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Public Service Commission

July 16, 1999

Ms. Angela Llewellyn
Tampa Electric Company
P. O. Box 111
Tampa, FL 33601-0111

**Re: Docket No. 990007-EI; Tampa Electric Company
Audit Report; Environmental Cost Recovery - Nine Months Ended December 31, 1998
Audit Control No. 99-042-2-1**

Ms. Llewellyn:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver
Bureau Chief - Auditing Services

DNV: sp

cc: Division of Records and Reporting
Division of Auditing and Financial Analysis (Devlin/Causseaux/Harvey/File Folder)
Division of Electric and Gas (Tew)
Tampa District Office (McPherson)
Division of Legal Services

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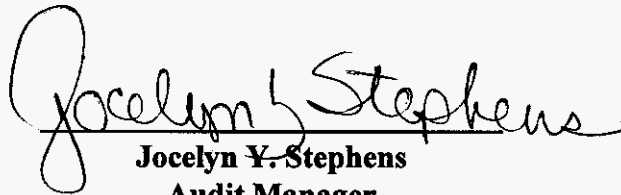
Tampa District Office

TAMPA ELECTRIC COMPANY

Environmental Cost Recovery Clause Audit

FOR THE NINE MONTHS ENDED DECEMBER 31, 1998

Docket Number 990007-EI
Audit Control Number 99-042-2-1


Jocelyn Y. Stephens
Audit Manager


James A. McPherson
Regulatory Analyst Supervisor

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

JULY 7, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the Environmental Cost Recovery Clause (ECRC) schedules for the nine month period ended December 31, 1998 prepared by Tampa Electric Company. These schedules were prepared by the utility in support of Docket No. 99007-EI. There is no confidential information associated with this audit.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

In our opinion, the schedules referred to above present fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission.

SUMMARY OF SIGNIFICANT PROCEDURES:

Our audit was performed by examining on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

REVENUES: Compiled Environmental Cost Recovery Clause (ECRC) revenue and agreed to the filing.

EXPENSES: Compiled ECRC expenses and agreed to the filing. Judgementally sampled O&M expenses to verify that they were recoverable pursuant to Order No. PSC-94-0044-FOF-EI. Traced selected expense items to vendor invoices and material issue report. Recomputed allocations of expenses for Big Bend 3 Fuel Gas Desulfurization (BB3 FGD) Integration and Big Bend 1 & 2 Flue Gas Conditioning. Verified SO₂ Emission Allowances. Determined payroll expense was removed from ECRC expenses. Calculated an amount for allocable Gypsum sales to offset ECRC expenses.

CAPITAL INVESTMENT: Scheduled capital investment for the ECRC projects. Reconciled depreciation rates used by the Company to FPSC approved rates. Recalculated depreciation expense to exclude depreciation on dollars included in rate base.

CAPITAL STRUCTURE: Reconciled Cost of Capital used to determine the Return on Average Net Investment with the Company's Capital Structure.

TRUE-UP: Recomputed ECRC true-up and interest calculation using FPSC approved amounts and interest rates. Recomputed energy and demand separation percentages.

AUDIT DISCLOSURE NO. 1

SUBJECT: CAPITALIZED PAYROLL

STATEMENT OF FACT:

The Company response to a document request stated that for the period 4/1/96 - 12/31/98, payroll costs for each of its environmental projects was capitalized as follows:

TOTAL CAPITALIZED PAYROLL TO-DATE	<u>TOTAL PAYROLL</u>									
	<u>SUPER</u>	<u>OPER</u>	<u>OFFICE</u>	<u>CO-OP</u>	<u>PART</u> <u>TIME</u>	<u>TOTAL</u> <u>CAP</u> <u>P/Y</u>	<u>FRINGE</u>	<u>TOTAL</u> <u>PAYROLL</u>	<u>PROJECT</u> <u>COST</u>	<u>AS % OF</u> <u>TOTAL</u>
BIG BEND 3 FGD	267,914	97,186	130,150			495,250	107,110	602,360	8,239,658	7.31
BIG BEND 1 & 2 FGC	172,250	11,957	36,056			220,263	57,030	277,293	5,017,734	5.53
BIG BEND 4 CEM	78,731	5,902	4,331			88,964	24,117	113,081	866,211	13.05
GANNON IGNITION OIL TANK	38,973		4,202	697	20,418	64,289	20,129	84,418	589,752	14.31
BIG BEND FUEL TANK UPGRADE #1	29,664	2,144	4,165	317		36,290	10,569	46,860	292,677	16.01
BIG BEND FUEL TANK UPGRADE #2	18,054	731	2,903	484		22,172	6,650	28,823	816,047	3.53
PHILLIPS TANK UPGRADE #4	3,903		711	473		5,086	1,590	6,677	35,501	18.81
PHILLIPS TANK UPGRADE #10	4,890		395	456		5,741	1,757	7,498	87,939	8.53
TOTAL CAPITALIZED PAYROLL	614,379	117,921	182,912	2,426	20,418	938,056	228,953	1,167,009	15,945,519	7.32
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

Per Company response, the typical functions of supervisory positions in ECRC capital projects are:

- 1) Development and design of environmental projects
- 2) Coordination and review of specialized tasks performed by operational personnel
- 3) Selection of vendors to perform specialized tasks.

