

STATE OF FLORIDA

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TIMOTHY DEVLIN, DIRECTOR
AUDITING & FINANCIAL ANALYSIS
(850) 413-6480

Public Service Commission

June 23, 1999

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

**Re: Docket No. 950379-EI; Tampa Electric Company
Earnings Surveillance Audit Report - 12-Month Period Ended 12/31/98**

Ms. Llewellyn:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver
Bureau Chief - Auditing Services

DNV:sp

- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- MAS _____
- OPC _____
- RRR _____
- SEC _____
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- OTH _____

- cc: Division of Records and Reporting
 Division of Auditing and Financial Analysis (Devlin/Causseaux/File Folder)
 Division of Electric and Gas (Merta)
 Tampa District Office (McPherson)
 Division of Legal Services
 Office of Public Counsel
 Research and Regulatory Review (Harvey)

DOCUMENT NUMBER - DATE
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Public Service Commission

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING SERVICES*

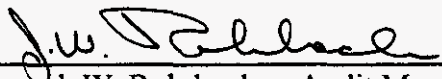
TAMPA DISTRICT OFFICE

TAMPA ELECTRIC COMPANY

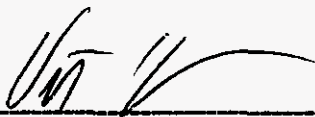
EARNINGS SURVEILLANCE AUDIT

TWELVE MONTHS ENDED DECEMBER 31, 1998

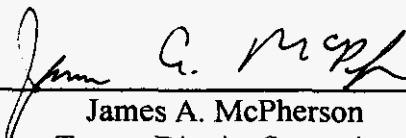
**Docket No. 950379-EI
Audit Control Number 99-062-2-2**



Joseph W. Rohrbacher, Audit Manager



Vincent C. Aldridge, Audit Staff



James A. McPherson
Tampa District Supervisor

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

JUNE 10, 1999

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, 1998. 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 and association dues which do not appear to be chargeable to the ratepayers.

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:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Verify- The item was tested for accuracy, and substantiating documentation was examined.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error 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 1998 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 December 31, 1998. 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 31,1998. Looked for items related to regulatory issues. Verified that adjustments made in prior orders were made and were calculated properly. Scanned expense allocations from TECO Energy to Tampa Electric and tested selected computations. 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 December 31, 1998 had a balance of \$898,039 in Account No. 930.02, Miscellaneous Expense - Company Dues. Included in this amount were the following expenses not removed from the surveillance report:

Nature Conservancy	\$2,500
Employees Health Coalition (A)	5,574
Tampa Chamber of Commerce (A)	<u>655</u>
Total	<u>\$8,729</u>

(A) Allocated from TECO Energy.

Recommendation: It does not appear that these expenses should be included in O&M expense for regulatory purposes. The work of these organizations does not directly benefit rate payers.

The Nature Conservancy is an ecological organization to preserve wetlands and the ecosystem.

In the 1997 Surveillance audit the company agreed that the Employees Health Coalition charges should be omitted for regulatory purposes.

Payment to the Tampa Chamber of Commerce is for "Drug-Free Workplace annual dues" and not economic development activities.

Disclosure No. 2

Subject: Conservation and Environmental Clause Adjustments

Statement of Fact: The Company made adjustments to the Earnings Surveillance Report for revenues and expenses recovered through the Energy Conservation Cost Recovery Clause (ECCR) and the Environmental Cost Recovery Clause (ECRC).

The adjustments for revenue were the same as filed in the ECCR and ECRC filings as of March 31, 1998 and December 31, 1998. The ECCR expense adjusted on the surveillance report is \$277,042 less than the \$19,990,109 reported on the filing and the adjusted ECRC expense is \$90,228 less than the \$3,601,491 on the filing.

The company stated, estimated expenses are used to adjust the monthly earnings surveillance reports since these amounts are used to book deferred true-up amounts. The true-up filing amounts are the actual monthly amounts per general ledger that have been adjusted during the monthly review process to exclude charges that are determined to be non-recoverable through the clauses.

Disclosure No. 3

Subject: Advertising Charges

Tampa Electric Company (TEC), on its 1998 Surveillance Report, included charges for Informational/Instructional Advertising (A/C#909.12) and Sales Related Advertising (A/C#913.01).

A judgmental 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:

Tampa Home Show

Company stated the Home Show was a cosponsorship and Tampa Electric was to be charged 2/3 of the costs and the other 1/3 charged to TECO Energy (allocated to Peoples Gas). Tampa Electric was actually charged 100% of the following costs:

Susan Shulins (Set up show)	\$1,870
Chef Warren Productions	1,403
Helinger Advertising (Golf shirts)	<u>1,713</u>
	<u>\$4,986</u>

Energy Technology Resource Center Charges

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, Baker's Aid, Managing & Motivating People, and seminars on the products of other companies.

