AUDIT DISCLOSURE NO. 2

981462-EI [redacted]

SUBJECT: BENCHMARK CALCULATIONS - COAL & TRANSPORTATION

STATEMENT OF FACT:

Tampa Electric provided audit staff with the computation and supporting schedules for: (1) pricing coal and transportation costs received from affiliated parties and (2) calculating the benchmark pricing.

The benchmark calculation for coal cost uses the base price of coal as of 12/31/92 adjusted by the percent change in the Consumer Price Index - Utilities (CPI-U) for the period 12/31/92 to 12/31/97. The benchmark calculation for transportation costs uses the 1996 cents/per ton-mile for rail coal transportation rates for publicly owned utilities in Florida, including discounts for volume and private rail cars *times* the average rail mileage to Tampa for all waterborne coal supplies to Tampa Electric's plants plus the 1996 cost of privately owned rail cars.

Tampa Electric computes its average water transportation cost per ton, for the transport of coal from all its suppliers by affiliates [Midsouth (river transportation) and TECO Transport (gulf transportation)], by dividing total 1997 transportation cost by the total tons transported during 1997. Tampa Electric's coal price is the result of a contract with Gatliff Coal.

Total cost of coal purchased by Tampa Electric, as included in the benchmark schedule Coal Market Price Application - 1997 does not include the dollars associated with BTU adjustments. The total amount paid to Gatliff Coal for these adjustments was $ 1,118,797.

Staff recalculated Tampa Electric's computations for weighted average coal transportation cost; agreed CPI-U rates to the consumer price index; traced tonnage and tonnage cost (river & barge) to invoices for individual coal suppliers via Form 423-2 and File No. 2; traced base price of coal to FPSC Commission Order; and recalculated average rail mileage to Tampa.

AUDITOR OPINION:

ACK ______
AFA ______
APP ______

Staff noted that Tampa Electric did not include the BTU (premium) adjustments in the amount recorded for total cost of coal purchased in 1997. The BTU adjustments totaled $1,118,797. If this amount had been included, total cost of coal purchased in 1997 by Tampa Electric would have exceeded the benchmark by [redacted] for the year ending 12/31/97.

Tampa Electric should be required to amend its 1997 Coal Market Price Application and request a refund of coal cost from Gatliff Coal for the amount exceeding the coal benchmark amount - 1997.

Note:

Form 423-2	=	Monthly Report of Cost and Quality of Coal for Electric Plants Origin, Tonnage, Delivered Price and As Received Quality
File No. 2	=	Transportation Cost

DOCUMENT NUMBER-DATE

12846 NOV 16 98

FPSC-RECORDS/REPORTING

AUDIT DISCLOSURE NO. 7

[redacted]

SUBJECT: SUBSIDIARIES NOT ALLOCATED COSTS BY TECO ENERGY

STATEMENT OF FACT:

Audit staff noted that several subsidiaries of TECO Energy are not being allocated a portion of the administrative and general expenses of TECO Energy.

The company was asked to explain why the following listed companies did not receive cost allocations from TECO Energy.

1) Peoples CoGen
2) PGS Florida
3) Bosek Gibson
4) TeCom
5) TECO Finance
6) TECO Investments
7) Suwanee Gas

The company responded that:

> "All operating subsidiaries of TECO Energy, Inc. including downstream holding companies, were included in the allocation process. The only exceptions were subsidiaries that were non-operating, had negative 12-month operating income, had no revenues for the 12-month period, or had no operating assets as of the allocation date.
>
> The seven companies listed in FPSC Request Number AF16, do not receive an allocation of TECO Energy allowable corporate expenditures as they met one or more of the exemptions identified in the preceding paragraph."

The company provided further explanations of which specific criteria the above listed companies met. Also, Balance Sheets and Income Statements of various companies, for the period under audit, were provided.

The company explanations were:

1) Peoples Cogeneration Company was a non-operating subsidiary, and had no revenues or operating income in 1997. No financial statements were prepared for this entity in 1997.

2) PGS Florida, Inc. is a non-operating subsidiary with no operating income, no revenues and no operating assets in 1997. No financial statements were prepared for this entity in 1997.

3) Bosek, Gibson and Associates was acquired in late 1996 and, in 1997, began to transition from a traditional engineering services company to a company focussed more on energy performance contracting. Due to its efforts to redefine its business focus, this company is considered non-operating. Revenues for 1997 were [redacted] with operating income for the year of only [redacted]

Line 1
Line 2

Total assets of Bosek, Gibson and Associates at 12/31/97 were $6,233,450.
Operating assets of Bosek, Gibson and Associates at 12/31/97 were $6,062,891.

4) TeCom is considered a non-operating subsidiary. This company is in the process of developing and marketing advanced energy management, automation and control systems.
Line 1 For 1997, TeCom has [redacted] in revenues but had [redacted] operating income.

