

State of Florida



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Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE: November 7, 2008
TO: George J. Slemkewicz, Public Utilities Supervisor, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *DN*
RE: Docket No: 080317-EI; Company Name: Tampa Electric Company;
Audit Purpose: Rate Case Audit; Company Code: EI806;
Audit Control No: 08-234-2-1;

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 a response to the Office of the Commission Clerk. There are confidential work papers associated with this audit.

DNV/tbm

Attachment: Audit Report

CC: Division of Regulatory Compliance (Salak, Mailhot, Harvey,
District Offices, File Folder)
Office of Commission Clerk (2)
General Counsel
Office of Public Counsel

Ms. Paula K. Brown
Tampa Electric Company
P.O. Box 111
Tampa, FL 33601-0111

L. Willis/ J. Beasley/ K. Hart/ J. Wahlen
Ausley Law Firm
P. O. Box 391
Tallahassee, FL 32302

DOCUMENT NUMBER-DATE

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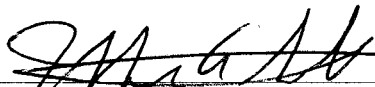


FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING

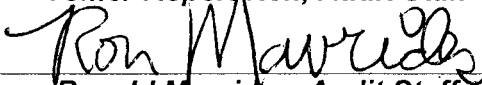
Tampa District Office


TAMPA ELECTRIC COMPANY
PETITION FOR RATE INCREASE
TEST YEAR ENDED DECEMBER 31, 2007

DOCKET NO. 080317-EI
AUDIT CONTROL NO. 08-234-2-1


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DOCUMENT NUMBER-DATE

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**DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT**

October 31, 2008

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated August 21, 2008. We have applied these procedures to the attached schedules prepared by Tampa Electric Company in support of its Petition for Rate Increase in Docket No. 080317-EI.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES

RATE BASE

General

Objective: To determine that the utility's rate base filing represents the recorded results from continuing operations.

Procedures: We reconciled the following individual component rate base balances to the utility's general ledger as of December 31, 2007. We verified utility adjustments to rate base balances and reconciled the adjustments to the utility's other Commission filings during the test year or to the Commission rule or prior order that required the specific adjustment.

Plant-in-Service (PIS)

Objective: To determine that property exists and is owned by the utility. To determine that additions to PIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the FERC Uniform System of Accounts. To determine that the proper retirements of PIS were made when a replacement item was put in service. To determine the 13-month average balances for each PIS account.

Procedures: We verified, based on a sample of utility plant additions, retirements and adjustments for select PIS accounts, that the company's PIS is properly recorded per the objectives stated above for the period January 1, 1992 through December 31, 2007. We recalculated a sample of 13-month average balances for selected PIS accounts.

Property Held for Future Use (PHFU)

Objective: To determine the nature and purpose of properties recorded as PHFU and to disclose material additions or changes to the company's planned use for such properties.

Procedures: We verified, based on a sample of utility PHFU balances, the utility's PHFU balance as of December 31, 2007. We reviewed utility documents describing the planned use of additions to PHFU since its last rate proceeding and inquired about changes to the company's planned use for existing PHFU properties. We recalculated the 13-month average balances for PHFU.

Construction Work in Process (CWIP)

Objective: To determine the nature and purpose of utility projects recorded as CWIP. To determine that CWIP projects that are eligible to accrue allowance-for-funds-used-during-construction (AFUDC) are excluded from utility rate base pursuant to Rule 25-6.0141, F.A.C.

Procedures: We verified, based on a sample of utility CWIP projects, the utility's CWIP balance as of December 31, 2007. We reviewed utility documents describing each CWIP project sampled to determine whether it was eligible to accrue AFUDC. We verified that CWIP projects accruing AFUDC were not included in rate base for this proceeding. We recalculated the 13-month average balances for CWIP.

Working Capital

Objective: To determine that the utility's working capital balance is properly calculated in compliance with Commission rules and is consistent with the prior rate case, Commission Order No. PSC-93-0165-FOF-EI, issued February 2, 1993. To determine that the utility is in compliance with the provisions of Rule 25-6.0143, F.A.C. – Use of Accumulated Provision Accounts.

