

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 21, 2010
TO: John Slemkewicz, Public Utilities Supervisor, Division of Economic Regulation
FROM: Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CP*
RE: Docket No.: 090368-EI
Company Name: Tampa Electric Company
Company Code: EI806
Audit Purpose: Verify the actual costs of the 5 Combustion Turbines
Audit Control No: 10-146-2-1

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 Commission Clerk. There were confidential work papers associated with this audit.

CP/ip

Attachment: Audit Report

cc: (With Attachment)
Office of Auditing and Performance Analysis (Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER-DATE

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State of Florida



FLORIDA PUBLIC SERVICE COMMISSION

*OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE

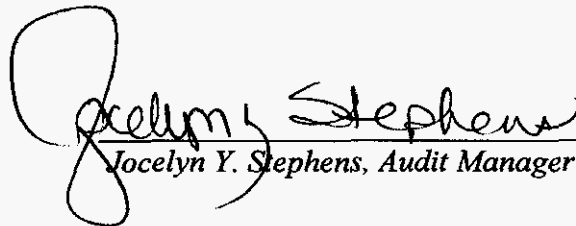
TAMPA ELECTRIC COMPANY

COSTS VERIFICATION - COMBUSTION TURBINES

SEPTEMBER 01, 2009 – MAY 31, 2010

DOCKET NO. 090368-EI

AUDIT CONTROL NO. 10-146-2-1


Jocelyn Y. Stephens, Audit Manager


Linda Hill-Slaughter, Tampa District Supervisor

DOCUMENT NUMBER-DATE

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TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES.....	2
III. AUDIT FINDINGS	
COST OF COMBUSTION TURBINES.....	4
SUCCESS SHARING AND CONSTRUCTION FRINGE COMPUTATIONS.....	5
IV. EXHIBIT	
SUMMARY OF COSTS BY PROJECT.....	6

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS

AUDITOR'S REPORT

June 14, 2010

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Tampa Electric Company (TECO) in support of its verification of costs for the five combustion turbines outlined in Docket No. 090368-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 and the report is intended only for internal Commission use.

OBJECTIVES AND PROCEDURES:

Objectives

Verify the actual costs of each combustion turbine (CT) on a system and jurisdictional basis.
Verify the actual in-service date for each combustion turbine.

Procedures

Using the General Ledger Detail, we performed an analysis of the CT cost that were charged by subcontractors for the period September 1, 2009 through May 31, 2010 to Bayside 3 & 4 (FERC A/C H22), Bayside 5 & 6 (FERC A/C H21) and Big Bend 4 (FERC A/C H23). See Audit Finding No. 1 for a schedule of Total CT costs through May 31, 2010.

On a test basis, we traced selected costs to contractors' invoices. No variances were noted.

On a test basis, we matched current month reversals to prior month accruals.

We tested payroll Construction Fringe and Success Sharing amounts for accurate computations based upon payroll charges recorded in the CT general ledger accounts and payroll loading factors that were provided by the company for the years 2009 and 2010. See Audit Finding No. 2 for additional information.

We recalculated selected adjustments to AFUDC. We determined that these adjustments were based upon the change in equity rate from 7.79% to 8.16% on CWIP balances for the period May, 2009 – October, 2009.

We obtained formal documentation of in-service dates for the five CT units.

We reconciled the CT costs recorded in the general ledger to the amounts included in the testimony given by TECO witness J. Hornick (page 30).

We determined the basis of the remaining forecasted costs of the Combustion Turbine units through December 31, 2010.

AUDIT FINDING NO. 1

SUBJECT: COST OF COMBUSTION TURBINES

STATEMENT OF FACT:

We performed an audit to verify actual cost of each CT turbine on a system and jurisdictional basis, as of May 31, 2010. During our audit, we determined that the company has incurred asset cost for each of the turbines as follows:

SUMMARY OF COSTS BY PROJECT (a)

<u>Project No.</u>	<u>Project Description</u>	<u>In-Service Dates</u>	<u>Total Costs Incurred 8/31/2009</u>	<u>Add'l Cost for the period 9/1-5/31/10</u>	<u>Total Cost To Date</u>	<u>Revised Projected Cost @ 5/31/10</u>	<u>Cost (Over)/Under Projection(a)</u>
H22	BAYSIDE CT 3 & 4	July, 2009	\$ 57,808,585	\$ 302,889	\$ 58,111,474	\$ 58,114,467	\$ 2,993
H21	BAYSIDE CT 5&6	April, 2009	95,738,049	4,440,220	100,178,269	100,198,583	20,314
H23	BIG BEND CT 4	August, 2009	39,104,926	2,789,022	41,893,948	41,901,191	7,243
TOTAL			<u>\$ 192,651,559</u>	<u>\$ 7,532,131</u>	<u>\$ 200,183,690</u>	<u>\$ 200,214,241</u>	<u>\$ 30,551</u>

Notes:

(a) Cost of Removal is not included

(b) This amount is projected to cover the following costs:

	<u>Approximate Amounts</u>
Property Record Charges & NERC related to T&D	\$ 15,000
Billing Contingencies (not expected to be used)	\$ 5,000
Company charges to be assessed (PR,Mtl,Veh)	\$ 10,500

In addition to the asset cost, the company has provided a schedule of Cost of Removal of the existing plant associated with the CT construction. The total removal costs, as of May 31, 2010, are shown below.