The typical functions of operational positions in ECRC capital projects include:

- 1) Specialized welding of tanks used in environmental projects
- 2) electrical wiring needed in the projects
- 3) pouring concrete to specifications
- 4) installing conduit and valves according to specifications

The typical functions of office positions in ECRC capital projects include:

- 1) Copying blueprints for operational personnel
- 2) Scheduling outside contractors for work on environmental projects
- 3) Completing permit requests
- 4) Filing necessary paperwork with local, state and federal rule-making bodies.

The fringe benefits charged to capitalized payroll include such costs as Success Sharing (bonus), payroll taxes, and non-productive time (e.g. vacation, holidays, jury duty and illness). Fringe benefit percentages vary each year based upon the prior year's data and a different fringe benefits percentage is applied to each employee class.

A company response stated that no new positions, related to environmental functions, have been created since 1997. The ECRC audit performed in 1997 established that no new positions have been created specifically for ECRC purposes since 1995, the year that separate reporting of environmental purposes began.

AUDITOR'S OPINION:

The payroll costs included in the ECRC plant investment is already being recaptured through base rates. Since no new positions have been created, no unanticipated incremental payroll costs have been incurred. Any increases in payroll costs since 1995 would consist mostly of normal, recurring charges such cost of living, merit increases, and promotions. These increases are anticipated and fall under rate base umbrella.

To include these payroll costs in the ECRC as expenses or plant investment would allow the Company to receive double recovery of same. Therefore staff believes that an adjustment should be made to remove the capitalized payroll, totaling \$1,167,009, which is referenced above.

AUDIT DISCLOSURE NO. 2

SUBJECT: COMPUTATION OF DEPRECIATION - Gannon and Big Bend CEM

STATEMENT OF FACT:

Two of the eight ECRC capital investment projects have costs that are capitalized in both the ECRC filing and in the Company's rate base. These projects are the Big Bend CEM addition and the Gannon Ignition Oil Tank. In its computation of average net investment, the Company correctly made an adjustment to remove the rate base amount, for ECRC filing purposes.

However, in its computation of depreciation expense and accumulated depreciation, for these two projects, the Company does not make an adjustment to remove the rate base portion. Instead it uses the entire in-service amount for its computation.

AUDITOR OPINION:

Section 366.8255, Florida Statutes states, "An adjustment for the level of costs currently being recovered through base rates or other rate-adjustment clauses must be included in the filing." Further, in a Commission sponsored workshop, staff concluded that "...The present practice in the ECRC is to look at the rate case test year to see if a capital project with the same function as a newly proposed project was included in setting base rates.....If a project with the same function as a new project proposed for ECRC recovery were included in the last rate case test year, the company is allowed to recover the incremental cost of the new project upon certain conditions. Since the company's last rate case, there must have been either a new environmental compliance requirement.....which necessitated the new project for which recovery is being sought through the ECRC....."

The ECRC should not be used to recover the full depreciation expense of the above listed projects when a portion of these project costs are included in rate base. Therefore, an adjustment should be made to reduce depreciation expense and accumulated depreciation as follows:

	Reduce Depreciation Expense <u>4/1/-12/31/98</u>	Reduce Depreciation Expense Captured <u>in Prior Periods</u>	Reduce Accumulated Depreciation <u>at 12/31/98</u>
Big Bend CEM addition	(\$ 4,612)	(\$ 22,080)	(\$ 26,692)
Gannon Ignition	(7,782)	(2,161)	(9,943)
	-----	-----	-----
Total	<u>(\$12,394)</u>	<u>(\$ 24,241)</u>	<u>(\$ 36,635)</u>

AUDIT DISCLOSURE NO. 3

SUBJECT: GYPSUM SALES IN ECRC

STATEMENT OF FACT:

In 1994, the Company included a Flue Gas Desulfurization (FGD) Integration System in its ECRC filing. This integration system allows SO₂ emissions from Big Bend Plant #3 (BB #3) to be routed to the FGD system, attached to BB #4, where the emissions are scrubbed and SO₂ removed. The scrubbing process uses Limestone and Diabasic Acid (DBA) as scrubbing agents. Contact of the SO₂ with the scrubbing agents creates a chemical reaction which produces a slurry. Once the slurry dries, gypsum is produced. The scrubbed air is then routed back to the BB #3 tower, by means of the FGD integration system and released into the environment. The Gypsum is then routed to a storage facility and sold.

The Company has included an allocated portion of total Limestone and DBA costs as an O&M expense in its ECRC filing. The Company has not included any portion of the resultant gypsum sales or O&M costs in its ECRC filing.

Limestone and DBA costs incurred by the company for the period April - December 1998 total \$1,181,643 and \$102,035, respectively. These dollars are allocated monthly to the ECRC based upon the percent of SO₂ removed from BB #3 as compared to the total SO₂ removed from both BB #3 and BB #4 for that month. Limestone and DBA costs allocated to BB #3 and recovered in the ECRC total \$473,108.

