

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Tampa Electric Company
Petition for Rate Increase

Twelve Months Ended December 31, 2012

Docket No. 130040-EI
Audit Control No. 13-105-2-1
June 28, 2013

A handwritten signature in blue ink, appearing to read "Jeffery A. Small".

Jeffery A. Small
Audit Manager

A handwritten signature in blue ink, appearing to read "Debra M. Dobiac".

Debra M. Dobiac
Audit Staff

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Ronald Mavrides
Audit Staff

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Linda Hill-Slaughter
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economics in its audit service request dated April 22, 2013. We have applied these procedures to the attached schedules prepared by Tampa Electric Company in support of its filing for rate relief in Docket No. 130040-EI.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

TEC/Utility refers to Tampa Electric Company

TECO/Parent refers to TECO Energy, Inc.

FERC refers to the Federal Energy Regulatory Commission

USoA refers to the FERC Uniform System of Accounts as adopted by Commission Rule 25-6.014 – Records and Reports in General, Florida Administrative Code. (F.A.C.)

Background

Tampa Electric Company filed a petition for a permanent rate increase on February 4, 2013. The Utility is engaged in business as a public utility providing electric service as defined in Section 366.02, Florida Statutes (F.S.), and is subject to our jurisdiction. TECO provides generation, transmission, and distribution service to approximately 684,000 retail customers in Hillsborough and portions of Polk, Pasco and Pinellas counties.

The Utility's last petition for rate relief was granted in Docket No. 080317-EI, in Order No. PSC-09-0283-FOF-EI, Petition for Rate Increase, issued April 30, 2009, and in Order No. PSC-09-0571-FOF-EI, Motion on Reconsideration, issued August 21, 2009, Those orders established and reaffirmed historical rate base and capital structure balances for the Utility as of December 31, 2007.

Objectives: The objectives in this proceeding were to determine whether the Utility's 2012 historic year end filing in Docket No. 130040-EI is consistent and in compliance with Section 366.06 – Rates, Procedures for Fixing and Changing, Florida Statutes (F.S.), and Commission Rule 25-6.043 – Investor Owned Electric Utility Minimum Filing Requirements, F.A.C.

Procedure: We performed the following specific objectives and procedures to satisfy the overall objective identified above.

Rate Base

Plant in Service (PIS)

Objectives: The objectives were to determine whether, PIS exists and is owned by the utility, additions are authentic and recorded at original cost, proper retirements were made when a replacement asset was put in service, PIS is properly classified in compliance with the USoA, and, to recalculate the 13-month average balance for PIS as of December 31, 2012.

Procedures: We verified, based on a sample of PIS additions, retirements and adjustments for selected plant accounts, that the Utility's PIS is properly recorded for the period January 1, 2008 through December 31, 2012. We recalculated a sample of 13-month average balances for PIS included in the filing. No exceptions were noted.

Property Held for Future Use (PHFU)

Objectives: The objectives was to determine the nature and purpose of utility properties recorded as PHFU and to disclose material additions or changes to the company's planned use for such properties, and, to recalculate the 13-month average balance for PHFU as of December 31, 2012.

Procedures: We verified, based on a sample of PHFU properties presented in the filing, that the PHFU balance is properly stated as of December 31, 2012. We reviewed documents describing the planned use for properties in our sample and inquired about changes in use for existing properties. We recalculated a sample of 13-month average balances for PHFU included in the filing. No exceptions were noted.

Construction Work in Progress (CWIP)

Objectives: The objectives were to determine the nature and purpose of utility projects recorded as CWIP, and, whether projects that are eligible to accrue allowance for funds used during construction (AFUDC) are excluded from rate base pursuant to Commission Rule 25-6.0141, F.A.C. – Allowance for Funds Used During Construction, and, to recalculate the 13-month average balance for CWIP as of December 31, 2012.

Procedures: We verified, based on a sample of CWIP projects included in the filing, that the CWIP balance is properly stated as of December 31, 2012. We reviewed utility documents describing each project sampled to determine whether it was eligible to accrue AFUDC. We verified that projects accruing AFUDC were not included in rate base in the filing. We recalculated a sample of 13-month average balances for CWIP included in the filing. No exceptions were noted.

Accumulated Depreciation (AD)

Objectives: The objectives were to determine whether accruals, retirements and adjustments to accumulated depreciation are properly recorded in compliance with the USoA, and to verify that the Utility used the depreciation rates established in Commission Order No. PSC-12-0175-PAA-EI – Petition for Approval of 2011 Depreciation Study and Annual Dismantlement Accrual Amounts by Tampa Electric Company, issued April 3, 2012, and, to recalculate the 13-month average balance for AD as of December 31, 2012.