Cost of Removal at May 31, 2010

	<u>Activity</u>	<u>Grand Total</u>
BS 5&6	W21	\$ 991,751
BS 3&4	W22	212,599
BB 4	W23	25,223
	<u>Grand Total</u>	<u>\$ 1,229,574</u>

Total system cost (including Cost of Removal) associated with the five combustion turbines, at May 31, 2010, is \$201,413,263. Using a jurisdictional factor of 96.3129 percent, total jurisdictional costs (including Cost of Removal) associated with the five combustion turbines, at May 31, 2010, is \$193,992,997. Computations are shown below.

SUMMARY OF COSTS BY PROJECT

<u>Project Description</u>	<u>Total</u>	<u>Cost of</u>	<u>Total</u>	<u>Juris-</u>	<u>Jurisdictional</u>	
	<u>Asset Cost</u>	<u>Removal</u>	<u>Cost</u>		<u>dictional</u>	<u>Amount</u>
	<u>5/31/2010</u>	<u>5/31/2010</u>	<u>5/31/2010</u>	<u>Factor</u>	<u>Asset Cost</u>	<u>Total Cost</u>
BAYSIDE CT 3 & 4	\$ 58,111,474	\$ 212,599	\$ 58,324,073	0.963159	\$ 55,970,589	56,175,355
BAYSIDE CT 5&6	100,178,269	991,751	101,170,020	0.963159	96,487,601	97,442,815
BIG BEND CT 4	41,893,948	25,223	41,919,171	0.963159	40,350,533	40,374,826
	<u>\$ 200,183,690</u>	<u>\$ 1,229,573</u>	<u>\$ 201,413,263</u>		<u>\$ 192,808,723</u>	<u>\$ 193,992,997</u>

The above cost differs from the testimony provided by TECO witness, J. Hornick due to the time period used. Hornick's testimony is as of February 28, 2010 and includes:

\$ 200,248,687	Asset Cost
1,215,893	Cost of Removal
<u>\$ 201,464,580</u>	<u>Total Cost (System)</u>

Based upon the jurisdictional factor provided by the company of 96.3159 percent, we determined the jurisdictional amount of the total CT cost (including cost of removal) provided in Hornick's testimony to be \$194,042,423 [\$201,464,580 X 96.3159%] as of February 28, 2010.

AUDIT FINDING NO. 2

SUBJECT: CONSTRUCTION FRINGE AND SUCCESS SHARING COMPUTATIONS

STATEMENT OF FACT:

In our analysis of payroll cost, we applied the payroll loading factors for construction fringe and for success sharing to the payroll dollars charged to the CT projects for September, 2009 through May, 2010. We noted discrepancies between amounts recorded in the general ledger and amounts computed by staff.

The company provided the following explanation to account for the calculated differences.

"The company processes payroll on a bi-weekly basis. These bi-weekly labor charges receive the full 36 percent and 40 percent fringe rate allocation.

Due to accounting rules, payroll must be charged to the end of the calendar month. In order to stay in compliance with GAAP, the company posts an accrual of labor and fringe in the current month. In the following month, the accrual is reversed.

The accrual and reversal transactions do not allocate the performance-sharing component, which is embedded in the full 36 percent and 40 percent.

This creates slight variances (over / under) in the reperformance of a tie-back calculation of the full fringe rate done at the project level.

In this case, a tie-back calculation done at the journal entry level would separate the bi-weekly activity from the accrual/reversal transaction and would indicate the rate differential."

During the prior audit of CT costs, we performed an analysis of payroll and payroll loading factors. No differences were noted when the staffs' computation of payroll cost times payroll factors was compared to the payroll loading amounts recorded in the general ledger.

Because of the time limitations of audit field work and immaterial amounts of the payroll loading differences, we did not perform additional audit work to verify the company's response on the payroll loading costs.

EXHIBIT

Tampa Electric Company Combustion Turbine Cost

SUMMARY OF COSTS BY PROJECT (Staff) @ May 31, 2010

Project No.	Project Description	Total	Cost to	Total	Jurisdictional Factor	Jurisdictional Amount	
		Asset Cost 5/31/2010	Remove 5/31/2010	Cost 5/31/2010		Asset Cost	Total Cost
H22	BAYSIDE CT 3 & 4	58,111,474	212,599	58,324,073	0.963159	55,970,589	56,175,355
H21	BAYSIDE CT 5&6	100,178,269	991,751	101,170,020	0.963159	96,487,601	97,442,815
H23	BIG BEND CT 4	41,893,948	25,223	41,919,171	0.963159	40,350,533	40,374,826
		<u>200,183,690</u>	<u>1,229,573</u>	<u>201,413,263</u>		<u>192,808,723</u>	<u>193,992,997</u>

SUMMARY OF COSTS BY PROJECT (TECO Witness J. Hornick) @ February 28, 2010

Project No.	Project Description	Total	Cost to	Total	Cost Jurisdictional Factor	Jurisdictional Amount	
		Asset Cost 2/28/2010	Remove 2/28/2010	Cost 2/28/2010		Asset Cost	Total Cost
H22	BAYSIDE CT 3 & 4	58,107,648	212,599	58,320,247	0.963159	55,966,904	56,171,671
H21	BAYSIDE CT 5&6	100,189,752	984,294	101,174,046	0.963159	96,498,661	97,446,693
H23	BIG BEND CT 4	41,951,287	18,999	41,970,286	0.963159	40,405,760	40,424,059
		<u>200,248,687</u>	<u>1,215,892</u>	<u>201,464,579</u>		<u>192,871,325</u>	<u>194,042,422</u>