

ORIGINAL



April 16, 2004

Ms. Blanca S. Bayo, Director
Division of Commission Clerk
And Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

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COMMISSION
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Re: Tampa Electric Company
Docket No. 040001-EI, Audit Re.: Capacity Cost Recovery
Audit Control No. 04-022-2-1

Dear Ms. Bayo:

Enclosed is Tampa Electric Company's response to your audit report, dated April 5, 2004, regarding capacity cost recovery in Docket No. 040001-EI.

Please let me know if you have any questions with respect to this matter.

Sincerely,

Angela L. Llewellyn
Administrator
Regulatory Affairs

- AUS _____
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Enclosure

cc: Lee L. Willis, Esq.

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FPSC-BUREAU OF RECORDS

TAMPA ELECTRIC COMPANY
P.O. BOX 111 TAMPA, FL 33601-0111

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TAMPA ELECTRIC COMPANY
 DOCKET NO. 040001-EI
 AUDIT: CAPACITY COST RECOVERY
 AUDIT CONTROL NO. 04-022-2-1
 AUDIT DISCLOSURE NO. 1
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Subject: Incremental Security Costs

1. Statement of Fact: In accordance with Commission Orders PSC-01-2516-FOF-EI and PSC-02-1761, the company has recorded an amount for incremental security costs in its 2003 Capacity Filing of \$214,722. These incremental costs were incurred by the company during the period January 2003 through December 2003.

In accordance with Commission Order PSC-03-1461-FOF-EI, utilities seeking recovery of incremental security costs through capacity clause shall provide a breakdown of those costs by project groups and identify any base rate items that were removed. Costs are not identified by project group rather by operating areas.

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</u>		<u>Net</u>
	<u>Balance</u>	<u>Incremental</u>	<u>Security</u>
2003	\$3,281,470	\$214,722	\$3,066,748

Recommendation: Based upon the security costs audit performed by the PSC staff in 2003, 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 equals \$3,166,884. We believe any costs greater than this amount should be considered incremental.

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

Using the average balance per staff computations, incremental costs for 2003 should not exceed \$114,586. This is less than the amount of \$214,722 recorded by the company, therefore the difference of \$100,136 between the staff computation and the company's computed balance should not be allowed.

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- A.** As stated, Tampa Electric recorded \$214,722 of incremental security costs in 2003 for costs incurred from January 2003 through December 2003. These costs were appropriately recorded pursuant to a stipulation of all parties in Docket No. 020001-EI that was approved by the Commission in Order No. PSC-02-1761-FOF-EI. Said stipulation provided for incremental costs to be determined by a comparison to the 2001 base year security costs incurred by the company, excluding the extraordinary costs that arose following the terrorist attacks of September 11, 2001.

The auditor recommends an alternate calculation of "incremental security costs." Although Tampa Electric understands the FPSC staff auditor's alternate calculation, the company believes that using this or any other alternate calculation would be inappropriate for the following reasons:

1. Such a change is contrary to the terms of the stipulation agreed to by all parties in this docket and approved by the Commission; and
2. Using a multi-year average to set the base year costs and to calculate future years' incremental costs would not accurately depict true incremental security costs.

Tampa Electric believes that incremental security costs should continue to be calculated as described by the terms of the stipulation referenced above.