Procedures: We verified, based on a sample of selected AD accounts, that the AD is properly recorded for the period January 1, 2008 through December 31, 2012, and, the Utility properly restated and used the depreciation rates approved in the order cited above. We recalculated a sample of 13-month average balances for selected AD accounts included in the filing. No exceptions were noted.

Working Capital (WC)

Objectives: The objectives were to determine whether the WC account balances are properly stated based on Commission adjustments in the prior rate case in Order No. PSC-09-0283-FOF-EI, and the provisions of Commission Rule 25-6.0143, F.A.C. – Use of Accumulated Provision Accounts, and, to recalculate the 13-month average balance for WC as of December 31, 2012.

Procedures: We verified, based on a sample of selected accounts, that the WC 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 selected accounts, 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 selected WC accounts included in the filing. No exceptions were noted.

Capital Structure

Equity

Objectives: The objectives were to determine whether equity account balances represent actual equity and are properly recorded in compliance with the USoA, and, to recalculate the 13-month average balance for equity as of December 31, 2012.

Procedures: We traced the equity account balances to the general ledger. We verified retained earnings by reconciling a sample of dividend distributions to the dividend declarations of the TECO Board of Directors. We recalculated the 13-month average balance for equity included in the filing. No exceptions were noted.

Long Term Debt (LTD)

Objectives: The objectives were to determine whether long-term debt balances represent actual obligations of the utility and are properly recorded in compliance with the USoA, and, to recalculate the 13-month average balance for LTD as of December 31, 2012.

Procedures: We reconciled the LTD balance to the general ledger. We traced the LTD obligations 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 sampled and verified the cost of LTD. We recalculated the average cost rate and the 13-month average balance for LTD included in the filing. No exceptions were noted.

Short Term Debt (STD)

Objectives: The objectives were to determine whether STD balances represent actual obligations of the utility and that they are properly recorded in compliance with the USoA, and, to recalculate the 13-month average balance for STD as of December 31, 2012.

Procedures: We reconciled the STD balance to the general ledger. We traced the STD obligations to the supporting documents. We verified the average cost of STD. We recalculated the average cost rate and the 13-month average balance for STD included in the filing. No exceptions were noted.

Customer Deposits (CD)

Objectives: The objectives were to determine whether CD balances represent actual obligations of the utility and are properly recorded in compliance with the USoA, and, to recalculate the 13-month average balance for CD as of December 31, 2012.

Procedures: We reconciled the CD balance to the general ledger. We inquired and verified that the Utility is collecting, refunding and paying interest on CD based on Commission Rule 25-6.097 – Customer Deposits.. We recalculated the average cost rate and the 13-month average balance for CD included in the filing. No exceptions were noted.

Accumulated Deferred Taxes (ADIT)

Objectives: The objectives were to determine whether ADIT are properly stated and calculated based on the recorded differences between utility book and taxable income, and, to recalculate the 13-month average balance for ADIT as of December 31, 2012.

Procedures: We reconciled the ADIT balances to the general ledger and to the federal tax returns. We recalculated the 13-month average balance included in the filing. No exceptions were noted.

Investment Tax Credits (ITC)

Objectives: The objectives were to determine whether ITC are properly stated and reflect realized tax credits, and, to recalculate the 13-month average balance for ITC as of December 31, 2012.

Procedures: We reconciled the ITC balances to the general ledger. We recalculated the average cost rate and the 13-month average balance for ITC included in the filing. No exceptions were noted.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether 2012 revenues are properly calculated and recorded in compliance with the USoA and are based on approved tariff rates.

Procedures: We reconciled 2012 revenues to the general ledger. We reviewed Commission audits of the Utility's cost recovery clauses, which included recalculations of a sample of customer bills, to ensure that the utility was using the rates authorized in its approved tariff. We verified that unbilled revenues were calculated correctly. No exceptions were noted.

Operating Expense (O&M)

Objectives: The objectives were to determine whether 2012 O&M expenses are properly recorded in compliance with the USoA and were reasonable for ongoing utility operations.

Procedures: We verified, based on a sample of utility transactions for select O&M expense accounts, that 2012 O&M expense balances are adequately supported by source documentation, utility in nature and do not include non-utility items and are recorded consistent with the USoA. We reviewed 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 a sample of intercompany allocations and charges to determine if expenses were allocated pursuant to

Commission Rule 25-6.1351 – Cost Allocation and Affiliate Transactions, F.A.C. No exceptions were noted.

Depreciation & Amortization Expense

Objectives: The objectives were to determine whether 2012 depreciation expense is properly recorded in compliance with the USoA and to determine that depreciation expense accruals are calculated using the depreciation rates established in Commission Order No. PSC-12-0175-PAA-EI, cited above.