Gypsum sales for the period April - December 1998 total \$1,114,734. The Company stated that gypsum sales could be allocated in the same proportions as limestone and DBA expense. Using the same proportions as limestone and DBA expense, audit staff computed gypsum sales of \$420,824 attributable to BB #3.

AUDITOR OPINION:

Limestone and DBA use has increased significantly over the past years and as such, a corresponding increase in cost has occurred. In order to recover this increased cost, the Company has allocated a portion of the limestone and DBA cost to the ECRC filing.

The production of gypsum, a direct result of a chemical reaction between SO₂ limestone and DBA, has also increased. However, the Company does not allocate a portion of the gypsum sales to the ECRC filing nor does the Company allocate O & M expenses related to the sale of gypsum.

Audit staff believes that a matching of costs and revenues in the ECRC filing, would be more appropriate than the one-sided inclusion of consumable costs only. Staff is therefore suggesting inclusion of specific O&M expenses, allocated sales expenses and allocated gypsum sales revenues in the ECRC true-up.

Audit staff also believes that specific O&M charges should be allocated to ECRC. The charges that would be allocated would be only that portion of increased cost which is directly attributable to increased gypsum production and which is not being currently recovered through base rates. An arbitrary allocation of O& M costs would allow for double recovery of these costs. Those non-payroll O&M expenses suggested by the Company as directly attributable to gypsum production include electricity, tangible property tax of Big Bend #3 FGD integration system, and a portion of the depreciation resulting from increased "wear and tear" of the FGD system at BB #3.

Tampa Electric Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-Up Amount for the Period
April 1998 to December 1998

End-of-Period True-Up Amount
(in Dollars)

Line	Actual						End	Actual			End of	
	April-98	May-98	June-98	July-98	August-98	September-98	Apr 98 - Sep 98 Period Total	October-98	November-98	December-98	Period Total	
1	ECRC Revenues (net of Revenue Taxes)	\$380,177	\$394,696	\$494,731	\$523,379	\$496,174	\$504,457	\$2,793,614	\$470,863	\$411,620	\$412,330	\$1,294,813
2	True-Up Provision (a)	22,927	22,927	22,927	22,927	22,927	22,928	137,563	45,283	45,283	45,284	\$138,850
3	ECRC Revenues Applicable to Period (Lines 1 + 2)	403,104	417,623	517,658	546,306	519,101	527,385	2,931,177	516,146	456,903	457,614	1,430,663
4	Jurisdictional ECRC Costs											
a.	O & M Activities (Form 42-5A, Line 9)	238,671	238,462	321,539	354,389	298,158	291,443	\$1,742,662	290,982	338,741	345,869	\$975,592
b.	Capital Investment Projects (Form 42-7A, Line 9)	152,428	151,125	148,730	149,270	149,374	153,065	\$903,992	153,472	158,113	162,988	\$474,573
c.	Total Jurisdictional ECRC Costs	391,099	389,587	470,269	503,659	447,532	444,508	2,646,654	444,454	496,854	508,857	1,450,165
5	Over/Under Recovery (Line 3 - Line 4c)	12,005	28,036	47,389	42,647	71,569	82,877	284,523	71,692	(39,951)	(51,243)	(19,502)
6	Interest Provision (Form 42-3A, Line 10)	2,235	2,222	2,316	2,439	2,593	2,769	\$14,574	2,855	2,818	2,379	8,052
7	Beginning Balance True-Up & Interest Provision	137,563	128,876	136,207	162,985	185,144	236,379	137,563	271,700	300,964	218,547	271,700
a.	Deferred True-Up from October 1997 to March 1998 (Order No. PSC-98-0408-FOF-EI)	351,717	351,717	351,717	351,717	351,717	351,717	351,717	379,114	379,114	379,114	379,114
b.	Deferred True-Up from April 1998 to December 1998 (Order No. PSC-98-1224-FOF-EI)											
8	True-Up Collected/(Refunded) (see Line 2)	(22,927)	(22,927)	(22,927)	(22,927)	(22,927)	(22,928)	(137,563)	(45,283)	(45,283)	(45,284)	(135,850)
9	End of Period Total True-Up (Lines 5+6+7+7a+8)	480,593	487,924	514,702	536,861	588,096	650,814	650,814	680,078	597,662	503,513	503,514
10	Adjustments to Period Total True-Up including Interest	0	0	0	0	0	0	0	0	0	0	0
11	End of Period Total True-Up (Lines 9 + 10)	\$480,593	\$487,924	\$514,702	\$536,861	\$588,096	\$650,814	\$650,814	\$680,078	\$597,662	\$503,513	\$503,514

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(a). True-up provision for April 1998 through September 1998 per Commission Order No. PSC-98-0408-FOF-EI;
True-up provision for October 1998 through December 1998 per Commission Order No. PSC-98-1224-FOF-EI.

EXHIBIT NO. _____
DOCKET NO. 990007-EI
TAMPA ELECTRIC COMPANY
(KOZ-1)
DOCUMENT NO. 2
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FILED: APRIL 1, 1999