

MEMORANDUM

June 17, 1998

ORIGINAL

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NO. 950379-EI -- TAMPA ELECTRIC COMPANY
 AUDIT REPORT - SURVEILLANCE - 12 MONTHS ENDED DECEMBER 31, 1997
 AUDIT CONTROL NO. 98-082-2-3

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

Tampa Electric Company
 Angela Llewellyn
 P. O. Box 111
 Tampa, FL 33601-0111

DNV/sp
 Attachment

cc: Chairman Johnson
 Commissioner Clark
 Commissioner Deason
 Commissioner Garcia
 Commissioner Jacobs
 Mary Andrews Bane, Deputy Executive Director/Technical
 Legal Services
 Division of Auditing and Financial Analysis (Devlin/Causseaux/
 Merta/File Folder)
 Tampa District Office (McPherson)

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FPSG-RECORDS/REPORTING

State of Florida

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
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Public Service Commission

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING*

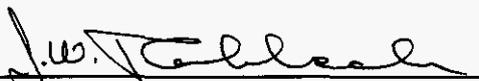
TAMPA DISTRICT OFFICE

TAMPA ELECTRIC COMPANY

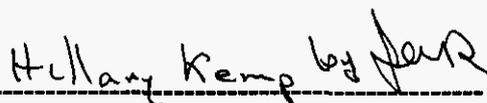
EARNINGS SURVEILLANCE AUDIT

12 MONTHS ENDED DECEMBER 31, 1997

**Docket No. 950379-EI
Audit Control Number 98-082-2-3**



Joseph W. Rohrbacher, Audit Manager



Hillary Kemp, Audit Staff



James A. McPherson Audit Supervisor

DOCUMENT NUMBER-DATE

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITORS REPORT**

JUNE 10, 1998

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Earnings Surveillance Report schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month period ending December 31, 1997. These schedules were prepared by the utility. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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.

In our opinion, the schedules referred to above present fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

SUMMARY OF SIGNIFICANT FINDINGS:

The company recorded advertising expenditures which do not appear to be chargeable to the ratepayers.

The company made an adjustment of \$321,555 to Deferred Income Taxes on the 1997 Surveillance Report but did not record this adjustment to the general ledger.

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 means that the audit staff reconciled exhibit amounts with the general ledger, visually scanned accounts for error or inconsistency, disclosed any unresolved error, irregularity or inconsistency and, except as otherwise noted, performed no other audit work.

RATE BASE: Compiled components of Rate Base and agreed to the Surveillance Report as filed by the Company. Tested the 13 month average calculations. Examined supporting documentation for selected 1997 plant additions. Reviewed transactions in clearing accounts, prepayments, miscellaneous deferred debits/credits to determine that they were properly classified and utility in nature.

NET OPERATING INCOME: Compiled components of Net Operating Income and agreed to the Surveillance Report as filed by the Company. Recomputed unbilled revenue as of 12-31-97. Tested the calculation of depreciation expense using the rates determined in the company's latest Depreciation Study. Tested advertising expenses to verify expenditures were properly classified and allowable. Judgementally selected and tested outside services, office expenses and miscellaneous general expense for supporting documentation. Obtained support for taxes other than income.

CAPITAL STRUCTURE: Compiled components of Capital Structure and agreed to the Surveillance Report as filed by the Company. Verified that the cost rates used are appropriate

Other: Read external audit work papers and board of directors' minutes for the twelve month period ended December 31,1997. Looked for items related to regulatory issues. Verified that adjustments made in prior orders were made and were calculated properly. Reviewed all Audit Service Request issues.

DISCLOSURES

Disclosure No. 1

Subject: Industry Association Dues

Statement of Fact: Tampa Electric Company's (TEC) General Ledger at 12-31-97 had a balance of \$871,529 in Acct. No. 930.02, Miscellaneous Expense - Company Dues. Included in this amount were the following expenses:

East Polk County Assoc of Realtors	\$ 2,800
Employees Health Coalition	5,564
Points of Light Foundation	1,000
Tampa Downtown Partnership	8,500
Westshore Alliance	<u>1,643</u>
.....	<u>\$19,507</u>

Recommendation: Based on the auditors understanding and the utility's response as to the nature of these organizations it does not appear that these expenses should be included in O&M expense for regulatory purposes. They do not relate to the business of TEC, which is providing electricity. The work of these organizations does not directly affect rate payers

Disclosure No. 2

Subject: Deferred Income Taxes - Capital Structure

Statement of Fact: The Company reported year end deferred income taxes of \$314,344,089 in the December 1997 Earnings Surveillance Report. The December 1997 preliminary trial balance reflects year end 1997 deferred income taxes of \$ \$314,665,644 a difference of \$321,555.