Based on our review, approximately 68% of the seminars offered did not appear to be related to Tampa Electric's business. Tampa Electric was actually charged 100% of the following costs:

Ad in Florida Business Insight (3,243X3)	\$ 9,729
Printing seminar schedules (Rinaldi)	11,339
Mailing seminar schedules (Hill Mailing)	2,445
Printing seminar schedules (Martin Litho)	10,630
Postage to mail schedules (Postmaster)	<u>8,000</u>
	<u>\$42,143</u>

Disclosure No. 3 (Continued)

TECO Energy Ads

The ads were for TECO Energy and should have been charged to TECO Energy and then allocated to Tampa Electric using its allocation percentage.

Ad in Florida Manufacturing & Chemical Roster	\$ 2,140
Lakeland Chamber of Commerce	1,270
Bartow Chamber of Commerce	1,059
Plant City Chamber of Commerce	1,325
Trend Magazine	3,885
Naylor Publications	<u>2,004</u>
	<u>\$11,683</u>

Other

Typestyles & Design - Golf brushes for sponsorship for golf tournaments	\$ 1,381
Florida Healthcare Engineers - Sponsorship dinner	500
Rosenbluth Int'l - Cruise for employee at trade show	<u>1,200</u>
	<u>\$ 3,081</u>

Recommendation: The above advertising does not appear to be chargeable to the ratepayers for the reasons stated. In the 1997 Surveillance audit the company agreed that the non-utility portion of the ECRC charges should be adjusted for regulatory purposes.

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.

Disclosure No. 4

Subject: Current and Deferred Income Taxes

Statement of Fact: The current and deferred income tax liability reported on the December 1998 Earnings Surveillance Report differed from the current and deferred income tax liability recorded on the utility's December 1998 general ledger as follows:

	<u>SURV RPT</u>	<u>G/L</u>	<u>DIFFERENCE</u>
Current Income Taxes:	\$ 57,194,731	\$ 51,401,888	\$5,792,843
Deferred Income Taxes:	\$345,655,472	\$344,252,502	\$1,402,970

The utility explained these differences as follows:

Current Income Taxes: \$3,703,200 + \$2,089,643 = \$5,792,843

The \$3,703,200 is the current tax on the \$9,600,000 Florida Municipal Power Authority (FMPA) contract reassignment cost. The contract reassignment cost was booked in account 557.98 but is excluded from the surveillance report. Because the FMPA contract reassignment created a loss, it produced a tax benefit. Therefore, if the loss is excluded from the surveillance report, the corresponding tax benefit must also be excluded causing the current income taxes reported on the surveillance report to be greater than what is recorded on the general ledger.

The \$2,089,643 is the current tax on the Gatliff Coal Purchase Cost adjustment. The Gatliff Coal Purchase Cost adjustment was booked as a "below-the-line" expense in account 426. Again, because the Gatliff Coal Purchase Cost adjustment is excluded from the surveillance report, the corresponding current tax benefit must also be excluded.

Deferred Income Taxes: \$684,321 + \$718,650 = \$1,402,970.

The \$718,650 is the deferred tax on the Gatliff Coal Purchase Cost adjustment. The rationale described for the current income taxes applies to deferred income taxes as well. Because the Gatliff Coal Purchase Cost adjustment is excluded from the surveillance report, the corresponding deferred tax benefit must also be excluded.

The \$684,321 is the deferred tax on a total of \$1,774,000 of 1996 deferred revenue true up adjustments that were made during 1998. These amounts were debited "below-the-line" in account 426 and are also excluded from the surveillance report. However, since these adjustments are utility related, FERC requires the related deferred tax be recorded "above the line". The surveillance report was adjusted to remove the tax benefit related to these adjustments.

Opinion: The utility's explanations for these differences are reasonable.