Procedures: We verified, based on a sample of utility transactions for select working capital accounts, that the utility's working capital balance is properly stated, utility in nature, non-interest bearing, does not include non-utility items and is consistent with the order cited above. We verified, based on a sample of utility transactions, that the accumulated provision accounts year end balances comply with the Commission rule cited above. We recalculated a sample of 13-month average balances for select working capital accounts.

Accumulated Depreciation

Objective: To determine that accruals, retirements and adjustments to accumulated depreciation are properly recorded in compliance with Commission rules and the FERC Uniform System of Accounts.

Procedures: We verified, based on a sample of utility transactions for select accumulated depreciation reserves, that the accumulated depreciation is properly recorded per the objectives stated above for the period January 1, 1992 through December 31, 2007. We recalculated a sample of 13-month average balances for selected reserve accounts.

NET OPERATING INCOME

General

Objective: To determine that the utility's filing represents its recorded results from continuing operations.

Procedures: We reconciled the following individual component net operating income balances to the utility's general ledger as of December 31, 2007. We verified utility adjustments to net operating income balances and reconciled the adjustments to the utility's other Commission filings during the test year or to Commission rules or prior orders that required the specific adjustment.

Revenues

Objective: To determine that revenues are properly calculated and recorded in compliance with Commission rules and are based on the utility's Commission approved tariff rates.

Procedures: We reconciled utility revenues for the 12-month period ended December 31, 2007 to the general ledger. We reviewed the Commission audits of the utility's cost recovery clauses for the historical test year, which included recalculations of a sample of customer bills, to ensure that the utility was using the rates authorized in its approved tariff and displayed in its filing. We verified that unbilled revenues were calculated correctly.

Operation and Maintenance Expenses (O&M)

Objective: To determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

Procedures: We verified, based on a sample of utility transactions for select O&M expense accounts, that utility O&M expense balances are adequately supported by source documentation, prudent, utility in nature and do not include non-utility items and are recorded consistent with Commission rules. We reviewed additional samples of utility advertising expenses, legal fees, outside service expenses, sales expenses, customer service expenses and administrative and general service expenses to ensure that amounts supporting non-utility operations were removed. We reviewed intercompany allocations and charges between affiliated companies and non-utility operations to determine if expenses were allocated pursuant to Rule 25-6.1351 F.A.C.

Depreciation Expense

Objective: To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of PIS assets for ongoing utility operations. To determine that historical test year depreciation expense accruals are calculated using the Commission authorized rates in Order No. PSC-08-0014-PAA-EI, issued January 4, 2008, in the utility's last depreciation docket.

Procedures: We recalculated a sample of depreciation expense accruals for the historical test year to verify that the utility is using the correct depreciation rates authorized in the order cited above.

Taxes-Other-Than-Income (TOTI)

Objective: To determine that taxes other than income tax expense is properly recorded in compliance with Commission rules.

Procedures: We verified, based on a sample of utility transactions for select TOTI accounts, that utility TOTI expense balances are adequately supported by source documentation and are recorded consistent with Commission rules.

CAPITAL STRUCTURE

General

Objective: To determine the components of the utility's capital structure and that the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules and that it accurately represents the ongoing utility operations. To determine that utility's capital structure adjustments are appropriate and correspond to the utility's rate base adjustments in the filing

Procedures: We reconciled the following individual component capital structure balances to the utility's general ledger as of December 31, 2007. We verified that non-utility assets supported by the utility's capital structure were removed and that the capital structure adjustments reconciled with the rate base adjustments in the

filing. We recalculated the 13-month average balances and the weighted average cost of capital for the utility's historical test year capital structure.

Equity

Objective: To determine that owners' equity balances represent actual equity of the utility and that they are properly recorded in compliance with Commission rules.

Procedures: We traced equity balances to the general ledger. We verified retained earnings by reconciling a sample of dividend distributions to the dividend declarations of the TEC Board of Directors.

Long-Term-Debt

Objective: To determine that long-term debt balances represent actual obligations of the utility and that they are properly recorded in compliance with Commission rules.

Procedures: We traced the long-term debt balances and the unamortized loss on reacquired debt balance to the original documents and verified the terms, conditions, redemption provisions and interest rates for each bond or note payable. We recalculated the weighted average cost of long-term debt.

Short-Term-Debt

Objective: To determine that short-term debt balances represent actual obligations of the utility and that they are properly recorded in compliance with Commission rules.

