



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: April 30, 2003
TO: Division of Economic Regulation (McNulty, Bohrmann)
FROM: Division of Auditing and Safety (Vandiver) W
RE: **Docket No.** 030001-EI ; **Company Name:** Progress Energy Florida, Inc. ; **Audit Purpose:** Capacity Cost Recovery Clause; **Audit Control No.** 03-034-2-2

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE

TAMPA ELECTRIC COMPANY

CAPACITY COST RECOVERY AUDIT

FOR THE TWELVE MONTH PERIOD ENDED DECEMBER 31, 2002

DOCKET NO. 030001-EI

AUDIT CONTROL NO. 03-036-2-1

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

April 8, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Capacity Cost Recovery True-up schedules for the historical twelve month period ended December 31, 2002 for Tampa Electric Company. These schedules were prepared by the utility as part of its petition for a Fuel Cost Factor Adjustment in Docket 030001-EI. There is no confidential information associated with this audit and there are no 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.

SUMMARY OF SIGNIFICANT FINDINGS

During the period November 2001 through August 2002, the Company included an amount for Incremental Security Costs totaling \$794,598.

In December 2002, the Company included an amount for a 1993 Capacity Price Adjustment totaling \$170,300.

Revenues recorded in the general ledger were understated approximately \$7,500 due to a refund being issued, in error, to optional provision customers.

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 - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

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

REVENUE: Compiled Capacity Cost Recovery (CCR) revenue and agreed to the filing. Recomputed CCR revenues using approved FPSC rate factors and company provided KWH sales.

EXPENSES: Recomputed capacity costs. Agreed capacity costs to Tampa Electric billing statements. Identified costs by vendor. Performed audit test work of capacity cost payments to verify that vendors were paid capacity charges according to contract terms for electric power supplied by the vendors. Verified that incremental security costs were transferred from the fuel clause in accordance with Commission directive.

TRUE-UP: Recomputed CCR true-up and interest using FPSC approved amounts and interest rates.

Disclosure No. 1

Subject: Incremental Security Costs

Statement of Fact: In accordance with Commission Orders PSC-01-2516-FOF-EI and PSC-02-1761-FOF-EI, the company has recorded an amount for incremental security costs in its 2002 Capacity Filing of \$794,598. These incremental costs were incurred by the company during the period November 2001 through August 2002.

Tampa Electric has interpreted incremental security costs to be any costs that occurred subsequent to the 9/11 event, that would not have occurred if not for the heightened level of alert. The company's computation of incremental security costs is shown below:

	<u>Gen'l Ledger Balance</u>	<u>Incremental</u>	<u>Net Security</u>
2001	\$3,508,733	\$400,650	\$3,108,083
2002	3,619,633	393,948	3,225,685
			----- \$6,333,768 =====
Total 2002 Capacity Clause		<u>\$794,598</u>	
Average Net Security			<u>\$3,166,884</u>

Recommendation: Based upon the security costs audit performed by the PSC staff, a two-year average of net security costs was determined to be the most appropriate amount to use in calculating a base amount for incremental security costs. The two-year average was calculated using the general ledger balances less company recorded incremental costs for the years 2001 and 2002. Staff's average base amount for 2001 and 2002 equals \$3,166,884. In future years, we believe any costs greater than this amount could be considered incremental.

Using the average balance per staff computation, incremental costs for 2002 should not exceed \$452,785. This is greater than the amount recorded by the company, therefore the company's computed balance for incremental costs for 2002 appears to be reasonable.

Disclosure No. 2

Subject: Capacity Price Adjustment

Statement of Fact: The company included an adjustment for \$170,300 increasing its capacity charges from Hardee Power Partners (HPP) in December 2002. The company states that the adjustment was the net effect of several omissions to the filings occurring during 1993 and 1994. First, a December 1993 invoice from Hardee Power Partners for Capacity Price Adjustments, approved by FERC which totaled \$209,820 was never booked to an expense account. Per the company spokesperson, the December 2002 adjustment was the result of an internal reconciliation of balance sheet accounts performed last year. In doing the reconciliation it was discovered that an invoice for capacity price adjustment was paid in December 1993 and booked to account 234.21 (an interchange payable account). Additionally, in 1994 several adjustments [credits totaling \$39,520] were made to interchange customers reducing their original capacity bills. These adjustment credits were not picked up in the capacity filing since the booked capacity expenses exceeded the amount booked as a payable. To make sure the ratepayers were not negatively impacted the company offset those credits against the original invoice amount and made an adjustment in December 2002 to record the balance of \$170,300.