Per a memorandum dated August 12, 1997,

“ ...Deferred income Taxes per books number on schedule 2 and 3 of the Surveillance Report has been adjusted to increase for the amount of the \$321,555 which represents the tax (benefit) on the Deferred Revenue Adjustment for the impact on the FPSC Agenda decision on March 21, 1997. The Deferred Revenue Adjustment of \$833,583 was booked in May as a below the line adjustment. The tax department again has recorded the tax of \$321,555 as a utility tax. Since the decision has been made to leave the Deferred Revenue Adjusted as a below the line item it is necessary to increase the indicated tax (benefit) amount from the utility deferred income taxes per books number so that the tax on the system per books number so that the tax on the system per books line is applicable only to operating income.”

Recommendation: Although the company made this adjustment to reflect the correct balance on the surveillance report, they did not book this adjustment to the general ledger. The company should book this adjustment to account 283 in the general ledger

Disclosure No. 3

Subject: Revenues

Statement of Fact: The Company reported \$1,188,960,214 as operating revenues on the 1997 Earnings Surveillance Report. Included in this amount was a debit balance of \$24,075 in account 41819, Earnings Associated Company - PE&C.

The Company determined that this account should not be reflected in the operating income calculation and said it will be excluded from future surveillance reports operating income.

An adjustment was not made to the 1997 Surveillance Report.

Recommendation: The December 1997 Surveillance Report should be adjusted increasing revenues by \$24,075.

Disclosure No. 4

Subject: **Advertising Charges**

Statement of Fact: Tampa Electric Company (TEC), on its 1997 Surveillance Report, included charges for Informational/Instructional Advertising (A/C#909.12) and Sales Related Advertising (A/C#913.01). A judgemental sample of the invoices processed in accounts 909.12 and 913.01 were reviewed to determine proper accounting treatment.

Included in these amounts were charges for the following:

- 1) TECO Energy ad in the Lakeland Chamber of Commerce 1998 Directory \$ 2,395
- 2) Services for publishing a Teconet Intranet Users Guide. 1,100
The Intranet is the company's self-contained computerized network that allows employees to share information and communicate with each other. This is not available to customers of TEC. It is also used by non utility operations of TECO Energy.
- 3) Charges for newspaper ads which are part of TEC's contract with the Tampa Tribune to produce the magazine *Community '97*. 1,470
- 4) Change TECO logo at Cypress Gardens as part of Tampa Electric's sponsorship and partnership with the theme park. 2,200
- 5) Promotional costs associated with Tampa Electric's Energy Technology Research Center (ETRC). 25,892
Along with displays and information on electricity related matters the ETRC also provides seminars on various non electric areas. Some of the non electric seminars offered are Food Manager Certification and Training Workshop, Introduction to the Internet, Medical Waste Disposal Systems, Managing & Motivating People, and seminars on the products of other companies.

A scan of the seminar schedules for January - December 1997 showed that 46 out of 75 (61.3%) seminars offered did not appear to be related to TEC's business.

Recommendation: The above advertising does not appear to be chargeable to the ratepayers. Commission Order No. 7046, Florida Gas Company, disallowed for ratemaking purposes advertising expenditures with no tangible benefits to the ratepayers. Order No. 7018, Southern Bell, held that the burden of proving reasonableness of advertising expenditures is on the utility.

