

State of Florida



# Public Service Commission

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**DATE:** May 10, 2013  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 130007-EI  
Company Name: Tampa Electric Company  
Company Code: EI806  
Audit Purpose: A3d Environmental Cost Recovery Clause  
Audit Control No.: 13-015-2-2

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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 no confidential work papers associated with this audit.

LD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER - DATE

02592 MAY 10 2013

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State of Florida



**Public Service Commission**

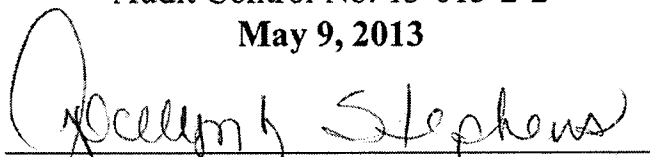
Office of Auditing and Performance Analysis  
Bureau of Auditing  
Tampa District Office

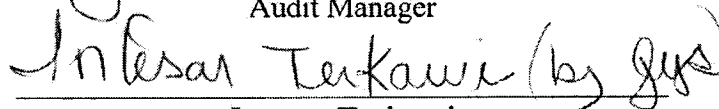
**Auditor's Report**

Tampa Electric Company  
Environmental Cost Recovery Clause

**Twelve Months Ended December 31, 2012**

Docket No. 130007-EI  
Audit Control No. 13-015-2-2  
**May 9, 2013**

  
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Audit Manager

  
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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 Engineering in its audit service request dated January 15, 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 Environmental Cost Recovery Clause in Docket No. 130007-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.

ECRC refers to the Environmental Cost Recovery Clause.

### **Capital Investments**

#### Utility Plant in Service

**Objectives:** The objectives were to verify all ECRC project-related plant additions, retirements, and adjustments for the period January 1, 2012, through December 31, 2012.

**Procedure:** We reconciled Plant in Service (Line 2) and Accumulated Depreciation (Line 3) to the general ledger for each capital project listed on the 2012 Form 42-8A. No exceptions were noted.

#### Construction Work in Progress

**Objectives:** The objectives were to verify net investments associated with the following capital projects and to verify that any project which involved the replacement of or retirement of an existing plant asset is retired at the installed costs by the Utility in accordance with Florida Public Service Commission Rule 25-6.0142(4)(b), F.A.C.

- 1) Big Bend Units 1 and 2 FGD
- 2) Big Bend Unit 2 Selective Catalytic Reduction (SCR)
- 3) Big Bend FGD System Reliability

**Procedures:** We selected a sample of the additions to the capital projects. We determined whether additions had appropriate supporting documentation and were recorded to the correct project and account. We determined whether items that were replaced had a corresponding retirement. We compared the ledger to the Depreciation Base and the Non-Interest Bearing amount on Form 42-8A. See Finding 1.

## **Revenue**

### **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 ECRC.

**Procedures:** We reconciled the 2012 ECRC Filing to the Utility's monthly Environmental Revenue Reports. We applied the billing factors by rate class from the Commission Order No. PSC 11-0553-FOF-EI to KWH sales. A sample of residential and commercial customers' bills were recalculated to verify the use of the correct tariff rates in the Utility's Capacity Cost Recovery Clause proceedings, in Docket 130001-EI. No exceptions were noted.

## **Expense**

### **Operation and Maintenance Expense**

**Objectives:** The objectives were to determine whether the Operation and Maintenance (O&M) Expense listed on the Utility's Form 42-5A Filing was supported by adequate documentation and that the expenses are appropriately recoverable through the ECRC.

**Procedures:** We traced expenses in the filing to the general ledger. We traced a sample of 2012 O&M Expenses to the source documentation to ensure that the expenses were charged correctly to ECRC accounts and in the correct amounts. See Finding No. 2.

### **Depreciation and Amortization**

**Objective:** The objective was to determine whether the most recent Commission approved depreciation rates or amortization periods were used in calculating Depreciation Expense.

