



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

DATE: August 25, 2003
TO: Division of Economic Regulation (Breman)
FROM: Division of Auditing and Safety (Vandiver) *av*
RE: **Docket No.** 030007-EI; **Company Name:** Tampa Electric Company; **Audit Purpose:** Environmental Cost Recovery Audit; **Audit Control No.** 03-030-2-1

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 no 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, INC.

ENVIRONMENTAL COST RECOVERY AUDIT

TWELVE MONTHS ENDED DECEMBER 31, 2002

DOCKET 030007-EI

AUDIT CONTROL NUMBER 03-030-2-1


Thomas E. Stambaugh, Audit Manager


Tomer Kopelovich, Audit Staff

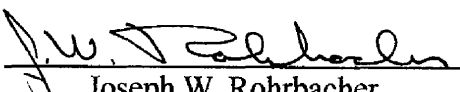

Joseph W. Rohrbacher
Tampa District Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDIT REPORT**

July 30, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the Environmental Cost Recovery Clause (ECRC) schedules for the historical twelve month period ended December 31, 2002 for Tampa Electric Company. These schedules were prepared by the Utility from utility records in support of Docket No. 030007-EI. No confidential information is associated with this audit. No minority opinions were written.

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:

The investment expenditures for the Big Bend 3 Flue Gas Desulphurization (FGD) Performance Upgrade had been cited in 2001 as overstated by \$44,430. The actual overstatement was \$60,370, which the Utility corrected in its May 2002 ECRC filing.

The Utility overstated its plant in service amounts in the ECRC filing for the Big Bend 3 FGD Optimization and Utilization project by \$150,088. The beginning of year balance was \$21,380,298, whereas the balance should have been \$21,230,210. Another \$390,468 was removed from recoverable costs because the costs were incurred before the FPSC had approved the project. The total is \$540,556, which will be removed in the 2003 ECRC filing.

The Gannon projects were understated by inaccurately calculating return on investment on the remaining balances net of depreciation instead of by the original amount. The difference in total will be an increase of \$29,617. This amount will be adjusted in the 2003 ECRC filing.

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 the ECRC revenue and agreed to the filing. Recomputed ECRC revenues using approved FPSC rates and Utility KWH sales.

EXPENSES: Compiled ECRC expenses and agreed to the filing. Tested invoices and supporting documentation for ECRC expenses.

CAPITAL INVESTMENT: Scheduled capital investment for the ECRC projects. Tested capital investment additions for ECRC projects. Reconciled depreciation used by the Utility to FPSC approved rates. Recomputed depreciation expense and accumulated depreciation. Agreed these amounts to the ECRC filing. Recalculated recoverable debt and equity costs on capital investments. Verified that the Utility is retiring the installed costs of replaced units of property and is not capitalizing the replacement of minor items of depreciable property. Determined the amount of capitalized payroll.

TRUE-UP: Recomputed ECRC true-up and interest with FPSC amounts and interest rates.

Audit Disclosure No. 1

Subject: Capital Expenditures - Previous Audit

Statement Of Fact: In 2001, the Utility was cited in the previous audit for an over recovery of plant additions on the Big Bend 3 Flue Gas Desulphurization unit of \$44,430.

Audit Opinion: The Utility determined that the actual over recovery had been \$60,370. The auditor verified the adjustment and found it to be correct. The correction was posted in May 2003.

Recommendation: Accept the Utility adjustment as satisfactory for ECRC cost recovery purposes.

Audit Disclosure No. 2

Subject: Understated ECRC Revenues

Statement Of Fact: The Utility bills its customers for environmental cost recovery, among other charges, based on electric usage using FPSC approved rate factors. The environmental revenues are recorded in the General Ledger under specific accounts and are reflected on the ECRC filing. In June, 2002, the Utility ECRC revenue accounts in the general ledger were greater than the ECRC cost recovery filing.