TAMPA ELECTRIC COMPANY
AVERAGE RATE OF RETURN
RATE BASE
DECEMBER 1998

SCHEDULE 2
PAGE 1 OF 3

	(1) Plant In Service	(2) Accumulated Depreciation & Amortization	(3) Net Plant In Service	(4) Property Held For Future Use	(5) Construction Work In Progress	(6) Nuclear Fuel (Net)	(7) Net Utility Plant	(8) Working Capital	(9) Total Rate Base
System Per Books	\$ 3,676,578,249	\$ (1,471,190,876)	\$ 2,205,387,373	\$ 32,551,854	\$ 17,257,324	\$ 0	\$ 2,255,196,551	\$ 95,704,000	\$ 2,350,900,551
Less: Fuel and ECCR								(20,317,741)	(20,317,741)
Other								(7,024,065)	(7,024,065)
ECRC	(14,171,162)	1,438,364	(12,734,798)				(12,734,798)	0	(12,734,798)
Regulatory Base - System	3,662,407,087	(1,469,754,512)	2,192,652,575	32,551,854	17,257,324	0	2,242,461,753	68,362,194	2,310,823,947
Regulatory Base - Retail	3,404,946,549	(1,372,430,580)	2,032,515,969	30,750,290	17,117,984	0	2,080,384,243	64,863,543	2,145,247,786
FPSC Adjustments									
Fuel Inventory								(797,047)	(797,047)
CWIP					(17,117,984)		(17,117,984)		(17,117,984)
CWIP in Rate Base					17,117,984		17,117,984		17,117,984
Job Order Receivables								(1,289,018)	(1,289,018)
OUC Acquisition Book Value	(1,584,936)		(1,584,936)				(1,584,936)		(1,584,936)
OUC Acquisition Accumulated Amortization		504,024	504,024				504,024		504,024
OUC Acquisition Adjustment - Net	(5,217,197)		(5,217,197)				(5,217,197)		(5,217,197)
Total FPSC Adjustments	(6,802,133)	504,024	(6,298,109)	0	0	0	(6,298,109)	(2,086,065)	(8,384,174)
FPSC Adjusted	3,398,144,416	(1,371,926,556)	2,026,217,860	30,750,290	17,117,984	0	2,074,086,134	62,777,478	2,136,863,612
Pro Forma Revenue Increase and Annualization Adjustments:									
Total Pro Forma Adjustments	0	0	0	0	0	0	0	0	0
Pro Forma Adjusted	\$ 3,398,144,416	\$ (1,371,926,556)	\$ 2,026,217,860	\$ 30,750,290	\$ 17,117,984	\$ 0	\$ 2,074,086,134	\$ 62,777,478	\$ 2,136,863,612

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
AVERAGE RATE OF RETURN
INCOME STATEMENT
DECEMBER 1998

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	\$ 1,234,441,309	\$ 451,284,424	\$ 260,158,911	\$ 146,113,063	\$ 97,248,237	\$ 57,194,731	\$ 30,864,563	\$ (4,574,485)	\$ (33,722)	\$ 1,038,255,722	\$ 196,185,587
Less: Recoverable Fuel	(421,340,660)	(416,186,352)	(1,099,523)		(275,673)	(1,468,944)				(419,030,492)	(2,310,168)
GPIF Revenues/Penalties	497,442				414	191,729				192,143	305,299
Recoverable ECCR	(19,641,653)		(19,725,474)		(14,123)	37,782				(19,701,815)	60,162
Recoverable ECCR - ROI	(253,149)				(171)	(97,586)				(97,757)	(155,392)
Recoverable ECRC	(4,419,068)	(2,526,692)	(1,510,755)	(410,290)	(1,526)	12,681				(4,438,602)	17,534
Recoverable ECRC ROI	(1,405,204)				(475)	(541,874)				(542,349)	(862,855)
Regulatory Base - System	787,879,017	32,571,380	237,823,159	145,702,773	96,956,683	55,328,499	30,864,563	(4,574,485)	(33,722)	594,638,850	193,240,167 (a)
Regulatory Base - Retail	740,618,535	17,768,083	227,283,420	137,196,129	93,899,174	55,033,346	28,506,796	(4,225,036)	(30,993)	555,430,919	185,187,616 (a)
FPSC Adjustments											
Industry Association Dues			(45,057)			17,381				(27,676)	27,676
Solaris and Waterfall			(10,413)			4,017				(8,396)	8,396
Stockholder Relations			(170,693)			65,845				(104,848)	104,848
Civic Club Meals			(813)			314				(499)	499
Franchise Fee Revenue and Expense	(20,881,370)				(20,857,869)	(9,066)				(20,866,935)	(14,435)
Gross Receipts Tax	(26,692,803)				(26,741,778)	18,892				(26,722,886)	30,083
Income Tax True-up						35,482				35,482	(35,482)
Opt Prov Revenue and Third Party Purchase	(6,726,435)	(6,726,435)				0				(6,726,435)	0
Job Order Revenues	(586,580)					(226,273)				(228,273)	(360,307)
Economic Development			(8,390)			3,236				(5,154)	5,154
OUC Acquisition Amortization				(250,657)		96,691				(153,966)	153,966
Total FPSC Adjustments	(54,887,188)	(6,726,435)	(235,366)	(250,657)	(47,599,647)	6,519	0	0	0	(54,805,586)	(81,602)
FPSC Adjusted	685,731,347	11,041,648	227,048,054	136,945,472	46,299,527	55,039,865	28,506,796	(4,225,036)	(30,993)	500,625,333	185,106,014
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	\$ 685,731,347	\$ 11,041,648	\$ 227,048,054	\$ 136,945,472	\$ 46,299,527	\$ 55,039,865	\$ 28,506,796	\$ (4,225,036)	\$ (30,993)	\$ 500,625,333	\$ 185,106,014
(a) The addition of earnings from AFUDC would increase the System NOI by \$0, and Jurisdictional NOI by \$0.											
Current Month Amount:											
System Per Books	\$ 91,264,936	\$ 32,190,847	\$ 31,050,839	\$ 11,710,772	\$ 7,784,883	\$ (3,578,383)	\$ 2,441,513	\$ (381,208)	\$ (2,160)	\$ 81,217,103	\$ 10,047,833
Jurisdictional Per Books	\$ 59,085,432	\$ 2,518,265	\$ 28,880,518	\$ 11,675,294	\$ 7,758,756	\$ (3,685,395)	\$ 2,441,513	\$ (381,208)	\$ (2,160)	\$ 49,205,583	\$ 9,879,849