TAMPA ELECTRIC COMPANY
AVERAGE RATE OF RETURN
RATE BASE
DECEMBER 1997

SCHEDULE 2
PAGE 1 OF 3

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Plant In Service	Accumulated Depreciation & Amortization	Net Plant In Service	Property Held For Future Use	Construction Work in Progress	Nuclear Fuel (Net)	Net Utility Plant	Working Capital	Total Rate Base
System Per Books	\$ 3,579,587,076	\$ (1,357,544,433)	\$ 2,222,042,643	\$ 33,066,997	\$ 7,525,179	\$ 0	\$ 2,262,634,819	\$ 88,638,262	\$ 2,351,273,081
Less: Fuel and ECCR								(22,394,275)	(22,394,275)
Other								(9,756,436)	(9,756,436)
ECRC	(13,883,189)	1,009,803	(12,873,386)				(12,873,386)	(249,551)	(13,122,937)
Regulatory Base - System	3,565,703,887	(1,356,534,630)	2,209,169,257	33,066,997	7,525,179	0	2,249,761,433	56,238,000	2,305,999,433
Regulatory Base - Retail	3,244,900,415	(1,241,463,740)	2,003,436,675	30,784,082	7,447,547	0	2,041,668,304	52,639,180	2,094,307,484
FPSC Adjustments									
Fuel Inventory								(258,350)	(258,350)
CWIP					(7,447,547)		(7,447,547)		(7,447,547)
CWIP in Rate Base					5,671,652		5,671,652		5,671,652
Job Order Receivables								(1,602,107)	(1,602,107)
OUC Acquisition Book Value	(1,488,004)		(1,488,004)				(1,488,004)		(1,488,004)
OUC Acquisition Accumulated Amortization		421,865	421,865				421,865		421,865
OUC Acquisition Adjustment - Net	(5,308,929)		(5,308,929)				(5,308,929)		(5,308,929)
Total FPSC Adjustments	(6,796,933)	421,865	(6,375,068)	0	(1,775,895)	0	(8,150,963)	(1,860,457)	(10,011,420)
FPSC Adjusted	3,238,103,482	(1,241,041,775)	1,997,061,607	30,784,082	5,671,652	0	2,033,517,341	50,778,723	2,084,296,064
Pro Forma Revenue Increase and Annualization Adjustments:									
Total Pro Forma Adjustments	0	0	0	0	0	0	0	0	0
Pro Forma Adjusted	\$ 3,238,103,482	\$ (1,241,041,775)	\$ 1,997,061,607	\$ 30,784,082	\$ 5,671,652	\$ 0	\$ 2,033,517,341	\$ 50,778,723	\$ 2,084,296,064

The calculations on this schedule were made in direct response to and according to methodology prescribed in Order No. PSC-93-0165-FOF-EI by the Florida Public Service Commission staff and for that reason only. Tampa Electric Company takes the position that certain portions of these prescribed calculations may not present fairly the company's current financial status and that they should not be used for that purpose.

TAMPA ELECTRIC COMPANY
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
DECEMBER 1997

SCHEDULE 4

AVERAGE	System Per Books	Retail Per Books	Adjustments		Adjusted Retail	Ratio (%)	Low Point		MidPoint		High Point	
			Specific	Pro Rata			Cost Rate (%)	Weighted Cost (%)	Cost Rate (%)	Weighted Cost (%)	Cost Rate (%)	Weighted Cost (%)
Long Term Debt	\$ 645,349,616	\$ 645,349,616	\$ (7,386,865)	\$ (67,877,846)	\$ 570,084,905	27.35 %	6.73	1.84	6.73	1.84	6.73	1.84
Short Term Debt	107,241,809	107,241,809	(599)	(11,410,231)	95,830,979	4.60	5.59	0.26	5.59	0.26	5.59	0.26
Deferred Revenue	58,541,220	58,541,220	0	(6,228,658)	52,312,562	2.51	5.58	0.14	5.58	0.14	5.58	0.14
Preferred Stock	10,747,692	10,747,692	(123,790)	(1,130,360)	9,493,542	0.46	5.48	0.03	5.48	0.03	5.48	0.03
Customer Deposits	52,804,651	52,804,651	0	(5,618,300)	47,186,351	2.26	6.10	0.14	6.10	0.14	6.10	0.14
Common Equity	1,116,943,168	1,116,943,168	(1,656,674)	(118,664,051)	996,622,443	47.82	10.75	5.14	11.75	5.62	12.75	6.10
Deferred Income Taxes	296,692,731	296,692,731	1,781,272	(31,756,983)	266,717,020	12.79	-	-	-	-	-	-
Deferred Tax - FAS 109	0	0	0	0	0	0.00	-	-	-	-	-	-
Tax Credits - Zero Cost	0	0	0	0	0	0.00	-	-	-	-	-	-
Tax Credits - Weighted Cost	51,543,811	51,543,811	(12,758)	(5,482,792)	46,048,261	2.21	9.26	0.20	9.89	0.22	10.52	0.23
Total	\$ 2,339,864,698	\$ 2,339,864,698	\$ (7,399,414)	\$ (248,169,220)	\$ 2,084,296,064	100.00 %		7.75		8.25		8.74

