROVISION BEGINNING OF PERIOD - OVER(Under) RECOVERY	(1,741,480)	(2,870,082)	(4,427,436)	(5,851,433)	(8,940,283)	(8,678,325)	(8,278,604)	(7,803,838)	(8,856,164)	(8,015,483)	(5,848,678)	(8,121,781)	(1,741,480)
16 PRIOR PERIOD TRUE-UP PROVISION COLLECTED(REFUNDED) THIS PERIOD	35,799	35,799	35,799	35,799	35,799	35,799	35,799	35,799	35,799	35,799	35,799	35,799	428,583
17 END OF PERIOD TRUE-UP - OVER(Under) RECOVERY (SUM OF LINES 12 - 16)	(2,870,082)	(4,427,436)	(5,851,433)	(6,940,283)	(8,678,325)	(8,278,604)	(7,803,838)	(8,856,164)	(8,015,483)	(5,848,678)	(8,121,781)	(6,829,153)	(5,828,153)