**Procedures:** We traced total year Depreciation Expense for each capital project listed on Form 42-8A to the general ledger detail. We recalculated 2012 Depreciation Expense on a test basis using the plant balances and depreciation rates per Commission Order No. PSC-12-0175-PAA-EI. No exceptions were noted.

## **Other Issues**

### **SO<sub>2</sub> Allowances**

**Objectives:** The objectives were to verify investments, inventory, expensed amounts, allowance auction proceeds, and amounts included in Working Capital, Form 42-8A.

**Procedures:** We traced 2012 consumption for SO<sub>2</sub> allowances from the Utility's detailed allowances reports to the total emissions schedule on Form 42-5E. We traced the single sale of NO<sub>x</sub> allowance to Hooker's Point source documentation. We traced the jurisdictional factors used in all projects to Commission Order 11-0553-FOF-EI. No exceptions were noted.

### **True-Up**

**Objective:** The objective was to determine if the True-Up and Interest Provision as filed on Form 42-2A was properly calculated.

**Procedures:** We traced the December 31, 2011, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2012, using the Commission approved beginning balance as of December 31, 2011, the Financial Commercial Paper rates, and the 2012 ECRC revenues and costs. No exceptions were noted.

### **Analytical Review**

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

**Procedures:** We compared 2012 to 2011 revenues and expenses. We requested explanations from the Utility for significant variances. Explanations provided were sufficient. Further follow-up was not required.

## Audit Findings

### **Finding 1: Capital Additions**

**Audit Analysis:** The Utility reported capital investment additions for the Big Bend FGD System Reliability Project of \$75,402, \$322,266, and \$56,388, respectively, for the months of July, August, and September, 2012. The Utility did not provide supporting documentation for \$2,018, \$5,148, and \$3,474, respectively, for the months of July, August and September, 2012.

**Effect on the General Ledger:** Reduce capital expenditures and additions of Big Bend FGD System Reliability Project by \$10,639 (\$2,018+\$5,148+\$3,474) for the year 2012.

**Effect on the Filing:** Reduce Capital investment additions for the Big Bend FGD System Reliability Project by \$10,639 for the year ended December 31, 2012.



**Finding 2: Operation and Maintenance Expense**

**Audit Analysis:** The Utility reported O&M Expense of \$4,010,251 for the month of August, 2012. The Utility did not provide supporting documentation for contract services of \$290,604.

**Effect on the General Ledger:** Reduce O&M Expense by \$290,604 for the month of August, 2012.

**Effect on the Filing:** Reduce August, 2012 O&M Expense by \$290,604.

## Exhibit

### Exhibit 1: True Up

Form 42 - 2A

**Texas Electric Company**  
**Environmental Cost Recovery Clause (ECRC)**  
**Calculation of the Final True-Up Amount for the Period**  
**January 2012 to December 2012**

Current Period True-Up Amount  
 (in Dollars)