Total assets of TeCom, at 12/31/97 were $14,454,278.
Operating assets of TeCom, at 12/31/97$14,454,278

5) TECO Finance, Inc. is considered a non-operating subsidiary. This company is the source of debt capital for the diversified operations of TECO Energy. For 1997, this company had $1.7 million in revenues, all from affiliated companies, and negative operating income. This company has no employees. All legal and accounting costs related to this subsidiary are billed directly to TECO Finance.

Total assets of TECO Finance, at 12/31/97 were $216,772,000.
Operating assets of TECO Finance at 12.31.97 were $216,622,000

6) TECO Investments, Inc. is considered a non-operating subsidiary. This company invests capital in short-and long-term securities and financial instruments. Revenues for 1997 were $.3 million with operating income of $.2 million. Its assets at December 31, 1997 were comprised of cash, receivables and investments. This company has no employees. All legal and accounting costs related to this subsidiary are billed directly to TECO Investments.

Total assets of TECO Investments at 12/31/97 were $66,330,000.
Operating assets of TECO Investments at 12/31/97 were $66,209,000

7) Suwanee Gas Marketing, Inc. is a downstream holding company and considered non-operating. This company had no revenues in 1997. No financial statements were prepared for this entity in 1997. This company has no employees.

AUDITOR OPINION:

No audit verification was applied to the balance sheets and income statements presented. However, audit staff scanned the financial statements and other documentation provided by Tampa Electric and noted that several other companies which were included in the allocation process had negative operating income. Therefore, this would not appear to be a criteria for not including a company in the allocation process.

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Also, Bosek Gibson and TeCom are producing operating revenues which are either significantly higher than the prior year or are from non-affiliate sources. It does not appear that the acquisition by TECO Energy or the development of energy systems is hindering the operations of either of these two companies.

TECO Finance and TECO Investment are also producing operating revenues and with no employees are certainly receiving services other than legal and accounting costs. Tax and financial reporting are two that come directly to mind.

It is concluded that Bosek Gibson, TeCom, TECO Finance and TECO Investment should be included in the allocation process which would have the effect of reducing the percent of allocable expenses charged to Tampa Electric by TECO Energy.

Staff prepared a schedule computing allocation percentages that would result if the above listed companies were included in the computation. Staff's schedule used year-end balances for operating assets, and year-to-date balances for operating revenues and operating income to calculate applicable percentages. Percentages were then blended and applied to total allocable year-to-date costs of TECO Energy. When a sale or purchase of any includible company occurred, total allocable costs were adjusted to include only those applicable expenses.

Company Name	1997 Alloc (per Staff)	1997 Allocation (per TECO Energy)	TECO Enrgy Alloc by Sub	Redistribution of Alloc. Cost	Staff Adjusted Allocation
Tampa Electric Company	11,932,460	12,219,137	69.53%	(338,203)	11,880,933
TECO Transport & Trade	1,365,803	1,315,789	7.49%	(36,419)	1,279,371
TECO Coal	1,161,403	1,202,826	6.85%	(33,292)	1,169,534
TECO Properties	145,129	126,196	0.72%	(3,493)	122,703
TECO Coalbed Methane	813,262	655,630	4.67%	(23,682)	631,547
TECO Oil & Gas (1/97)	37,[illegible]	38,428	0.22%	(1,064)	37,365
TECO Power	570,042	813,393	4.63%	(22,513)	790,878
Peoples Gas System	930,441	875,465	4.98%	(24,231)	851,234
Peoples Gas Company	74,066	71,573	0.41%	(1,981)	69,592
Peoples Sales and Service	18,864	19,209	0.11%	(532)	18,678
Gator Gas	27,327	24,331	0.14%	(673)	23,657
Bosek Gibson	38,965 }	0		38,965	38,965
TeCom	20,184 }	0		20,184	20,184
TECO Finance	324,644 }	0		324,644	324,644
TECO Investment	102,301 }	0		102,301	102,301
	17,561,981	17,561,976		0	17,561,977

The results of staff schedule are as follows:

Sum of staff allocation for Bosek, Gibson, TeCom, TECO Finance and TECO Investment = $486,084. This amount, redistributed over the original companies receiving allocated expenses, would result in a decrease of allocated costs to Tampa Electric and Peoples Gas System of $338,203 and $24,231, respectively.

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AUDITOR RECOMMENDATION:

As a result of the staff recalculation, we recommend that Tampa Electric reduce its allocated expenses from TECO Energy and Peoples Gas System by $362,435. We further recommend that TECO Energy's computation for Tampa Electric's portion of allocable expenses be expanded to include Bosek, Gibson and Associates, TeCom Inc., TECO Finance and TECO Investment.