YEAR END	System Per Books	Retail Per Books	Adjustments		Adjusted Retail	Ratio (%)	Low Point		MidPoint		High Point	
			Specific	Pro Rata			Cost Rate (%)	Weighted Cost (%)	Cost Rate (%)	Weighted Cost (%)	Cost Rate (%)	Weighted Cost (%)
Long Term Debt	\$ 646,173,794	\$ 646,173,794	\$ (7,437,462)	\$ (82,328,797)	\$ 556,407,535	26.72 %	6.95	1.86	6.95	1.86	6.95	1.86
Short Term Debt	180,221,566	180,221,566	(974)	(23,229,217)	156,991,375	7.54	5.59	0.42	5.59	0.42	5.59	0.42
Deferred Revenue	38,365,294	38,365,294	0	(4,945,027)	33,420,267	1.61	5.75	0.09	5.75	0.09	5.75	0.09
Preferred Stock	0	0	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Customer Deposits	52,500,323	52,500,323	0	(6,766,937)	45,733,386	2.20	6.10	0.13	6.10	0.13	6.10	0.13
Common Equity	1,116,888,102	1,116,888,102	(1,729,492)	(143,736,410)	971,422,200	46.65	10.75	5.01	11.75	5.48	12.75	5.95
Deferred Income Taxes	314,344,089	314,344,089	1,725,557	(40,739,242)	275,330,404	13.22	-	-	-	-	-	-
Deferred Tax - FAS 109	0	0	0	0	0	0.00	-	-	-	-	-	-
Tax Credits - Zero Cost	0	0	0	0	0	0.00	-	-	-	-	-	-
Tax Credits - Weighted Cost	49,250,917	49,250,917	(12,176)	(6,346,541)	42,892,200	2.06	9.37	0.19	10.00	0.21	10.64	0.22
Total	\$ 2,397,744,085	\$ 2,397,744,085	\$ (7,454,547)	\$ (308,092,171)	\$ 2,082,197,367	100.00 %		7.70		8.19		8.67

The calculations on this schedule were made in direct response to and according to methodology prescribed in Order No. PSC-93-0165-FCF-EI by the Florida Public Service Commission staff and for that reason only. Tampa Electric Company takes the position that certain portions of these prescribed calculations may not present fairly the company's current financial status and that they should not be used for that purpose.

