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May 11, 2006

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

Re: Tampa Electric Company
Docket No. 060001-EI, Audit Purpose: Fuel Adjustment Clause
Audit Control No. 06-046-2-1

Dear Ms. Bayo:

Enclosed is Tampa Electric Company's response to the audit report, dated March 21, 2006, regarding fuel adjustment clause in Docket No. 060001-EI.

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

Sincerely,

Brenda L. Irizarry

Brenda L. Irizarry
Coordinator
Regulatory Affairs

Enclosure

cc: Lee L. Willis, Esq.

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TAMPA ELECTRIC COMPANY
DOCKET NO. 060001-EI
AUDIT: FUEL ADJUSTMENT CLAUSE
AUDIT CONTROL NO. 06-046-2-1
FILED: MAY 11, 2006
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SUMMARY: The company recorded separately billed and identifiable transmission costs to the Fuel Clause Filing instead of the Capacity Clause Filing.

STATEMENT OF FACT: During the analysis of the Company's Power Purchased - Firm (Schedule A-7), it was noted that Transmission Cost, from Progress Energy, though shown separately, was included in the Fuel Filing. Total Transmission cost billed by Progress Energy Florida to Tampa Electric Company totaled \$2,147,400.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: None

EFFECT ON FILING IF FINDING IS ACCEPTED: The effect upon the Fuel Filing is to decrease Fuel Cost of Purchased Power - Firm and Total Fuel Cost and Net Power Transactions by \$2,147,400. However, this adjustment would also increase total Capacity cost by \$2,147,400. The overall company-wide effect would be based upon the different separation factors used in Fuel and Capacity. Staff could not determine this effect.

- A. Tampa Electric agrees with the Staff auditor's Statement of Fact and has recalculated the impacts of reclassing the transmission charges from the fuel clause to the capacity clause. The net effect for retail customers of removing the transmission charges and associated interest from the fuel clause and including those charges in the capacity clause is (\$612). An entry will be made in May 2006, to correct the treatment of the transmission related charges from Progress Energy Florida and refund the \$612 difference to ratepayers.

**TAMPA ELECTRIC COMPANY
DOCKET NO. 060001-EI
AUDIT: FUEL ADJUSTMENT CLAUSE
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SUMMARY: The Company did not include O&M expenses, related to market based sales, when calculating its generation-related gains derived from non-separated wholesale energy sales to the fuel clause.

STATEMENT OF FACT: We prepared a schedule of monthly Power sales, using line items as shown in the Fuel Filing - Schedule A6 for 2005. Using a criteria of items greater than 150% of the annual average fuel cost, selected May, June and November for further analysis.

Using the Schedule A6, for selected months, we traced MWH Sold and Total \$ for Fuel Adjustment (fuel cost) for all Actual entries to company prepared schedule. We traced MWH Sold and Total Revenues from company prepared schedule to invoice. We determined that the fuel cost for Schedule-D sales included both fuel and O&M cost in accordance with Orders No. PSC-01-2371-FOF-EI and PSC-00-1744-PAA-EI. We ascertained that no gains resulted in Schedule D sales and determined that the fuel cost for Market Based (MA) sales included fuel cost only, contrary to PSC Orders No. PSC-01-2371-FOF-EI and PSC-00-1744-PAA-EI. Also determined that for Market Based sales, Total Revenues less SO2 plus Transmission dollars equaled Sales Price and Sales Price less Fuel Cost equaled Gain.

EFFECT UPON GENERAL LEDGER IF FINDING IS ACCEPTED: None

EFFECT UPON FILING IF FINDING IS ACCEPTED: The amount of incremental O&M cost cannot be quantified by staff

- A. Tampa Electric does not agree with the Staff Auditor's Statement of Fact related to Schedule A6. Tampa Electric does credit its operating revenues on its market based sales for an amount equal to the incremental operating and maintenance cost of generating the energy for each such sale in accordance with FPSC Orders No. PSC-01-2371-FOF-EI and PSC-00-1744-PAA-EI. The fuel costs appropriately reflect only the fuel costs as stated by the Staff auditor; however, the gains on market based sales which also flow back through the clause are adjusted by removing the incremental O&M associated with the market based sales. Adjusting the gain serves to effectively credit operating revenues for the incremental O&M. TEC does agree with the Staff auditor that the jurisdictional D sales do include both fuel and incremental O&M costs, however, TEC did not credit operating revenues for the incremental O&M associated with those sales. Starting in 2006, TEC has begun crediting operating revenues associated with jurisdictional D sales. The net effect in 2005 of not crediting operating revenues for jurisdictional D sales was \$42,050.