| Line   | Actual<br>January | Actual<br>February | Actual<br>March | Actual<br>April | Actual<br>May  | Actual<br>June | Actual<br>July | Actual<br>August | Actual<br>September | Actual<br>October | Actual<br>November | Actual<br>December | End of<br>Period<br>Total |
|--|-------------------|--------------------|-----------------|-----------------|----------------|----------------|----------------|------------------|---------------------|-------------------|--------------------|--------------------|---------------------------|
| 1. ECRC Revenues (net of Revenue Taxes)  | \$8,434,215       | \$5,934,263        | \$5,990,868     | \$6,814,704     | \$6,925,467    | \$7,922,515    | \$8,037,332    | \$8,200,453      | \$8,484,877         | \$7,415,258       | \$8,188,630        | \$5,835,462        | \$84,184,644              |
| 2. True-Up Provision   | (256,742)         | (256,742)          | (256,742)       | (256,742)       | (256,742)      | (256,742)      | (256,742)      | (256,742)        | (256,742)           | (256,742)         | (256,742)          | (256,742)          | (3,080,886)               |
| 3. ECRC Revenues Applicable to Period (Lines 1 + 2) *                              | 8,177,473         | 5,677,521          | 5,733,828       | 6,557,962       | 6,668,725      | 7,665,773      | 7,780,590      | 7,943,711        | 8,227,856           | 7,158,516         | 7,931,888          | 5,578,720          | 81,103,758                |
| 4. Jurisdictional ECRC Costs   |                   |                    |                 |                 |                |                |                |                  |                     |                   |                    |                    |                           |
| a. O & M Activities (Form 42-5A, Line 8)   | 1,282,938         | 2,076,962          | 1,978,586       | 1,733,652       | 1,866,344      | 1,572,753      | 3,412,344      | 4,004,261        | 6,413,588           | 2,794,378         | 3,028,711          | 2,072,520          | 32,033,036                |
| b. Capital Investment Projects (Form 42-7A, Line 9)                                | 5,866,377         | 5,474,270          | 5,473,369       | 5,408,904       | 5,342,811      | 5,346,409      | 5,326,480      | 5,242,891        | 5,333,371           | 5,321,801         | 5,309,667          | 5,302,034          | 64,533,875                |
| c. Total Jurisdictional ECRC Costs   | 6,849,315         | 7,551,232          | 7,451,955       | 7,142,556       | 6,997,955      | 6,919,162      | 8,740,824      | 9,348,972        | 11,746,959          | 8,116,179         | 8,338,378          | 7,374,554          | 96,567,011                |
| 5. Over/Under Recovery (Line 3 - Line 4c) *  | (871,843)         | (1,872,711)        | (1,718,000)     | (584,594)       | (329,230)      | 746,611        | (960,234)      | (1,405,261)      | (3,519,022)         | (657,663)         | (2,403,490)        | (1,795,833)        | (15,463,253)              |
| 6. Interest Provision (Form 42-3A, Line 10)  | (300)             | (762)              | (728)           | (886)           | (1,015)        | (968)          | (953)          | (1,266)          | (1,149)             | (1,318)           | (2,000)            | (1,613)            | (12,116)                  |
| 7. Beginning Balance True-Up & Interest Provision *                                | (3,080,886)       | (3,478,720)        | (5,083,441)     | (6,556,424)     | (6,886,172)    | (6,958,676)    | (5,960,291)    | (6,854,736)      | (7,802,510)         | (11,065,830)      | (11,798,188)       | (13,917,007)       | (3,080,886)               |
| a. Deferred True-Up from January to December 2011<br>(Order No. PSC-12-0613-FOF-E) | (3,232,451)       | (3,232,451)        | (3,232,451)     | (3,232,451)     | (3,232,451)    | (3,232,451)    | (3,232,451)    | (3,232,451)      | (3,232,451)         | (3,232,451)       | (3,232,451)        | (3,232,451)        | (3,232,451)               |
| 8. True-Up Collected/Refunded (see Line 2)   | 256,742           | 256,742            | 256,742         | 256,742         | 256,742        | 256,742        | 256,742        | 256,742          | 256,742             | 256,742           | 256,742            | 256,742            | 3,080,886                 |
| 9. End of Period Total True-Up (Lines 5+6+7+8+9) *                                 | (6,727,840)       | (6,325,982)        | (9,787,878)     | (10,117,823)    | (10,191,126)   | (8,182,742)    | (8,697,187)    | (11,034,961)     | (14,298,381)        | (15,908,620)      | (17,149,456)       | (18,880,163)       | (18,708,832)              |
| 10. Adjustment to Period True-Up including Interest                                | 18,889            | 0                  | 0               | 0               | 0              | 0              | 0              | 0                | 0                   | 0                 | 0                  | 0                  | 18,889                    |
| 11. End of Period Total True-Up (Lines 9 + 10) *                                   | (\$6,708,951)     | (\$6,325,982)      | (\$9,787,878)   | (\$10,117,823)  | (\$10,191,126) | (\$8,182,742)  | (\$8,697,187)  | (\$11,034,961)   | (\$14,298,381)      | (\$15,908,620)    | (\$17,149,456)     | (\$18,880,163)     | (\$18,690,163)            |