TAMPA ELECTRIC COMPANY
AVERAGE RATE OF RETURN
INCOME STATEMENT
DECEMBER 1997

SCHEDULE 2
PAGE 2 OF 3

	(1) Operating Revenues	(2) O & M Fuel & Net Interchange	(3) O & M Other	(4) Depreciation & Amortization	(5) Taxes Other Than Income	(6) Income Taxes Current	(7) Deferred Income Taxes (Net)	(8) Investment Tax Credit (Net)	(9) Gain/Loss On Disposition	(10) Total Operating Expenses	(11) Net Operating Income
System Per Books	\$ 1,188,960,214	\$ 441,130,837	\$ 243,081,809	\$ 141,429,631	\$ 91,750,017	\$ 60,963,401	\$ 22,529,898	\$ (4,584,630)	\$ (44,030)	\$ 996,256,933	\$ 192,703,281
Less: Recoverable Fuel	(423,611,146)	(419,003,201)			(284,394)	(1,682,810)				(420,970,405)	(2,640,741)
GPIF Revenues/Penalties	302,044				251	116,417				116,668	185,376
Recoverable ECCR	(18,281,679)		(18,255,062)		(44,554)	6,919				(18,292,697)	11,018
Recoverable ECCR - ROI	(219,219)				(508)	(84,368)				(84,876)	(134,343)
Recoverable ECRC	(3,808,074)	(2,497,514)	(924,299)	(385,244)	(1,018)	(100)				(3,808,175)	101
Recoverable ECRC ROI	(1,387,970)				(311)	(535,289)				(535,600)	(852,370)
Regulatory Base - System	741,954,170	19,630,122	223,902,448	141,044,387	91,419,483	58,784,170	22,529,898	(4,584,630)	(44,030)	552,681,848	189,272,322 (a)
Regulatory Base - Retail	706,158,741	18,808,821	210,654,771	130,536,953	87,746,329	60,019,879	20,293,746	(4,129,593)	(39,214)	523,891,692	182,267,049 (a)
FPSC Adjustments											
Industry Association Dues			(38,628)			14,901				(23,727)	23,727
Solans and Waterfall			(10,875)			4,195				(6,680)	6,680
Stockholder Relations			(202,911)			78,273				(124,638)	124,638
Civic Club Meals			(1,452)			560				(892)	892
Franchise Fee Revenue and Expense	(20,369,711)				(20,468,049)	37,934				(20,430,115)	60,404
Gross Receipts Tax	(24,689,831)				(24,689,831)	0				(24,689,831)	0
Income Tax True-up						78,767				78,767	(78,767)
Opt Prov Revenue and Third Party Purchase	(5,179,376)	(5,179,376)				0				(5,179,376)	0
Job Order Revenues	(559,171)					(215,700)				(215,700)	(343,471)
Economic Development			(10,457)			4,034				(6,423)	6,423
OUC Acquisition Amortization				(239,046)		92,212				(146,834)	146,834
Total FPSC Adjustments	(50,798,089)	(5,179,376)	(264,323)	(239,046)	(45,157,880)	95,176	0	0	0	(50,745,449)	(52,640)
FPSC Adjusted	655,360,652	13,629,445	210,390,448	130,297,907	42,588,449	60,115,055	20,293,746	(4,129,593)	(39,214)	473,146,243	182,214,409
Pro Forma Revenue Increase and Annualization Adjustments:											
Total Pro Forma Adjustments	0	0	0	0	0	0	0	0	0	0	0
Pro Forma Adjusted	\$ 655,360,652	\$ 13,629,445	\$ 210,390,448	\$ 130,297,907	\$ 42,588,449	\$ 60,115,055	\$ 20,293,746	\$ (4,129,593)	\$ (39,214)	\$ 473,146,243	\$ 182,214,409
(a) The addition of earnings from AFUDC would increase the System NOI by \$160,368 and Jurisdictional NOI by \$158,714											
Current Month Amount:											
System Per Books	\$ 89,487,077	\$ 36,499,225	\$ 22,006,573	\$ 12,006,466	\$ 7,199,972	\$ (2,320,829)	\$ 5,249,754	\$ (382,047)	\$ (3,335)	\$ 80,255,779	\$ 9,231,298
Jurisdictional Per Books	\$ 48,856,696	\$ 867,622	\$ 19,411,383	\$ 11,126,857	\$ 6,886,892	\$ (2,160,269)	\$ 4,705,394	\$ (342,432)	\$ (2,954)	\$ 40,492,493	\$ 8,164,202

The calculations on this schedule were made in direct response to and according to methodology prescribed in Order No. PSC-93-0165-FOF-EI by the Florida Public Service Commission staff and for that reason only. Tampa Electric Company takes the position that certain portions of these prescribed calculations may not present fairly the company's current financial status and that they should not be used for that purpose.

STATE OF FLORIDA

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



DIVISION OF RECORDS & REPORTING
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Public Service Commission

June 18, 1998

Ms. Angela Llewellyn
Tampa Electric Company
P. O. Box 111
Tampa, Florida 33601-0111

Re: Docker No. 950379 - EI - Tampa Electric Company
Audit Report - Surveillance - 12 Months Ended December 31, 1997
Audit Control # 98-082-2-3

Dear Ms. Llewellyn:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above case will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Kay Flynn".

Kay Flynn

KF/ABF

Enclosure

cc: Public Counsel
Division of Audit and Financial Analysis
Lee Willis