In June 2002 a commercial customer, IMC, purchased KWH for resale to another customer as a wholesale transaction classified as Optional Provision KWH. Optional Provision revenues are not recovered through the Environmental filing. Therefore, they are not booked into the General Ledger as Environmental Revenues. The Utility did not account for the effect of the wholesale transaction that was imbedded in the total optional provision for the month. Consequently, the Utility reduced the ECRC filing by the revenue effect of these KWH.

Utility staff stated an adjustment will be made in June 2003 filing to correct this error. Once this adjustment is made, the total ECRC filing revenues for 2003 will properly increase by \$20,536.

Audit Opinion: Accept the company's correction of this error in the 2003 filing.

Audit Disclosure No. 3

Subject: Adjustments to Big Bend and Gannon Environmental Cost Recovery Projects.

Statement Of Fact: The Utility stated its plant in service amount for the Big Bend FGD Optimization and Utilization project at the beginning of 2002 to be \$21,380,298. The amount was overstated by \$150,088 and should be \$21,230,210.

Further, the same project would be reduced by \$390,468 for expenditures incurred before receiving FPSC approval to institute the project.

The starting balances in 2001 of the four Gannon Station projects were incorrectly adjusted by the balances of accumulated depreciation for return on investment (ROI) purposes. The effect in 2002 increases ROI on the four Gannon projects from \$424,391 to \$454,008, or an increase of \$29,617.

Audit Opinion: The utility stated in a memorandum that the \$150,088 would be adjusted in 2003. In addition, \$390,468 of plant had been added to the project before FPSC approval was received. These amounts were added between March and July, 2000. The total to adjust would be \$540,556 before the inclusion of any interest in the true-up.

The statement by the Utility indicates that the Big Bend differences in 2002 will be adjusted in 2003, with associated adjustments to recoverable expenses (debt, equity and depreciation). Without any correction, the effect of the erroneous \$150,088 on debt, equity and depreciation in the ECRC filing incorrectly increases recoverable jurisdictional expense by \$10,544. The \$390,468 in unapproved additions would be the source of \$27,429 in improperly recovered jurisdictional costs.

The net effect of the Gannon difference, \$29,617, was substantiated by Utility work papers.

If no corrections are instituted in 2003, then the net effect of the difference in the Big Bend and Gannon projects would be to reduce recoverable costs by \$8,356.

Over-recovery associated with the \$150,088:	(\$10,544)
Over-recovery associated with the \$390,468:	(\$27,429)
Under-recovery associated with the \$454,008:	\$29,617
Net Over-Recovery	<u>(\$8,356)</u>

Parentheses indicate an unfavorable variance or an over-recovery.

Audit Disclosure No. 4

Subject: Capitalized Payroll

Statement Of Fact: The Utility added \$8,938,271 of fixed asset additions to its ECRC projects in 2002. Of this total, \$635,538 was capitalized payroll.

Audit Opinion: The audit staff noted that four ECRC projects had received additions to depreciable plant balances during 2002. These projects, their additions and their amounts of capitalized payroll were:

<u>Project Name</u>	<u>Total Plant</u>	<u>Capitalized Payroll</u>	<u>Percent of Payroll to Plant</u>
Big Bend FGD	\$857,952	\$11,032	1.29%
Big Bend NOx Reduction	\$2,508,377	\$247,901	9.88%
Big Bend Particulate Matter	\$5,340,826	\$285,140	5.34%
Polk Power NOx Reduction	\$231,116	\$91,265	39.49%
Total	<u><u>\$8,938,271</u></u>	<u><u>\$635,338</u></u>	<u><u>7.10%</u></u>

Recommendation: This disclosure is written to inform the Commission of the amount of payroll which was capitalized in 2002 and included in approved ECRC projects.