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 1998

SCHEDULE 4

AVERAGE	System Per Books	Retail Per Books	Adjustments		Adjusted Retail	Ratio (%)	Low Point		MidPoint		High Point	
			Specific	Pro Rate			Cost Rate (%)	Weighted Cost (%)	Cost Rate (%)	Weighted Cost (%)	Cost Rate (%)	Weighted Cost (%)
Long Term Debt	\$ 687,444,138	\$ 687,444,138	\$ (6,458,419)	\$ (57,335,516)	\$ 603,650,203	28.25 %	6.61	1.87	6.61	1.87	6.61	1.87
Short Term Debt	75,897,735	75,897,735	(380)	(6,583,522)	69,313,833	3.24	5.56	0.18	5.56	0.18	5.56	0.18
Deferred Revenue	20,723,028	20,723,028	0	0	20,723,028	0.97	5.44	0.05	5.44	0.05	5.44	0.05
Preferred Stock	0	0	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Customer Deposits	52,806,382	52,806,382	0	(4,580,555)	48,225,827	2.28	6.09	0.14	6.09	0.14	6.09	0.14
Common Equity	1,150,449,248	1,150,449,248	(733,566)	(99,729,148)	1,049,986,534	49.14	10.75	5.28	11.75	5.77	12.75	6.27
Deferred Income Taxes	329,106,607	329,106,607	1,671,248	(28,692,479)	302,085,376	14.13	-	-	-	-	-	-
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	46,963,093	46,963,093	(11,594)	(4,072,688)	42,878,811	2.01	9.24	0.19	9.87	0.20	10.51	0.21
Total	\$ 2,343,390,231	\$ 2,343,390,231	\$ (5,532,711)	\$ (200,993,908)	\$ 2,138,863,612	100.00 %		7.71		8.21		8.72

YEAR END	System Per Books	Retail Per Books	Adjustments		Adjusted Retail	Ratio (%)	Low Point		MidPoint		High Point	
			Specific	Pro Rate			Cost Rate (%)	Weighted Cost (%)	Cost Rate (%)	Weighted Cost (%)	Cost Rate (%)	Weighted Cost (%)
Long Term Debt	\$ 686,089,186	\$ 686,089,186	\$ (6,548,168)	\$ (48,523,430)	\$ 631,017,588	29.12 %	6.73	1.96	6.73	1.96	6.73	1.96
Short Term Debt	50,291,728	50,291,728	(252)	(3,591,122)	46,700,354	2.16	5.56	0.12	5.56	0.12	5.56	0.12
Deferred Revenue	3,046,891	3,046,891	0	0	3,046,891	0.14	4.90	0.01	4.90	0.01	4.90	0.01
Preferred Stock	0	0	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Customer Deposits	52,689,347	52,689,347	0	(3,762,345)	48,927,002	2.28	6.09	0.14	6.09	0.14	6.09	0.14
Common Equity	1,156,581,588	1,156,581,588	(643,945)	(82,541,095)	1,073,396,548	49.53	10.75	5.32	11.75	5.82	12.75	6.32
Deferred Income Taxes	345,655,472	345,655,472	1,600,292	(24,796,209)	322,459,555	14.88	-	-	-	-	-	-
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	44,675,268	44,675,268	(11,012)	(3,189,304)	41,474,952	1.91	9.26	0.18	9.89	0.19	10.52	0.20
Total	\$ 2,339,029,480	\$ 2,339,029,480	\$ (5,603,085)	\$ (186,403,505)	\$ 2,167,022,890	100.00 %		7.73		8.24		8.75

The calculations on this schedule were made in direct response to and according to methodology prescribed in Order No. PSC-93-0185-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.

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