Procedures: We traced the short-term debt balances to supporting documents and verified the terms, conditions and interest rates for an affiliated account receivable securitization balance. We verified the average cost of short-term debt. We traced the computation of the average cost of short-term debt to utility documentation.

Customer Deposits

Objective: To determine that customer deposit balances represent actual obligations of the utility and are properly recorded in compliance with Commission rules.

Procedures: We reconciled the customer deposit balances to the general ledger. We reviewed and accepted a Commission audit report issued March of 2007¹ that determined the utility is in substantial compliance with Commission rules regarding customer deposit policies and procedures.

Accumulated Deferred Taxes

Objective: To determine that accumulated deferred income taxes are properly stated and calculated based on the recorded differences between utility book and taxable income.

Procedures: We reconciled the deferred tax balances to the general ledger and to the utility's federal tax returns. We verified that the deferred tax balances included the capture of bonus depreciation that was available in the applicable tax years.

¹ *Review of Customer Deposit Procedures of Florida's Five Investor Owned Utilities*, issued by the Division of Competitive Markets and Enforcement in March 2007.

EXHIBIT 1

SCHEDULE B-1

ADJUSTED RATE BASE

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FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION:

Provide a schedule of the 13-month average adjusted rate base for the test year, prior year and the most recent historical year. Provide the details of all adjustments on Schedule B-2.

Type of data shown:

Projected Test Year Ended 12/31/2009

Projected Prior Year Ended 12/31/2008

XX Historical Prior Year Ended 12/31/2007

Witness: J.S. Chronister/W.R. Ashburn

COMPANY: TAMPA ELECTRIC COMPANY

DOCKET No. 080317-EI

Line No.	(1) Plant in Service	(2) Accumulated Provision for Depreciation and Amortization	(3) Net Plant in Service (1-2)	(4) CWIP	(5) Plant Held for Future Use	(6) Nuclear Fuel No AFUDC (Net)	(7) Net Utility Plant	(8) Working Capital Allowance	(9) Other Rate Base Items	(10) Total Rate Base	
1											
2	Utility per Books	\$ 6,141,456	\$ 1,940,434	\$ 3,201,022	\$ 272,925	\$ 37,970	\$ -	\$ 3,511,917	\$ 63,584	\$ -	\$ 3,575,501
3											
4	Separation Factor	<u>0.972945</u>	<u>0.973178</u>	<u>0.972803</u>	<u>0.980692</u>	<u>0.970664</u>	-	<u>0.973395</u>	<u>0.991140</u>	-	<u>0.973710</u>
5											
6	Jurisdiction Utility	5,062,353	1,888,388	3,113,965	267,655	38,861	-	3,418,481	63,021	-	3,481,502
7											
8	Commission Adjustments	(183,140)	(37,028)	(146,121)	(91,420)	-	-	(237,541)	(142,595)	-	(380,136)
9											
10	Company Adjustments	-	-	-	-	-	-	-	-	-	-
11											
12	Total Adjustments	<u>(183,140)</u>	<u>(37,028)</u>	<u>(146,121)</u>	<u>(91,420)</u>	<u>-</u>	<u>(237,541)</u>	<u>(142,595)</u>	<u>-</u>	<u>(380,136)</u>	
13											
14	Jurisdictional Utility	<u>\$ 4,819,204</u>	<u>\$ 1,851,360</u>	<u>\$ 2,967,844</u>	<u>\$ 176,235</u>	<u>\$ 38,861</u>	<u>\$ -</u>	<u>\$ 3,180,840</u>	<u>\$ (79,574)</u>	<u>\$ -</u>	<u>\$ 3,101,368</u>
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41	Totals may be affected due to rounding										
	Supporting Schedules: B-2, B-3, B-6										
	Recap Schedules: A-1										

EXHIBIT 2

SCHEDULE C-1

ADJUSTED JURISDICTIONAL NET OPERATING INCOME

Page 3 of 3

FLORIDA PUBLIC SERVICE COMMISSION EXPLANATION: Provide a calculation of jurisdictional net operating income for the test year, the prior year and the most recent historical year.