Procedures: We recalculated a sample of depreciation expense accruals to verify that the utility is using the correct depreciation rates cited above. No exceptions were noted.

Taxes Other than Income (TOTI)

Objective: The objective was to determine whether 2012 TOTI is properly recorded in compliance with the USoA.

Procedures: We verified, based on a sample of transactions for select TOTI accounts, that TOTI expenses are adequately supported by source documentation. No exceptions were noted.

Income Taxes

Objectives: The objectives were to whether 2012 income taxes are properly recorded in compliance with the USoA.

Procedures: We traced federal and state income taxes to the general ledger. We documented bonus depreciation treatment for asset additions. We verified that adjustments to income tax expense are consistent with the USoA and calculated correctly. No exceptions were noted.

Other

Analytical Review

Objectives: The objective was to perform an analytical review of the Utility's rate case filing using prior years FERC Form 1 filings with the Commission.

Procedures: We developed a five-year (2008 -2012) analytical review that compared the annual percentage change and the 2012 over 2007 total percentage change for the FERC account balances. Accounts that exhibited significant activity or percentage change, as determined by the auditor, were randomly selected for additional review. No exceptions were noted.

FERC and Outside Audits

Objectives: The objective was to determine whether there were any exceptions or disclosures in the last FERC and Price Waterhouse Coopers, LLP (PWC) external audits of TEC and TECO, respectively.

Procedures: We reviewed the 2007 and 2008 FERC audit reports for TEC, that were issued on August 21, 2007 and August 18, 2008, respectively. No exceptions were noted. We reviewed the 2012 annual report and associated audit work papers for TECO and its subsidiaries, including

TEC. The annual report was released on February 26, 2013, and included the unqualified opinion by PWC of TECO consolidated operations. No exceptions were noted.

Board of Director Meetings (BOD)

Objectives: The objective was to review the minutes of the TEC and TECO Board of Directors.

Procedures: We reviewed the respective BOD meeting minutes for TEC and TECO through March 15, 2013, for activities or issues that could affect TEC in the current rate case proceeding. No exceptions were noted.

Audit Findings

None

Exhibits

Exhibit 1: Rate Base

SCHEDULE B-1		ADJUSTED RATE BASE										Page 3 of 3
FLORIDA PUBLIC SERVICE COMMISSION		EXPLANATION: Provide a schedule of the 13-month average adjusted rate base for the test year, the prior year and the most recent historical year. Provide the details of all adjustments on Schedule B-2.								Type of data shown:		
COMPANY: TAMPA ELECTRIC COMPANY										Projected Test Year Ended 12/31/2014		
DOCKET No. 130040-EI		(Dollars in 000's)								Projected Prior Year Ended 12/31/2013		
										XX Historical Prior Year Ended 12/31/2012		
										Witness: J. S. Chrostater/W. R. Ashburn		
Line No	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)		
	Plant in Service	Accumulated Provision for Depreciation and Amortization	Net Plant in Service (1 - 2)	CWIP	Plant Held For Future Use	Nuclear Fuel - No AFUDC (Net)	Net Utility Plant	Working Capital Allowance	Other Rate Base Items	Total Rate Base		
1												
2	\$ 6,597,127	\$ 2,363,084	\$ 4,234,043	\$ 205,648	\$ 34,252	\$ -	\$ 4,474,143	\$ 7,462	\$ -	\$ 4,481,605		
3												
4	0.963733	0.967459	0.961653	0.960043	0.848856	-	0.960715	0.963013	-	0.960719		
5												
6	6,357,867	\$ 2,266,188	\$ 4,071,679	\$ 197,623	\$ 29,075	\$ -	\$ 4,298,377	\$ 7,186	\$ -	\$ 4,305,563		
7												
8	(480,578)	(93,839)	(386,739)	(59,754)	-	-	(448,493)	(5,327)	-	(451,820)		
9												
10	-	-	-	-	-	-	-	-	-	-		
11												
12	(480,578)	(93,839)	(386,739)	(59,754)	-	-	(448,493)	(6,072)	-	(511,565)		
13												
14	\$ 5,677,269	\$ 2,192,349	\$ 3,684,940	\$ 137,869	\$ 29,075	\$ -	\$ 3,851,884	\$ (57,686)	\$ -	\$ 3,793,998		
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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: Capital Structure