Recommendation: This adjustment is for activity that occurred eight and nine years ago. We did not have the time to verify whether or not these amounts had been included in any of the prior filings, but we did review the adjusting entry crediting the liability and debiting the capacity expense accounts in December 2002.

Disclosure No. 3

Subject: Erroneous Billing for Optional Provision Customers

Statement of Fact: The company was ordered to make refunds associated with the 1999 earnings settlement totaling \$6.1 million plus interest over the period June through August 2002. During the process the company erroneously calculated and made refunds to its optional provision customers. This error results in differences of approximately \$7,500 between the revenues per CCR Filing and revenues per the general ledger.

The company is currently working to resolve this situation.

Recommendation: Because of the overall immateriality of the refund amounts, company should be allowed to correct the error and PSC staff then perform an analysis of the correction in a subsequent audit.

TAMPA ELECTRIC COMPANY
CAPACITY COST RECOVERY ADJUSTMENT
For Months January 2002 through December 2002

REVISED 2/5/02
REVISED 3/26/02

Description	2001	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002
	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	2002
Capacity Recovery Revenues	\$2,442,049	\$4,231,917	\$3,557,714	\$3,514,105	\$4,056,855	\$4,668,632	\$4,817,528	\$4,765,906	\$4,960,801	\$5,010,618	\$5,007,012	\$4,020,593	\$3,775,360	\$52,387,041
True-up	<u>164,770</u>	<u>(463,342)</u>	<u>(463,342)</u>	<u>(463,342)</u>	<u>(463,342)</u>	<u>(463,342)</u>	<u>(463,342)</u>	<u>(463,342)</u>	<u>(463,342)</u>	<u>(463,342)</u>	<u>(463,342)</u>	<u>(463,342)</u>	<u>(463,341)</u>	<u>(5,560,103)</u>
Capacity Revenue Applicable to Period	2,606,819	3,768,575	3,094,372	3,050,763	3,593,513	4,205,290	4,354,186	4,302,564	4,497,459	4,547,276	4,543,670	3,557,251	3,312,019	46,826,938
Capacity Recovery Expense	<u>2,425,900</u>	<u>4,422,147</u>	<u>3,969,637</u>	<u>3,807,725</u>	<u>3,824,815</u>	<u>3,831,192</u>	<u>4,668,961</u>	<u>4,525,624</u>	<u>4,507,015</u>	<u>3,599,294</u>	<u>4,616,759</u>	<u>3,797,508</u>	<u>5,453,384</u>	<u>51,024,061</u>
True-up This Period	180,919	(653,572)	(875,265)	(756,962)	(231,302)	374,098	(314,775)	(223,060)	(9,556)	947,982	(73,089)	(240,257)	(2,141,365)	(4,197,123)
Interest Provision This Period	(5,003)	(4,793)	(5,210)	(5,775)	(5,829)	(5,012)	(4,295)	(3,961)	(3,416)	(2,116)	(796)	(314)	(1,061)	(42,578)
True-up & Interest Provision Accrual at End of Month	(3,154,317)	(3,143,171)	(3,338,194)	(3,755,327)	(4,054,722)	(3,828,511)	(2,996,083)	(2,851,811)	(2,615,490)	(2,165,120)	(755,912)	(366,455)	(143,684)	(3,143,171)
True-up Collected/(Refunded)	<u>(164,770)</u>	<u>463,342</u>	<u>463,342</u>	<u>463,342</u>	<u>463,342</u>	<u>463,342</u>	<u>463,342</u>	<u>463,342</u>	<u>463,342</u>	<u>463,342</u>	<u>463,342</u>	<u>463,342</u>	<u>463,341</u>	<u>5,560,103</u>
End of Period Total Net True-up	<u>(3,143,171)</u>	<u>(3,338,194)</u>	<u>(3,755,327)</u>	<u>(4,054,722)</u>	<u>(3,828,511)</u>	<u>(2,996,083)</u>	<u>(2,851,811)</u>	<u>(2,615,490)</u>	<u>(2,165,120)</u>	<u>(755,912)</u>	<u>(366,455)</u>	<u>(143,684)</u>	<u>(1,822,769)</u>	<u>(1,822,769)</u>