Type of data shown:
 Projected Test Year Ended 12/31/2009
 Projected Prior Year Ended 12/31/2008
 XX Historical Prior Year Ended 12/31/2007
 Witness: J.S. Chronister/W.R. Ashburn

COMPANY: TAMPA ELECTRIC COMPANY

DOCKET No. 080317-EI

Line No.	(1) Plant in Service	(2) Non-Electric Utility	(3) Total Electric (1-2)	(4) Jurisdictional Factor	(5) Jurisdictional Amount (3) x (4)	(6) Commission Jurisdictional Adjustments (Schedule C-2)	(7) Company Jurisdictional Adjustments (Schedule C-2)	(8) Adjusted Jurisdictional Amount (5) + (6)
1								
2								
3	\$ 2,111,724	\$ -	\$ 2,111,724	0.971173	\$ 2,050,849	\$ (1,238,371)	\$ -	\$ 812,478
4	76,708							
5	-	-	76,708	0.975909	74,860	(36,635)	-	38,225
6								
7	2,188,432	-	2,188,432		2,125,709	(1,275,006)	-	850,703
8								
9	317,439	-	317,439	0.975724	309,733	(6,531)	-	303,202
10								
11	857,368	-	857,368	0.962736	825,419	(821,613)	-	3,806
12								
13	271,937	-	271,937	0.964411	262,259	(259,983)	-	2,276
14								
15	90,495	-	90,495	1.001105	90,595	(90,595)	-	-
16								
17	178,586	-	178,586	0.973531	173,859	(5,107)	-	168,752
18								
19	140,366	-	140,366	0.990268	139,000	(88,019)	-	50,981
20								
21	85,201	1,429	83,772	0.982942	82,343	1,433	-	83,776
22								
23	(1,891)	-	(1,891)	0.973030	(1,840)	-	-	(1,840)
24								
25	1,939,501	1,429	1,938,072		1,881,368	(1,270,416)	-	610,952
26								
27	\$ 248,931	\$ (1,429)	\$ 250,360		\$ 244,341	\$ (4,589)	\$ -	\$ 239,752

41 Totals may be affected due to rounding
 Supporting Schedules: C-2, C-4, C-8

Recap Schedules: A-1

EXHIBIT 3

SCHEDULE D-1a

COST OF CAPITAL - 13-MONTH AVERAGE

Page 3 of 3

FLORIDA PUBLIC SERVICE COMMISSION EXPLANATION: Provide the company's 13-month average cost of capital for the test year, prior year and the historical base year.

Type of data shown:
 Projected Test Year Ended 12/31/2009
 Projected Prior Year Ended 12/31/2008
 XX Historical Prior Year Ended 12/31/2007
 Witness: J.S. Chronister/G.L. Gillette/W.R. Ashburn

COMPANY: TAMPA ELECTRIC COMPANY

DOCKET No. 080317-EI

Line No.		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Company Total Per Books	Specific Adjustments	Pro-Rata Adjustments	System Adjusted	Jurisdictional Factor	Jurisdictional Capital Structure	Ratio	Cost Rate	Weighted Cost Rate
1										
2	Long Term Debt	\$ 1,638,241	\$ (24)	\$ (191,866)	\$ 1,446,351	0.973350	\$ 1,407,803	45.39%	6.43%	2.92%
3										
4	Short Term Debt	17,324	-	(2,029)	15,295	0.973350	14,887	0.48%	3.68%	0.02%
5										
6	Customer Deposits	99,885	-	(11,698)	88,187	0.973350	85,837	2.77%	6.04%	0.17%
7										
8	Preferred Stock	-	-	-	-	0.973350	-	0.00%	0.00%	0.00%
9										
10	Common Equity	1,460,034	2,501	(171,290)	1,291,245	0.973350	1,256,830	40.53%	11.75%	4.76%
11										
12	Deferred Income Taxes	366,044	11,733	(44,245)	333,532	0.973350	324,643	10.47%	0.00%	0.00%
13										
14	Tax Credits - Zero Cost	-	-	-	-	0.973350	-	0.00%	0.00%	0.00%
15										
16	Tax Credits - Weighted Cost	13,228	(2)	(1,549)	11,677	0.973350	11,366	0.37%	8.94%	0.03%
17										
18		<u>\$ 3,594,756</u>	<u>\$ 14,208</u>	<u>\$ (422,677)</u>	<u>\$ 3,186,287</u>		<u>\$ 3,101,366</u>	100.00%		<u>7.90%</u>
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41	Totals may be affected due to rounding									

Supporting Schedules:

Recap Schedules: A-1