SCHEDULE D-1e		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, the prior year, and historical base year.								Type of data shown:		
COMPANY: TAMPA ELECTRIC COMPANY										Projected Test Year Ended 12/31/2014		
										Projected Prior Year Ended 12/31/2013		
										XX Historical Prior Year Ended 12/31/2012		
DOCKET No. 130040-E1		(Dollars in 000's)										Witness: S.W. Callahan/J. S. Chronister
Line No.	Class of Capital	(1) Company Total Per Books	(2) Common Dividends / Other	(3) DIT Specific / STD	(4) DIT Specific / Prorata	(7) System Adjusted	(8) Jurisdictional Factor	(9) Jurisdictional Capital Structure	(10) Ratio	(11) Cost Rate	(12) Weighted Cost Rate	
1												
2	Long Term Debt	\$ 1,705,767	\$ -	\$ (3)	\$ (204,765)	\$ 1,500,999	0.960008	\$ 1,440,971	37.98%	6.16%	2.35%	
3												
4	Short Term Debt	16,923	-	(10,479)	(774)	5,670	0.960008	5,443	0.14%	0.65%	0.00%	
5												
6	Customer Deposits	122,312	-	-	(12,633)	109,679	0.960008	105,100	2.77%	4.56%	0.13%	
7												
8	Preferred Stock	0	-	-	-	-	0.960008	-	0.00%	-	0.00%	
9												
10	Common Equity	1,906,970	5,510	(3)	(229,580)	1,682,897	0.960008	1,615,594	42.58%	11.25%	4.79%	
11												
12	Deferred Income Taxes	725,690	-	(6,008)	(75,511)	644,171	0.960008	616,409	16.30%	-	0.00%	
13												
14	Tax Credits - Zero Cost	0	-	-	-	-	0.960008	-	0.00%	-	0.00%	
15												
16	Tax Credits - Weighted Cost	9,869	(1)	-	(1,035)	8,833	0.960008	8,478	0.22%	8.84%	0.02%	
17												
18		<u>\$ 4,487,531</u>	<u>\$ 5,509</u>	<u>\$ (16,483)</u>	<u>\$ (524,288)</u>	<u>\$ 3,952,249</u>		<u>\$ 3,763,896</u>	<u>100.00%</u>		<u>7.29%</u>	
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Supporting Schedules:						Recap Schedules: A-1						

Exhibit 3: Net Operating Income

SCHEDULE C-1			ADJUSTED JURISDICTIONAL NET OPERATING INCOME							Page 3 of 3
FLORIDA PUBLIC SERVICE COMMISSION			EXPLANATION: Provide the calculation of jurisdictional net operating income for the test year, the prior year and the most recent historical year.							Type of data shown:
COMPANY: TAMPA ELECTRIC COMPANY										Projected Test Year Ended 12/31/2014 Projected Prior Year Ended 12/31/2013 XX Historical Prior Year Ended 12/31/2012 Witness: J. S. Chronister/AV. R. Ashburn
DOCKET No. 130040-EI			(Dollars in 000's)							
Line No	Account Number	Account Name	(1) Total Company Per Books	(2) Non- Electric Utility	(3) Total Electric (1)-(2)	(4) Jurisdictional Factor	(5) Jurisdictional Amount (3)*(4)	(6) Commission Jurisdictional Adjustments (Schedule C-2)	(7) Company Jurisdictional Adjustments (Schedule C-2)	(8) Adjusted Jurisdictional Amount (5)-(6)
1										
2										
3		Revenue From Sales	\$ 1,949,888	\$ -	\$ 1,949,888	0.996752	\$ 1,943,555	\$ (1,045,423)	\$ -	\$ 898,132
4										
5		Other Operating	31,499	-	31,499	0.499444	15,732	25,121	-	40,853
6										
7		Total Operating Revenues	1,981,387	-	1,981,387		1,959,287	(1,020,302)	-	938,985
8										
9		Other O&M	370,624	-	370,624	0.982215	364,229	(64,643)	-	299,548
10										
11		Fuel	711,623	-	711,623	0.999692	711,404	(705,266)	-	6,138
12										
13		Purchased Power	105,308	-	105,308	1.000000	105,308	(105,308)	-	-
14										
15		Deferred Costs	(13,650)	-	(13,650)	1.000000	(13,650)	13,650	-	-
16										
17		Depreciation & Amortization	237,248	-	237,248	0.960487	228,765	(17,957)	-	211,808
18										
19		Taxes Other Than Income Taxes	151,289	-	151,289	0.987625	149,447	(91,622)	-	57,825
20										
21		Income Taxes	120,217	1,782	118,435	0.894658	117,826	(14,726)	-	103,100
22										
23		(Gain)/Loss on Disposal of Plant	(390)	-	(390)	0.983156	(385)	-	-	(368)
24		Total Operating Expense	1,682,475	1,782	1,680,693		1,603,961	(966,111)	-	877,850
25										
26		Net Operating Income	\$ 298,912	\$ (1,782)	\$ 300,694		\$ 265,326	\$ (34,190)	\$ -	\$ 261,135
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44 Totals may be affected due to rounding.

Supporting Schedules: C-2,C-4,C-6

Recap Schedules: A-1