Tampa Electric Company
Environmental Cost Recovery Clause
Calculation of the Actual True-Up Amount for the Period
January 2002 to December 2002

Form 42 - 2A

Current Period True-Up Amount
(in Dollars)

Line	Actual Jan-02	Actual Feb-02	Actual Mar-02	Actual Apr-02	Actual May-02	Actual Jun-02	Actual Jul-02	Actual Aug-02	Actual Sep-02	Actual Oct-02	Actual Nov-02	Actual Dec-02	End of Period Total
1. ECRC Revenues (net of Revenue Taxes)	\$2,240,715	\$1,956,176	\$1,922,722	\$2,144,060	\$2,510,133	\$2,524,303	\$2,518,676	\$2,585,044	\$2,596,786	\$2,583,385	\$2,182,754	\$2,077,013	\$27,841,767
2. True-Up Provision	59,271	59,271	59,271	59,271	59,271	59,271	59,271	59,271	59,271	59,271	59,271	59,272	711,253
3. ECRC Revenues Applicable to Period (Lines 1 + 2)	2,299,986	2,015,447	1,981,993	2,203,331	2,569,404	2,583,574	2,577,947	2,644,315	2,656,057	2,642,656	2,242,025	2,136,285	28,553,020
4. Jurisdictional ECRC Costs													
a. O & M Activities (Form 42-5A, Line 9)	695,236	252,099	241,157	337,158	581,800	345,239	731,857	380,286	529,926	689,975	386,512	833,808	6,005,053
b. Capital Investment Projects (Form 42-7A, Line 9)	1,630,730	1,663,573	1,638,175	1,620,003	1,625,478	1,626,086	1,621,043	1,616,043	1,611,047	1,613,208	1,640,441	1,654,125	19,559,952
c. Total Jurisdictional ECRC Costs	2,325,966	1,915,672	1,879,332	1,957,161	2,207,278	1,971,325	2,352,900	1,996,329	2,140,973	2,303,183	2,026,953	2,487,933	25,565,005
5. Over/Under Recovery (Line 3 - Line 4c)	(25,980)	99,775	102,661	246,170	362,126	612,249	225,047	647,986	515,084	339,473	215,072	(351,648)	2,988,015
6. Interest Provision (Form 42-3A, Line 10)	(492)	(522)	(465)	(295)	67	696	1,208	1,733	2,517	2,991	2,863	2,379	12,680
7. Beginning Balance True-Up & Interest Provision	711,253	625,510	665,492	708,417	895,021	1,197,943	1,751,617	1,918,601	2,509,049	2,967,379	3,250,572	3,409,236	711,253
a. Deferred True-Up from January to December 2001 (Order No. PSC-02-1735-FOF-EI)	(1,001,138)	(1,001,138)	(1,001,138)	(1,001,138)	(1,001,138)	(1,001,138)	(1,001,138)	(1,001,138)	(1,001,138)	(1,001,138)	(1,001,138)	(1,001,138)	(1,001,138)
8. True-Up Collected/(Refunded) (see Line 2)	(59,271)	(59,271)	(59,271)	(59,271)	(59,271)	(59,271)	(59,271)	(59,271)	(59,271)	(59,271)	(59,271)	(59,272)	(711,253)
9. End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 8)	(375,628)	(335,646)	(292,721)	(106,117)	196,805	750,479	917,463	1,507,911	1,966,241	2,249,434	2,408,098	1,999,557	1,999,557
10. Adjustment to Period True-Up Including Interest	0	0	0	0	0	0	0	0	0	0	0	0	0
11. End of Period Total Net True-Up (Lines 9 + 10)	(\$375,628)	(\$335,646)	(\$292,721)	(\$106,117)	\$196,805	\$750,479	\$917,463	\$1,507,911	\$1,966,241	\$2,249,434	\$2,408,098	\$1,999,557	\$1,999,557

EXHIBIT NO. _____
DOCKET NO. 030007-EI
TAMPA ELECTRIC COMPANY
(HTB-1)
DOCUMENT NO. 2
PAGE 1 OF 1
FORM 42-2A
FILED: APRIL 1, 2003