TAMPA ELECTRIC COMPANY
CAPACITY COST RECOVERY ADJUSTMENT

January 2002 through December 2002

REVISED 2/5/02
REVISED 3/26/02

Interest Provision	2001 DEC	2002 JAN	2002 FEB	2002 MAR	2002 APR	2002 MAY	2002 JUN	2002 JUL	2002 AUG	2002 SEP	2002 OCT	2002 NOV	2002 DEC	Total
True-up	(\$4,770,478)	(\$3,143,171)	(\$3,338,194)	(\$3,755,327)	(\$4,054,722)	(\$3,828,511)	(\$2,996,083)	(\$2,851,811)	(\$2,615,490)	(\$2,165,120)	(\$755,912)	(\$366,455)	(\$143,684)	(\$1,822,769)
g True-up Amount Before Interest	<u>(3,138,168)</u>	<u>(3,333,401)</u>	<u>(3,750,117)</u>	<u>(4,048,947)</u>	<u>(3,822,682)</u>	<u>(2,991,071)</u>	<u>(2,847,516)</u>	<u>(2,611,529)</u>	<u>(2,161,704)</u>	<u>(753,796)</u>	<u>(365,659)</u>	<u>(143,370)</u>	<u>(1,821,708)</u>	
Beginning & Ending True-up	<u>(\$7,908,646)</u>	<u>(\$6,476,572)</u>	<u>(\$7,088,311)</u>	<u>(\$7,804,274)</u>	<u>(\$7,877,404)</u>	<u>(\$6,819,582)</u>	<u>(\$5,843,599)</u>	<u>(\$5,463,340)</u>	<u>(\$4,777,194)</u>	<u>(\$2,918,916)</u>	<u>(\$1,121,571)</u>	<u>(\$509,825)</u>	<u>(\$1,965,392)</u>	
ge True-up Amount	<u>(\$3,954,323)</u>	<u>(\$3,238,286)</u>	<u>(\$3,544,156)</u>	<u>(\$3,902,137)</u>	<u>(\$3,938,702)</u>	<u>(\$3,409,791)</u>	<u>(\$2,921,800)</u>	<u>(\$2,731,670)</u>	<u>(\$2,388,597)</u>	<u>(\$1,459,458)</u>	<u>(\$560,786)</u>	<u>(\$254,913)</u>	<u>(\$982,696)</u>	
st Rate - Last Day of Prior Month	2.040%	1.780%	1.770%	1.750%	1.800%	1.750%	1.770%	1.750%	1.730%	1.710%	1.760%	1.650%	1.300%	
st Rate - Last Day of Current Month	<u>1.780%</u>	<u>1.770%</u>	<u>1.750%</u>	<u>1.800%</u>	<u>1.750%</u>	<u>1.770%</u>	<u>1.750%</u>	<u>1.730%</u>	<u>1.710%</u>	<u>1.760%</u>	<u>1.650%</u>	<u>1.300%</u>	<u>1.290%</u>	
	<u>3.820%</u>	<u>3.550%</u>	<u>3.520%</u>	<u>3.550%</u>	<u>3.550%</u>	<u>3.520%</u>	<u>3.520%</u>	<u>3.480%</u>	<u>3.440%</u>	<u>3.470%</u>	<u>3.410%</u>	<u>2.950%</u>	<u>2.590%</u>	
ge Interest Rate	<u>1.910%</u>	<u>1.775%</u>	<u>1.760%</u>	<u>1.775%</u>	<u>1.775%</u>	<u>1.760%</u>	<u>1.760%</u>	<u>1.740%</u>	<u>1.720%</u>	<u>1.735%</u>	<u>1.705%</u>	<u>1.475%</u>	<u>1.295%</u>	
ly Average Interest Rate	<u>0.159%</u>	<u>0.148%</u>	<u>0.147%</u>	<u>0.148%</u>	<u>0.148%</u>	<u>0.147%</u>	<u>0.147%</u>	<u>0.145%</u>	<u>0.143%</u>	<u>0.145%</u>	<u>0.142%</u>	<u>0.123%</u>	<u>0.108%</u>	
st Provision	<u>(\$6,287)</u>	<u>(\$4,793)</u>	<u>(\$5,210)</u>	<u>(\$5,775)</u>	<u>(\$5,829)</u>	<u>(\$5,012)</u>	<u>(\$4,295)</u>	<u>(\$3,961)</u>	<u>(\$3,416)</u>	<u>(\$2,116)</u>	<u>(\$796)</u>	<u>(\$314)</u>	<u>(\$1,061)</u>	<u>(\$42,578)</u>